

Investments :- Assets held for earning :-

- i) Interest
- ii) Rent
- iii) Dividend
- iv) Capital Appreciation

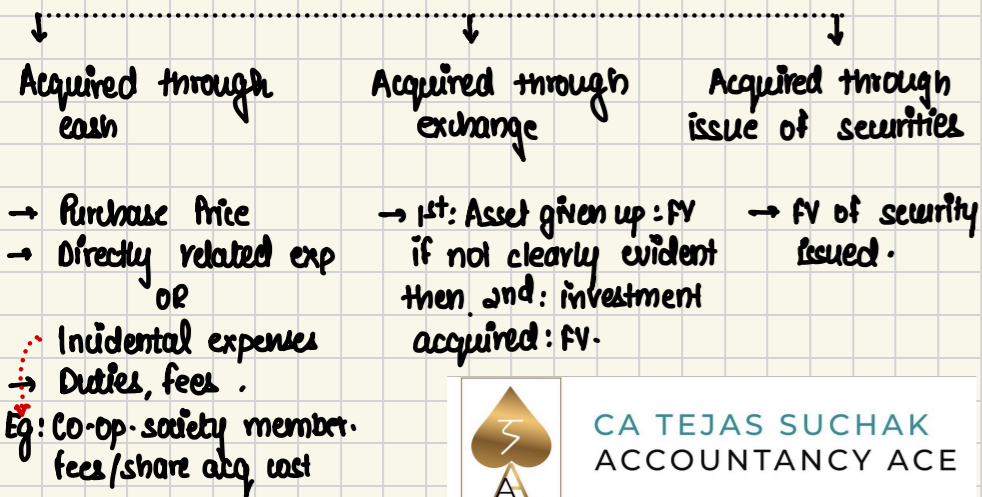


but not held as stock in Trade.

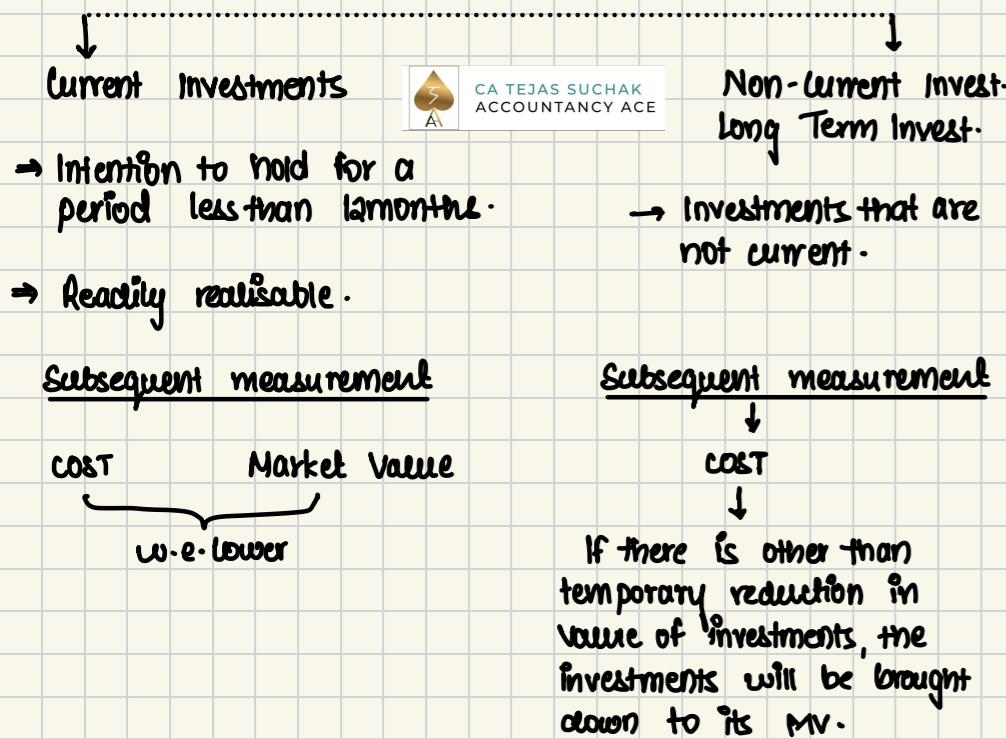
Investment Property :- Investment in Land & Building.

→ not occupied for operations.

COST OF INVESTMENT :



CLASSIFICATION OF INVESTMENTS



Purchase Price :

Debentures :-

$$\begin{aligned} &\rightarrow \text{cum-interest purchase price} \\ &\quad - \text{Interest} \\ &\quad \text{Ex-interest purchase price} \\ &\quad + \text{Brokerage} \\ &\quad + \text{Stamp Duty} \\ &\quad \hline &\quad \text{Total purchase price} \end{aligned}$$

* Interest will compulsarily be paid on purchase of debenture - Ex-interest or cum-interest donot determine the fact that interest will be paid.
Cum-interest = cost of deb + Interest.
Ex-interest = cost of debentures.

* Brokerage will be calculated on Transaction Value. (Please read question carefully for this point)

Equity Shares



$$\begin{aligned} &\text{Purchase price} \\ &+ \text{Brokerage} \\ &+ \text{Stamp Duty} \\ &\hline &\text{Total cost of purchase} \end{aligned}$$

Bonus shares :



$$\text{cost of bonus share} = 0$$

Right shares :-

$$\begin{aligned} &\text{Purchase price of right shares} \\ &+ \text{cost of rights} \\ &\hline &\text{Total cost of right shares} \end{aligned}$$

* Cost of rights for original holder is zero.

If the rights are renounced :

$$\text{JE :- Bank a/c Dr. } \left\{ \begin{array}{l} \text{Proceeds from} \\ \text{sale of rights} \end{array} \right.$$

EXCEPTION :-

After right issue ;
Ex right MP < cum-right MP

Proceeds from sale of rights will be credited to investments to bring down the investments to its ex-right Market Price.



* This will apply only when the investments were acquired on cum-right basis.

* maximum extent of reduction in cost = proceeds from sale of rights

$$\text{cum-rights price} - \text{ex-right price}$$

Scope of reduction of cost

Selling Price :-



Debentures :-

$$\begin{aligned} &\rightarrow \text{cum-interest selling price} \\ &\quad - \text{Interest} \\ &\quad \text{Ex-interest selling price} \\ &\quad - \text{brokerage} \\ &\quad \hline &\quad \text{Net selling Price} \end{aligned}$$

Equity Shares :-

$$\begin{aligned} &\rightarrow \text{Selling Price} \\ &\quad - \text{Brokerage} \\ &\quad \hline &\quad \text{Net selling Price} \end{aligned}$$

Profit/loss on sale

$$\begin{aligned} &\rightarrow \text{Net selling Price} \\ &\quad - \text{Cost} \\ &\quad \hline &\quad \text{Profit/loss on sale} \end{aligned}$$



Cost will be calculated on weighted average basis, unless FIFO is mentioned in the question.

→ Profit/Loss is treated in P&L a/c

Accrued Interest :-

* Financial Year dates of investor & Interest dates of company are different.



Opening Entry :-

$$\begin{array}{l} \text{Interest} \quad \text{Dr.} \\ \text{To, Accrued Interest} \end{array} \left\{ \begin{array}{l} \text{Previous FY interest} \end{array} \right.$$

Closing Entry :-

$$\begin{array}{l} \text{Accrued Interest} \quad \text{Dr.} \\ \text{To, Interest} \end{array} \left\{ \begin{array}{l} \text{Current FY interest} \end{array} \right.$$

RECLASSIFICATION

$$\text{CI} \rightarrow \text{LTI}$$

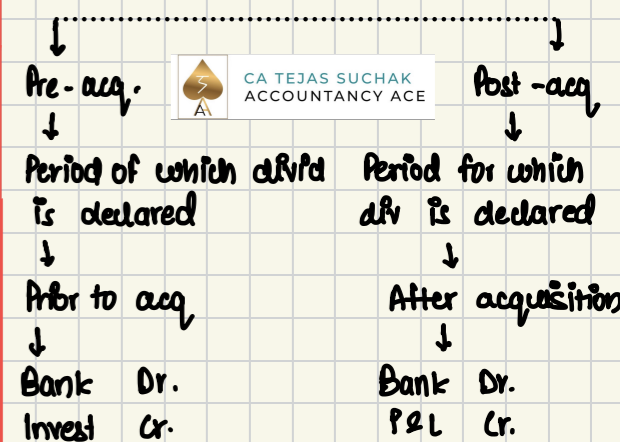
$$\begin{array}{l} \text{cost or MV} \\ \text{w.e. Lower} \end{array} \rightarrow \text{LTI}$$

$$\text{LTI} \rightarrow \text{CI}$$

$$\begin{array}{l} \text{cost or carrying amt} \\ \text{w.e. Lower} \end{array} \rightarrow \text{CI}$$

Loss on reclassification is debited to P&L a/c.

DIVIDEND



* Date of declaration is irrelevant to decide pre/past dividend.

Shares eligible for div :- Company POV
FY for which div is dec → FY issued cap
Treatment of div :- Investor POV