

AS 13
ACCOUNTING FOR INVESTMENTS
Question 1 (Past Exam Nov'22)
NB Pg. No.

- (i) An unquoted long term investment made in the shares of Rachel Limited is carried in the books of Ziva Limited at a cost of ₹ 1,00,000/ The audited financial statements of Rachel Limited received in May,2021 showed that the company had been incurring cash losses with declining market share and the long term investment may not fetch more than ₹ 55,000
- (ii) On 1st December, 2021 Ziva Limited had made an investment of ₹ 5,00,000 in 4,000 Equity Shares of Garry Limited at a price of ₹ 125 per share with an intention to hold it for not more than six months. In the first week of March, 2022, Garry Limited suffered heavy loss due to an earthquake; the loss was not covered by an insurance policy. On 31st March,2022, the shares of Garry Ltd/ were traded at a price of ₹ 80 per share on the Stock Exchange.

How would you deal with the above investments in the books of Ziva Limited for the year ended 31st March,2022 as per the provisions of AS 13? **(5 Marks)**

Solution

- (i) Investments classified as long -term investments should be carried in the financial statements at cost. However, provision for diminution should 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.

On this basis, the facts of the given case, it would be appropriate to reduce the carrying value of Long-term investments to ₹ 55,000 in the financial statements for the year ended 31st March, 2022.Thus the unquoted investment in the shares of Rachel Ltd. will be valued at ₹ 55,000

The provision for diminution amounting **₹ 45,000** should be made to reduce the carrying amount of the investments.

- (ii) Equity Shares in Garry Ltd. will be considered as current investment as intended to hold for not more than six months; As per AS 13, "Accounting for Investments", carrying amount for current investments is the lower of cost and fair value. In respect of current Investments for which as active market exists, market value generally provides the best evidence of fair value.

Since on 31st March,2022, the shares of Garry Limited were trading at a price of ₹ 80 per share on the stock exchange, the equity shares of Garry Ltd. should be carried in the financial statements at realizable value i.e. at **₹ 3,20,000** (4,000 shares @ ₹ 80 per share).The reduction of **₹ 1,80,000** in carrying value of current investment will be charged to the statement of profit and loss for the year ended 31 st March,2022.

Question 2 (RTP Nov'20)
NB Pg. No.

X Ltd. on 1-1-20X1 had made an investment of ₹ 600 lakhs in the equity shares of Y Ltd. of which 50% is made in the long term category and the rest as temporary investment. The realisable value of all such investment on 31-3-20X1 became ₹ 200 lakhs as Y Ltd. lost a case of copyright. From the given market conditions, it is apparent that the reduction in the value is not temporary in nature. How will you recognise the reduction in financial statements for the year ended on 31-3-20X1?

Solution :

X Ltd. invested ₹ 600 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. ₹ 300 lakhs and remaining as temporary (current) investment i.e. ₹ 300 lakhs. Irrespective of the fact that investment has been held by X Ltd. only for 3 months (from 1.1.20X1 to 31.3.20X1), 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 31.3.20X1 became ₹ 200 lakhs i.e. ₹ 100 lakhs in respect of current investment and ₹ 100 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 ₹ 100 lakhs. The reduction of ₹ 200 lakhs in the carrying value of current investment will be charged to the profit and loss account.

The 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 realisable value of its shares to one third which is quite a substantial figure. Losing the case of copyright may affect the business and the performance of the company in the long run.

Accordingly, it will be appropriate to reduce the carrying amount of long term investment by ₹ 200 lakhs and show the investments at ₹ 100 lakhs, since the downfall in the value of shares is **other than temporary**. The reduction of ₹ 200 lakhs in the carrying value of long term investment will also be charged to the Statement of **profit and loss**.

Question 3 (RTP May'20, Nov'22)

NB Pg. No.

ABC Ltd. wants to re-classify its investments in accordance with AS 13 (Revised).

Decide and state on the amount of transfer, based on the following information:

- (1) A portion of current investments purchased for ₹ 20 lakhs, to be reclassified as long term investment, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹ 25 lakhs.
- (2) Another portion of current investments purchased for ₹ 15 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of balance sheet was ₹ 6.5 lakhs.
- (3) Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was ₹ 18 lakhs but had been written down to ₹ 12 lakhs to recognise other than temporary decline as per AS 13 (Revised).

Solution :

As per AS 13 (Revised), where investments are reclassified from current to longterm, 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 ₹ 25 lakhs, which is higher than its cost i.e. ₹ 20 lakhs. Therefore, the transfer to long term investments should be carried at cost i.e. **₹ 20 lakhs**.
- (2) In the second case, the market value of the investment is ₹ 6.5 lakhs, which is lower than its cost i.e. ₹ 15 lakhs. Therefore, the transfer to long term investments should be carried in the books at the market value i.e. **₹ 6.5 lakhs**. The loss of **₹ 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 ₹ 12 lakhs, which is lower than its cost i.e. ₹ 18 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at **₹ 12 lakhs**.

Question 4 (RTP Nov'18, May'23) (MTP Mar'24)
NB Pg. No.

M/s Innovative Garments Manufacturing Company Limited invested in the shares of another company on 1st October, 20X3 at a cost of ₹ 2,50,000. It also earlier purchased Gold of ₹ 4,00,000 and Silver of ₹ 2,00,000 on 1st March, 20X1. Market value as on 31st March, 20X4 of above investments are as follows:

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

How above investments will be shown in the books of accounts of M/s Innovative Garments Manufacturing Company Limited for the year ending 31st March, 20X4 as per the provisions of Accounting Standard 13 "Accounting for Investments"?

Solution :

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 (₹ 2,50,000) and market value (₹ 2,25,000) as on 31 March 20X4, i.e., ₹ 2,25,000.

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 recognise 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 (purchased on 1st March, 20X1) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 20X4, i.e., ₹ 4,00,000 and ₹ 2,00,000 respectively, though their market values have been increased.

Question 5
NB Pg. No.

Briefly explain disclosure requirements for Investments as per AS-13.

Solution :

The disclosure requirements as per AS 13 (Revised) are as follows:

- (i) Accounting policies followed for the determination of carrying amount of investments.
- (ii) Classification of investment into current and long term.
- (iii) The amount included in profit and loss statements for
 - a) Interest, dividends and rentals for long term and current investments, disclosing therein gross income and tax deducted at source thereon;
 - b) Profits and losses on disposal of current investment and changes in carrying amount of such investments;
 - c) Profits and losses and disposal of long term investments and changes in carrying amount of investments.
- (iv) Aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments;
- (v) Any significant restrictions on investments like minimum holding period for sale/disposal, utilisation of sale proceeds or non-remittance of sale proceeds of investment held outside India.
- (vi) Other disclosures required by the relevant statute governing the enterprises

? Question 6
NB Pg. No.

How will you classify the investments as per AS 13? Explain in Brief.

Solution :

The investments are classified into two categories as per AS 13, viz., Current Investments and Long-term Investments.

A current Investment is an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made. The carrying amount for current investments is the lower of cost and fair value. Any reduction to fair value and any reversals of such reductions are included in the statement of profit and loss.

A long-term investment is an investment other than a current investment. Long term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long term investment, the carrying amount is reduced to recognise the decline. The reduction in carrying amount is charged to the statement of profit and loss.

? Question 7 (MTP Oct'20, Mar'22)
NB Pg. No.

Whether the accounting treatment 'at cost' under the head 'Long Term Investments' without providing for any diminution in value is correct and in accordance with the provisions of AS 13. If not, what should have been the accounting treatment in such a situation? What methodology should be adopted for ascertaining the provision for diminution in the value of investment, if any. Explain in brief

(4 Marks)
Solution :

The accounting treatment 'at cost' under the head 'Long Term Investment' in the financial statements of the company without providing for any diminution in value is correct and is in accordance with the provisions of AS 13 provided that there is no decline, other than temporary, in the value of investment. If the decline in the value of investment is, other than temporary, compared to the time when the shares were purchased, provision is required to be made. The reduction in market value should not be considered, in isolation to determine the decline, other than temporary.

The amount of the provision for diminution in the value of investment may be ascertained considering the factors indicated in AS 13.

? Question 8 (Past Exam May'19, Jan'21) (MTP Sep'23, Apr'24, Sept.24)
NB Pg. No.

On 15th June, 2018, Y limited wants to re-classify its investments in accordance with AS 13 (revised). Decide and state the amount of transfer, based on the following information:

- 1) A portion of long term investments purchased on 1st March, 2017 are to be re-classified as current investments. The original cost of these investments was Rs. 14 lakhs but had been written down by Rs. 2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15th June, 2018 was Rs. 11 lakhs.
- 2) Another portion of long term investments purchased on 15th January, 2017 are to be re-classified as current investments. The original cost of these investments was Rs. 7 lakhs but had been written down to Rs. 5 lakhs (to recognize 'other than temporary' decline in value). The fair value of these investments on 15th June, 2018 was Rs. 4.5 lakhs.
- 3) A portion of current investments purchased on 15th March, 2018 for Rs. 7 lakhs are to be re-classified as long term investments, as the company has decided to retain them. The market value of these investments on 31st March, 2018 was Rs. 6 lakhs and fair value on 15th June 2018 was Rs. 8.5 lakhs.
- 4) Another portion of current investments purchased on 7th December, 2017 for Rs. 4 lakhs are to

be re-classified as long term investments. The market value of these investments was :

on 31st March, 2018	Rs. 3.5 lakhs	
on 15th June, 2018	Rs. 3.8 lakhs	(5 Marks)

Solution :

As per AS 13 (Revised) 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer; and where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

- (i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this reclassified current investment should be carried at Rs. 12 lakhs in the books.
- (ii) In this case also, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs. 5 lakhs in the books.
- (iii) In this case, reclassification of current investment into long-term investments will be made at Rs. 7 lakhs as cost is less than its fair value of Rs.8.5 lakhs on the date of transfer.
- (iv) In this case, market value (considered as fair value) is Rs. 3.8 lakhs on the date of transfer which is lower than the cost of Rs. 4 lakhs. The reclassification of current investment into long-term investments will be made at Rs. 3.8 lakhs.

? Question 9 (MTP May'20)

NB Pg. No.

The Investment portfolio of XYZ Ltd. as on 31.03.2020 consisted of the following:

		(Rs. in lacs)	
Current Investments		Cost	Fair Value as on 31.03.2020
1.	1000 Equity Shares of A Ltd.	5	7
2.	500 Equity Shares of B Ltd.	10	15
3.	1000 Equity Shares of C Ltd.	15	12
Total		30	34

Give your comments on the following:

- (i) The company wants to value the above portfolio at Rs. 30 lakhs being lower of cost or fair market value.
- (ii) Company wants to transfer 1000 Equity Shares of C Ltd. from current investments to long term investments on 31.03.2020 at cost of Rs. 15 lakhs. **(5 Marks)**

Solution :

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. 27 Lacs (A Ltd. shares at Rs. 5 lacs; B Ltd. shares at Rs; 10 lacs and C Ltd; shares at Rs; 12 lacs); The company's decision to value the portfolio at Rs; 30 lacs are not appropriate.
- (ii) Moreover, 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.

Hence, the company has to make transfer of 1,000 equity shares of C Ltd. at Rs. 12 lacs (fair value) and not Rs. 15 lacs (cost) as the fair value is less than cost.

Question 10 (MTP Aug'18, Oct'22) (RTP May 19)

NB Pg. No.

How you will deal with following in the financial statements of the Parish Electronics Ltd. as on 31.3.18 with reference to AS-13? Also Parish Electronics Ltd has current investment (X Ltd's shares) purchased for Rs. 5 lakhs, which the company want to reclassify as long term investment. The market value of these investments as on date of Balance Sheet was Rs. 2.5 lakhs. **(5 Marks)**

Solution :

As per AS 13 'Accounting for Investments', where investments are reclassified from current to long – term, transfers are made at the lower of cost or fair value at the date of transfer.

In the given case, the market value of the investment (X Ltd. shares) is Rs.2.50 lakhs, which is lower than its cost i.e. Rs. 5 lakhs. Therefore, the transfer to long term investments should be made at cost of Rs. 2.50 lakhs. The loss of Rs. 2.50 lakhs should be charged to profit and loss account.

Question 11 (MTP Nov'21) (RTP Nov'19, Nov 21)

NB Pg. No.

Z Bank has classified its total investment on 31-3-2021 into three categories (a) held to maturity (b) available for sale (c) held for trading as per the RBI Guidelines/ 'Held to maturity' investments are carried at acquisition cost less amortized amount/ 'Available for sale' investments are carried at marked to market/ 'Held for trading' investments are valued at weekly intervals at market rates. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored. You are required to comment whether the policy of the bank is in accordance with AS 13? **(5 Marks)**

Solution :

As per AS 13 'Accounting for Investments', the accounting standard is not applicable to Bank, Insurance Company, Mutual Funds. In this case Z Bank is a bank, therefore, AS 13 does not apply to it. For banks, the RBI has issued separate guidelines for classification and valuation of its investment and Z Bank should comply with those RBI Guidelines/Norms. Therefore, though Z Bank has not followed the provisions of AS 13, yet it would not be said as non-compliance since, it is complying with the norms stipulated by the RBI.

Question 12 (RTP May'18 May'21) (MTP Oct'21)

NB Pg. No.

Paridhi Electronics Ltd. invested in the shares of Dhansukh Ltd. on 1st May 2020 at a cost of Rs. 10,00,000. Three fourth of these investments were current investments and the remaining investments were intended to be held for more than a year. The published accounts of Dhansukh Ltd. received in January, 2021 reveals that the company has incurred cash losses with decline in market share and investment of Paridhi Electronics Ltd. may not fetch more than 7,50,000. The reduction in value is apparent to be non-temporary. You are required to explain how you will deal with the above in the financial statements of the Paridhi Electronics Ltd. as on 31.3.21 with reference to AS 13? **(4 Marks)**

Solution :

As per AS 13, "Accounting for Investments", carrying amount for current investments is the lower of cost and fair value. But 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. Paridhi Ltd. made three fourth of Rs. 10,00,000 i.e. Rs.7,50,000 as current investment

and remaining Rs. 2,50,000 as long term. 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 for both categories of shares to bring them to market value. Hence the carrying value of investments will be shown at amount of Rs. 7,50,000 in the financial statements for the year ended 31st March, 2021 and charge the difference of loss of Rs. 2,50,000 to profit and loss account.

Question 13 (RTP May '22)

NB Pg. No.

JVR Limited has made investment of ₹97 Crores in Equity Shares of QSR Limited in 2016-17. The investment has been made at par. QSR Limited has been in continuous losses for the last 2 years. JVR Limited is willing to re-assess the carrying amount of its investment in QSR Limited and wish to provide for diminution in value of investment for the year ended 31st March, 2021. Discuss whether the connection of JVR Limited to bring down the carrying Amount of investment in QSR Limited is in accordance with Accounting Standards.

Solution :

The investments are classified into two categories as per AS 13, viz., Current Investments and Long-term Investments. A current Investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made. The carrying amount for current investments is the lower of cost and fair value. Any reduction to fair value and any reversals of such reductions are included in the statement of profit and loss. A long – term investment is an investment other than a current investment. The investments referred in the question can be classified as long-term investments and long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long-term investment, the carrying amount is reduced to recognize the decline. The contention of the company to bring down the value of investment may be correct if the decline in value is permanent in nature and the reduction in carrying amount may be charged to the statement of profit and loss. The reduction in carrying amount is reversed when there is a rise in the value of the investment, or if the reasons for the reduction no longer exist.

Question 14 (RTP Sep'24)

NB Pg. No.

A company is engaged in the business of refining, transportation and marketing of petroleum products. During the financial year ended 31st March, 2024, the company acquired controlling interest from Government of India in another public sector undertaking @ ₹ 1,551 per share as against the book value of ₹ 192.58 per share and market value of ₹ 876 per share as on 18th February, 2024.

Thus, the strategic premium of ₹ 675 per share has been paid considering various tangible and intangible factors.

The above investment in the shares of the acquired company has been considered as long term strategic investment and, therefore, has been accounted for at cost, i.e. at ₹ 1,551 per share in the financial statements. No provision for diminution in value has been made in the books of account.

As per the requirement of Schedule III to the Companies Act, 2013, the aggregate market value of the quoted shares has been properly reflected in the financial statements.

On 28th March, 2024, the acquired shares were quoted at ₹ 880 per share on BSE and the current market price as on 18th July was around ₹ 300.

Considering the tangible and intangible benefits the Management is of the view that there is no permanent diminution in the value of the strategic investment in the acquired company, as the same has been considered as a long-term investment. Therefore, there is no need for provision for diminution in the value of the shares of the acquired company.

Required:

(i) Whether the accounting treatment 'at cost' under the head 'Long Term Investments' without

providing for any diminution in value is correct and in accordance with the provisions of AS 13.

- (ii) If any provision for diminution in the value is to be made, whether such provision should be charged to the profit and loss account or whether same can be considered as deferred expenditure and amortised over a period of 5 years. Whether it is open for the company to charge off such diminution in the value in the books of account instead of creating provision.
- (iii) Whether the premium paid for strategic benefits for investment described in facts of the case, can be accounted for separately in the books of account keeping in view that AS 13 specifies that long term investments should be recorded at cost and there is no specific provision in the standard in respect of accounting for premium paid for strategic benefits.

Solution :

- (i) The accounting treatment 'at cost' under the head 'Long Term Investment' in the separate financial statements of the company without providing for any diminution in value is correct and is in accordance with the provisions of AS 13 provided that there is no decline, other than temporary, in the value of investment.
- (ii) The provision for diminution in the value of investment should be a charge to the profit and loss statement. As per the requirements of AS 13, the diminution in the value of investment can neither be accounted for as deferred revenue expenditure nor it can be written off in the statement of profit and loss.
- (iii) The long-term investments should be carried at cost as per the requirements of AS 13. The amount paid over and above the market price should be treated as cost and cannot be accounted for separately.

Question 15 (Past Exam Nov'19)

NB Pg. No.

Mr. Purohit furnishes the following details relating to his holding in 8% Debentures (₹ 100 each) of P Ltd., held as Current assets:

1.4.20X1 Opening balance – Nominal value ₹ 1,20,000, Cost ₹ 1,18,000

1.7.20X1 100 Debentures purchased ex-interest at ₹ 98

1.10.20X1 Sold 200 Debentures ex-interest at ₹ 100

1.1.20X2 Purchased 50 Debentures at ₹ 98 ex-interest

1.2.20X2 Sold 200 Debentures ex-interest at ₹99

Due dates of interest are 30th September and 31st March.

Mr. Purohit closes his books on 31.3.20X2. Brokerage at 1% is to be paid for each transaction (at ex-interest price). Show Investment account as it would appear in his books. Assume FIFO method. Market value of 8% Debentures of P Limited on 31.3.20X2 is ₹ 99. **(10 Marks)**

Solution :

**Investment A/c of Mr. Purohit
for the year ending on 31-3-20X2
(Scrip: 8% Debentures of P Limited)
(Interest Payable on 30th September and 31st March)**

Date	Particulars	Nominal Value	Interest	Cost	Date	Particulars	Nominal Value	Interest	Cost
			₹	₹				₹	₹
1.4.20X1	To Balance b/d	1,20,000	-	1,18,000	30.9.20X1	By Bank (1,300 x 100 x 8% x 6/12)	-	5,200	-
1.7.20X1	To Bank (ex-Interest) (W.N.1)	10,000	200	9,898	1.10.20X1	By Bank (W.N.4)	20,000	-	19,800
1.10.20X1	To Profit & Loss A/c (W.N.4)			133	1.2.20X2	By Bank (ex-Interest) (W.N.5)	20,000	533	19,602
1.1.20X2	To Bank (ex-Interest) (W.N.2)	5,000	100	4,949	1.2.20X2	By Profit & Loss A/c (W.N.5)			64
31.3.20X2	To Profit & Loss A/c (Bal. fig.)	-	9,233		31.3.20X2	By Bank (950 x 100 x 8% x 6/12)	-	3,800	-
					31.3.20X2	By Balance c/d (W.N.3)	95,000	-	93,514
		1,35,000	9,533	1,32,980			1,35,000	9,533	1,32,980

Working Notes:
1. Purchase of debentures on 1.7.20X1

Interest element = $100 \times 100 \times 8\% \times 3/12 = ₹ 200$

Investment element = $(100 \times 98) + [1\% (100 \times 98)] = ₹ 9,898$

2. Purchase of debentures on 1.1.20X2

Interest element = $50 \times 100 \times 8\% \times 3/12 = ₹ 100$

Investment element = $\{(50 \times 98) + [1\%(50 \times 98)]\} = ₹ 4,949$

3. Valuation of closing balance as on 31.3.20X2:

Market value of 950 Debentures at ₹ 99 = ₹ 94,050

Cost of 800 Debentures =

$1,18,000 \times 80,000 = 78,667$

1,20,000

100 Debentures cost	=	9,898
50 Debentures cost	=	4,949
		93,514
Value at the end	=	₹ 93,514, i.e., whichever is less

4. Profit on sale of debentures as on 1.10.20X1

	₹
Sales price of debentures (200 x ₹ 100)	20,000
Less: Brokerage @ 1%	(200)
	19,800
Less: Cost of Debentures 1,18,000 x 20,000 1,20,000	(19,667)
Profit on sale	133

5. Loss on sale of debentures as on 1.2.20X2

	₹
Sales price of debentures (200 x ₹ 99)	19,800
Less: Brokerage @ 1%	(198)
	19,602
Less: Cost of Debentures 1,18,000 x 20,000 1,20,000	(19,666)
Loss on sale	64
Interest element in sale of investment = 200 × 100 × 8% × 4/12	₹ 533

? Question 16
NB Pg. No.

In 20X1, M/s. Wye Ltd. issued 12% fully paid debentures of ₹ 100 each, interest being payable half yearly on 30th September and 31st March of every accounting year.

On 1st December, 20X2, M/s. Bull & Bear purchased 10,000 of these debentures at ₹ 101 ex-interest price, also paying brokerage @ 1% of ex-interest amount of the purchase. On 1st March, 20X3 the firm sold all these debentures at ₹ 103 ex-interest price, again paying brokerage @ 1% of ex-interest amount. Prepare Investment Account in the books of M/s. Bull & Bear for the period 1st December, 20X2 to 1st March, 20X3.

Solution :

In the books of M/s Bull & Bear
Investment Account
for the period from 1st December 20X2 to 1st March, 20X3
(Scrip: 12% Debentures of M/s. Wye Ltd.)

Date	Particulars	Nominal Value ₹	Interest	Cost	Date	Particulars	Nominal Value	Interest	Cost
1.12.20X2	To Bank A/c (W.N.1)	10,00,000	20,000	10,20,100	1.03.20X3	By Bank A/c (W.N.2)	10,00,000	50,000	10,19,700
1.3.20X3	To Profit & loss A/c* (b.f.)		30,000		1.3.20X3	By Profit & loss A/c (b.f.)			400
		10,00,000	50,000	10,20,100			10,00,000	50,000	10,20,100

* This represents income for M/s. Bull & Bear for the period 1st December, 20X2 to 1st March, 20X3, i.e., interest for three months- 1st December, 20X2 to 28 February, 20X3).

Working Notes:

1. Cost of 12% debentures purchased on 1.12.20X2	₹
Cost Value (10,000 x ₹ 101)	= 10,10,000
Add: Brokerage (1% of ₹ 10,10,000)	= 10,100
Total	= 10,20,100
2. Sale proceeds of 12% debentures sold	₹
Sales Price (10,000 x ₹ 103)	= 10,30,000
Less: Brokerage (1% of ₹ 10,30,000)	= (10,300)
Total	= 10,19,700

Question 17

NB Pg. No.

The following information is presented by Mr. Z (a stock broker), relating to his holding in 9% Central Government Bonds.

Opening balance (nominal value) ₹ 1,20,000, Cost ₹ 1,18,000 (Nominal value of each unit is ₹ 100).

1.3.20X1 Purchased 200 units, ex-interest at ₹ 98.

1.7.20X1 Sold 500 units, ex-interest out of original holding at ₹ 100.

1.10.20X1 Purchased 150 units at ₹ 98, cum interest.

1.11.20X1 Sold 300 units, ex-interest at ₹ 99 out of original holdings.

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

Solution :

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

Particulars		Nominal Value ₹	Interest ₹	Principal ₹	Particulars		Nominal Value ₹	Interest ₹	Principal ₹
20X1		₹	₹	₹	20X1		₹	₹	₹
Jan.1	To Balance b/d (W.N.1)	1,20,000	2,700	1,18,000	Mar. 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	S e p t . 30	By Bank A/c (W.N.6)	-	4,050	-

Oct. 1	To Bank A/c (150 × 98)	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 & W.N.10)	75,000	1,688	73,633
Dec. 31	To P&L A/c (b.f.) (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 = $1,20,000 \times 9\% \times 3/12 = ₹ 2,700$

2. **Purchase of bonds on 1. 3.20X1**

Interest element in purchase of bonds = $200 \times 100 \times 9\% \times 5/12 = ₹ 750$

Investment element in purchase of bonds = $200 \times 98 = ₹ 19,600$

3. **Interest for half-year** ended 31 March = $1,400 \times 100 \times 9\% \times 6/12 = ₹ 6,300$

4. **Sale of bonds on 1.7.20X1**

Interest element = $500 \times 100 \times 9\% \times 3/12 = ₹ 1,125$

Investment element = $500 \times 100 = ₹ 50,000$

5. **Profit on sale of bonds on 1.7.20X1**

Cost of bonds = $(1,18,000/ 1,200) \times 500 = ₹ 49,167$

Sale proceeds = ₹ 50,000

Profit element = ₹ 833

6. **Interest for half-year ended 30 September**

= $900 \times 100 \times 9\% \times 6/12 = ₹ 4,050$

7. **Sale of bonds on 1.11.20X1**

Interest element = $300 \times 100 \times 9\% \times 1/12 = ₹ 225$

Investment element = $300 \times 99 = ₹ 29,700$

8. **Profit on sale of bonds on 1.11.20X1**

Cost of bonds = $(1,18,000/ 1,200) \times 300 = ₹ 29,500$

Sale proceeds = ₹ 29,700

Profit element = ₹ 200

9. **Closing value of investment**

Calculation of closing balance:	Nominal value		₹
Bonds in hand remained in hand at 31st December 20X1			

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 = $750 \times 100 \times 9\% \times \frac{3}{12} = ₹ 1,688$

Question 18 (MTP April'19, Oct '22) (RTP May'24)

NB Pg. No.

Gopal holds 2,000, 15% Debentures of ₹ 100 each in Ritu Industries Ltd. as on April 1, 2021 at a cost of ₹ 2,10,000. Interest is payable on June, 30th and December, 31st each year

On May 1, 2021, 1,000 debentures are purchased cum-interest at ₹ 1,07,000

On November 1, 2021, 1,200 debentures are sold ex-interest at ₹ 1,14,600

On November 30, 2021, 800 debentures are purchased ex-interest at ₹ 76,800.

On December 31, 2021, 800 debentures are sold cum-interest for ₹ 1,10,000

You are required to prepare the Investment Account showing value of holdings on March 31, 2022 at cost, using FIFO Method **(10 Marks)**

Solution :

Investment Account of Gopal For the year ended 31.3.2022

(Script: 15% Debentures in Ritu Industries Ltd.)

(Interest payable on 30th June and 31st December)

Date	Particulars	Nominal Value ₹	Interest	Cost	Date	Particulars	Nominal Value	Interest	Cost
1.04.21	To Balance A/c	2,00,000	7,500	2,10,000	30.06.21	By Bank A/c	-	22,500	
1.05.21	To Bank A/c	1,00,000	5,000	1,02,000	1.11.21	By Bank A/c	1,20,000	6,000	1,14,600
30.11.21	To Bank A/c	80,000	5,000	76,800	1.11.21	By Profit & Loss A/c	-	-	11,400
31.12.21	To Profit & Loss A/c			20,000	31.12.21	By Bank A/c	80,000	6,000	1,04,000
31.03.22	To Profit & Loss A/c		37,250		31.12.21	By Bank A/c	-	13,500	-
	(Bal. fig.)				31.3.22	By Bal. c/d	1,80,000	6,750	1,78,800
		3,80,000	54,750	4,08,800			3,80,000	54,750	4,08,800

Working Notes:

(I) Accrued Interest as on 1st April, 2021 = $₹ 2,00,000 \times \frac{15}{100} \times \frac{3}{12} = ₹ 7,500$

(II) Accrued Interest as on 1.5.2021 = $₹ 1,00,000 \times \frac{15}{100} \times \frac{4}{12} = ₹ 5,000$

(iii) Cost of Investment for purchase on 1st May = $₹ 1,07,000 - ₹ 5,000 = ₹ 1,02,000$

(iv) Interest received as on 30.6.2021 = $₹ 3,00,000 \times \frac{15}{100} \times \frac{6}{12} = ₹ 22,500$

$$(v) \text{ Accrued Interest on debentures sold on 1.11.2021} = ₹ 1,20,000 \times \frac{15}{100} \times \frac{4}{12} = \text{Rs. } 6,000$$

$$(vi) \text{ Accrued Interest} = ₹ 80,000 \times \frac{15}{100} \times \frac{5}{12} = \text{Rs. } 5,000$$

$$(vii) \text{ Accrued Interest on sold debentures 31.12.2021} = ₹ 80,000 \times \frac{15}{100} \times \frac{6}{12} = \text{Rs. } 6,000$$

$$(viii) \text{ Sale Price of Investment on 31st Dec; 2021} = ₹ 1,10,000 - ₹ 6,000 = ₹ 1,04,000$$

(ix) Loss on Sale of Debenture on 1.11.2021

Sale Price of debenture	1,14,600
Less: Cost Price of debenture $2,10,000 / 2,00,000 \times \text{Rs. } 1,20,000$	1,26,000
Loss on sale	11,400

$$(x) \text{ Accrued interest as on 31.12.2021} = ₹ 1,80,000 \times \frac{15}{100} \times \frac{6}{12} = \text{Rs. } 13,500$$

$$(xi) \text{ Accrued Interest} = ₹ 1,80,000 \times \frac{15}{100} \times \frac{3}{12} = ₹ 6,750$$

$$(xii) \text{ Cost of investment as on 31st March} = ₹ 1,02,000 + ₹ 76,800 = ₹ 1,78,800$$

$$(xiii) \text{ Profit on debentures sold on 31st December} = ₹ 1,04,000 - (₹ 2,10,000 \times 800 / 2,000) = ₹ 20,000$$

Question 19 (RTP May 23)

NB Pg. No.

Remo Ltd held on 1st April, 2021, 1000 9% Government Securities at ₹ 90,000 (Face Value of Security ₹ 100 each). Three month's interest had accrued on the above date. On 1st May, the company purchased the same Government Securities of the face value of ₹ 80,000 at ₹ 95 cum-interest. On 1st June, ₹ 60,000 face value of the security was sold at ₹ 94 cum-interest. Interest on the security was paid each year on 30th June and 31st December and was credited by the bank on the same date. On 30th September, ₹ 40,000 face value of the Govt. securities were sold at ₹ 97 cum-interest. On 1st December, the company purchased the same security ₹ 10,000 at par ex-interest/ On 1st March, the company sold ₹ 10,000 face value of the government securities at ₹ 95 ex- interest. You are required to draw up the 9% Government Security Account in the books of Remo Limited. FIFO method shall be followed.

Calculation shall be made to the nearest rupee or multiple thereof.

Solution :

In the Books of Remo Ltd.

9% Government Securities (Investment) Account

		Face Value	Interest	Cost	Particulars	Face Value	Interest	Cost	
2021		₹	₹	₹	2021		₹	₹	₹
April 1	To Balance b/d	1,00,000	2,250	90,000	June 1	By Bank A/c	60,000	2,250	54,150
May 1	To Bank A/c	80,000	2,400	73,600	June 30	By Bank A/c	-	5,400	-
June 1	To P&L A/c	-	-	150	Sept. 30	By Bank A/c	40,000	900	37,900

Sept.	30 To P & L A/c	-	-	1,900	Dec. 31	By Bank A/c	-	4,050	-
Dec. 1	To Bank A/c	10,000	375	10,000	Mar.1 2022	By Bank A/c	10,000	150	9,500
Mar. 1 2022	To P&L A/c	-	-	300	Mar. 31 2022	By Balance c/d	80,000	1,800	74,400
Mar. 31, 2022	To P&L A/c (Transfer)	-	9,525	-					
		1,90,000	14,550	1,75,950			1,90,000	14,550	1,75,950

Working Notes:

- Interest accrued on 1st April 2021 = ₹1,00,000 × 9% × 3/12 = ₹ 2,250
- Accrued Interest on 800 units as on 01 05;2021 = ₹ 80,000 × 9/100 × 4/12 = ₹ 2,400
- Cost of Investment for purchase on 01;05;2021 = ₹ 76,000 – ₹ 2,400 = ₹ 73,600
- Accrued Interest on 600 units as on 01 06;2021 = ₹ 60,000 × 9/100 × 5/12 = ₹ 2,250
- Profit on Securities sold on 1st June = ₹ 54,150 (56,400 – 2,250) – ₹ 54,000 (60,000 × 90,000/1,00,000) = ₹ 150
- Interest received on 30 06;2021 = ₹1,20,000 × 9/100 × 6/12 = ₹ 5,400
- Accrued Interest on 400 units as on 30 09;2021 = ₹ 40,000 × 9/100 × 3/12 = ₹ 900
- Cost of 400 Govt. Securities sold on 30;09;2021 = 40,000 × 90,000/1,00,000 = ₹ 36,000
- Profit on securities sold on 30th September = ₹37,900 (38,800–900) – ₹ 36,000 = ₹ 1,900
- Accrued Interest on 1 12;2021 = ₹ 10,000 × 9/100 × 5/12 = ₹ 375
- Interest received on 31 12;2021 = ₹ 90,000 × 9/100 × 6/12 = ₹ 4,050
- Accrued Interest on 100 units as on 01 03;2022 = ₹ 10,000 × 9/100 × 2/12 = ₹ 150
- Cost of 100 Govt; Securities sold on 01;03;2022 = ₹ 10,000 × 73,600/80,000 = ₹ 9,200
- Profit on securities sold on 01;03;2022 = ₹ 9,500 – ₹ 9,200 = ₹ 300 15

Calculation of closing balance:	Units	₹
Securities in hand remained in hand at 31/3/2022		
From original holding (1,00,000 – 60,000 – 40,000)		-
Purchased on 1st May (80,000 – 10,000)	70,000	64,400
Purchased on 1st December	10,000	10,000
	80,000	74,400

Question 20 (RTP Nov'23) (MTP March'21, Sep 22)
NB Pg. No.

On 1st April, 20X1, Rajat has 50,000 equity shares of P Ltd. at a book value of ₹ 15 per share (nominal value ₹ 10 each). He provides you the further information:

- On 20th June, 20X1 he purchased another 10,000 shares of P Ltd. at ₹ 16 per share.
- On 1st August, 20X1, P Ltd. issued one equity bonus share for every six shares held by the shareholders.
- On 31st October, 20X1, the directors of P Ltd. announced a right issue which entitles the holders to subscribe three shares for every seven shares at ₹ 15 per share. Shareholders can transfer their rights in full or in part.

Rajat sold $\frac{1}{3}$ rd of entitlement to Umang for a consideration of ₹ 2 per share and subscribed the rest on 5th November, 20X1.

You are required to prepare Investment A/c in the books of Rajat for the year ending 31st March, 20X2. (6 Marks)

Solution :

**In the books of Rajat
Investment Account
(Equity shares in P Ltd.)**

Date	Particulars	No. of shares	Amount (₹)	Date	Particulars	No. of shares	Amount (₹)
1.4.X1	To Balance b/d	50,000	7,50,000	31.3.X2	By Balance c/d (Bal. fig.)	90,000	12,10,000
20.6.X1	To Bank A/c	10,000	1,60,000				
1.8.X1	To Bonus issue(W.N.1)	10,000	-				
5.11.X1	To Bank A/c (right shares) (W.N.4)	20,000	3,00,000				
		90,000	12,10,000			90,000	12,10,000

Working Notes:

$$(1) \text{ Bonus shares} = \frac{(50,000 + 10,000)}{6} = 10,000 \text{ shares}$$

$$(2) \text{ Right shares} = \frac{(50,000 + 10,000 + 10,000)}{7} \times 3 = 30,000 \text{ shares}$$

$$(3) \text{ Sale of rights} = 30,000 \text{ shares} \times \frac{1}{3} \times ₹ 2 = ₹ 20,000 \text{ to be credited to statement of profit and loss}$$

$$(4) \text{ Rights subscribed} = 30,000 \text{ shares} \times \frac{2}{3} \times 15 = ₹ 3,00,000$$

Question 21

NB Pg. No.

On 1st April, 20X1, XY Ltd. has 15,000 equity shares of ABC Ltd. at a book value of ₹ 15 per share (nominal value ₹ 10 per share). On 1st June, 20X1, XY Ltd. acquired 5,000 equity shares of ABC Ltd. for ₹ 1,00,000. ABC Ltd. announced a bonus and right issue.

- 1) Bonus was declared, at the rate of one equity share for every five shares held, on 1st July 20X1.
- 2) Right shares are to be issued to the existing shareholders on 1st September 20X1. The company will issue one right share for every 6 shares at 20% premium. No dividend was payable on these shares.
- 3) Dividend for the year ended 31.3.20X1 were declared by ABC Ltd. @ 20%, which was received by XY Ltd. on 31st October 20X1.XY Ltd.
 - (i) Took up half the right issue.
 - (ii) Sold the remaining rights for ₹ 8 per share.
 - (iii) Sold half of its shareholdings on 1st January 20X2 at ₹ 16.50 per share. Brokerage being 1%.

You are required to prepare Investment account of XY Ltd. for the year ended 31st March 20X2 assuming the shares are being valued at average cost.

Solution :

In the books of XY Ltd.
Investment in equity shares of ABC Ltd.
for the year ended 31st March, 20X2

Date	Particulars	No.	Dividend ₹	Amount ₹	Date	Particulars	No.	Dividend ₹	Amount ₹
20X1 April 1	To Balance b/d	15,000	-	2,25,000	2 0 X 1 Oct. 31	By Bank A/c (W.N. 5)	-	30,000	10,000
June 1	To Bank A/c	5,000	-	1,00,000	2 0 X 2 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					
20X2 Jan 1	To P & L A/c (W.N. 4)	- -	-	42,855					
"20X2 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

$$\text{Bonus Shares} = \frac{(15,000 \text{ shares} + 5,000 \text{ shares})}{5} \times 1 = 4,000 \text{ shares}$$

2. Calculation of right shares subscribed

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

$$\text{Shares subscribed by XY Ltd.} = \frac{4,000}{2} = 2,000 \text{ shares}$$

$$\begin{aligned} \text{Value of right shares subscribed} &= 2,000 \text{ shares @ ₹ 12 per share} \\ &= ₹ 24,000 \end{aligned}$$

3. Calculation of sale of right entitlement

$$2,000 \text{ shares} \times ₹ 8 \text{ per share} = ₹ 16,000$$

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 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)
 = ₹ 2,25,000 + ₹ 1,00,000 + ₹ 24,000 – ₹ 10,000 = ₹ 3,39,000

Average cost of 13,000 shares would be

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

	₹
Sale proceeds of 13,000 shares (13,000 x ₹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, 20X1

= 15,000 shares x ₹ 10 × 20%

= ₹ 30,000 will be transferred to Profit and Loss A/c

Dividend received on shares purchased on 1st June, 20X1

= 5,000 shares x ₹ 10 × 20% = ₹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, 20X1 and dividend pertains to the year ended 31.3.20X1.

6. Calculation of closing value of shares (on average basis) as on 31st March, 20X2

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

Question 22

NB Pg. No.

On 1st April, 20X1, Mr. Vijay had 30,000 Equity shares in X Ltd. at a book value of ₹ 4,50,000 (Face Value ₹ 10 per share). On 22nd June, 20X1, he purchased another 5000 shares of the same company for ₹ 80,000.

The Directors of X Ltd. announced a bonus of equity shares in the ratio of one share for seven shares held on 10th August, 20X1.

On 31st August, 20X1 the Company made a right issue in the ratio of three shares for every eight shares held, on payment of ₹ 15 per share. Due date for the payment was 30th September, 20X1, Mr. Vijay subscribed to 2/3rd of the right shares and sold the remaining of his entitlement to Viru for a consideration of ₹ 2 per share.

On 31st October, 20X1, Vijay received dividends from X Ltd. @ 20% for the year ended 31st March, 20X1. Dividend for the shares acquired by him on 22nd June, 20X1 to be adjusted against the cost of purchase.

On 15th November, 20X1 Vijay sold 20,000 Equity shares at a premium of ₹ 5 per share.

You are required to prepare Investment Account in the books of Mr. Vijay for the year ended 31st March, 20X2 assuming the shares are being valued at average cost. **(8 Marks)**

Solution :

Investment Account in Books of Vijay
(Scrip: Equity Shares in X Ltd.)

		No.	Amount			No.	Amount
			₹				₹
1.4.20X1	To Bal b/d	30,000	4,50,000	31.10.20X1	By Bank	—	10,000
22.6.20X1	To Bank	5,000	80,000		(dividend on shares acquired on 22.6.20X1)		
10.8.20X1	To Bonus	5,000	—				
30.9.20X1	To Bank (Rights Shares)	10,000	1,50,000				
15.11.20X1	To P&L A/c (Profit on sale of shares)		32,000	15.11.20X1	By Bank (Sale of shares)	20,000	3,00,000
				31.3.20X2	By Bal. c/d	30,000	4,02,000
		50,000	7,12,000			50,000	7,12,000

Working Notes:

(1) **Bonus Shares** = $(30,000 + 5,000) / 7 = 5,000$ shares

(2) **Right Shares** = $\frac{(30,000 + 5,000 + 5,000)}{8} \times 3 = 15,000$ shares

(3) **Rights shares sold** = $15,000 \times 1/3 = 5,000$ shares

(4) **Dividend received** = $30,000 \times 10 \times 20\% = ₹ 60,000$ will be taken to P&L statement

(5) **Dividend on shares purchased on 22.6.20X1**

= $5,000 \times 10 \times 20\%$

= ₹ 10,000 is adjusted to Investment A/c

(6) **Profit on sale of 20,000 shares**

= Sales proceeds – Average cost

Sales proceeds = ₹ 3,00,000

Average cost = $\frac{(4,50,000 + 80,000 + 1,50,000 - 10,000)}{50,000} \times 20,000$

= ₹ 2,68,000

Profit = ₹ 3,00,000 – ₹ 2,68,000 = ₹ 32,000.

(7) Cost of shares on 31.3.20X2

$$\frac{(4,50,000 + 80,000 + 1,50,000 - 10,000)}{50,000} \times 30,000$$

$$= ₹ 4,02,000$$

(8) Sale of rights amounting ₹ 10,000 (₹ 2 × 5,000 shares) will not be shown in investment A/c but will directly be taken to P & L statement.

Question 23
NB Pg. No.

On 1.4.20X1, Mr. Krishna Murty purchased 1,000 equity shares of ₹ 100 each in TELCO Ltd. @ ₹ 120 each from a Broker, who charged 2% brokerage. He incurred 50 paise per ₹ 100 as cost of shares transfer stamps. On 31.1.20X2, Bonus was declared in the ratio of 1: 2. Before and after the record date of bonus shares, the shares were quoted at ₹ 175 per share and ₹ 90 per share respectively. On 31.3.20X2, Mr. Krishna Murty sold bonus shares to a Broker, who charged 2% brokerage.

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

Solution :

In the books of Mr. Krishna Murty
Investment Account for the year ended 31st March, 20X2
(Scrip: Equity Shares of TELCO Ltd.)

Date	Particulars	Nominal Value (₹)	Cost (₹)	Date	Particulars	Nominal Value (₹)	Cost (₹)
1.4.20X1	To Bank A/c (W.N.1)	1,00,000	1,23,000	31.3.20X2	By Bank A/c (W.N.2)	50,000	44,100
31.1.20X2	To Bonus shares (W.N.5)	50,000	-	31.3.20X2	By Balance c/d (W.N.4)	1,00,000	82,000
31.3.20X2	To Profit & loss A/c (W.N.3)	-	3,100				
		1,50,000	1,26,100			1,50,000	1,26,100

Working Notes:

- 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
- Sale proceeds of equity shares** (bonus) sold on 31st March, 20X2 = (500 × ₹ 90) – (2% of ₹ 45,000) = ₹ 44,100.
- Profit on sale of bonus shares on 31st March, 20X2**
 = Sale proceeds – Average cost
 Sale proceeds = ₹ 44,100
 Average cost = ₹ (1,23,000 / 1,50,000) × 50,000 = ₹ 41,000
 Profit = ₹ 44,100 – ₹ 41,000 = ₹ 3,100.
- Valuation of equity shares on 31st March, 20X2**
 Cost = (₹ 1,23,000 / 1,50,000) × 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.

? Question 24 (MTP March '23)

NB Pg. No.

On 1.4.20X1, Sundar had 25,000 equity shares of 'X' Ltd. at a book value of ₹ 15 per share (Nominal value ₹ 10). On 20.6.20X1, he purchased another 5,000 shares of the company at ₹16 per share. The directors of 'X' Ltd. announced a bonus and rights issue.

No dividend was payable on these issues. The terms of the issue are as follows:

Bonus basis 1:6 (Date 16.8.20X1).

Rights basis 3:7 (Date 31.8.20X1) Price ₹ 15 per share.

Due date for payment 30.9.20X1.

Shareholders were entitled to transfer their rights in full or in part. Accordingly, Sundar sold 33.33% of his entitlement to Sekhar for a consideration of ₹ 2 per share.

Dividends: Dividends for the year ended 31.3.20X1 at the rate of 20% were declared by X Ltd. and received by Sundar on 31.10.20X1. Dividends for shares acquired by him on 20.6.20X1 are to be adjusted against the cost of purchase.

On 15.11.20X1, Sundar sold 25,000 equity shares at a premium of ₹ 5 per share.

You are required to prepare in the books of Sundar.

(1) Investment Account

(2) Profit & Loss Account.

(10 Marks)

For your exercise, assume that the books are closed on 31.12.20X1 and shares are valued at average cost.

Solution :

Books of Sundar
Investment Account
(Scrip: Equity Shares in X Ltd.)

		No.	Amount			No.	Amount
1.4.20X1	To Bal b/d	25,000	3,75,000	31.10.20X1	By Bank	—	10,000
20.6.20X1	To Bank	5,000	80,000		(dividend		
16.8.20X1	To Bonus (W.N.1)	5,000	—		on shares		
30.9.20X1	To Bank (Rights Shares) (W.N.3)	10,000	1,50,000		acquired		
					on		
15.11.20X1	To Profit (on sale of shares)		44,444	15.11.20X1	By Bank (Sale of shares)	25,000	3,75,000
				31.12.20X1	By Bal. c/d (W.N.6)	20,000	2,64,444
		45,000	6,49,444			45,000	6,49,444

Profit and Loss Account (An extract)

To Balance c/d	1,04,444	By Profit transferred	44,444
		By Sale of rights (W.N.3)	10,000
		By Dividend (W.N.4)	50,000
	1,04,444		1,04,444

Working Notes:

(1) **Bonus Shares** = $\frac{(25,000+5,000)}{6} = 5,000$ shares

(2) **Right Shares** = $\frac{(25,000+5,000+5,000)}{7} \times 3 = 15,000$ shares

(3) **Right shares renounced** = $15,000 \times \frac{1}{3} = 5,000$ shares

Sale of right shares = $5,000 \times 2 = ₹ 10,000$

Right shares subscribed = $15,000 - 5,000 = 10,000$ shares

Amount paid for subscription of right shares = $10,000 \times 15 = ₹ 1,50,000$

(4) **Dividend received** = $25,000$ (shares as on 1st April 20X1) $\times 10 \times 20\% = ₹ 50,000$

Dividend on shares purchased on 20.6.20X1 = $5,000 \times 10 \times 20\% = ₹ 10,000$ is adjusted to Investment A/c

(5) **Profit on sale of 25,000 shares**

= Sales proceeds – Average cost

Sales proceeds = ₹ 3,75,000

Average cost = $\frac{(3,75,000+80,000+1,50,000-10,000)}{45,000} \times 25,000 = ₹ 3,30,556$

Profit = ₹ 3,75,000 – ₹ 3,30,556 = ₹ 44,444.

(6) **Cost of shares on 31.12.20X1**

$\frac{(3,75,000+80,000+1,50,000-10,000)}{45,000} \times 20,000 = ₹ 2,64,444$

Question 25 (MTP Oct'19) (RTP Nov 18) (Past Exam Jan'21, Nov '22)

NB Pg. No.

Akash Ltd. had 4,000 equity share of X Limited, at a book value of Rs. 15 per share (face value of Rs. 10 each) on 1st April 2018. On 1st September 2018, Akash Ltd. acquired 1,000 equity shares of X Limited at a premium of Rs. 4 per share. X Limited announced a bonus and right issue for existing share holders.

The terms of bonus and right issue were –

- At the rate of two equity shares for every five equity shares held on 30th September, 2018.
- Right shares are to be issued to the existing shareholders on 1st December, 2018. The company issued two right shares for every seven shares held at 25% premium. No dividend, was payable on these shares. The whole sum being payable by 31st December, 2018.
- Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.
- Akash Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for Rs. 8 per share.
- Dividend for the year ended 31st March 2018, at the rate of 20% was declared by the company

and received by Akash Ltd., on 20th January 2019.

6. On 1st February 2019, Akash Ltd., sold half of its share holdings at a premium of Rs. 4 per share.
7. The market price of share on 31.03.2019 was Rs. 13 per share.

You are required to prepare Investment Account of Akash Ltd. for year ended 31st March, 2019 and determine the value of shares held on that date assuming investment as current investment.

(10 Marks)

Solution :

Investment Account-Equity Shares in X Ltd.

Date		No. of shares	Dividend	Amount	Date		No. of shares	Dividend	Amount
			Rs	Rs				Rs	Rs.
2018					2019				
April 1	To Balance b/d	4,000	-	60,000	Jan. 20	By Bank (dividend)		8,000	2,000
Sept 1	To Bank	1,000	-	14,000	Feb. 1	By Bank	4,000		56,000
Sept. 30	To Bonus Issue	2,000		-	Mar. 31	By Balance c/d	4,000		42,250
Dec.1	To Bank (Right)	1,000	-	12,500					
2019									
Feb. 1	To Profit & Loss A/c			13,750					
Feb. 1	To Profit & Loss A/c (Dividend income)		8,000						
		8,000	8,000	1,00,250			8,000	8,000	1,00,250
April. 1	To Balance b/d	4,000		42,250					

Working Notes:

	Rs.
(Rs. 60,000 + Rs. 14,000 + Rs. 12,500)	86,500
Less: Dividend on shares purchased on 1st Sept, 2018	(2,000)
Cost of 8,000 shares	84,500
Cost of 4,000 shares (Average cost basis*)	42,250
Sale proceeds (4,000 shares @ 14/-)	56,000
Profit on sale	13,750

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

For ascertainment of cost for equity shares sold, average cost basis has been applied.

2. Value of investment at the end of the year

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

3. Calculation of sale of right entitlement

1,000 shares x Rs. 8 per share = Rs. 8,000

Amount received from sale of rights will be credited to P & L A/c as per AS 13

4. Dividend received on investment held as on 1st April, 2018

= 4,000 shares x Rs. 10 × 20%

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

Dividend received on shares purchased on 1st Sep. 2018

= 1,000 shares x Rs. 10 × 20% = Rs. 2,000 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 30th Sept., 2018 and dividend pertains to the year ended 31.3.2018.

Question 26 (MTP Oct'20, Mar'22) (Past Exam May'18)

NB Pg. No.

Mr. Vijay entered into the following transactions of purchase and sale of equity shares of JP Power Ltd/ The shares have paid up value of ₹ 10 per share

Date	No. of Shares	Terms
01.01.2019	600	Buy @ ₹ 20 per share
15.03.2019	900	Buy @ ₹ 25 per share
20.05.2019	1000	Buy @ ₹ 23 per share
25.07.2019	2500	Bonus Shares received
20.12.2019	1500	Sale @ ₹ 22 per share
01.02.2020	1000	Sale @ ₹ 24 per share

Addition information:

- On 15.09.2019 dividend @ ₹ 3 per share was received for the year ended 31.03.2019.
- On 12.11.2019 company made a right issue of equity shares in the ratio of one share for five shares held on payment of ₹ 20 per share. He subscribed to 60% of the shares and renounced the remaining shares on receipt of ₹ 3 per share.
- Shares are to be valued on weighted average cost basis.

You are required to prepare Investment Account for the year ended 31.03.2019 and 31.03.2020.

(8 Marks)

Solution :

(a) (i) Investment in Equity shares of JP Power Ltd.

Date	Particulars	No.	Dividend ₹	Amount ₹	Date	Particulars	No.	Dividend ₹	Amount ₹
1.1.19	To Bank A/c	600		12,000	31.3.19	By Balance c/d	1,500		34,500
15.3.19	To Bank A/c	900		22,500					
		1,500		34,500			1,500		34,500

1.4.19	To Balance b/d	1,500		34,500	15.9.19	By Bank dividend		4,500	3,000
20.5.19	To Bank A/c	1,000		23,000	20.12.19	By Bank	1,500		33,000
25.7.19	To Bonus shares	2,500		-	1.2.20	By Bank	1,000		24,000
12.11.19	To Bank A/c	600		12,000	31.3.20	By Balance c/d	3,100		36,812.50
20.12.19	To P&L A/c (profit on sale)			15,187.50					
1.2.20	To P&L A/c (profit on sale)			12,125					
31.3.20	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 ₹ 12,000

900 shares purchased at ₹ 22,500

1,000 shares purchased at ₹ 23,000

2,500 shares at nil cost

600 right shares purchased at ₹ 12,000

Total cost of 5,600 shares is ₹ 66,500 [₹ 69,500 less ₹ 3,000 (pre-acquisition dividend received on 1,000 shares purchased on 20.5.19)].

Hence, weighted average cost per share will be considered as ₹ 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, 2019.

3. Calculation of right shares subscribed by Vijay Right Shares (considering that right shares have been granted on Bonus shares also) = $5,000/5 \times 1 = 1,000$ shares

Shares subscribed = $1,000 \times 60\% = 600$ shares

Value of right shares subscribed = 600 shares @ ₹ 20 per share = ₹ 12,000 Calculation of sale of right renouncement

No. of right shares sold = $1,000 \times 40\% = 400$ shares

Sale value of right = 400 shares x ₹ 3 per share = ₹ 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 20.12.19

Sales price (1,500 shares at ₹ 22) 33,000.00

Less: Cost of shares sold (1,500 x ₹ 11.875)	(17,812.50)
Profit on sale	15,187.50
As on 1. 2.20	
Sales price	(1,000 shares at ₹ 24) 24,000
Less: Cost of shares sold (1,000 x ₹ 11.875)	(11,875)
Profit on sale	12,125
Balance of 3,100 shares as on 31;3;20 will be valued at ₹ 36,812;50 (at rate of ₹ 11.875 per share)	

Question 27 (RTP May 20) (MTP Oct '18, Mar'18)

NB Pg. No.

Meera carried out the following transactions in the shares of Kumar Ltd.:

- (1) On 1st April, 2019 she purchased 40,000 equity shares of Rs.1 each fully paid up for Rs.60,000.
- (2) On 15th May 2019, Meera sold 8,000 shares for Rs.15,200.
- (3) At a meeting on 15th June 2019, the company decided:
 - (i) To make a bonus issue of one fully paid up share for every four shares held on 1st June 2019 and
 - (ii) To give its members the right to apply for one share for every five shares held on 1st June 2019 at a price of Rs.1.50 per share of which 75 paise is payable on or before 15th July 2019 and the balance, 75 paise per share, on or before 15th September, 2019.

The shares issued under (i) and (ii) were not to rank for dividend for the year ending 31st December 2019.

- a) Meera received her bonus shares and took up 4,000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paise per share; the proceeds were received on 30th September 2019.
- b) On 15th March 2020, she received interim dividend from Kumar Ltd. of 15 per cent in respect of the current financial year.
- c) On 30th March 2020, she received Rs.28,000 from the sale of 20,000 shares. You are required to record these transactions in the Investment Account in Meera's books for the year ended 31st March 2020 transferring any profits or losses on these transactions to Profit and Loss account. Apply average cost basis. Expenses and tax to be ignored **(8 Marks)**

Solution :

Investment Account (Shares in Kumar Limited) in the books of Meera

Date	Particulars	No. of Shares	Income	Amount	Date	Particulars	No. of Shares	Income	Amount
2019			Rs	Rs	2019			Rs	Rs.
April 1	To Bank (Purchases)	40,000	-	60,000	May 15	By Bank (Sale)	8,000	-	15,200
May 15	To Profit & Loss A/c (W.N.1)	-	-	3,200					
June 15	To Bonus Issue	8,000	-	Nil	2020				

July 15	To Bank (@ 75 p. paid on 4,000 shares)	4,000	-	3,000	Mar. 15	By Bank (Dividend @ 15% on Rs.32,000)		4,800	-
Sept.	To Bank (@ 75 p. paid on 4,000 shares)	-	-	3,000	Mar. 30	By Bank (Sale)	20,000	-	28,000
2020 Mar. 31	To Profit & Loss A/c (W.N.2)			3,455	Mar. 31	By Balance c/d*	24,000	-	29,455
	To Profit & Loss A/c	-	4,800						
		52,000	4,800	72,655			52,000	4,800	72,655

$$\left(\frac{24,000}{44,000} \times 54,000 \right)$$

Working Notes:

(1) Profit on Sale on 15-5-2019:	(2)	(3)
Cost of 8,000 shares @ Rs.1.50	Rs.12,000	
Less: Sales price	Rs.15,200	
Profit		Rs.3,200
(4) Cost of 20,000 shares sold:	(5)	(6)
Cost of 44,000 shares (48,000 + 6,000)		Rs.54,000
Cost of 20,000 shares		Rs.24,545
$\left(\frac{\text{Rs.54,000}}{44,000 \text{ Shares}} \times 20,000 \text{ Shares} \right)$		
Profit on sale of 20,000 shares (Rs.28,000 – Rs.24,545)		Rs.3,455

? Question 28 (Past Exam May'22)
NB Pg. No.

On 1st April 2021 Ms. Jayshree has 5,000 equity shares of Rama Limited (a listed company) of face value of ₹ 10 each. Ms. Jayshree has purchased the above shares at ₹ 15 per share and paid a brokerage of 2% and stamp duty of 1 %.

On 15th May, 2021 Ms. Jayshree purchased another 5,000 shares of Rama Limited at ₹ 18 including brokerage and stamp duty.

On 26th August, 2021 Rama Limited issued one bonus equity share for every 1 equity share held by the shareholders.

On 23rd October, 2021 Rama Limited announced a Right Issue which entitles the holders to subscribe 1 equity share for every 2 equity shares held at ₹ 20 per share. Shareholders can exercise their rights in full or in part. Ms. Jayshree sold 1/4th of entitlement to Mr. Mike for a consideration of ₹ 10 per share and subscribed the rest on 1st November 2021.

Ms. Jayshree also sold 10,000 shares at ₹ 25 per share on 1st November, 2021. The shares of Rama Limited were quoted at ₹ 11 per share on 31st March, 2022.

You are required to prepare Investment A/c for Ms. Jayshree for year ended 31st March 2022.

(5 Marks)

Solution :

In the books of Ms. Jayshree
Investment Account (Equity shares in Rama Ltd.)

Date	Particulars	No. of Shares	Income	Amount	Date	Particulars	No. of Shares
1.4.21	To Balance b/d	5,000	77,250	1.11.21	By Bank A/c	10,000	2,50,000
15.5.21	To Bank A/c	5,000	90,000				
26.8.21	To Bonus issue (W.N.1)	10,000	-	31.3.22	By Balance c/d	17,500	1,92,500
1.11.21	To Bank A/c (right shares) (W.N.4)	7,500	1,50,000	31.3.22	By Profit & Loss A/c (loss on valuation)		9,386
1.11.21	To Profit & Loss A/c		1,34,636				
		27,500	4,51,886			27,500	4,51,886

Working Notes:

- Profit on sale of shares (average cost basis) on 1;11;21 10,000 shares @ ₹ 25 per share = 2,50,000
 Cost of shares sold = $[(77,250 + 90,000 + 1,50,000)/27,500 \times 10,000] = ₹ 1,15,364$ Profit on sale of shares
 = ₹ 1,34,636
- Value of shares on 31.3.22 $[(77,250 + 90,000 + 1,50,000)/27,500 \times 17,500]$
 = ₹ 2,01,886 or ₹ 1,92,500 (17,500 shares at ₹ 11)
 Shares will be valued at ₹, 1,92,500 as market value is less than cost;

Note: Average cost basis has been considered for valuation of shares at the year end and for calculation of cost of shares sold in the given answer.

Question 29 (PYQ Sept.24)

NB Pg. No.

On 01.04.2023, Mr. Day has 25,000 shares of Squares Ltd. at a book value of Rs.25 per share (nominal value of Rs.10 each). Further information is as under:

- On 31st July 2023, the Directors of Squares Ltd. issued one equity bonus share for every five shares held by the shareholders.
- On 30th September 2023, the Directors of Squares Ltd. announced a right issue which entitled the holders to subscribe three shares for every two shares at Rs.20 per share. Shareholders can transfer their rights in full or in part.

Mr. Day sold 1/4th of entitlement to Dhvani for a consideration of Rs.5 per share and subscribed the rest on 5th October, 2023.

You are required to prepare Investment A/c in the books of Mr. Day for the year ending 31.03.2024.

(4 Marks)

Solution :

**In the books of Mr. Day Investment Account
(Equity shares in Square Ltd.)**

Date	Particulars	No. of shares	Amount (Rs.)	Date	Particulars	No. of shares	Amount (Rs.)
1.4.23	To Balance b/d	25,000	6,25,000	31.3.24	By Balance c/d (Bal. fig.)	63,750	13,00,000
31.7.23	To Bonus issue (W.N.1)	5,000	-				
5.10.23	To Bank A/c (right shares) (W.N.4)	33,750	6,75,000				
		63,750	13,00,000			63,750	13,00,000

Working Notes:

- (1) Bonus shares = $25000/5 = 5000$ Shares
- (2) Right shares = $(25000+5000/2) \times 3 = 45000$ Shares
- (3) Sale of rights = $45000 \text{ shares} \times 1/4 \times \text{Rs.}5 = \text{Rs.}56250$
Rs.56,250 to be credited to statement of profit and loss
- (4) Rights subscribed = $45000 \text{ shares} \times 3/4 \times \text{Rs.}20 = \text{Rs.}675000$

Question 30 (RTP Nov'19 Nov'22) (MTP Nov'21)

NB Pg. No.

A Pvt. Ltd. follows the calendar year for accounting purposes. The company purchased 5,000 (nos.) 13.5% Convertible Debentures of Face Value of Rs.100 each of P Ltd. on 1st May 2018 @ Rs.105 on cum interest basis. The interest on these instruments is payable on 31st March & 30th September respectively. On August 1st 2018 the company again purchased 2,500 of such debentures @ Rs.102.50 each on cum interest basis. On 1st October, 2018 the company sold 2,000 Debentures @ Rs.103 each. On 31st December, 2018 the company received 10,000 equity shares of Rs.10 each in P Ltd. on conversion of 20% of its holdings. Interest for 3 months on converted debentures was also received on 31.12.2018. The market value of the debentures and equity shares as at the close of the year were Rs.106 and Rs.9 respectively. Prepare the Debenture Investment Account & Equity Shares Investment Account in the books of A Pvt. Ltd. for the year 2018 on Average Cost Basis. **(8 Marks)**

Solution :

Books of A Pvt. Ltd.

**Investment in 13.5% Convertible Debentures in P Ltd. Account
(Interest payable 31st March & 30th September)**

Date	Particulars	Nominal	Interest	Amount	Date	Particulars	Nominal	Interest	Amount
		₹	₹	₹			₹	₹	₹
2018					2018				
May 1	To Bank	5,00,000	5,625	5,19,375	Sept. 30	By Bank (6 months Int)		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000	Oct.1	By Bank	2,00,000		2,06,000
Oct.1	To P&L A/c			2,167					

Dec. 31	To P&L A/c		52,313		Dec. 31	By Equity share	1,10,000		1,12,108
					Dec. 31	By Bank (See note1)		3,713	
					Dec. 31	By Balance c/d	4,40,000	14,850	4,48,434
		7,50,000	69,188	7,66,542			7,50,000	69,188	7,66,542

Note 1: Rs.3,713 received on 31.12.2018 represents interest on the debentures converted till date of conversion.

Note 2: Cost being lower than Market Value the debentures are carried forward at Cost.

Investment in Equity shares in P Ltd. Account

Date	Particulars	Nominal	Amount	Date	Particulars	Nominal	Amount
		₹	₹			₹	₹
2018				2018			
Dec 31	To 13.5% Deb.	1,00,000	1,12,108	Dec.31	By P&L A/c	1,00,000	22,108
				Dec.31	By Bal. c/d		90,000
		1,00,000	1,12,108			1,00,000	1,12,108

Note 1: Cost being higher than Market Value the shares are carried forward at Market Value.

Working Notes:

- Interest paid on Rs.5,00,000 purchased on May 1st, 2018 for the month of April 2018, as part of purchase price: $5,00,000 \times 13.5\% \times 1/12 = \text{Rs.}5,625$
- Interest received on 30th Sept. 2018
 On Rs.5,00,000 = $5,00,000 \times 13.5\% \times 1/2 = 33,750$
 On Rs.2,50,000 = $2,50,000 \times 13.5\% \times 1/2 = 16,875$
 Total Rs. = 50,625
- Interest paid on Rs.2,50,000 purchased on Aug. 1st 2018 for April 2018 to July 2018 as part of purchase price:
 $2,50,000 \times 13.5\% \times 4/12 = \text{Rs.}11,250$
- Loss on Sale of Debentures Cost of acquisition
 $(\text{Rs.}5,19,375 + \text{Rs.}2,45,000) \times \text{Rs.}2,00,000 / \text{Rs.}7,50,000 = 2,03,833$
Less: Sale Price $(2,000 \times 103) = 2,06,000$
 Profit on sale = Rs. 2,167
- Interest on 1,100 Debentures (being those converted) for 3 months i.e., Oct-Dec. 2018
 $1,10,000 \times 13.5\% \times 3/12 = \text{Rs.}3,713$
- Cost of Debentures converted to Equity Shares
 $(\text{Rs.}5,19,375 + \text{Rs.}2,45,000) \times 1,10,000 / 7,50,000 = \text{Rs.}1,12,108$
- Cost of Balance Debentures
 $(\text{Rs.}5,19,375 + \text{Rs.}2,45,000) \times \text{Rs.}4,40,000 / \text{Rs.}7,50,000 = \text{Rs.}4,48,434$
- Interest on Closing Debentures for period Oct.- Dec. 2018 carried forward (accrued interest)
 $\text{Rs.}4,40,000 \times 13.5\% \times 3/12 = \text{Rs.}14,850$

Question 31 : (MTP April'21, April'23, Oct'23, Sept.24, RTP May 19)

NB Pg. No.

A Ltd. purchased on 1st April, 2023 8% convertible debenture in C Ltd. of face value of Rs. 2,00,000 @ Rs. 108. On 1st July, 2023 A Ltd. purchased another Rs. 1,00,000 debentures @ Rs. 112 cum interest. On 1st October, 2023 Rs. 80,000 debentures were sold @ Rs. 105. On 1st December, 2023, C Ltd. give option for conversion of 8% convertible debentures into equity share of Rs. 10 each. A Ltd. received 5,000 equity shares in C Ltd. in conversion of 25% debentures held on that date. The market price of debenture and equity share in C Ltd. on 31st December, 2023 is Rs. 110 and Rs. 15 respectively. Interest on debenture is payable each year on 31st March, and 30th September. Prepare investment account in the books of A Ltd. on average cost basis for the accounting year ended 31st December, 2023. **(10 Marks)**

Solution :
Investment Account for the year ending on 31st December, 2023
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.)
1.4.23	To Bank A/c	2,00,000	-	2,16,000	30.09.23	By Bank A/c	-	12,000	-
1.7.23	To Bank A/c (W.N.1)	1,00,000	2,000	1,10,000		[Rs.3,00,000 x 8% x (6/12)]			
31.12.23	To P & L A/c [Interest]	-	14,033	-	1.10.23	By Bank A/c	80,000		84,000
					1.10.23	By P & L A/c (loss) (W.N.3)			2,933
					1.12.23	By Bank A/c (Accrued interest) (Rs. 55,000 x .08 x 2/12)		733	
					1.12.23	By Equity shares in C Ltd. (W.N. 3 and 4)	55,000		59,767
					31.12.23	By Balance c/d (W.N.5)	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.)
1.12.23	To 8 % debentures	59,767	31.12.23	By balance c/d	59,767

Working Notes:

- (i) Cost of Debenture purchased on 1st July
 = Rs. 1,12,000 – Rs. 2,000 (Interest) = Rs.1,10,000
- (ii) Cost of Debentures sold on 1st Oct.
 = (Rs. 2,16,000 + Rs. 1,10,000) × 80,000/3,00,000 = Rs. 86,933
- (iii) Loss on sale of Debentures = Rs. 86,933– Rs.84,000 = Rs. 2,933 Nominal value of debentures converted into equity shares
 =Rs. 55,000 [(Rs. 3,00,000 – 80,000) ×.25]
 Interest received before the conversion of debentures
 Interest on 25% of total debentures = 55,000 × 8% × 2/12 = 733
- (iv) Cost of Debentures converted = (Rs. 2,16,000 + Rs.1,10,000) × 55,000/3,00,000 = Rs. 59,767
- (v) Cost of closing balance of Debentures = (Rs. 2,16,000 + Rs.1,10,000) × 1,65,000 / 3,00,000 = Rs. 1,79,300
- (vii) Closing balance of Debentures has been valued at cost.
- (viii) 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 ×5,000)

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



NB Pg. No.

Following transactions of Meeta took place during the financial year 2020 -21:

1st April, 2020	Purchased ₹ 4,500 8% bonds of ₹ 100 each at ₹ 80.50 cum-interest. Interest is payable on 1st November and 1st May.
1st May, 2020	Received half year's interest on 8% bonds;
10 July, 2020	Purchased 6,000 equity shares of ₹ 10 each in Kamal Limited for ₹ 44 each through a broker, who charged brokerage @ 2%.
1st October 2020	Sold 1,125 8% bonds at ₹ 81 Ex-interest.
1st November, 2020	Received half year's interest on 8% bonds;
15th January, 2021	Received 18% interim dividend on equity shares of Kamal Limited.
15th March, 2021	Kamal Limited made a rights issue of one equity share for every four Equity shares held at ₹ 5 per share; Meeta exercised the option for 40% of her entitlements and sold the balance rights in the market at ₹ 2.25 per share;

Prepare separate investment account for 8% bonds & equity shares of Kamal Limited in the books of Meeta for year ended on 31st March, 2021. Assume that the average cost method is followed.

(10 Marks)

Solution :

In the books of Meeta
8% Bonds for the year ended 31st March, 2021

Date	Particulars	No.	Income ₹	Amount ₹	Date	Particulars	No.	Income ₹	Amount ₹
2020	To Bank A/c	2,00,000	-	2,16,000	30.09.23	By Bank A/c	-	12,000	-
1 April,	To Bank A/c	4,500	15,000	3,47,250	1 May 2020	By Bank-Interest	-	18,000	
Oct. 1	To P & L A/c (W.N.1)		-	4,312.50	1 Oct. 2020	By Bank A/c	1,125	3,750	91,125
2021 March 31	To P & L A/c		20,250		1 Nov. 2021	By Bank-Interest		13,500	
					2021 Mar. 31	By Balance c/d (W.N.2)	3,375	-	2,60,437.50
		4,500	35,250	3,51,562.50			4,500	35,250	3,51,562.50

Investment in Equity shares of Kamal Ltd. for the year ended 31 st March, 2021

Date	Particulars	No.	Income ₹	Amount ₹	Date	Particulars	No.	Income ₹	Amount ₹
2020 July 10	To Bank A/c	6,000	-	2,69,280	2021 Jan 15	By Bank dividend	-	10,800	
2021 March 15	To Bank A/c (W.N. 3)	600	-	3,000	March 31	By Balance c/d bal. fig.)	6,600		2,72,280
March 31	To P & L A/c	-	10,800						
		6,600	10,800	2,72,280			6,600	10,800	2,72,280

Working Notes:

1. Profit on sale of 8% Bonds

Sales price ₹ 91,125

Less: Cost of bonds sold = $3,47,250/4,500 \times 1,125$ (₹ 86,812.50)

Profit on sale ₹ 4,312.50

2. Closing balance as on 31.3.2021 of 8 % Bonds

$3,47,250/4,500 \times 3,375 = ₹ 2,60,437;50$

3. Calculation of right shares subscribed by Kamal Ltd.

Right Shares = $6,000/4 \times 1 = 1,500$ shares

Shares subscribed by Meeta = $1,500 \times 40\% = 600$ shares

Value of right shares subscribed = $600 \text{ shares} @ ₹ 5 \text{ per share} = ₹ 3,000$

4. Calculation of sale of right entitlement by Kamal Ltd.

No. of right shares sold = $1,500 - 600 = 900$ rights for 2,025

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

Question 33
NB Pg. No.

Mr. X acquires 200 shares of a company on cum-right basis for ₹ 70,000. He subsequently receives an offer of right to acquire fresh shares in the company in the proportion of 1:1 at ₹ 107 each. He does not subscribe but sells all the rights for ₹ 12,000. The market value of the shares after their becoming exrights has also gone down to ₹ 60,000. What should be the accounting treatment in this case?

Solution :

As per AS 13, where the investments are acquired on cum-right basis and the market value of investments immediately after their becoming ex-right is lower than the cost for which they were acquired, it may be appropriate to apply the sale proceeds of rights to reduce the carrying amount of such investments to the market value. In this case, the amount of the ex-right market value of 200 shares bought by X immediately after the declaration of rights falls to ₹ 60,000. In this case, out of sale proceeds of ₹ 12,000, ₹ 10,000 may be applied to reduce the carrying amount to bring it to the market value and ₹ 2,000 would be credited to the profit and loss account.

Question 34 (RTP May'21)
NB Pg. No.

On 1st April, 2019 Mr. Shyam had an opening balance of 1000 equity shares of X Ltd Rs. 1,20,000 (face value Rs.100 each). On 5.04.2019 he further purchased 200 cum-right shares for Rs. 135 each. On 8.04.2019 the director of X Ltd announced right issue in the ratio of 1:6.

Mr. Shyam waived off 100% of his entitlement of right issue in the favour of Mr. Rahul at the rate of Rs. 20 each. All the shares held by Shyam had been acquired on cum right basis and the total market price (ex-right) of all these shares after the declaration of rights got reduced by Rs. 3,400. On 10.10.2019 Shyam sold 350 shares for Rs. 140 each. 31.03.2020 The market price of each share is Rs. 125 each. You are required to prepare the Investment account in the books of Mr. Shyam for the year ended 31.03/2020 assuming that the shares are being valued at average cost.

Solution :
In the books of Mr. Shyam
for the year ending on 31-3-2020 (Scrip: Equity Shares of X Limited)

Date	Particulars	Qty	Amount	Date	Particulars	Qty	Amount
1.4.2019	To Balance b/d	1000	1,20,000	8.04.2019	By Bank A/c (W.N.1)		3,400
5.04.2019	To Bank (200x Rs.135)	200	27,000	10.10.2019	By Bank A/c (350x Rs.140)	350	49,000
10.10.2019	To Profit & Loss A/c (W.N.2)		7,117	31.3.2020	By Balance c/d (W.N.3)	850	1,01,717
		1200	1,54,117			1200	1,54,117

Working Notes:
1. Sale of Rights Rs. 4,000

The market price of all shares of X Ltd after shares becoming ex-rights has been reduced by Rs. 3,400 In this case out of sale proceeds of Rs.4,000; Rs. 3,400 may be applied to reduce the carrying amount to the market value and Rs. 600 would be credited to the profit and loss account.

2. Profit on sale of 350 shares

		Amount	
Sale price of 350 shares	(350 shares X 140 each)	Rs.	49,000
Less: Cost of 350 shares [(1,20,000+27,000-3,400) X350]/1200		Rs.	41,883
Profit		Rs.	7,117

3. Valuation of 850 shares as on 31.03.2020

Particulars	Amount
Cost price of 850 shares [(1,20,000 +27,000 -3,400) x 850 /1,200]	Rs. 1,01,717
Fair Value as on 31.03.2020 [850 X Rs. 125 each]	Rs. 1,06,250
Cost price or fair value whichever is less	Rs. 1,01,717

Question 35 (Past Exam Dec'21)
NB Pg. No.

Mr. Mohan has invested some money in various Mutual funds. Following information in this regard is given:

Mutual Funds	Date of purchase	Purchase cost (₹)	Brokerage Cost (₹)	Stamp duty (₹)	Market value as on 31/03/2021 (₹)
A	01.05.2017	50,000	200	20	48,225
B	05.08.2020	25,000	150	25	24,220
C	01.01.2021	75,000	300	75	78,190
D	07.05.2020	70,000	275	50	65,880

You are required to:

- Classify his investment in accordance with AS-13 (revised).
- Value of Investment in mutual fund as on 31.03.2021 **(5 Marks)**

Solution :

As per AS 13 "Accounting for Investments", a current investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made. The carrying amount for current investments is the lower of cost and fair value.

A long-term investment is an investment other than a current investment. Long term investments are usually carried at cost. If there is a decline, other than temporary, in the value of a long-term investment; the carrying amount is reduced to recognize the decline.

Mutual Funds	Classification	Cost (₹)	Market value (₹)	Carrying value (₹)
A	Long-term Investment	50,220	48,225*	50,220
B	Current Investment	25,175	24,220	24,220
C	Current Investment	75,375	78,190	75,375
D	Current Investment	70,325	65,880	65,880
Total				2,15,695

Note: *The reduction in value of Mutual fund A is considered to be temporary. If reduction in Market value is assumed as other than temporary in nature, then the carrying value of ₹48,225 will be considered;