W.A.C. : 100 → 10201
350 → 35526.75
325 → 33374.5
775 → 79102.25

$= \frac{79102.25}{775}$

$= 102.06$

Loss = (685)

L13

JOURNAL ENTRY

L14

1.5.20	Investment in Debentures a/c	Dr		10201	
	To. Bank a/c				10201
1.5.20	Interest on Debentures a/c	Dr.		83	
	To. Bank				83
1.7.20	Investment in Debentures a/c	Dr		35526.75	
	To. Bank a/c				35526.75
1.7.20	Interest on Debentures a/c	Dr.		875	
	To. Bank				875
	(350×100×10%×3/12)				
30.9.20	Bank a/c	Dr.		2250	
	To. Interest on Debentures				2250
	(450×100×10%×6/12)				
1.11.20	Investment in Debentures a/c	Dr		33374.5	
	To. Bank a/c				33374.5
1.11.20	Interest on Debentures a/c	Dr.		271	
	To. Bank				271
1.2.21	Bank a/c	Dr.		47793	
	P&L a/c	Dr.		685	
	To. Investment in debentures a/c				48478
1.2.21	Bank a/c	Dr.		1583	
	To. Interest on debentures				1583
31.3.21	Bank a/c	Dr.		1500	
	To. Interest on debentures a/c				1500

Dr.	Inv.	Cr.
COST		COST
COST	Bal. →	102.06 COST
COST		
	By. P&L	3.06
		MV 99

P&L Dr. 3.06
To. Inv. 3.06

Solve the above example and calculate profit/loss on sale assuming that FIFO method is followed.

W/N-1 :- Calculation of profit/loss on sale

1-2-21 :- Cum-interest selling price	: 475 x 105	:	49875
- Interest :- 475 x 100 x 10% x 4/12		:	(1583)
Ex-interest selling price		=	48292
- brokerage :- 1% x 49875		=	(499)
Net selling Price		=	47793
- Cost of debentures		=	48294·75
		Loss =	501·75

FIFO :-

475 → 100 → 10201
350 → 35526·75
25 → 2567
} 48294·75

(325 → 33374·5
25 → x)

Calculation of value of closing Stock

Current Investment

< 12m Intended Holding Period

↓

Valuation

COST — MV

w.e. lower

Reliance ADAG

Long Term Investment (Non-current)

≥ 12m Intented Holding Period

↓

Valuation

↓

AT COST

But, if there is other than temporary diminution in value of investments, then bring down the value of investments to its market value.

Suppose, in the example mentioned above, the investments are classified as current investments and market value of investments as on the year end is 99/deb. Calculate the value of closing stock of investments (Weighted Average method)

CS = 3000 → valuation : COST OR Market value

= 300 x 102·06 = 300 x 99

= 30618 = 29700

Lower = 29700

P&L a/c Dr. 918 (300 x 3·06)

To. Investment a/c 918

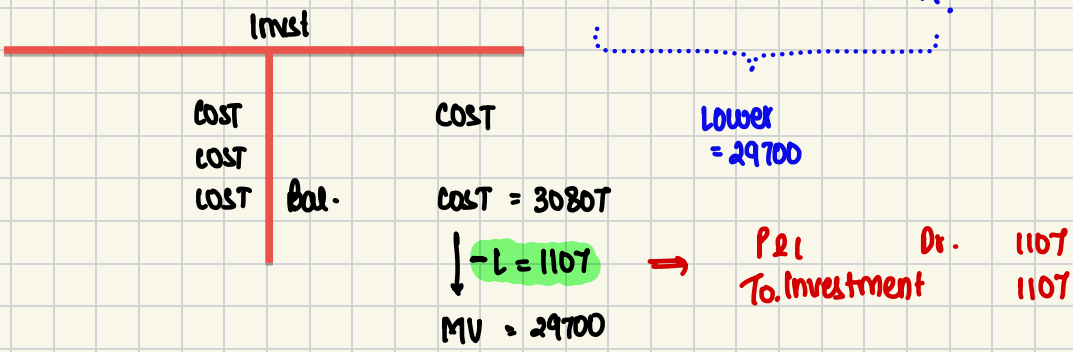
If however the cost is lower than the market value, no additional effect needs to be passed.

Suppose cost of debentures is calculated using FIFO method instead of weighted average method.

D → 100 → 10201
350 → 35526.75
325 → 33374.5

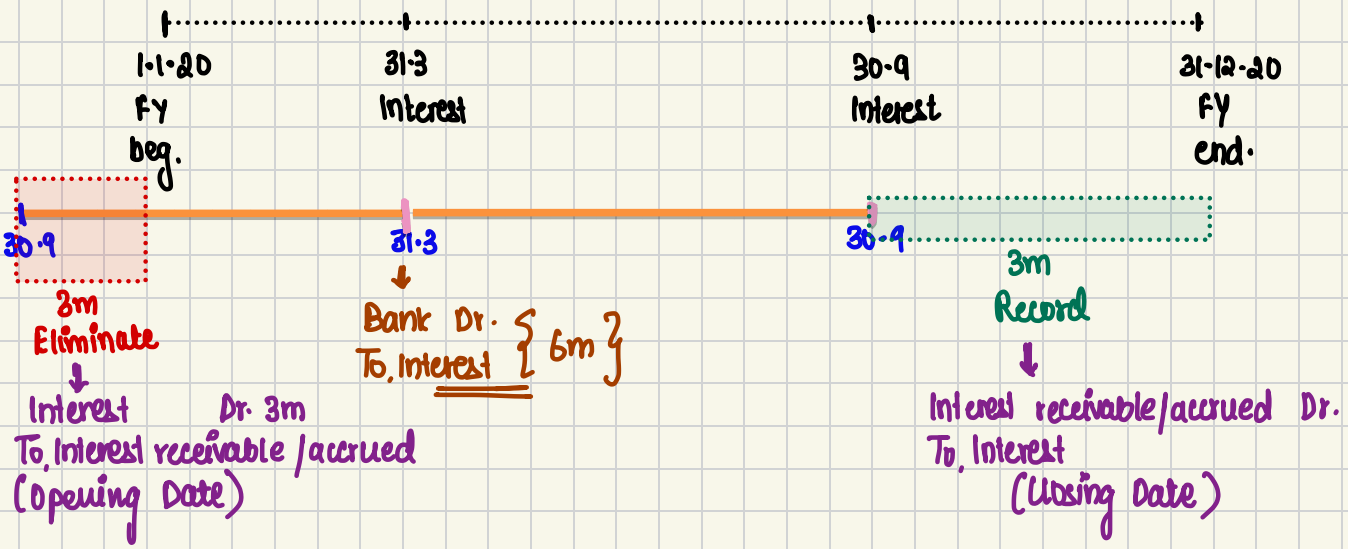
CS → 300D → 30807
(325 → 33374.5
300 → x)

Valuation of CS : Cost = 30807 MV = 300 x 99 = 29700



Treatment of Accrued Interest

* This concept arises only when the date of financial statements of the investor and the dates of receipt of interest from the company are different.



Question 1 :-

L14

1.4.12 — 30.9.12 Interest — 1.12.12 Purchased 10000 D @101 (cum) → Int pay → Brok 1% — 1.3.13 Sold 10000 D @106 (cum) → Int rec. → Brok 1% — 31.3.13 Interest

Investment in 12% Debentures of Hye Ltd.

Particulars	F.V.	Interest	Amount	Particulars	F.V.	Interest	Amount
1.12.12 To Bank	1000000	20000	1000100	1.3.13 By bank	1000000	30000	994400
				By P&L	—	—	700
31.3.13 To P&L	—	30000	—		—	—	—

W/N - 1 :- Calculation of cost of debentures

1.12.12 :-

1.	Cum-interest purchase price :- 10000 x 101	= 1010000
2.	less : interest :- 10000 x 100 x 12/100 x 2/12	= (20000)
3.	Ex-interest purchase price	= 990000
4.	add: Brokerage : 1% x 1010000	= 10100
	Total cost of debentures	= 1000100

W/N- 2 :- Calculation of profit/loss on sale of debentures

1.3.13 :-

1.	Cum-interest selling price :- 10000 x 106	= 1060000
2.	less: interest :- 10000 x 100 x 12/100 x 5/12	= (50000)
3.	Ex-interest selling price	= 1010000
4.	less: brokerage @ 1% x 1060000	= (10600)
5.	Net Selling Price	= 994000
6.	less: cost	1000100
7.	Loss on sale	700

Bank	Dr.	994400
P&L	Dr.	700
To. Investment		1000100