

TOPIC – 5

ACCOUNTING STANDARD – 13

ACCOUNTING FOR INVESTMENT

TOTAL NO. OF QUESTIONS - 20

Index

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SERIES 100 – BASIC CATEGORY

Q.AS13.SM.101 (Also in MTP May'24)

M/s Innovative Garments Manufacturing Company Limited invested in the shares of another company on 1st October, 2016 at a cost of Rs 2,50,000. It also earlier purchased Gold of Rs 4,00,000 and Silver of Rs 2,00,000 on 1st March, 2014. Market value as on 31st March, 2017 of above investments are as follows:



| | Rs. |
|--------|----------|
| 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, 2017 as per the provisions of Accounting Standard 13 "Accounting for Investments"?

Q.AS13.SM.102

An unquoted long term investment is carried in the books at a cost of Rs. 2 lakhs. The published accounts of the unlisted company received in May, 20X1 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than Rs. 20,000. How will you deal with this in preparing the financial statements of R Ltd. for the year ended 31 st March, 20X1?



Q.AS13.SM.103

Blue-chip Equity Investments Ltd. wants to re-classify its investments in accordance with AS 13 (Revised). State the values, at which the investments have to be reclassified in the following cases:



- (i) Long term investments in Company A, costing Rs 8.5 lakhs are to be re-classified as current. The company had reduced the value of these investments to Rs 6.5 lakhs to recognise 'other than temporary' decline in value. The fair value on date of transfer is Rs 6.8 lakhs.
- (ii) Long term investments in Company B, costing Rs 7 lakhs are to be re-classified as current. The fair value on date of transfer is Rs 8 lakhs and book value is Rs 7 lakhs.
- (iii) Current investment in Company C, costing Rs 10 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is Rs 12 lakhs.

Q.AS13.RMP.104: (RTP Sep'24)

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.

SOLUTIONS OF ABOVE QUESTIONS OF SERIES 100

SOLUTION OF Q101

As per AS 13 (Revised) 'Accounting for Investments', for investment in shares - if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value, i.e., in case of shares, at lower of cost (Rs. 2,50,000) and market value (Rs. 2,25,000) as on 31 March 2017, i.e., Rs 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, 2014) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2017, i.e., Rs 4,00,000 and Rs 2,00,000 respectively, though their market values have been increased.

SOLUTION Q102

As it is stated in the question that financial statements for the year ended 31st March, 20X1 are under preparation, the views have been given on the basis that the financial statements are yet to be completed and approved by the Board of Directors. Also, the fall in value of investments has been considered on account of conditions existing on the balance sheet date.

Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution should be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. AS 13 (Revised) '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 these bases, 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. 20,000 in the financial statements for the year ended 31st March, 20X1.

SOLUTION Q103

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 re-classified current investment should be carried at Rs 6.5 lakhs in the books.
- (ii) The carrying / book value of the long-term investment is same as cost i.e., Rs 7 lakhs. Hence this long-term investment will be reclassified as current investment at book value of Rs 7 lakhs only.
- (iii) In this case, reclassification of current investment into long-term investments will be made at Rs 10 lakhs as cost is less than its market value of Rs 12 lakhs.

SOLUTION Q104

- (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.

SERIES 200 – INVESTMENT IN SHARES

Q.AS13.SM.201 (Right Issue)

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 ex-rights has also gone down to ₹ 60,000. What should be the accounting treatment in this case?

Q.AS13.SM.202

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.



Q.AS13.SM.203

Mr. X purchased 500 equity shares of ₹ 100 each in Omega Co. Ltd. for ₹ 62,500 inclusive of brokerage and stamp duty. Some years later the company resolved to capitalise its profits and to issue to the holders of equity shares, one equity bonus share for every share held by them. Prior to capitalisation, the shares of Omega Co. Ltd. were quoted at ₹ 175 per share. After the capitalisation, the shares were quoted at ₹ 92.50 per share. Mr. X. sold the bonus shares and received at ₹ 90 per share. Prepare the Investment Account in X's books on average cost basis.

Q.AS13.SM.204

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.

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

Q.INT.RMP.205: (EXAM May'22 & Sep'24)

On 1st April 2021 Ms. Jayshree has 5,000 equity shares of Rama Limited (a listed company) of face value of Rs. 10 each. Ms. Jayshree has purchased the above shares at Rs. 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 Rs. 18 including brokerage and stamp duty.

On 26th August, 2021 Rama Limited issued bonus equity shares in the ratio of 1:2 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 share held at Rs. 20 per share. Shareholders can exercise their rights in full or part. Ms. Jayshree sold 1/4th of entitlement to Mr. Mike for a consideration of Rs. 10 per share and subscribed the rest on November 2021.

Ms. Jayshree also sold 10,000 shares at Rs. 25 per share on 1st November, 2021.

The shares of Rama Limited were quoted at Rs. 11 per share on 31st March, 2022.

You are required to prepare Investment account for Ms. Jayshree for the year ended 31st March, 2022.



Q.AS13.SM.206 (Similar to Q204)

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.

SOLUTIONS OF ABOVE QUESTIONS OF SERIES 200

Solution Q201

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.

Solution Q202

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:

1. Cost of equity shares purchased on 1.4.20X1
 $= (1,000 \times ₹ 120) + (2\% \text{ of } ₹ 1,20,000) + (\frac{1}{2}\% \text{ of } ₹ 1,20,000) = ₹ 1,23,000$
2. Sale proceeds of equity shares (bonus) sold on 31st March, 20X2
 $= (500 \times ₹ 90) - (2\% \text{ of } ₹ 45,000) = ₹ 44,100.$
3. Profit on sale of bonus shares on 31st March, 20X2 = Sale proceeds - Average cost
 Sale proceeds = ₹ 44,100
 Average cost = ₹ $(1,23,000 / 1,50,000) \times 50,000 = ₹ 41,000$
 Profit = ₹ 44,100 - ₹ 41,000 = ₹ 3,100.
4. Valuation of equity shares on 31st March, 20X2
 Cost = ₹ $(1,23,000 / 1,50,000) \times 1,00,000 = ₹ 82,000$
 Market Value = 1,000 shares $\times ₹ 90 = ₹ 90,000$
 Closing balance has been valued at ₹ 82,000 being lower than the market value.
5. Bonus shares do not have any cost.

Solution Q203

In the books of X Investment Account
[Scrip: Equity shares in Omega Co. Ltd.]

| Particulars | Nomin al Value | Cost | Particulars | Nomin al Value | Cost |
|----------------------------|----------------------|--------|------------------------------|----------------------|--------|
| | ₹ | ₹ | | ₹ | ₹ |
| To Cash | 50,000 | 62,500 | By Cash - Sale (500 x 90) | 50,000 | 45,000 |
| To Bonus shares (W.N.1) | 50,000 | - | By Balance c/d (W.N. 3) | 50,000 | 31,250 |
| To P & L A/c (W.N. 2) | - | 13,750 | | | |
| | 1,00,000 | 76,250 | | 1,00,000 | 76,250 |
| To Balance b/d | 50,000 | 31,250 | | | |

Working Notes:

- Bonus shares do not have any cost.
- Profit on sale of bonus shares = Sales proceeds - Average cost
 Sales proceeds = ₹ 45,000
 Average cost = $500/1,000 \times 62,500 = ₹ 31,250$
 Profit = ₹ 45,000 - ₹ 31,250 = ₹ 13,750.
- Valuation of Closing Balance of Shares at the end of year
 The total cost of 1,000 share including bonus is ₹ 62,500
 Therefore, cost of 500 shares (carried forward) is $500/1,000 \times 62,500 = ₹ 31,250$
 Market price of 500 shares = $92.50 \times 500 = ₹ 46,250$
 Cost being lower than the market price, therefore shares are carried forward at cost.

Solution Q204

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 on shares acquired on 20/6/20X1) (W.N.4) | | |
| 16.8.20X1 | To Bonus (W.N.1) | 5,000 | - | 15.11.20X1 | By Bank (Sale of shares) | 25,000 | 3,75,000 |
| 30.9.20X1 | To Bank (Rights Shares) (W.N.3) | 10,000 | 1,50,000 | | | | |
| 15.11.20X1 | To Profit (on sale of shares) | | 44,444 | 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:

- Bonus Shares = $(25,000 + 5,000)/6 = 5,000$ shares
- Right shares = $(25,000 + 5,000 + 5,000) / 7 \times 3 = 15,000$ shares

- (3) Right shares renounced = $15,000 \times 1/3 = 5,000$ 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 = $(3,75,000 + 80,000 + 1,50,000 - 10,000) / 45,000 \times 25,000 = ₹ 3,30,556$
 Profit = ₹ 3,75,000 - ₹ 3,30,556 = ₹ 44,444
- (6) Cost of shares on 31.12.20X1
 $(3,75,000 + 80,000 + 1,50,000 - 10,000) / 45,000 \times 20,000 = ₹ 2,64,444$

SOLUTION Q205

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

| Date | Particulars | No. of shares | Amount (Rs.) | Date | Particulars | No. of shares | Amount (Rs.) |
|---------|------------------------------------|---------------|-----------------|---------|--|---------------|-----------------|
| 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) | 5,000 | --- | 31.3.22 | By Balance c/d | 10,625 | 1,16,875 |
| 1.11.21 | To Bank A/c (right shares) (W.N.4) | 5,625 | 1,12,500 | 31.3.22 | By Profit & Loss A/c (loss on valuation) | | 27,239 |
| 1.11.21 | To Profit & Loss A/c | | 1,14,364 | | | | |
| | | 27,500 | 4,51,886 | | | 27,500 | 4,51,886 |

Working Notes:

- (1) Profit on sale of shares (average cost basis) on 1.11.21 10,000 shares @ Rs. 25 per share = 2,50,000
 Cost of shares sold = $[(77,250 + 90,000 + 1,12,500) / 20,625 \times 10,000] = ₹ 1,35,634$
 Profit on sale of shares = ₹ 1,14,364
- (3) Value of shares on 31.3.22 $[(77,250 + 90,000 + 1,12,500) / 20,625 \times 10,625] = ₹ 1,44,114$ or ₹ 1,16,875 (10,625 shares at Rs. 11)
 Shares will be valued at Rs., 1,16,875 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.

Solution Q206

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

| Date | Particulars | No. | Divide nd ₹ | Amount ₹ | Date | Particulars | No. | Divide nd ₹ | Amount ₹ |
|--------------|-------------------------|--------|-------------|----------|--------------|-------------------------|--------|-------------|----------|
| 20X1 April 1 | To Balance b/d | 15,000 | - | 2,25,000 | 20X1 Oct. 31 | By Bank A/c (W.N. 5) | - | 30,000 | 10,000 |
| June 1 | To Bank A/c | 5,000 | -- | 1,00,000 | 20X2 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.) | - | - | 42,855 | | | | | |

| | | | | | | | | | |
|------------------|-----------------|--------|--------|----------|--|--|--------|--------|----------|
| | 4) | | | | | | | | |
| 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:

- Calculation of no. of bonus shares issued
 $\text{Bonus shares} = (15,000 + 5,000) / 5 \times 1 = 4,000 \text{ shares}$
- Calculation of right shares subscribed
 $\text{Right shares} = (15,000 + 5,000 + 4,000) / 6 = 4,000 \text{ shares}$
 $\text{Shares subscribed by XY Ltd.} = 4,000 / 2 = 2,000 \text{ shares}$
 $\text{Value of right shares subscribed} = 2,000 \text{ shares @ ₹12 per share} = ₹24,000$
- 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.
- Calculation of profit on sale of share
 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 = $3,39,000 / 26,000 \times 13,000 = ₹1,69,500$

| | |
|--|---------------|
| | ₹ |
| 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 |

- Dividend received on investment held as on 1st April, 20X1
 $= 15,000 \text{ shares} \times ₹10 \times 20\%$
 $= ₹30,000$ will be transferred to Profit and Loss A/c
 Dividend received on shares purchased on 1st June, 20X1
 $= 5,000 \text{ shares} \times ₹10 \times 20\% = ₹10,000$ 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.

- Calculation of closing value of shares (on average basis) as on 31st March, 20X2
 $13,000 \times 3,39,000 / 26,000 = ₹1,69,500$

SERIES 300 – INVESTMENT IN DEBENTURES AND BONDS**Q.AS13.SM.301**

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.

**Q.AS13.SM.302**

The following information is presented by Mr. Z (a stockbroker), 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.

Q.AS13.SM.303

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.

**Q.AS13.RMP.304: (RTP May'24)**

ABC Ltd. holds 2,000, 15% Debentures of ₹ 100 each in XYZ Ltd. as on April 1, 2022 at a cost of ₹ 2,50,000. Interest is payable on June, 30 and December, 31 each year.

Following are the details of 15% Debentures purchased and sold during the year 2022-23.

Particulars

On May 1, 2022, 1,000 debentures are purchased cum-interest at ₹ 1,05,000.

On November 1, 2022, 1200 debentures are sold ex-interest at ₹ 1,28,200.

On November 30, 2022, 500 debentures are purchased ex-interest at ₹ 54,500.

On December 31, 2022, 900 debentures are sold cum-interest for ₹ 1,18,000

You are required to prepare the investment Account showing value of holdings on March 31, 2023 at cost, using FIFO Method.

Q.AS13.RMP.305: (MTP May18, May19 & Nov22)

Gopal holds 2,000, 15% Debentures of Rs. 100 each in Ritu Industries Ltd. as on April 1, 2015 at a cost of Rs. 2,10,000. Interest is payable on June, 30 and December, 31 each year. On May 1, 2015, 1,000 debentures are purchased cum-interest at Rs. 1,07,000. On November 1, 2015, 1,200 debentures are sold ex-interest at Rs. 1,14,600. On November 30, 2015, 800 debentures are purchased ex-interest at Rs. 76,800. On December 31, 2015, 800 debentures are sold cum-interest for Rs. 1,10,000.

You are required to prepare the Investment Account showing value of holdings on March 31, 2016 at cost, using FIFO Method.

Q.INT.RMP.306: (EXAM Nov19)

Mr. Harsh provides the following details relating to his holding in 10% debentures (face value of Rs. 100 each) of Exe Ltd. held as current assets:

| | |
|-----------|---|
| 1.4.2018 | opening balance - 12,500 debentures, cost Rs. 12,25,000 |
| 1.6.2018 | purchased 9,000 debentures @ Rs. 98 each ex-interest |
| 1.11.2018 | purchased 12,000 debentures @ Rs. 115 each cum interest |
| 31.1.2019 | sold 13,500 debentures @ Rs. 110 each cum-interest |
| 31.3.2019 | Market value of debentures @ Rs. 115 each |



Due dates of interest are 30th June and 31st December.

Brokerage at 1% is to be paid for each transaction. Mr. Harsh closes his books on 31.3.2019. Show investment account as it would appear in his books assuming FIFO method is followed.

SOLUTIONS OF ABOVE QUESTIONS OF SERIES 300**Solution Q301**

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 |

Solution Q302

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 | Sept. 30 | By Bank A/c (W.N.6) | - | 4,050 | - |
| Oct. 1 | To Bank A/c (150 x 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 x 9% x 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 31 st December 20X1 | | | |
| From original holding (1,20,000 - 50,000 - 30,000) | 40,000 | $1,18,000/1,20,000 \times 40,000$ | 39,333 |
| Purchased on 1 st March | 20,000 | | 19,600 |
| Purchased on 1 st October | 15,000 | | 14,700 |
| | 75,000 | | 73,633 |

10. Interest element in closing balance of bonds = $750 \times 100 \times 9\% \times 3/12 = ₹ 1,688$

SOLUTION Q303

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- | 5,000 | 100 | 4,949 | 1.2.20X2 | By Profit & Loss A/c | | | 64 |

| | Interest) (W.N.2) | | | | (W.N.5) | | | | |
|-----------|----------------------------------|----------|-------|----------|------------|---------------------------------|----------|-------|----------|
| 31.3.20X2 | To Profit & Loss A/c (Bal. fig.) | - | 9,233 | | 31.3.20 X2 | By Bank (950 x 100 x 8% x 6/12) | - | 3,800 | - |
| | | | | | 31.3.20 X2 | 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:

- Purchase of debentures on 1.7.20X1**
Interest element = $100 \times 100 \times 8\% \times 3/12 = ₹ 200$
Investment element = $(100 \times 98) + [1\% (100 \times 98)] = ₹ 9,898$
- Purchase of debentures on 1.1.20X2**
Interest element = $50 \times 100 \times 8\% \times 3/12 = ₹ 100$
Investment element = $\{(50 \times 98) + [1\% (50 \times 98)]\} = ₹ 4,949$
- Valuation of closing balance as on 31.3.20X2:**
Market value of 950 Debentures at ₹ 99 = ₹ 94,050
Cost of 800 Debentures cost = $(1,18,000/1,20,000 \times 80,000) = 78,667$

| | | |
|---------------------|---|--------|
| 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 (1,18,000/1,20,000 x 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 (1,18,000/1,20,000 x 20,000) | (19,666) |
| Loss on sale | 64 |
| Interest element in sale of investment = $200 \times 100 \times 8\% \times 4/12$ | ₹ 533 |

SOLUTION Q304

In the Books of ABC Ltd
15% Debentures (Investment) Account

| Particulars | | Face Value | Interest | Principal | Particulars | | Face Value | Interest | Principal |
|-------------|----------------|------------|----------|-----------|-------------|-------------|------------|----------|-----------|
| | | ₹ | ₹ | ₹ | | | ₹ | ₹ | ₹ |
| 1.4.22 | To Balance b/d | 2,00,000 | 7,500 | 2,50,000 | 30.6.22 | By Bank A/c | | 22,500 | |
| | | | | | 1.11.22 | By Bank A/c | 1,20,000 | 6,000 | 1,28,200 |
| 1.5.22 | To Bank | | | | 1.11.22 | By P&L | | | 21,800 |

| | | | | | | | | | |
|----------|-------------|----------|--------|----------|----------|---------|----------|--------|----------|
| | A/c | 1,00,000 | 5,000 | 1,00,000 | 31.12.22 | A/c | | | |
| | | | | | | By Bank | 90,000 | 6,750 | 1,11,250 |
| 30.11.22 | To Bank | | | | 31.12.22 | A/c | | | |
| | A/c | 50,000 | 3,125 | 54,500 | | By Bank | | 10,500 | |
| 31.12.22 | To P&L | | | 1,250 | 31.3.23 | A/c | | | |
| | A/c | | | | | By | | | |
| 31.3.23 | To P&L | | 35,375 | | | Balance | | | |
| | A/c | | | | | c/d | 1,40,000 | 5,250 | 1,44,500 |
| | (Transfer) | | | | | | | | |
| | | 3,50,000 | 51,000 | 4,05,750 | | | 3,50,000 | 51,000 | 4,05,750 |

- Loss on sale of debentures on 1.11.22
 Cost = $2,50,000/2,000 \times 1,200 = ₹ 1,50,000$
 Sale proceeds = ₹ 1,28,200
 Loss = ₹ 1,50,000 less ₹ 1,28,200 = ₹ 21,800
- Profit on sale of debentures on 31.12.22
 Cost = $2,50,000/2,000 \times 800 + 1,00,000/1,000 \times 100 = ₹ 1,10,000$
 (1,00,000+10,000)
 Sale proceeds = ₹ 1,11,250
 Loss = ₹ 1,11,250 less ₹ 1,10,000 = ₹ 1,250

3.

| Calculation of closing balance: | Units | | ₹ |
|---|-------|------------------------|----------|
| Debentures in hand remained in hand at 1.4.23 | 900 | $1,00,000 \times 9/10$ | 90,000 |
| Purchased on 1st May, 22 | 500 | 54,500 | 54,500 |
| Purchased on 30th Nov. 22 | 1,400 | | 1,44,500 |

SOLUTION Q305

Investment Account of Gopal for the year ended 31.3.2016
 (Script: 15% Debentures in Ritu Industries Ltd.)
 (Interest payable on 30th June and 31st December)

| Date | Particulars | Nominal Value Rs. | Interest Rs. | Cost Rs. | Date | Particulars | Nominal Value Rs. | Interest Rs. | Cost Rs. |
|----------|--------------------------|-------------------|--------------|----------|----------|--------------|-------------------|--------------|----------|
| 1.04.15 | To Balance A/c | 2,00,000 | 7,500 | 2,10,000 | 30.06.15 | By Bank A/c | - | 22,500 | |
| 1.05.15 | To Bank A/c | 1,00,000 | 5,000 | 1,02,000 | 1.11.15 | By Bank A/c | 1,20,000 | 6,000 | 1,14,600 |
| 30.11.15 | To Bank A/c | 80,000 | 5,000 | 76,800 | 1.11.15 | By P & L A/c | - | - | 11,400 |
| 23.12.15 | To P & L A/c | | 37,250 | 20,000 | 31.12.15 | By Bank A/c | 80,000 | 6,000 | 1,04,000 |
| 31.03.16 | To P & L A/c (Bal. fig.) | | | | 31.12.15 | By Bank A/c | - | 13,500 | - |
| | | | | | 31.12.15 | By Bank A/c | - | 6,750 | - |
| | | | | | 31.3.16 | By Bal. c/d | 1,80,000 | - | 1,78,800 |
| | | 3,80,000 | 54,750 | 4,08,800 | | | 3,80,000 | 54,750 | 4,08,800 |

Working Notes:

- Accrued Interest as on 1st April, 2015 = Rs. $2,00,000 \times \frac{15}{100} \times \frac{3}{12} = ₹ 7,500$
- Accrued Interest as on 1.5.2015 = Rs. $1,00,000 \times \frac{15}{100} \times \frac{4}{12} = ₹ 5,000$
- Cost of Investment for purchase on 1st May = Rs. 1,07,000 - Rs. 5,000 = Rs. 1,02,000

- (iv) Interest received as on 30.6.2015 = Rs. 3,00,000 × $\frac{15}{100} \times \frac{6}{12}$ = Rs 22500
 (v) Accrued Interest on debentures sold on 1.11.2015
 = Rs. 120000 × $\frac{15}{100} \times \frac{4}{12}$ = Rs 6000
 (vi) Accrued Interest = Rs. 80,000 × $\frac{15}{100} \times \frac{5}{12}$ = Rs 5000
 (vii) Accrued Interest on sold debentures 31.12.2015 = Rs. 80000 × $\frac{15}{100} \times \frac{6}{12}$ = Rs 6000
 (viii) Sale Price of Investment on 31st Dec. = Rs. 1,10,000 - Rs. 6,000 = Rs. 1,04,000
 (ix) Loss on Sale of Debenture on 1.1.2015

| | |
|--------------------------------------|----------|
| Sale Price of debenture | 1,14,600 |
| Less: Cost Price of debenture | |
| 210000 | |
| $\frac{200000}{200000} \times 12000$ | 1,26,000 |
| Loss on sale | 11,400 |

- (x) Accrued interest as on 31.12.2015 = Rs. 1,80,000 ×
 (xi) Accrued Interest = Rs. 1,80,000 ×
 (xii) Cost of investment as on 31st March = Rs. 1,02,000 + Rs. 76,800 = Rs. 1,78,800
 (xiii) Profit on debentures sold on 31st December = Rs. 1,04,000 - (Rs. 2,10,000 × 800/2,000) = Rs. 20,000

SOLUTION Q306

Investment Account of Mr. Harsh for the year ending on 31-3-2019
 (Scrip: 10% Debentures of Exe Limited)
 (Interest Payable on 30th June and 31st December)

| Date | Particulars | Nominal Value | Interest | Cost | Date | Particulars | Nominal Value | Interest | Cost |
|---------|--------------------------------------|---------------|----------|-----------|----------|--|---------------|----------|-----------|
| | | Rs | Rs | Rs | | | Rs | Rs | Rs |
| 1.4.18 | To Balance b/d | 12,50,000 | 31,250 | 12,25,000 | 30.6.18 | By Bank 21,500 × 100 × 10% × 1/2 | - | 1,07,500 | - |
| 1.6.18 | To Bank (ex-Interest) (W.N.1) | 9,00,000 | 37,500 | 8,90,820 | 31.12.19 | By Bank 33,500 × 100 × 10% × 1/2 | | 1,67,500 | |
| 1.11.18 | To Bank (cum-Interest) (W.N.2) | 12,00,000 | 40,000 | 13,53,800 | 31.1.19 | By Bank (W.N.3) | 13,50,000 | 11,250 | 14,58,900 |
| 31.1.19 | To P & L A/c (W.N.3) | | | 1,34,920 | 31.3.19 | By Balance c/d (W.N.4) | 20,00,000 | 50,000 | 21,45,640 |
| 31.3.19 | To P & L A/c (Bal. fig.) | | 2,27,500 | | | | | | |
| | | 33,50,000 | 3,36,250 | 36,04,540 | | | 33,50,000 | 3,36,250 | 36,04,540 |

Working Notes:**1. Purchase of debentures on 1.6.18**

Interest element = 9,000 × 100 × 10% × 5/12 = Rs. 37,500

Investment element = (9,000 × 98) + [1% (9,000 × 98)] = Rs. 8,90,820

2. Purchase of debentures on 1.11.2018

Interest element = 12,000 × 100 × 10% × 4/12 = Rs. 40,000

Investment element = 12,000 × 115 × 101% less 40,000 = Rs. 13,53,800

3. Profit on sale of debentures as on 31.1.19

| | Rs |
|--|--------------------|
| Sales price of debentures (13,500 x Rs. 110) | 14,85,000 |
| Less: Brokerage @ 1% | <u>(14,850)</u> |
| | 14,70,150 |
| Less: Interest (1,35,000/ 12) | <u>(11,250)</u> |
| | 14,58,900 |
| Less: Cost of Debentures [(12,25,000 + (890820 X 1,00,000 / 9,00,000)] | <u>(13,23,980)</u> |
| Profit on sale | 1,34,920 |

4. Valuation of closing balance as on 31.3.2019:

Market value of 20,000 Debentures at Rs. 115 = Rs. 23,00,000

Cost of

8,000 Debentures = $8,90,820 / 9,000 \times 8,000 = 7,91,840$

12,000 Debentures = 13,53,800

Total = 21,45,640

Value at the end is Rs. 21,45,640, i.e., which is less than market value of Rs. 23,00,000.

SERIES 400 – MIXED (SHARES AND DEBENTURES)**Q.AS13.RMP.401: (MTP Nov18)**

Smart Investments made the following investments in the year 20X1-X2:
12% State Government Bonds having nominal value Rs.100



| Date | Particulars |
|------------|--|
| 01.04.20X1 | Opening Balance (1200 bonds) book value of Rs. 126,000 |
| 02.05.20X1 | Purchased 2,000 bonds @ Rs. 100 cum interest |
| 30.09.20X1 | Sold 1,500 bonds at Rs. 105 ex interest |

Interest on the bonds is received on 30th June and 31st Dec. each year.

| | |
|------------|---|
| 15.04.20X1 | Purchased 5,000 equity shares @ Rs. 200 on cum right basis Brokerage of 1% was paid in addition (Nominal Value of shares Rs. 10) |
| 03.06.20X1 | The company announced a bonus issue of 2 shares for every 5 shares held |
| 16.08.20X1 | The company made a rights issue of 1 share for every 7 shares held at Rs. 250 per share. The entire money was payable by 31.08.20X1. |
| 22.8.20X1 | Rights to the extent of 20% was sold @ Rs. 60. The remaining rights were subscribed. |
| 02.09.20X1 | Dividend @ 15% for the year ended 31.03.20X1 was received on 16.09.20X1 |
| 15.12.20X1 | Sold 3,000 shares @ Rs. 300. Brokerage of 1% was incurred extra. |
| 15.01.20X2 | Received interim dividend @ 10% for the year 20X1 -X2 |
| 31.03.20X2 | The shares were quoted in the stock exchange @ Rs. 220 |

Prepare Investment Accounts in the books of Smart Investments. Assume that the average cost method is followed.

Q.AS13.RMP.402: (EXAM July 21)

Mr. Z has made following transactions during the financial year 2020-21:
Investment in 8% Corporate Bonds having face value Rs. 100/-

| Date | Particulars |
|------------|--|
| 01-06-2020 | Purchased 36,000 Bonds at Rs. 86 cum-interest. Interest is payable on 30th September and 31st March every year |
| 15-02-2021 | Sold 24,000 Bonds at Rs. 92 ex-interest |

Interest on the bonds is received on 30th September and 31st March. Investment 2:
Equity Shares of G Ltd having face value Rs. 10

| Date | Particulars |
|------------|--|
| 01-04-2020 | Opening balance 8,000 equity shares at a book value of Rs. 190 per share |
| 01-05-2020 | Purchased 7,000 equity shares @ Rs. 230 on cum right basis; Brokerage of 1% was paid in addition. |
| 15-06-2020 | The company announced a bonus issue of 2 shares for every 5 shares held |
| 01-08-2020 | The company made a rights issue of 1 share for every 7 shares held at Rs. 230 per share. The entire money was payable by 31.08.2020 |
| 25-08-2020 | Rights to the extent of 30% of his entitlements was sold @ Rs. 75 per share. The remaining rights were subscribed. |
| 16-09-2020 | Dividend @ Rs. 6 per share for the year ended 31.03.2020 was received on 16.09.2020. No dividend payable on Right issue and Bonus issue. |
| 01-12-2020 | Sold 7,000 shares @ 260 per share. Brokerage of 1% was incurred extra. |
| 25-01-2021 | Received interim dividend @ Rs. 3 per share for the year 2020-21. |
| 31-03-2021 | The shares were quoted in the stock exchange @ Rs. 260. |

Both investments have been classified as Current investment in the books of Mr. Z. On 15th May 2021, Mr. Z decides to reclassify investment in equity shares of Z Ltd. as Long term Investment. On 15th May 2021, the shares were quoted in the stock exchange @ Rs. 180.

You are required to:

(i) Prepare Investment Accounts in the books of Mr. Z for the year 2020-21, assuming that the average cost method is followed.

(ii) Profit and loss Account for the year 2020-21, based on the above information.

Suggest values at which investment in equity shares should be reclassified in accordance with AS 13

Q.AS13.RMP.403: (RTP Nov19) (Similar to Q404)

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.

Q.AS13.RMP.404: (RTP May19) (MTP May22) (Similar to Q403)

A Ltd. purchased on 1st April, 2018 8% convertible debenture in C Ltd. of face value of Rs. 2,00,000 @ Rs. 108. On 1st July, 2018 A Ltd. purchased another Rs. 1,00,000 debentures @ Rs. 112 cum interest.

On 1st October, 2018 Rs. 80,000 debenture was sold @ Rs. 108. On 1st December, 2018, C Ltd. give option for conversion of 8% convertible debentures into equity share of Rs. 10 each. A Ltd. receive 5,000 equity share in C Ltd. in conversion of 25% debenture held on that date. The market price of debenture and equity share in C Ltd. at the end of year 2018 is Rs. 110 and Rs. 15 respectively. Interest on debenture is payable each year on 31st March, and 30th September. The accounting year of A Ltd. is calendar year. Prepare investment account in the books of A Ltd. on average cost basis.



SOLUTIONS OF ABOVE QUESTIONS OF SERIES 400

Solution 401

*In the books of Smart Investments
12% Govt. Bonds for the year ended 31st March, 20X2*

| Date | Particulars | Nos. | Interest | Amount | Date | Particulars | Nos. | Interest | Amount |
|---------|---------------------------------------|--------------|---------------|--------------------|----------|---|--------------|---------------|--------------------|
| 1.4.XI | To Opening balance b/d (W.N.7) | 1,200 | 3,600 | 1,26,000 | 30.6.XI | By Bank A/c (Interest) (3,200 x 100 x 12% x 6/12) | - | 19,200 | - |
| 2.5.XI | To Bank A/c (W.N.8) | 2,000 | 8,000 | 1,92,000 | 30.9.XI | By Bank A/c (W.N.1 & W.N.9) | 1,500 | 4,500 | 1,57,500 |
| 30.9.XI | To P & L A/c (Profit on Sale) (W.N.1) | | | 8,437.50 | 31.12.XI | By Bank A/c (Interest) (1,700 x 100 x 12% x 6/12) | - | 10,200 | - |
| 31.3.XI | To P & L A/c (Interest) | | 27,400 | | 31.3.XI | By Bal. c/d (W.N.2 & W.N.10) | 1,700 | 5,100 | 1,68,937.50 |
| | | 3,200 | 39,000 | 3,26,437.50 | | | 3,200 | 39,000 | 3,26,437.50 |

Investments in Equity shares of X Ltd. for year ended 31.3.20X2

| Date | Particulars | Nos. | Dividend | Amount | Date | Particulars | Nos. | Dividend | Amount |
|----------|----------------------------|-------|----------|-----------|--------------|---|-------|----------|-----------|
| 15.4.X1 | To Ban A/c (W.N.3) | 5,000 | | 10,10,000 | 16.9.X1 | By Bank (Dividend) (5,000 x 10 X 15%) (refer note 1 and 2) | - | - | 7,500 |
| 3.6.X1 | To Bonus Issue | 2,000 | - | - | | By Bank (Sale) (W.N.4) | 3,000 | - | 8,91,000 |
| 31.8.X1 | To Bank A/c (W.N.11) | 800 | | 2,00,000 | 15.12.X 1 | By Bank (interim dividend) (W.N.12) | | 4,800 | |
| 15.12.X1 | To P & L A/c (W.N.5) | | | 4,28,500 | 15.1.X2 | By Bal. c/d (W.N.6) | 4,800 | | 7,40,000 |
| 31.3.X2 | To P & L A/c | | 4,800 | | 31.3.X2 | | | | |
| | | 7800 | 4,800 | 16,38,500 | | | 7800 | 4,800 | 16,38,500 |

Working Notes:

- 1. Profit on sale of bonds on 30.9.X1**
 = Sales proceeds - Average cost
 Sales proceeds = Rs. 1,57,500 (i.e., 1,500 x 105)
 Average cost = Rs. [(1,26,000+1,92,000) x 1,500/3,200] = 1,49,062.50
 Profit = 1,57,500 - Rs. 1,49,062.50 = Rs. 8,437.50
- 2. Valuation of bonds on 31st March, 20X2**
 Cost = Rs. 3,18,000/3,200 x 1,700 = 1,68,937.50
- 3. Cost of equity shares purchased on 15/4/20X1**
 = 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 15/12/20X1**
 = 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 15/12/20X1**
 = Sales proceeds - Average cost
 Sales proceeds = Rs. 8,91,000
 Average cost = Rs. [(10,10,000+2,00,000-7,500) x 3,000/7,800]
 = Rs. [12,02,500 x 3,000/7,800] = 4,62,500
 Profit = Rs. 8,91,000 - Rs. 4,62,500 = Rs. 4,28,500.
- 6. Valuation of equity shares on 31st March, 20X2**
 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.
- 7. Interest accrued on opening balance of bonds**
 = 1,200 x 100 x 12% x 3/12 = Rs. 3,600
- 8. Interest element in bonds purchased on 02.05.20X1**
 = 2,000 x 100 x 12% x 4/12 = Rs. 8,000

Cost of investment (amount in investment column)
 $= (2,000 \times 100) - 8,000 = \text{Rs. } 1,92,000$

9. Interest element in bonds sold on 30.09.20X1
 $= 1,500 \times 100 \times 12\% \times 3/12 = \text{Rs. } 4,500$

10. Interest accrued on closing balance of bonds
 $= 1,700 \times 100 \times 12\% \times 3/12 = \text{Rs. } 5,100$

11. Right shares

No. of right shares issued = $(5,000 + 2,000) \times 1/7 = 1,000$

shares No. of right shares sold = $1,000 \times 20\% = 200$ shares

Proceeds from sale of right shares = $200 \times 60 = \text{Rs. } 12,000$ to be credited to statement of profit and loss

No. of right shares subscribed = $1,000 - 200 = 800$ shares

12. Amount of interim dividend

$= (5,000 + 2,000 + 800 - 3,000) \times 10 \times 10\% = \text{Rs. } 4,800$

Note:

- It is presumed that no dividend is received on bonus shares as bonus shares are declared on 3.6.20X1 and dividend pertains to the year ended 31.03.20X1.
- The amount of dividend for the period, for which shares were not held by the investor, has been treated as capital receipt.

SOLUTION 402

(i)

In the books of Mr. Z Investment in 8% Corporate Bonds Account For the period 01 April 2020 to 31 March 2021

| Date | Particulars | No's | Interest (Rs.) | Amount (Rs.) | Date | Particulars | No's | Interest (Rs.) | Amount (Rs.) |
|---------|---------------------|---------------|-----------------|------------------|---------|--|---------------|-----------------|------------------|
| 1/6/20 | To Bank A/c (WN1) | 36,000 | | 30,48,000 | 30/9/20 | By Bank A/c (Interest $36,000 \times 100 \times 8\% \times 6/12$) | | 1,44,000 | |
| 15/2/21 | To P & L A/c (WN 3) | | 48,000 | 1,76,000 | 15/2/21 | By Bank A/c (WN2) | 24,000 | 72,000 | 22,08,000 |
| 31/3/21 | To P & L A/c | | 2,16,000 | | 31/3/21 | By Bank A/c (Interest $12,000 \times 100 \times 8\% \times 6/12$) | | 48,000 | |
| | | | | | | By Balance c/d (WN 4) | 12,000 | | 10,16,000 |
| | Total | 36,000 | 2,64,000 | 32,24,000 | | Total | 36,000 | 2,64,000 | 32,24,000 |

Note: For computing the interest on the bonds sold on 15 Feb 2021, if number of days (138 days) is taken instead of months, the interest received on 15.02.2021 should be Rs. 72,592 and the total interest transferred to Profit & Loss Account should be Rs. 2,16,592.

Investment in Equity Shares of Z Ltd For the period 1st April 2020 to 31 March 2021

| Date | Particulars | No's | Dividend (Rs.) | Amount (Rs.) | Date | Particulars | No's | Dividend (Rs.) | Amount (Rs.) |
|---------|--------------------|-------|----------------|--------------|---------|--------------------|------|----------------|--------------|
| 01/4/20 | To balance b/d | 8,000 | | 15,20,000 | 16/9/20 | By Bank A/c (WN 7) | | 48,000 | 42,000 |
| 01/5/20 | To Bank A/c (WN 5) | 7,000 | | 16,26,100 | 1/12/20 | By Bank A/c (WN 8) | 7000 | | 18,01,800 |

| | | | | | | | | | |
|----------|--------------------------------------|---------------|---------------|------------------|---------|------------------------|---------------|---------------|------------------|
| 15/6/20 | To Bonus Shares | 6,000 | | | 25/1/21 | By Bank A/c (WN 10) | | 48,300 | |
| 25/8/20 | To Bank A/c (Right Shares) (WN 6) | 2,100 | | 4,83,000 | 31/3/21 | By Balance c/d (WN 11) | 16,100 | | 25,00,100 |
| 01/12/20 | To P & L A/c (Sale of shares) (WN 9) | | | 7,14,800 | | | | | |
| 31/3/21 | To P & L A/c | | 96,300 | | | | | | |
| | Total | 23,100 | 96,300 | 43,43,900 | | Total | 23,100 | 96,300 | 43,43,900 |

Working Notes**1. Computation of the Interest element in the bonds purchased on 01 June 2020**

| | |
|-----------------------------------|---|
| No of Bonds purchased | 36,000 |
| Face value per bond | Rs. 100 |
| Face value of the bonds purchased | Rs. 36,00,000 |
| Interest Rate | 8% |
| Interest Amount | $36,00,000 \times 8\% \times 2/12$ |
| | Rs. 48,000 |
| Cum-interest per bond | Rs. 86 |
| Value of bond excluding interest | $36,000 \times \text{Rs. } 86 - \text{Rs. } 48,000$ |
| | Rs. 30,48,000 |

2. Computation of the Interest element in the bonds sold on 15 Feb 2021

| | |
|------------------------------|--|
| No of Bonds sold | 24,000 |
| Face value per bond | Rs. 100 |
| Face value of the bonds sold | Rs. 24,00,000 |
| Interest Rate | 8% |
| Interest Amount | $\text{Rs. } 24,00,000 \times 8\% \times 4.5/12$ |
| | = Rs. 72,000 |

3. Computation of Profit on Sale of Bonds on 15 Feb 2021

| | |
|----------------------------|------------------------------------|
| No of Bonds sold | 24,000 |
| Face value per bond | Rs. 100 |
| Ex- interest Rate per bond | Rs. 92 |
| Sales proceeds | Rs. 22,08,000 |
| Average Cost of Bonds | $(30,48,000/36,000) \times 24,000$ |
| | Rs. 20,32,000 |
| Profit on sale of bonds | Sale Proceeds – Average Cost |
| | Rs. 22,08,000 – Rs. 20,32,000 |
| | Rs. 1,76,000 |

4. Valuation of Bonds as on 31 March 2021

| | |
|------------------------------------|--|
| No of Bonds held as on 31 Mar 2021 | 12,000 |
| Average Cost of Bonds | $(\text{Rs. } 30,48,000/36,000) \times 12,000$ |
| | Rs. 10,16,000 |

5. Computation of the cost of the equity shares purchased on 01 May 2020

| | |
|---------------------------|---------|
| No of shares purchased | 7,000 |
| Cum right price per share | Rs. 230 |

| | |
|--------------------------|---------------|
| Cost of purchase | Rs. 16,10,000 |
| Brokerage @ 1% | Rs. 16,100 |
| Cost including brokerage | Rs. 16,26,100 |

6. Right Shares

| | |
|---|---|
| No of Right Shares Issued | $(8,000+7,000+6,000)/7 = 3,000$ shares |
| No of right shares sold | $3,000$ shares \times 30% = 900 shares |
| Proceeds from sale of right shares to be credited to statement of profit & loss | 900 shares \times Rs. 75 = Rs. 67,500 |
| No of right shares subscribed | $3,000 - 900 = 2,100$ shares |
| Amount of right shares subscribed | $2,100 \times 230 =$ Rs. 4,83,000 |

7. Computation of Dividend Received on 16 Sept 2020

| | |
|---|-----------------------------------|
| No of shares held during the period of dividend | 8,000 shares |
| Dividend per share | Rs. 6 |
| Dividend Amount | $8,000 \times 6 =$ Rs. 48,000 |
| No of shares received after the period of dividend (excluding bonus & right shares) | 7,000 shares |
| Dividend per share | Rs. 6 |
| Dividend Amount | $7,000 \times$ Rs. 6 = Rs. 42,000 |

The amount of dividend for the period for which the shares were not held by the investor has been treated as capital receipt. Thus Rs. 42,000 shall be treated as capital receipt

8. Sale Proceeds for the shares sold on 1st Dec. 2020

| | |
|-----------------------------|------------------------------------|
| No of shares sold | 7,000 Shares |
| Sale price per share | Rs. 260 |
| Proceeds from sale of share | $7,000 \times 260 =$ Rs. 18,20,000 |
| Less: Brokerage @ 1% | Rs. 18,200 |
| Net Sale Proceeds | Rs. 18,01,800 |

9. Profit on sale of shares on 1st Dec. 2020

| | |
|--------------------------|--|
| Sales Proceeds | Rs. 18,01,800 |
| Average Cost | $(15,20,000+16,26,100+4,83,000-42,000)/23,100 \times 7,000$ = Rs. 10,87,000 |
| Profit on sale of shares | = Sales Proceeds - Average Cost = Rs. 18,01,800 - Rs. 10,87,000 = Rs. 7,14,800 |

10. Computation of Amount of Interim Dividend

| | |
|--------------------|--|
| No of shares held | $8,000+7,000+6,000+2,100-7,000$ = 16,100 |
| Dividend per share | Rs. 3 per share |
| Dividend Received | $16,100$ shares \times Rs. 3 per share = Rs. 48,300 |

11. Valuation of Shares as on 31 March 2021

| | |
|--|---|
| Cost of Shares | $(15,20,000 + 16,26,100 + 4,83,000 - 42,000) / 23,100 \times 16,100$ = 25,00,100 |
| Market Value of Shares | = Rs. 260 x 16,100 = Rs. 41,86,000 |
| Closing stock of equity shares has been value at Rs. 25,00,100 i.e., cost being lower than its market value. | |

(ii)

Profit & Loss Account (Extract) For the period 01 April 2020 to 31 March 2021

| Particulars | Amount (Rs.) | Particulars | Amount (Rs.) |
|----------------|--------------|---|--------------|
| To Balance c/d | 12,70,600 | By Investment in 8% Corporate Bonds Account (Profit on sale of bonds) | 1,76,000 |
| | | By Investment in 8% Corporate Bonds Account (Interest on bonds) | 2,16,000 |
| | | By Sale of Right Shares | 67,500 |
| | | By Investment in Equity Shares of G Ltd (Profit on sale of shares) | 7,14,800 |
| | | By Investment in Equity Shares of G Ltd (Dividend Income) | 96,300 |

(iii) As per AS 13, when investments are classified from Current Investments to Long term Investments, transfer is made at Cost and Fair value, whichever is less (as on the date of transfer). So, in the given case valuation shall be done as follows:

Date of reclassification/transfer – 15 May 2021

Per Unit Cost of 16,100 shares held – Rs. 25,00,100/16,100 shares – Rs. 155.29 Market Price/Fair Value per share – Rs. 180

As the cost per unit is lower than its fair value, the shares are to be transferred at its cost i.e., at Rs. 155.29 per share on 15 May 2021

Note:

- In the eight last line of the question, investment in equity shares of G Ltd. was wrongly printed as Z Ltd. in the question paper. In the above solution, it has been considered as investment in G Ltd. If considered as Investment in equity shares in Z Ltd. (some other investment and not investment in G Ltd.), then the cost of the investment for shares in Z Ltd. will not be available.
- The entire amount of sale proceeds from rights has been credited to Profit and Loss account in the above solution. However, the sale proceeds of rights in respect of 7,000 shares (purchased cum right on 1.5.20) can be applied to reduce the carrying amount of such investments (without crediting it to profit and loss account) considering that the value of these shares has reduced after becoming their ex-right. In that case, Rs. 22,500 (67,500 x 7/21) will be applied to reduce the carrying amount of investment and Rs. 45,000 will be credited to profit and loss account.

SOLUTION Q403

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 note) | | 3,713 | |
| | | | | | Dec. 31 | By Balance c/d | 4,40,000 | 14,850 | 4,48,434 |
| | | <u>7,50,000</u> | <u>69,188</u> | <u>7,66,542</u> | | | <u>7,50,000</u> | <u>69,188</u> | <u>7,66,542</u> |

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 | | 22,108 |
| | | | | Dec.31 | By Bal. c/d | 1,00,000 | 90,000 |
| | | <u>1,00,000</u> | <u>1,12,108</u> | | | <u>1,00,000</u> | <u>1,12,108</u> |

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 = $5,00,000 \times 13.5\% \times \frac{1}{2} = 33,750$
 On Rs. 2,50,000 = $2,50,000 \times 13.5\% \times \frac{1}{2} = 16,875$
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) Rs.
 $4,40,000 \times 13.5\% \times 3/12 = \text{Rs. } 14,850$

SOLUTION Q404

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

Scrip: 8% Convertible Debentures in C Ltd.

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

| Date | Particulars | Nominal value (Rs) | Interest (Rs) | Cost (Rs) | Date | Particulars | Nominal Value (Rs) | Interest (Rs) | Cost (Rs) |
|----------|----------------------------|--------------------|---------------|-----------|----------|---|--------------------|---------------|-----------|
| 1.4.18 | To bank A/c | 2,00,000 | - | 2,16,000 | 30.09.18 | By Bank A/c [Rs. 3,00,000 x 8% x (6/12)] | | 12,000 | |
| 1.7.18 | To bank A/c (W.N.1) | 1,00,000 | 2,000 | 1,10,000 | 1.10.18 | By Bank A/c | 80,000 | | 86,400 |
| 31.12.18 | To P & L A/c [Interest] | 3,00,000 | 14,033 | 3,26,000 | 1.10.18 | By P&L A/c (loss) (W.N.1) | | | 533 |
| | | | | | 1.12.18 | By Bank A/c (Accrued interest) (Rs. 55,000 x 0.08 x 2/12) | | 733 | |
| | | | | | 1.12.18 | By Equity shares in C Ltd. (W.N. 3 and 4) | 55,000 | | 59,767 |
| | | | | | 1.12.18 | 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) |
|---------|-------------------|-----------|----------|----------------|-----------|
| 1.12.18 | To 8 % debentures | 59,767 | 31.12.18 | 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) x 80,000/3,00,000 = Rs. 86,933

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

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

[(Rs. 3,00,000 – 80,000) x .25]

Interest received before the conversion of debentures:

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

(iv) Cost of Debentures converted = (Rs. 2,16,000 + Rs. 1,10,000) x 55,000/3,00,000
= Rs. 59,767(v) Cost of closing balance of Debentures = (Rs. 2,16,000 + Rs. 1,10,000) x 1,65,000 / 3,00,000
= Rs. 1,79,300

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

(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 x 5,000)

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