

TOPIC - 5

ACCOUNTING STANDARD - 13

ACCOUNTING FOR INVESTMENT

Index

Sr. No.	Particulars	Page No.	No. of Question
1	SERIES 100 – BASIC CATEGORY	5.1	3
2	SERIES 200 - INVESTMENT IN SHARES	5.3	6
3	SERIES 300 - INVESTMENT IN DEBENTURES AND BONDS	5.9	6
4	SERIES 400 - MIXED	5.16	4

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 31st 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.

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.

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)

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:

- Cost of equity shares purchased on 1.4.20X1
 $= (1,000 \times ₹ 120) + (2\% \text{ of } ₹ 1,20,000) + (\frac{1}{2}\% \text{ of } ₹ 1,20,000) = ₹ 1,23,000$
- Sale proceeds of equity shares (bonus) sold on 31st March, 20X2
 $= (500 \times ₹ 90) - (2\% \text{ of } ₹ 45,000) = ₹ 44,100.$
- Profit on sale of bonus shares on 31st March, 20X2 = Sale proceeds - Average cost
 Sale proceeds = ₹ 44,100
 Average cost = ₹ $(1,23,000 / 1,50,000) \times 50,000 = ₹ 41,000$
 Profit = ₹ 44,100 - ₹ 41,000 = ₹ 3,100.

4. Valuation of equity shares on 31st March, 20X2
 Cost = (₹ 1,23,000/1,50,000) × 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.

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 × 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 × 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 × 62,500 = ₹ 31,250
 Market price of 500 shares = 92.50 × 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 (dividend on shares acquired on 20/6/20X1) (W.N.4)	-	10,000
20.6.20X1	To Bank	5,000	80,000				
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:

- (1) Bonus Shares = $(25,000 + 5,000) / 6 = 5,000$ shares
 (2) 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 = $[(77,250 + 90,000 + 1,12,500) / 20,625 \times 10,000] = \text{Rs. } 1,35,634$
 Profit on sale of shares = Rs. 1,14,364
 (3) Value of shares on 31.3.22 $[(77,250 + 90,000 + 1,12,500) / 20,625 \times 10,625] = \text{Rs. } 1,44,114$ or Rs. 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. 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:

- 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
 $\text{Right shares} = (15,000 + 5,000 + 4,000) / 6 = 4,000 \text{ shares}$
 $\text{Shares subscribed by XY Ltd.} = 4,000 / 2 = 2,000 \text{ shares}$
 $\text{Value of right shares subscribed} = 2,000 \text{ shares} @ ₹ 12 \text{ per share} = ₹ 24,000$
- 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	<u>(2,145)</u>
	2,12,355
Less: Cost of 13,000 shares	<u>(1,69,500)</u>
Profit on sale	<u>42,855</u>

- 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:

- 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 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)			
31.3.20X 2	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					By Bank		10,500	
31.12.22	To P&L	50,000	3,125	54,500	31.3.23	A/c			
	A/c			1,250		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

1. 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

2. 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:

- (i) Accrued Interest as on 1st April, 2015 = Rs. $2,00,000 \times \frac{15}{100} \times \frac{3}{12} = ₹ 7,500$
- (ii) Accrued Interest as on 1.5.2015 = Rs. $1,00,000 \times \frac{15}{100} \times \frac{4}{12} = ₹ 5,000$
- (iii) 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 $\times \frac{15}{100} \times \frac{6}{12}$ = Rs 22500

(v) Accrued Interest on debentures sold on 1.11.2015

$$= \text{Rs. } 120000 \times \frac{15}{100} \times \frac{4}{12} = \text{Rs } 6000$$

(vi) Accrued Interest = Rs. 80,000 $\times \frac{15}{100} \times \frac{5}{12}$ = Rs 5000

(vii) Accrued Interest on sold debentures 31.12.2015 = Rs. 80000 $\times \frac{15}{100} \times \frac{6}{12}$ = Rs 6000

(viii) Sale Price of Investment on 31stDec. = 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	1,26,000
$\frac{200000}{200000} \times 12000$	
Loss on sale	11,400

(x) Accrued interest as on 31.12.2015 = Rs. 1,80,000x

(xi) Accrued Interest = Rs. 1,80,000x

(xii) Cost of investment as on 31stMarch = Rs. 1,02,000 + Rs. 76,800 = Rs. 1,78,800

(xiii) Profit on debentures sold on 31stDecember = Rs. 1,04,000 - (Rs. 2,10,000 \times 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 x 100 x 10% x 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 x 100 x 10% x 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

$$\text{Interest element} = 9,000 \times 100 \times 10\% \times \frac{5}{12} = \text{Rs. } 37,500$$

$$\text{Investment element} = (9,000 \times 98) + [1\% (9,000 \times 98)] = \text{Rs. } 8,90,820$$

2. Purchase of debentures on 1.11.2018

$$\text{Interest element} = 12,000 \times 100 \times 10\% \times \frac{4}{12} = \text{Rs. } 40,000$$

$$\text{Investment element} = 12,000 \times 115 \times 101\% \text{ less } 40,000 = \text{Rs. } 13,53,800$$

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 July21)

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:

- Prepare Investment Accounts in the books of Mr. Z for the year 2020-21, assuming that the average cost method is followed.
 - 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.X1	To Opening balance b/d (W.N.7)	1,200	3,600	1,26,000	30.6.X1	By Bank A/c (Interest) (3,200 x 100 x 12% x 6/12)	-	19,200	-
2.5.X1	To Bank A/c (W.N.8)	2,000	8,000	1,92,000	30.9.X1	By Bank A/c (W.N.1 & W.N.9)	1,500	4,500	1,57,500
30.9.X1	To P & L A/c (Profit on Sale) (W.N.1)			8,437.50	31.12.X1	By Bank A/c (Interest) (1,700 x 100 x 12% x 6/12)	-	10,200	-
31.3.X2	To P & L A/c (Interest)		27,400		31.3.X2	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 x 100 x 8% x 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 x 100 x 8% x 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 \times 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 (67,500X 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.



Student Notes: -