INVESTMENT ACCOUNTS

LEARNING OUTCOMES

After studying this unit, you will be able to–

- Understand the meaning of the term ‘investments’
- Compute the cost of investments
- Learn the classification of investments
- Compute the carrying amount of investments
- Calculate the profit/ loss on disposal of investments
- Determine the transfer value on reclassification of investments
1. **INTRODUCTION**

Investments are assets held by an enterprise for earning income by way of dividends, interest and rentals, for capital appreciation, or for other benefits to the investing enterprise. Investment Accounting is done as per AS 13, *Accounting for Investments* which deals with accounting for investments in the financial statements and related disclosure requirements except:

(i) Bases for recognition of interest, dividends and rentals earned on investments
(ii) operating or financial leases
(iii) investment of retirement benefit plans and life insurance enterprises
(iv) mutual funds, etc.

*Note:* Assets held as Stock-in-trade are not ‘Investments’.

2. **CLASSIFICATION OF INVESTMENTS**

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

2.1 **Current Investments**

- A current Investment is an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made.

*Example:* A Ltd. acquired 1,000 shares of B Ltd. on 1st April, 20X2 with an intention to hold them for a period of 15 months. Suggest the classification of such investment (in accordance with AS 13) as on 31st March, 20X3.

Investment in 1,000 shares is not a current investment because it is intended to be held for more than one year from the investment date even though the remaining period as on the reporting date may be less than one year.

- **The carrying amount** for current investments is the lower of cost and fair value.
- **Fair Value** is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm’s length transaction. Under appropriate circumstances, market value or net realisable value provides an evidence of fair value.
• **Market Value** is the amount obtainable from the sale of an investment in an open market, net of expenses necessarily to be incurred on or before disposal.

• Any reduction to fair value and any reversals of such reductions are included in the statement of profit and loss.

### 2.2 Long-term Investments

- A long-term investment is an investment other than a current investment.
- Long term investments are usually carried at cost.
- If there is a decline, other than temporary, in the value of a long term investment; the carrying amount is reduced to recognise the decline.
- The reduction in carrying amount is charged to the statement of profit and loss.
- The reduction in carrying amount is reversed when there is a rise in the value of the investment, or if the reasons for the reduction no longer exist.

### 3. COST OF INVESTMENTS

1. The cost of an investment includes acquisition charges such as brokerage, fees and duties.

2. If an investment is acquired, or partly acquired, by the issue of shares or other securities, the acquisition cost is the fair value of the securities issued.

   The fair value may not necessarily be equal to the nominal or par value of the securities issued.

   If an investment is acquired in exchange, or part exchange, for another asset, the acquisition cost of the investment is determined by reference to the fair value of the asset given up or the fair value of the investment acquired, whichever is more clearly evident.

<table>
<thead>
<tr>
<th>Type of acquisition</th>
<th>Cost of investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash/ bank</td>
<td>Cash price including charges such as brokerages, fees and duties</td>
</tr>
<tr>
<td>Issue of shares/ other securities</td>
<td>Fair value of securities issued</td>
</tr>
<tr>
<td>In exchange for another asset</td>
<td>Fair value of asset given up or fair value of investment acquired, whichever is more clearly evident</td>
</tr>
</tbody>
</table>
3. A separate Investment Account should be made for each scrip purchased. The scrips purchased may be broadly divided into two categories, viz.

The entries in Investment Account for these two broad categories of scrips will be made as under:

(i) **Fixed income Bearing Securities:** These refer to securities having fixed return of income. Investment in Government securities or debentures comes under this category.

Transaction for fixed income bearing securities may occur on following basis:

(a) Ex-interest basis

(b) Cum- interest basis

*In case the transaction is on ‘Ex-interest’ basis, the amount of interest accrued to the date of transaction has to be paid in addition to the price of security.*

The following entries are made in the books of Purchaser:

<table>
<thead>
<tr>
<th>Investment Account</th>
<th>Dr.</th>
<th>(With the price settled on ex-interest basis)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest accrued Account</td>
<td>Dr.</td>
<td>(Accrued interest till the date of transaction)**</td>
</tr>
<tr>
<td>To Bank A/c</td>
<td></td>
<td>(With total amount paid)</td>
</tr>
</tbody>
</table>

* This amount will appear in Capital Column of ‘Investment A/c’.
**This amount will appear in Income Column of ‘Investment A/c’.
In case the transaction is on cum-interest basis, a part of purchase price is related to the interest accrued from the date of the last interest paid to the date of transaction. Hence, in this case, the cost of investment has to be calculated by subtracting the amount of accrued interest from the Purchase Price.

The following entries are made in the books of Purchaser:

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Account</td>
<td>(With the price settled on cum-interest less Interest Accrued)*</td>
<td>[ ]</td>
</tr>
<tr>
<td>Interest accrued Account</td>
<td>(Accrued interest till the date of transaction)**</td>
<td></td>
</tr>
<tr>
<td>To Bank A/c</td>
<td>(With total amount paid)</td>
<td></td>
</tr>
</tbody>
</table>

* This amount will appear in Capital Column of ‘Investment A/c’.
**This amount will appear in Income Column of ‘Investment A/c’.

When the interest amount is actually received, it is entered in the Income Column credit side. The net effect of these entries will be that the amount credited to the income will be only the interest arising between the date of purchase and the one on which it next falls due.

**Note:**

(a) Interest amount is always calculated with respect to nominal value (par value/ nominal value).

(b) In case the quotation does not specify whether it is ex-interest or cum-interest, the same will be treated as ex-interest quotation as per the general practice.

(ii) **Variable Income Bearing Securities:** These refer to securities having variable return of income. Investment in equity shares comes under this category. The following points should be noted with respect to investment in equity shares:

(a) Dividends from investments in shares are not recognised in the statement of profit and loss until a right to receive payment is established;

(b) The amount of dividend accruing between the date of last dividend payment and the date of purchase cannot be immediately ascertained.
In the following way the information is incorporated in the books of investor at the time of purchase:

<table>
<thead>
<tr>
<th>Investment Account</th>
<th>Dr.</th>
<th>(With the entire purchase price)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Bank A/c</td>
<td>(With total amount paid)</td>
<td></td>
</tr>
</tbody>
</table>

* This amount will appear in Capital Column of ‘Investment A/c’.

The adjustment with respect to dividend is made when the dividend is actually received as under:

<table>
<thead>
<tr>
<th>Bank A/c</th>
<th>Dr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Investment A/c</td>
<td>(with total dividend received)</td>
</tr>
<tr>
<td>To Investment A/c</td>
<td>(with the amount of dividend for the period for which the investor did not hold the share)*</td>
</tr>
<tr>
<td></td>
<td>(with the amount of dividend for the post – acquisition period)**</td>
</tr>
</tbody>
</table>

*This amount will appear in Capital Column of ‘Investment A/c’.

**This amount will appear in Income Column of ‘Investment A/c’.

- The important point with respect to investment in equity shares is that the amount of dividends for the period, for which the shares were not held by the investor, should not be treated as revenue receipt but they should be treated as capital receipt, i.e., when dividends on equity shares are declared from pre-acquisition profits, the amount of such dividend received by the investor is entered on the credit side in the capital column, so as to reduce the acquisition cost.

- If it is difficult to make an allocation between pre and post-acquisition periods except on an arbitrary basis, the cost of investment is normally reduced by dividends receivable, only if they clearly represent recovery of part of the cost.

4. When right shares offered are subscribed for, the cost of the right shares is added to the carrying amount of the original holding.

If rights are not subscribed for but are sold in the market, the sale proceeds are taken to the statement of profit and loss.
Right shares | Accounting
--- | ---
When right shares offered are subscribed | Cost of right shares should be added to carrying amount of the original holding.
If rights are not subscribed for but are sold | Sale proceeds should be taken to statement of profit and loss (refer note below for an exception).

**Note:** 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.

For *e.g.*, Mr. X acquires 200 shares of a company on cum-right basis for ₹ 50,000. He subsequently receives an offer of right to acquire fresh shares in the company in the proportion of 1:1 at ₹ 110 each. X subscribes for the right issue. Thus, the total cost of X’s holding of 400 shares would amount to ₹ 72,000 (50,000 + 22,000).

Suppose, he does not subscribe but sells the rights for ₹ 15,000. The ex-right market value of 200 shares bought by X immediately after the rights falls to ₹ 40,000. In this case out of sale proceeds of ₹ 15,000, ₹ 10,000 may be applied to reduce the carrying amount to the market value ₹40,000 and ₹ 5,000 would be credited to the profit and loss account.

5. Where an investment is acquired by way of issue of bonus shares, no amount is entered in the capital column of investment account since the investor has not paid anything.

### 4. DISPOSAL OF INVESTMENTS

- On disposal of an investment, the difference between the carrying amount and the disposal proceeds, net of expenses is recognised in the profit and loss statement.
- When a part of the holding of an individual investment is disposed, the carrying amount is required to be allocated to that part on the basis of the average carrying amount of the total holding of the investment.
- In respect of shares, debentures and other securities held as stock-in-trade,
the cost of stocks disposed of may be determined by applying an appropriate cost formula (e.g., first-in, first-out (FIFO), average cost, etc.). These cost formulae are the same as those specified in AS 2, *Valuation of Inventories*.

(i) **Fixed Income Bearing Securities:** In case the transaction is on ‘Cum-interest basis’, the amount of accrued interest from the date of last payment to the date of sale is credited in the income column and only the sale proceeds, net of accrued interest (from the date of last payment to the date of sale), is credited in the capital column of investment account.

In case the transaction is on ‘Ex-interest’ basis, entire sale proceeds is credited in the capital column and the amount of accrued interest from the date of last payment to the date of sale, separately received from the buyer will be taken to the credit side of the income column of investment account.

(ii) **Variable Income Bearing Securities:** In case of these securities, the entire amount of sale proceeds should be credited in the capital column of investment account, unless the amount of accrued dividend can be specifically established.

The entries in the books at the time of sale of investments will be just the reverse of the entries passed for their acquisition.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Value in ‘capital’ column of investment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Purchase</td>
</tr>
<tr>
<td>Transaction on ex-interest basis</td>
<td>Purchase price of investment, i.e., no impact of interest accrued upto the date of transaction</td>
</tr>
<tr>
<td>Transaction on cum-interest basis</td>
<td>Purchase price of investment <em>less</em> accrued interest upto the date of transaction</td>
</tr>
</tbody>
</table>

**Illustration 1**

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 cum-interest price, also paying brokerage @ 1% of cum-interest amount of the purchase. On 1st March, 20X3 the firm sold all of these debentures at ₹ 106 cum-interest price, again paying brokerage @ 1% of cum-interest amount. Prepare Investment Account in the books of M/s. Bull & Bear for the period 1st December, 20X2 to 1st March, 20X3.

**Solution**

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Nominal Value (₹)</th>
<th>Interest (₹)</th>
<th>Cost (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.12.20X2</td>
<td>To Bank A/c (W.N.1)</td>
<td>10,00,000</td>
<td>20,000</td>
<td>10,00,100</td>
</tr>
<tr>
<td>1.3.20X3</td>
<td>To Profit &amp; loss A/c*(b.f.)</td>
<td>-</td>
<td>30,000</td>
<td>10,00,100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10,00,000</td>
<td>50,000</td>
<td>10,00,100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Nominal Value (₹)</th>
<th>Interest (₹)</th>
<th>Cost (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.3.20X3</td>
<td>By Bank A/c (W.N.2)</td>
<td>10,00,000</td>
<td>50,000</td>
<td>9,99,400</td>
</tr>
<tr>
<td>1.3.20X3</td>
<td>By Profit &amp; loss A/c*(b.f.)</td>
<td></td>
<td></td>
<td>700</td>
</tr>
</tbody>
</table>

* 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  
   \[ \text{Cost Value} (10,000 \times \text{₹} 101) = 10,10,000 \]
   \[ \text{Add: Brokerage} (1\% \text{ of ₹} 10,10,000) = 10,100 \]
   \[ \text{Less: Cum Interest} (10,000 \times 100 \times 12\% \times 2/12) = (20,000) \]
   \[ \text{Total} = 10,00,100 \]

2. Sale proceeds of 12% debentures sold  
   \[ \text{Sales Price} (10,000 \times \text{₹} 106) = 10,60,000 \]
   \[ \text{Less: Brokerage} (1\% \text{ of ₹} 10,60,000) = (10,600) \]
INVESTMENT ACCOUNTS

Less: Cum Interest (10,000 x 100 x 12% x 5/12) = (50,000)
Total = 9,99,400

Illustration 2

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

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

Solution

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Nominal Value (₹)</th>
<th>Cost (₹)</th>
<th>Date</th>
<th>Particulars</th>
<th>Nominal Value (₹)</th>
<th>Cost (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.4.20X1</td>
<td>To Bank A/c (W.N.1)</td>
<td>1,00,000</td>
<td>1,23,000</td>
<td>31.3.20X2</td>
<td>By Bank A/c (W.N.2)</td>
<td>50,000</td>
<td>44,100</td>
</tr>
<tr>
<td>31.1.20X2</td>
<td>To Bonus shares (W.N.5)</td>
<td>50,000</td>
<td>–</td>
<td>31.3.20X2</td>
<td>By Balance c/d (W.N.4)</td>
<td>1,00,000</td>
<td>82,000</td>
</tr>
<tr>
<td>31.3.20X2</td>
<td>To Profit &amp; loss A/c (W.N.3)</td>
<td>–</td>
<td>3,100</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Working Notes:

1. Cost of equity shares purchased on 1.4.20X1 = (1,000 × ₹ 120) + (2% of ₹ 1,20,000) + (½% of ₹ 1,20,000) = ₹ 1,23,000
2. Sale proceeds of equity shares (bonus) sold on 31st March, 20X2= (500 × ₹ 90) – (2% of ₹ 45,000) = ₹ 44,100.

© The Institute of Chartered Accountants of India
3. Profit on sale of bonus shares on 31st March, 20X2
   \[\text{Profit} = \text{Sales proceeds} - \text{Average cost}\]
   
   Sales proceeds = ₹ 44,100
   Average cost = ₹ \((\frac{1,23,000}{150,000}) \times 50,000\) = ₹ 41,000
   Profit = ₹ 44,100 - ₹ 41,000 = ₹ 3,100.

4. Valuation of equity shares on 31st March, 20X2
   
   Cost = (₹ \(\frac{1,23,000}{150,000}\)) \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.

**Illustration 3**

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.*

**Solution**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Nominal Value</th>
<th>Cost</th>
<th>Particulars</th>
<th>Nominal Value</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Cash</td>
<td>50,000</td>
<td>62,500</td>
<td>By Cash - Sale (500 x 90)</td>
<td>50,000</td>
<td>45,000</td>
</tr>
<tr>
<td>To Bonus shares (W.N.1)</td>
<td>50,000</td>
<td>-</td>
<td>By Balance c/d (W.N. 3)</td>
<td>50,000</td>
<td>31,250</td>
</tr>
<tr>
<td>To P &amp; L A/c (W.N. 2)</td>
<td></td>
<td>13,750</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,00,000</td>
<td>76,250</td>
<td></td>
<td>1,00,000</td>
<td>76,250</td>
</tr>
<tr>
<td>To Balance b/d</td>
<td>50,000</td>
<td>31,250</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Working Notes:
1. Bonus shares do not have any cost.
2. Profit on sale of bonus shares = Sales proceeds – Average cost
   Sales proceeds = ₹ 45,000
   Average cost = \( \frac{500}{1,000} \times 62,500 = ₹ 31,250 \)
   Profit = ₹ 45,000 – ₹ 31,250 = ₹ 13,750.
3. 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 \( \frac{500}{1,000} \times 62,500 = ₹ 31,250 \)
   Market price of 500 shares = 92.50 x 500 = ₹ 46,250
   Cost being lower than the market price, therefore shares is carried forward at cost.

Illustration 4
On 01-04-20X1, Mr. T. Shekharan purchased 5,000 equity shares of ₹ 100 each in V Ltd. @ ₹ 120 each from a broker, who charged 2% brokerage. He incurred 50 paisa per ₹ 100 as cost of shares transfer stamps. On 31-01-20X2 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 31-03-20X2, Mr. T. Shekharan sold bonus shares to a broker, who charged 2% brokerage.

Show the Investment Account in the books of T. Shekharan, who held the shares as Current Assets and closing value of investments shall be made at cost or market value whichever is lower.

Solution

In the books of T. Shekharan
Investment Account
for the year ended 31st March, 20X2
(Script: Equity Shares of V Ltd.)

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Nominal Value (₹)</th>
<th>Cost (₹)</th>
<th>Date</th>
<th>Particulars</th>
<th>Nominal Value (₹)</th>
<th>Cost (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.4.20X1</td>
<td>To Bank A/c (W.N.1)</td>
<td>5,00,000</td>
<td>6,15,000</td>
<td>31.3.20X2</td>
<td>By Bank A/c (W.N.2)</td>
<td>2,50,000</td>
<td>2,20,500</td>
</tr>
</tbody>
</table>
### Working Notes:

1. **Cost of equity shares purchased on 1st April, 20X1**
   
   \[
   = \text{Cost} + \text{Brokerage} + \text{Cost of transfer stamps} \\
   = (5,000 \times ₹120) + (2\% \text{ of } ₹6,00,000) + \left(\frac{1}{2}\% \text{ of } ₹6,00,000\right) \\
   = ₹6,15,000
   \]

2. **Sale proceeds of equity shares sold on 31st March, 20X2**
   
   \[
   = \text{Sale price} – \text{Brokerage} \\
   = (2,500 \times ₹90) – (2\% \text{ of } ₹2,25,000) \\
   = ₹2,20,500
   \]

3. **Profit on sale of bonus shares**
   
   \[
   = \text{Sales proceeds} – \text{Average cost} \\
   \text{Sales proceeds} = ₹2,20,500 \\
   \text{Average cost} = \frac{6,15,000}{7,50,000} \times 2,50,000 = ₹2,05,000 \\
   \text{Profit} = ₹2,20,500 – ₹2,05,000 = ₹15,500.
   \]

4. **Valuation of equity shares on 31st March, 20X2**
   
   \[
   \text{Cost} = ₹ \left[6,15,000 \times \frac{5,00,000}{7,50,000}\right] = ₹4,10,000, \text{ i.e., ₹82 per share} \\
   \text{Market Value} = 5,000 \times ₹90 = ₹4,50,000 \\
   \text{Closing stock of equity shares has been valued at ₹4,10,000 i.e. cost being lower than the market value.}
   \]

### Illustration 5

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

(1) On 20th June, 20X1 he purchased another 10,000 shares of P Ltd. at ₹16 per share.

(2) On 1st August, 20X1, P Ltd. issued one equity bonus share for every six shares.
INVESTMENT ACCOUNTS

held by the shareholders.

(3) On 31st October, 20X1, the directors of P Ltd. announced a right issue which entitles the holders to subscribe three shares for every seven shares at ₹ 15 per share. Shareholders can transfer their rights in full or in part.

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

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

Solution

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

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

Working Notes:

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

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

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

(4) Rights subscribed = 30,000 shares \( \times \frac{2}{3} \times ₹ 15 = ₹ 3,00,000 \)
Illustration 6

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.

Solution

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

<table>
<thead>
<tr>
<th>Date</th>
<th>No. Amount ₹</th>
<th>Date</th>
<th>No. Amount ₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.4.20X1</td>
<td>To Bal b/d</td>
<td>31.10.20X1</td>
<td>By Bank</td>
</tr>
<tr>
<td>20.6.20X1</td>
<td>To Bank</td>
<td></td>
<td>(dividend on shares acquired on 20/6/20X1) (W.N.4)</td>
</tr>
<tr>
<td>16.8.20X1</td>
<td>To Bonus (W.N.1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30.9.20X1</td>
<td>To Bank (Rights Shares) (W.N.3)</td>
<td>31.10.20X1</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td></td>
<td>25,000</td>
<td>3,75,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5,000</td>
<td>80,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5,000</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10,000</td>
<td>1,50,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>—</td>
<td>10,000</td>
</tr>
</tbody>
</table>

© The Institute of Chartered Accountants of India
### INVESTMENT ACCOUNTS

<table>
<thead>
<tr>
<th>Date</th>
<th>To Profit (on sale of shares)</th>
<th>44,444</th>
<th>Date</th>
<th>By Bank (Sale of shares)</th>
<th>25,000</th>
<th>3,75,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.11.20X1</td>
<td></td>
<td>45,000</td>
<td>31.12.20X1</td>
<td>By Bal. c/d (W.N.6)</td>
<td>20,000</td>
<td>2,64,444</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6,49,444</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Profit and Loss Account (An extract)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Balance c/d</td>
<td>1,04,444</td>
</tr>
<tr>
<td>By Profit transferred</td>
<td>44,444</td>
</tr>
<tr>
<td>By Sale of rights (W.N.3)</td>
<td>10,000</td>
</tr>
<tr>
<td>By Dividend (W.N.4)</td>
<td>50,000</td>
</tr>
<tr>
<td></td>
<td>1,04,444</td>
</tr>
</tbody>
</table>

### Working Notes:

1. **Bonus Shares**
   \[
   \text{Bonus Shares} = \frac{(25,000 + 5,000)}{6} = 5,000 \text{ shares}
   \]

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

3. **Right shares renounced**
   \[
   \text{Right shares renounced} = 15,000 \times 1/3 = 5,000 \text{ shares}
   \]
   - Sale of right shares = 5,000 x 2 = ₹ 10,000
   - Right shares subscribed = 15,000 – 5,000 = 10,000 shares
   - Amount paid for subscription of right shares = 10,000 x 15 = ₹ 1,50,000

4. **Dividend received**
   \[
   \text{Dividend received} = 25,000 \text{ (shares as on 1st April 20X1)} \times 10 \times 20\% = ₹ 50,000
   \]
   - Dividend on shares purchased on 20.6.20X1 = 5,000 x 10 x 20% = ₹ 10,000 is adjusted to Investment A/c

5. **Profit on sale of 25,000 shares**
   \[
   \text{Profit} = \text{Sales proceeds} - \text{Average cost}
   \]
   - Sales proceeds = ₹ 3,75,000
   - Average cost = \[
   \frac{(3,75,000 + 80,000 + 1,50,000 - 10,000)}{45,000} \times 25,000 = ₹ 3,30,556
   \]
   - Profit = ₹ 3,75,000 – ₹ 3,30,556 = ₹ 44,444.
(6) **Cost of shares on 31.12.20X1**

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

**Illustration 7**

On 1st January 20X1, Singh had 20,000 equity shares in X Ltd. Nominal value of the shares was ₹10 each but their book value was ₹16 per share. On 1st June 20X1, Singh purchased 5,000 more equity shares in the company at a premium of ₹4 per share.

On 30th June, 20X1, the directors of X Ltd. announced a bonus and rights issue. Bonus was declared at the rate of one equity share for every five shares held and these shares were received on 2nd August, 20X1.

The terms of the rights issue were:

(a) Rights shares to be issued to the existing holders on 10th August, 20X1.

(b) Rights issue would entitle the holders to subscribe to additional equity shares in the Company at the rate of one share per every three held at ₹15 per share—the whole sum being payable by 30th September, 20X1.

(c) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.

(d) Singh exercised his option under the issue for 50% of his entitlements and the balance of rights he sold to Ananth for a consideration of ₹1.50 per share.

(e) Dividends for the year ended 31st March, 20X1, at the rate of 15% were declared by the Company and received by Singh on 20th October, 20X1.

(f) On 1st November, 20X1, Singh sold 20,000 equity shares at a premium of ₹3 per share.

The market price of share on 31-12-20X1 was ₹14. Show the Investment Account as it would appear in Singh’s books on 31-12-20X1 and the value of shares held on that date.

**Solution**

<table>
<thead>
<tr>
<th>Date</th>
<th>No. of shares</th>
<th>Dividend</th>
<th>Amount</th>
<th>Date</th>
<th>No. of shares</th>
<th>Dividend</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>20X1 Jan. 1</td>
<td>To Bal.b/d</td>
<td>20,000</td>
<td>₹ -</td>
<td>3,20,000</td>
<td>Oct. 20</td>
<td>By Bank</td>
<td>30,000</td>
</tr>
</tbody>
</table>
## Working Notes:

1. **Right shares**

   No. of right shares issued = \((20,000 + 5,000 + 5,000) \div 3 = 10,000\) shares

   No. of right shares subscribed = \(10,000 \times 50\% = 5,000\) shares

   Amount of right shares issued = \(5,000 \times 15 = ₹75,000\)

   No. of right shares sold = \(10,000 - 5,000 = 5,000\) shares

   Sale of right shares = \(5,000 \times 1.5 = ₹7,500\) to be credited to statement of profit and loss

2. **Cost of shares sold — Amount paid for 35,000 shares**

<table>
<thead>
<tr>
<th>Description</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>((₹3,20,000 + ₹70,000 + ₹75,000))</td>
<td>4,65,000</td>
</tr>
<tr>
<td><em>Less: Dividend on shares purchased on June 1 (since the dividend pertains to the year ended 31st March, 20x1, i.e., the pre-acquisition period)</em></td>
<td></td>
</tr>
<tr>
<td>Cost of 35,000 shares</td>
<td>₹4,57,500</td>
</tr>
</tbody>
</table>
3. Value of investment at the end of the year

Assuming investment as current investment, closing balance will be valued based on lower of cost or net realisable value.

Here, Net realisable value is ₹14 per share i.e. 15,000 shares x ₹ 13 = ₹ 2,10,000 and cost = \( \frac{4,57,500 \times 15,000}{35,000} \) = ₹ 1,96,071. Therefore, value of investment at the end of the year will be ₹ 1,96,071.

Illustration 8

The following transactions of Nidhi took place during the year ended 31st March 20X2:

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Nominal Value ($)</th>
<th>Interest ($)</th>
<th>Cost ($)</th>
<th>Date</th>
<th>Particulars</th>
<th>Nominal Value ($)</th>
<th>Interest ($)</th>
<th>Cost ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.4.20X1</td>
<td>To Bank A/c</td>
<td>12,00,000</td>
<td>40,000</td>
<td>9,26,000</td>
<td>1.5.20X1</td>
<td>By Bank A/c</td>
<td>-</td>
<td>48,000</td>
<td>-</td>
</tr>
<tr>
<td>12th April</td>
<td>Purchased 1,00,000 equity shares of ₹ 10 each in X Ltd. for ₹ 40,00,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st May</td>
<td>Received half-year's interest on 8% bonds.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15th May</td>
<td>X Ltd. made a bonus issue of three equity shares for every two held. Nidhi sold 1,25,000 bonus shares for ₹ 20 each.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st October</td>
<td>Sold ₹3,00,000, 8% bonds at ₹ 81 ex-interest.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st November</td>
<td>Received half-year's bond interest.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st December</td>
<td>Received 18% interim dividend on equity shares (including bonus shares) in X Ltd.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Prepare the relevant investment account in the books of Nidhi for the year ended 31st March, 20X2.

Solution

In the books of Nidhi
8% Bonds Account
[Interest Payable: 1st November & 1st May]
INVESTMENT ACCOUNTS

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>No.</th>
<th>Dividend (₹)</th>
<th>Cost (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.10.20X1</td>
<td>To Profit &amp; Loss A/c (W.N.6)</td>
<td></td>
<td>11,500</td>
<td></td>
</tr>
<tr>
<td>31.3.20X2</td>
<td>To Profit &amp; Loss A/c</td>
<td></td>
<td>84,000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>No.</th>
<th>Dividend (₹)</th>
<th>Cost (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.10.20X1</td>
<td>By Bank A/c (W.N.2)</td>
<td></td>
<td>3,000</td>
<td>10,000</td>
</tr>
<tr>
<td>1.11.20X1</td>
<td>By Bank A/c (W.N.3)</td>
<td></td>
<td>-</td>
<td>36,000</td>
</tr>
<tr>
<td>31.3.20X2</td>
<td>By Balance c/d (W.N.4)</td>
<td></td>
<td>9,000</td>
<td>30,000</td>
</tr>
</tbody>
</table>

**Investment in Equity Shares of X Ltd. Account**

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>No.</th>
<th>Dividend (₹)</th>
<th>Cost (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.4.20X1</td>
<td>To Bank A/c</td>
<td>1,000</td>
<td>40,000</td>
<td></td>
</tr>
<tr>
<td>15.5.20X1</td>
<td>To Bonus Issue</td>
<td>1,500</td>
<td></td>
<td>25,000</td>
</tr>
<tr>
<td>31.3.20X2</td>
<td>To Profit &amp; Loss A/c (W.N.5)</td>
<td>2,250</td>
<td>50,000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>No.</th>
<th>Dividend (₹)</th>
<th>Cost (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.5.20X1</td>
<td>By Bank A/c (W.N.7)</td>
<td></td>
<td>1,250</td>
<td>2,25,000</td>
</tr>
<tr>
<td>31.3.20X2</td>
<td>By Balance c/d (W.N.8)</td>
<td></td>
<td>1,25,000</td>
<td>20,000</td>
</tr>
</tbody>
</table>

**Working Notes:**

1. **Cost of investment purchased on 1st April, 20X1**
   
   12,000, 8% bonds were purchased @ ₹ 80.50 cum-interest. Total amount paid 12,000 bonds x ₹ 80.50 = 9,66,000 which includes accrued interest for 5 months, i.e., 1st November, 20XX to 31st March, 20X1. Accrued interest will be ₹ 12,00,000 x 8/100 x 5/12 = ₹ 40,000. Therefore, cost of investment purchased = ₹ 9,66,000 – 40,000 = ₹9,26,000.

   Note: It has been assumed that the nominal value of a bond is ₹ 100.

2. **Sale of bonds on 1st October, 20X1**
   
   3,000 bonds were sold@ ₹ 81 ex-interest, i.e., Total amount received = 3,000 x 81 + accrued interest for 5 months =₹ 2,43,000 +₹10,000 (3,00,000 x 8/100 x 5/12)

3. **Interest received on 1st November, 20X1**
   
   Interest will be received for 9,000 bonds @ 8% for 6 months, i.e., ₹ 9,00,000 x 8/100x1/2 = ₹ 36,000.

4. **Cost of bonds on 31.3.20X1**
   
   Cost of bonds on 31.3.20X1 will be ₹ 9,26,000/ 12,000 x 9,000 = ₹ 6,94,500.
Interest accrued on bonds on 31.3.20X1 = 9,00,000 x 8% x 5/12 = ₹30,000

5. **Profit on sale of bonus shares**

Cost per share after bonus = ₹ 40,00,000/ 2,50,000 = ₹ 16 (average cost method being followed)

Profit per share sold (₹ 20 – ₹ 16) = ₹ 4.

Therefore, total profit on sale of 1,25,000 shares = ₹ 4 x 1,25,000 = ₹ 5,00,000.

6. **Profit on sale of bonds**

<table>
<thead>
<tr>
<th>Sale value</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of ₹3,00,0008% bonds = 9,26,000/12,00,000 x 3,00,000</td>
<td>2,31,500</td>
</tr>
<tr>
<td>Profit</td>
<td>11,500</td>
</tr>
</tbody>
</table>

7. Dividend on equity shares = 1,25,000 x 10 x 18% = ₹ 2,25,000

8. **Value of equity at end of year**

Cost per share after bonus = ₹ 16

Number of shares = 1,25,000

Value of equity at end of year = 1,25,000 x 16 = ₹ 20,00,000

**Illustration 9**

*Smart Investments made the following investments in the year 20X1-X2:*

*12% State Government Bonds having nominal value ₹100*

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.04.20X1</td>
<td>Opening Balance (1200 bonds) book value of ₹ 126,000</td>
</tr>
<tr>
<td>02.05.20X1</td>
<td>Purchased 2,000 bonds @ ₹ 100 cum interest</td>
</tr>
<tr>
<td>30.09.20X1</td>
<td>Sold 1,500 bonds at ₹ 105 ex interest</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Equity Shares of X Ltd.</th>
<th>Purchased 5,000 equity shares @ ₹ 200 on cum right basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.04.20X1</td>
<td>Brokerage of 1% was paid in addition (Nominal Value of shares ₹ 10)</td>
</tr>
<tr>
<td></td>
<td>The company announced a bonus issue of 2 shares for every 5 shares held.</td>
</tr>
<tr>
<td>03.06.20X1</td>
<td></td>
</tr>
</tbody>
</table>
INVESTMENT ACCOUNTS

16.08.20X1  
The company made a rights issue of 1 share for every 7 shares held at ₹ 250 per share.  
The entire money was payable by 31.08.20X1.

22.8.20X1  
Rights to the extent of 20% was sold @ ₹ 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 @ ₹ 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 @ ₹ 220

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

Solution

In the books of Smart Investments

12% Govt. Bonds for the year ended 31st March, 20X2

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Nos.</th>
<th>Interest</th>
<th>Amount</th>
<th>Date</th>
<th>Particulars</th>
<th>Nos.</th>
<th>Interest</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.4.X1</td>
<td>To Opening balance b/d (W.N.7)</td>
<td>1,200</td>
<td>3,600</td>
<td>12,600</td>
<td>30.6.X1</td>
<td>By Bank A/c (Interest)</td>
<td>-</td>
<td>19,200</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(3,200 x 100 x 12% x 6/12)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.5.X1</td>
<td>To Bank A/c (W.N.8)</td>
<td>2,000</td>
<td>8,000</td>
<td>19,200</td>
<td>31.12.X1</td>
<td>By Bank A/c (W.N.1 &amp; W.N.9)</td>
<td>1,500</td>
<td>4,500</td>
<td>15,750</td>
</tr>
<tr>
<td>30.9.X1</td>
<td>To P &amp; L A/c (Profit on Sale) (W.N.1)</td>
<td>8,437.50</td>
<td>31.12.X1</td>
<td>By Bank A/c (Interest)</td>
<td>-</td>
<td>10,200</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1,700 x 100 x 12% x 6/12)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31.3.X2</td>
<td>To P &amp; L A/c (Interest)</td>
<td>27,400</td>
<td>31.3.X2</td>
<td>39,000</td>
<td>31.3.X2</td>
<td>By Bal. c/d (W.N.2 &amp; W.N.10)</td>
<td>1,700</td>
<td>5,100</td>
<td>16,893.50</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3,200</td>
<td>39,000</td>
<td>32,6437.50</td>
<td></td>
<td>3,200</td>
<td>39,000</td>
<td>32,6437.50</td>
<td></td>
</tr>
</tbody>
</table>

© The Institute of Chartered Accountants of India
## Investments in Equity shares of X Ltd. for year ended 31.3.20X2

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Nos.</th>
<th>Dividend</th>
<th>Amount</th>
<th>Date</th>
<th>Particulars</th>
<th>Nos.</th>
<th>Dividend</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.4.X1</td>
<td>To Bank A/c (W.N.3)</td>
<td>5,000</td>
<td></td>
<td>10,10,000</td>
<td>16.9.X1</td>
<td>By Bank (Dividend)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>To Bonus Issue</td>
<td>2,000</td>
<td></td>
<td></td>
<td></td>
<td>(5,000 x 10 x 15%) (refer note 1 and 2)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.6.X1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31.8.X1</td>
<td>To Bank A/c (W.N.11)</td>
<td>800</td>
<td>2,000</td>
<td>4,28,500</td>
<td>15.12.X1</td>
<td>By Bank (Sale) (W.N.4)</td>
<td>3,000</td>
<td></td>
<td>8,91,000</td>
</tr>
<tr>
<td>15.12.X1</td>
<td>To P &amp; L A/c (W.N.5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>By Bank (interim dividend)</td>
<td></td>
<td>4,800</td>
<td></td>
</tr>
<tr>
<td>31.3.X2</td>
<td>To P &amp; L A/c (W.N.6)</td>
<td></td>
<td>4,800</td>
<td>16,38,500</td>
<td>31.3.X2</td>
<td>By Bal. c/d (W.N.6)</td>
<td>7800</td>
<td>4,800</td>
<td>16,38,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7800</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Working Notes:

1. **Profit on sale of bonds on 30.9.X1**
   
   \[
   \text{Profit} = \text{Sales proceeds} - \text{Average cost}
   \]
   
   Sales proceeds = ₹1,57,500 (i.e., 1,500 x 105)
   
   Average cost = ₹ \left\{ \frac{(1,26,000 + 1,92,000) \times 1,500}{3,200} \right\} = 1,49,062.50
   
   Profit = 1,57,500 – ₹ 1,49,062.50 = ₹8,437.50

2. **Valuation of bonds on 31st March, 20X2**
   
   Cost = ₹3,18,000/3,200 x1,700 = 1,68,937.50

3. **Cost of equity shares purchased on 15/4/20X1**
   
   \[
   \text{Cost} = \text{Cost + Brokerage}
   \]
   
   \[
   = (5,000 \times ₹ 200) + 1\% \text{ of } (5,000 \times ₹ 200) = ₹ 10,10,000
   \]

4. **Sale proceeds of equity shares on 15/12/20X1**
   
   \[
   \text{Sale proceeds} = \text{Sale price} - \text{Brokerage}
   \]
   
   \[
   = (3,000 \times ₹ 300) - 1\% \text{ of } (3,000 \times ₹ 300) = ₹ 8,91,000.
   \]
5. **Profit on sale of shares on 15/12/20X1**

= Sales proceeds – Average cost

Sales proceeds = ₹ 8,91,000
Average cost = ₹ [(10,10,000+2,00,000-7,500) × 3,000/7,800]

= ₹ [12,02,500 × 3,000/7,800] = 4,62,500

Profit = ₹ 8,91,000 – ₹4,62,500=₹ 4,28,500.

6. **Valuation of equity shares on 31st March, 20X2**

Cost = ₹ [12,02,500×4,800/7,800]= ₹ 7,40,000
Market Value = 4,800 shares × ₹ 220 = ₹ 10,56,000

Closing stock of equity shares has been valued at ₹ 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

= ₹ 3,600

8. **Interest element in bonds purchased on 02.05.20X1**

= 2,000 x 100 x 12% x 4/12 = ₹ 8,000

Cost of investment (amount in investment column)

= (2,000 x 100) – 8,000 = ₹ 1,92,000

9. **Interest element in bonds sold on 30.09.20X1**

= 1,500 x 100 x 12% x 3/12 = ₹ 4,500

10. **Interest accrued on closing balance of bonds**

= 1,700 x 100 x 12% x 3/12 = ₹ 5,100

11. **Right shares**

No. of right shares issued = (5,000 + 2,000) x 1/7 = 1,000 shares
No. of right shares sold = 1,000 x 20% = 200 shares
Proceeds from sale of right shares = 200 x 60 = ₹ 12,000

Proceeds to be credited to statement of profit and loss

No. of right shares subscribed = 1,000 – 200 = 800 shares
Amount of right shares subscribed = 800 x 250 = ₹ 2,00,000
12. **Amount of interim dividend** = \( (5,000 + 2,000 + 800 – 3,000) \times 10 \times 10\% \)

\[ = ₹ 4,800 \]

**Note:**

1. 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.
2. The amount of dividend for the period, for which shares were not held by the investor, has been treated as capital receipt.

**Illustration 10**

Mr. Brown has made following transactions during the financial year 20X1-X2:

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.05.20X1</td>
<td>Purchased 24,000 12% Bonds of ₹ 100 each at ₹ 84 cum-interest. Interest is payable on 30th September and 31st March every year.</td>
</tr>
<tr>
<td>15.06.20X1</td>
<td>Purchased 1,50,000 equity shares of ₹ 10 each in Alpha Limited for ₹ 25 each through a broker, who charged brokerage @ 2%.</td>
</tr>
<tr>
<td>10.07.20X1</td>
<td>Purchased 60,000 equity shares of ₹ 10 each in Beeta Limited for ₹ 44 each through a broker, who charged brokerage @2%.</td>
</tr>
<tr>
<td>14.10.20X1</td>
<td>Alpha Limited made a bonus issue of two shares for every three shares held.</td>
</tr>
<tr>
<td>31.10.20X1</td>
<td>Sold 80,000 shares in Alpha Limited for ₹ 22 each.</td>
</tr>
<tr>
<td>01.01.20X2</td>
<td>Received 15% interim dividend on equity shares of Alpha Limited.</td>
</tr>
<tr>
<td>15.01.20X2</td>
<td>Beeta Limited made a right issue of one equity share for every four shares held at ₹ 5 per share. Mr. Brown exercised his option for 40% of his entitlements and sold the balance rights in the market at ₹ 2.25 per share.</td>
</tr>
<tr>
<td>01.03.20X2</td>
<td>Sold 15,000 12% Bonds at ₹ 90 ex-interest.</td>
</tr>
<tr>
<td>15.03.20X2</td>
<td>Received 18% interim dividend on equity shares of Beeta Limited.</td>
</tr>
</tbody>
</table>

Interest on 12% Bonds was duly received on due dates.

Prepare separate investment account for 12% Bonds, Equity Shares of Alpha Limited and Equity Shares of Beeta Limited in the books of Mr. Brown for the year ended on 31st March, 20X2.
Solution

In the books of Mr. Brown
12% Bonds for the year ended 31st March, 20X2

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>No.</th>
<th>Income</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>20X1</td>
<td>To Bank A/c (W.N.7)</td>
<td>24,000</td>
<td>24,000</td>
<td>19,92,000</td>
</tr>
<tr>
<td>20X2</td>
<td>To P &amp; L A/c (W.N.1)</td>
<td>-</td>
<td>-</td>
<td>1,05,000</td>
</tr>
<tr>
<td>20X2</td>
<td>To P &amp; L A/c (b.f.)</td>
<td>-</td>
<td>2,49,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>24,000</td>
<td>2,73,000</td>
<td>20,97,000</td>
</tr>
</tbody>
</table>

20X1    | By Bank-Interest (24,000 x 100 x 12% x 6/12) | -    | 1,44,000 |
| 20X2    | By Bank A/c (W.N.8)                   | 15,000 | 75,000  | 13,50,000 |
| 20X2    | By Bank-Interest (9,000 x 100 x 12% x 6/12) | 54,000 |
|         | By Balance c/d (W.N.2)                | 9,000  | -      | 7,47,000  |

Investment in Equity shares of Alpha Ltd. for the year ended 31st March, 20X2

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>No.</th>
<th>Income</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>20X1</td>
<td>To Bank A/c [(1,50,000 x 25) + [2% x (1,50,000 x 25])]</td>
<td>1,50,000</td>
<td>--</td>
<td>38,25,000</td>
</tr>
<tr>
<td>Oct. 14</td>
<td>To Bonus Issue (1,50,000/3 x2)</td>
<td>1,00,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>20X1</td>
<td>To P &amp; L A/c (W.N.3)</td>
<td>1,70,000</td>
<td>-</td>
<td>26,01,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>80,000</td>
<td>-</td>
<td>17,60,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2,55,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>5,36,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,70,000</td>
<td>-</td>
<td>26,01,000</td>
</tr>
</tbody>
</table>

© The Institute of Chartered Accountants of India
20X2 Mar. 31  To P & L A/c  2,55,000  43,61,000

Investment in Equity shares of Beeta Ltd. for the year ended 31st March, 20X2

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>No.</th>
<th>Income</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>20X1</td>
<td>To Bank A/c</td>
<td>60,000</td>
<td>--</td>
<td>26,92,800</td>
</tr>
<tr>
<td>July 10</td>
<td>([60,000 x 44] + [2% x (60,000 x 44)])</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20X2</td>
<td>To Bank A/c (W.N. 5)</td>
<td>6,000</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td>Jan. 15</td>
<td>By Bank – dividend</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>March 31</td>
<td>By Balance c/d (bal. fig.)</td>
<td>66,000</td>
<td>-</td>
<td>27,22,800</td>
</tr>
</tbody>
</table>

Working Notes:

1. **Profit on sale of 12% Bond**
   
   Sales price: ₹ 13,50,000
   
   Less: Cost of bond sold = \( \frac{19,92,000}{24,000} \times 15,000 \) (₹ 12,45,000)
   
   Profit on sale: ₹ 1,05,000

2. **Closing balance as on 31.3.20X2 of 12 % Bond**
   
   \( \frac{19,92,000}{24,000} \times 9,000 = ₹ 7,47,000 \)

3. **Profit on sale of equity shares of Alpha Ltd.**
   
   Sales price: ₹ 17,60,000
   
   Less: Cost of bond sold = \( \frac{38,25,000}{2,50,000} \times 80,000 \) (₹ 12,24,000)
   
   Profit on sale: ₹ 5,36,000
4. **Closing balance as on 31.3.20X2 of equity shares of Alpha Ltd.**

\[
\frac{38,25,000}{2,50,000} \times 1,70,000 = ₹ 26,01,000
\]

5. **Calculation of right shares subscribed by Beeta Ltd.**

\[
\text{Right Shares} = \frac{60,000 \text{ shares}}{4} \times 1 = 15,000 \text{ shares}
\]

Shares subscribed by Mr. Brown = 15,000 x 40% = 6,000 shares

Value of right shares subscribed = 6,000 shares @ ₹ 5 per share = ₹ 30,000

6. **Calculation of sale of right entitlement by Beeta Ltd.**

No. of right shares sold = 15,000 - 6,000 = 9,000 shares

Sale value of right = 9,000 shares x ₹ 2.25 per share = ₹ 20,250

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

7. **Purchase of bonds on 01.05.20X1**

Interest element in purchase of bonds = 24,000 x 100 x 12% x 1/12 = ₹ 24,000

Investment element in purchase of bonds = (24,000 x 84) – 24,000 = ₹ 19,92,000

8. **Sale of bonds on 01.03.20X2**

Interest element in purchase of bonds = 15,000 x 100 x 12% x 5/12 = ₹ 75,000

Investment element in purchase of bonds = 15,000 x 90 = ₹ 13,50,000

**Illustration 11**

A Limited purchased 5,000 equity shares (nominal value ₹ 100 each) of Allianz Limited for ₹ 105 each on 1st April, 20X1. The shares were quoted cum dividend. On 15th May, 20X1, Allianz Limited declared & paid dividend of 2% for year ended 31st March, 20X1. On 30th June, 20X1 Allianz Limited issued bonus shares in ratio of 1:5. On 1st October, 20X1 Allianz Limited issued rights share in the ratio of 1:12 @ 45 per share. A Limited subscribed to half of the rights issue and the balance was sold at ₹ 5 per right entitlement. The company declared interim dividend of 1% on 30th November, 20X1. Right shares were not entitled to dividend. The company sold 3,000 shares on 31st December, 20X1 at ₹ 95 per share. The company A Ltd. incurred 2% as brokerage while buying and selling shares.
You are required to prepare Investment Account in books of A Ltd for the year ended 31st March, 20X2.

Solution

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>No.</th>
<th>Dividend</th>
<th>Amount</th>
<th>Date</th>
<th>Particulars</th>
<th>No.</th>
<th>Dividend</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>20X1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20X1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>April 1</td>
<td>To Bank A/c (W.N.1)</td>
<td>5,000</td>
<td>-</td>
<td>5,35,500</td>
<td>May 15</td>
<td>By Bank A/c (dividend) (W.N.6)</td>
<td>-</td>
<td>-</td>
<td>10,000</td>
</tr>
<tr>
<td>June 30</td>
<td>To Bonus Issue (W.N.2)</td>
<td>1,000</td>
<td>-</td>
<td>-</td>
<td>Nov. 30</td>
<td>By Bank A/c (Interim dividend) (W.N.7)</td>
<td>-</td>
<td>6,000</td>
<td>-</td>
</tr>
<tr>
<td>Oct. 1</td>
<td>To Bank A/c (W.N.3)</td>
<td>250</td>
<td>-</td>
<td>11,250</td>
<td>Nov. 30</td>
<td>By Bank A/c (W.N.5)</td>
<td>3,000</td>
<td>-</td>
<td>2,79,300</td>
</tr>
<tr>
<td>Dec.31</td>
<td>To P &amp; L A/c (W.N. 5)</td>
<td>-</td>
<td></td>
<td>21,660</td>
<td>Dec. 31</td>
<td>By Balance c/d (W.N. 7)</td>
<td>3,250</td>
<td>-</td>
<td>2,79,110</td>
</tr>
<tr>
<td>20X2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20X2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>March 31</td>
<td>To P &amp; L A/c (b.f.)</td>
<td>-</td>
<td>6,000</td>
<td>-</td>
<td>March 31</td>
<td>By Balance c/d (W.N. 7)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Working Notes:

1. **Calculation of cost of purchase on 1st April, 20X1**
   
   \[ \text{\textcurrency} \times 105 \times 5,000 \text{ shares} = \text{\textcurrency} 5,25,000 \]
   
   \[ \text{Add: Brokerage (2\%)} = \text{\textcurrency} 10,500 \]
   
   \[ \text{\textcurrency} 5,35,500 \]

2. **Calculation of number of bonus shares issued**
   
   \[ \text{Bonus Shares} = \frac{5,000}{5} \times 1 = 1,000 \]
3. **Calculation of right shares subscribed**

Right Shares = \( \frac{6,000}{12} \) = 500 shares

Shares subscribed = \( \frac{500}{2} \) = 250 shares

Value of right shares subscribed = 250 shares @ ₹ 45 per share = ₹ 11,250

4. **Calculation of sale of right entitlement**

250 shares x ₹ 5 per share = ₹ 1,250

(Amount received from sale of rights will be credited to P&L a/c)

5. **Calculation of profit on sale of shares**

Total holding = 5,000 shares original
1,000 shares bonus
250 shares right shares
6,250 shares

3,000 shares were sold on 31.12.20X1

Cost of total holdings of 6,250 shares (on average basis)

= ₹ 5,35,500 + ₹ 11,250 – ₹ 10,000 = ₹ 5,36,750

Average cost of 3,000 shares would be

= \( \frac{5,36,750}{6,250} \times 3,000 \) = ₹ 2,57,640

Sale proceeds of 3,000 shares (3,000 x ₹ 95) 2,85,000

Less: 2% Brokerage (5,700)

2,79,300

Less: Cost of 3,000 shares (2,57,640)

Profit on sale 21,660

6. **Dividend received on investment held as on 15th May, 20X1**

= ₹ 10,000 (5,000 x ₹ 100 x 2%) adjusted to Investment A/c

7. **Dividend amounting ₹ 6,000 received on 30.11.20X1 will be credited to P&L A/c**
8. **Calculation of closing value of shares (on average basis) as on 31st March, 20X2**

\[
\frac{5,36,750}{6,250} \times 3,250 = ₹2,79,110
\]

---

### 5. RECLASSIFICATION OF INVESTMENT

When Investments are classified from Current Investments to Long-term Investments, transfer is made at Cost and Fair Value, whichever is less (at the date of transfer).

When Investments are classified from Long-term Investments to Current Investments, transfer is made at Cost and Carrying Amount, whichever is less (at the date of transfer).

---

**SUMMARY**

- Investment Accounting is done as per Accounting Standard-13.
- **Two types of Investments:**
  - Current Investments – readily realisable and intended to be held for not more than one year from the date on which investment is made
  - Long-term Investments- other than current investments
- **Valuation of Current investment** – Lower of Cost or Fair Value
- **Valuation of Long-term investment** – At cost less ‘other than temporary’ decline

© The Institute of Chartered Accountants of India
• **Reclassification:**
  ✓ From Current to Long-term → Valuation at Cost and Fair value, whichever is lower
  ✓ From Long-term to Current → Valuation at Cost and Carrying Amount, whichever is lower

• **Disposal of Investment:**
  ✓ Difference between carrying amount and disposal proceeds is transferred to Profit & Loss A/c.

In case of partial sale, weighted average method to be used.

**Accounting for interest, dividend, etc.**

<table>
<thead>
<tr>
<th>Nature of income</th>
<th>Pre-acquisition period</th>
<th>Post-acquisition period</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest</strong></td>
<td>Interest accruing before acquisition</td>
<td>Interest accruing after acquisition</td>
</tr>
<tr>
<td><strong>Dividend</strong></td>
<td>Declared from pre-acquisition profits</td>
<td>Declared from post-acquisition profits</td>
</tr>
<tr>
<td><strong>Accounting</strong></td>
<td>Deducted from cost of investment</td>
<td>Recognised as an income</td>
</tr>
</tbody>
</table>

**TEST YOUR KNOWLEDGE**

**MCQ**

**Choose the most appropriate option as the answer:**

1. The cost of Right shares is
   (a) added to the cost of investments.
   (b) subtracted from the cost of investments.
   (c) no treatment is required.

2. Long term investments are carried at
   (a) fair value.
   (b) cost less ‘other than temporary’ decline.
   (c) Cost and market value whichever is less.
3. **Current investments are carried at**
   
   (a) Fair value.
   
   (b) Cost.
   
   (c) Cost and fair value, whichever is less.

4. A Ltd. acquired 2,000 equity shares of Omega Ltd. on cum-right basis at ₹ 75 per share. Subsequently, Omega Ltd. made a right issue of 1:1 at ₹ 60 per share, which was subscribed for by A. Total cost of investments at the year-end will be ₹
   
   (a) 2,70,000.
   
   (b) 1,50,000.
   
   (c) 1,20,000.

5. **Cost of investment includes**
   
   (a) Purchase costs.
   
   (b) Brokerage and Stamp duty paid.
   
   (c) Both (a) and (b).

6. A current investment is an investment
   
   (a) That is readily realisable.
   
   (b) That is intended to be held for not more than one year from the date on which such investment is made.
   
   (c) Both (a) and (b)

7. **All the following are fixed income bearing securities except**
   
   (a) Debentures.
   
   (b) Equity shares.
   
   (c) Govt. Bonds.

8. If there is ‘other than temporary’ decline in the value of a long term investment then
   
   (a) Carrying amount is reduced to recognise the decline.
   
   (b) The reduction in carrying amount is charged to profit and loss account.
   
   (c) Both (a) and (b).
9. If an investment is acquired by issue of shares, the acquisition cost of investment is
(a) Amount paid for acquisition.
(b) Fair value of securities issued.
(c) Market price of securities.

10. When long-term investments are reclassified as current investments, current investments are valued at
(a) Cost.
(b) Carrying amount.
(c) Lower of Cost and Carrying amount.

THEORETICAL QUESTIONS

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

PRACTICAL QUESTIONS

Question 1

On 1\(^{st}\) 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 1\(^{st}\) 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 1\(^{st}\) July 20X1.

2. Right shares are to be issued to the existing shareholders on 1\(^{st}\) 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 31\(^{st}\) 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 1\(^{st}\) January 20X2 at ₹16.50 per share. Brokerage being 1%.
You are required to prepare Investment account of XY Ltd. for the year ended 31\textsuperscript{st} March 20X2 assuming the shares are being valued at average cost.

**Question 2**

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

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

1.3.20X1 Purchased 200 units, ex-interest at ₹ 98.
1.7.20X1 Sold 500 units, ex-interest out of original holding at ₹ 100.
1.10.20X1 Purchased 150 units at ₹ 98, cum interest.
1.11.20X1 Sold 300 units, ex-interest at ₹ 99 out of original holdings.

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

**Question 3**

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 cum-interest
1.2.20X2 Sold 200 Debentures ex-interest at V 99

Due dates of interest are 30\textsuperscript{th} September and 31\textsuperscript{st} March.

Mr. Purohit closes his books on 31.3.20X2. Brokerage at 1\% is to be paid for each transaction. 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.

**ANSWERS/ SOLUTIONS**

**MCQs**

1. (a) 2. (b) 3. (c) 4. (a) 5. (c) 6. (c) 7. (b) 8. (c) 9. (b) 10. (c)
THEORETICAL QUESTIONS

1. The investments are classified into two categories as per AS 13, viz., Current Investments and Long-term Investments. A current Investment is an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made. The carrying amount for current investments is the lower of cost and fair value. Any reduction to fair value and any reversals of such reductions are included in the statement of profit and loss. A long-term investment is an investment other than a current investment. Long term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long term investment, the carrying amount is reduced to recognise the decline. The reduction in carrying amount is charged to the statement of profit and loss.

PRACTICAL QUESTIONS

Answer 1

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>No.</th>
<th>Income</th>
<th>Amount</th>
<th>Date</th>
<th>Particulars</th>
<th>No.</th>
<th>Income</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>20X1 Apr 1</td>
<td>To Balance b/d</td>
<td>15,000</td>
<td>-</td>
<td>2,25,000</td>
<td>20X1 Oct</td>
<td>By Bank A/c</td>
<td>-</td>
<td>30,000</td>
<td>10,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>31</td>
<td>(W.N. 5)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>June 1</td>
<td>To Bank A/c</td>
<td>5,000</td>
<td>-</td>
<td>1,00,000</td>
<td>20X2 Jan 1</td>
<td>By Bank A/c</td>
<td>13,000</td>
<td>-</td>
<td>2,12,355</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>31</td>
<td>(W.N. 4)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July 1</td>
<td>To Bonus Issue</td>
<td>4,000</td>
<td>-</td>
<td>-</td>
<td>March 31</td>
<td>By Balance c/d</td>
<td>13,000</td>
<td>-</td>
<td>1,69,500</td>
</tr>
<tr>
<td></td>
<td>(W.N. 1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(W.N. 6)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sept 1</td>
<td>To Bank A/c</td>
<td>2,000</td>
<td>-</td>
<td>24,000</td>
<td>20X2 Jan 1</td>
<td>To P &amp; L A/c</td>
<td>-</td>
<td>30,000</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(W.N. 2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(W.N. 4)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20X2 Jan 1</td>
<td>To P &amp; L A/c</td>
<td>-</td>
<td>-</td>
<td>42,855</td>
<td>20X2 Jan 1</td>
<td></td>
<td>26,000</td>
<td>30,000</td>
<td>3,91,855</td>
</tr>
<tr>
<td>&quot;20X2 Mar 31</td>
<td>To P &amp; L A/c</td>
<td>-</td>
<td>30,000</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>26,000</td>
<td>30,000</td>
<td>3,91,855</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

© The Institute of Chartered Accountants of India
Working Notes:

1. **Calculation of no. of bonus shares issued**

   \[ \text{Bonus Shares} = \frac{15,000 \text{ shares} + 5,000 \text{ shares}}{5} \times 1 = 4,000 \text{ shares} \]

2. **Calculation of right shares subscribed**

   \[ \text{Right Shares} = \frac{15,000 \text{ shares} + 5,000 \text{ shares} + 4,000 \text{ shares}}{6} = 4,000 \text{ shares} \]

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

   Value of right shares subscribed = 2,000 shares @ ₹ 12 per share = ₹ 24,000

3. **Calculation of sale of right entitlement**

   2,000 shares x ₹ 8 per share = ₹ 16,000

   Amount received from sale of rights will be credited to statement of profit and loss.

4. **Calculation of profit on sale of shares**

   Total holding = 15,000 shares original
   
   \[ \begin{array}{l}
   5,000 \text{ shares purchased} \\
   4,000 \text{ shares bonus} \\
   2,000 \text{ shares right shares} \\
   \hline
   26,000 \text{ shares}
   \end{array} \]

   50% of the holdings were sold

   i.e. 13,000 shares (26,000 x 1/2) were sold.

   Cost of total holdings of 26,000 shares (on average basis)

   \[ = ₹ 2,25,000 + ₹ 1,00,000 + ₹ 24,000 - ₹ 10,000 \]

   \[ = ₹ 3,39,000 \]

   Average cost of 13,000 shares would be

   \[ = \frac{3,39,000}{26,000} \times 13,000 = ₹ 1,69,500 \]
... ₹
Sale proceeds of 13,000 shares (13,000 x ₹16.50) 2,14,500
Less: 1% Brokerage (2,145) 2,12,355
Less: Cost of 13,000 shares (1,69,500) Profit on sale 42,855
5. **Dividend received on investment held as on 1st April, 20X1**
   = 15,000 shares x ₹ 10 x 20%
   = ₹ 30,000 will be transferred to Profit and Loss A/c

Dividend received on shares purchased on 1st June, 20X1
   = 5,000 shares x ₹ 10 x 20% = ₹10,000 will be adjusted to Investment A/c

**Note:** It is presumed that no dividend is received on bonus shares as bonus shares are declared on 1st July, 20X1 and dividend pertains to the year ended 31.3.20X1.

6. **Calculation of closing value of shares (on average basis) as on 31st March, 20X2**
   
   \[3,39,000 \times \frac{3,39,000}{26,000} = ₹ 1,69,500\]

**Answer 2**

In the Books of Mr. Z

**9% Central Government Bonds (Investment) Account**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Nominal Value</th>
<th>Interest</th>
<th>Principal</th>
<th>Particulars</th>
<th>Nominal Value</th>
<th>Interest</th>
<th>Principal</th>
</tr>
</thead>
<tbody>
<tr>
<td>20X1</td>
<td>₹</td>
<td>₹</td>
<td>₹</td>
<td>20X1</td>
<td>₹</td>
<td>₹</td>
<td>₹</td>
</tr>
<tr>
<td>Jan.1</td>
<td>To Balance b/d (W.N.1)</td>
<td></td>
<td>120,000</td>
<td>2,700</td>
<td>118,000</td>
<td>March 31</td>
<td>By Bank A/c (W.N.3)</td>
</tr>
<tr>
<td>March 1</td>
<td>To Bank A/c (W.N.2)</td>
<td>20,000</td>
<td>750</td>
<td>19,600</td>
<td>July 1</td>
<td>By Bank A/c (W.N.4)</td>
<td>50,000</td>
</tr>
<tr>
<td>July 1</td>
<td>To P&amp;L A/c</td>
<td>-</td>
<td>-</td>
<td>833</td>
<td>Sept. 30</td>
<td>By Bank A/c</td>
<td>-</td>
</tr>
<tr>
<td>Date</td>
<td>Entry Description</td>
<td>Debit</td>
<td>Credit</td>
<td>Balance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>----------------------------------</td>
<td>-------</td>
<td>--------</td>
<td>---------------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oct. 1</td>
<td>To Bank A/c (W.N.5)</td>
<td>15,000</td>
<td>-</td>
<td>14,700</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nov. 1</td>
<td>By Bank A/c (W.N.6)</td>
<td>30,000</td>
<td>225</td>
<td>29,700</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nov. 1</td>
<td>To P&amp;L A/c (W.N.7)</td>
<td>-</td>
<td>-</td>
<td>200</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dec. 31</td>
<td>By Balance c/d (W.N.8 &amp; W.N.9)</td>
<td>75,000</td>
<td>1,688</td>
<td>73,333</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dec. 31</td>
<td>To P&amp;L A/c (b.f.) (Transfer)</td>
<td>9,938</td>
<td>-</td>
<td>1,53,333</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,55,000</td>
<td>13,388</td>
<td>1,53,333</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**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 x 100 x 9% x 5/12 = ₹ 750
   - Investment element in purchase of bonds = 200 x 98 = ₹ 19,600

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

4. **Sale of bonds on 1.7.20X1**
   - Interest element = 500 x 100 x 9% x 3/12 = ₹ 1,125
   - Investment element = 500 x 100 = ₹ 50,000

5. **Profit on sale of bonds on 1.7.20X1**
   - Cost of bonds = (1,18,000/ 1,200) x 500 = ₹ 49,167
   - Sale proceeds = ₹ 50,000
   - Profit element = ₹ 833

6. **Interest for half-year ended 30 September**
   = 900 x 100 x 9% x 6/12 = ₹ 4,050

7. **Sale of bonds on 1.11.20X1**
   - Interest element = 300 x 100 x 9% x 1/12 = ₹ 225
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**

<table>
<thead>
<tr>
<th>Calculation of closing balance:</th>
<th>Nominal value</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds in hand remained in hand at 31st December 20X1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>From original holding</td>
<td>40,000</td>
<td>1,18,000 (\times) 40,000</td>
</tr>
<tr>
<td>(1,20,000 – 50,000 – 30,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchased on 1st March</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>Purchased on 1st October</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>75,000</td>
<td></td>
</tr>
</tbody>
</table>

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

**Answer 3**

**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)**

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Nominal Value</th>
<th>Interest</th>
<th>Cost</th>
<th>Date</th>
<th>Particulars</th>
<th>Nominal Value</th>
<th>Interest</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.4.20X1</td>
<td>To Balance b/d</td>
<td>1,20,000</td>
<td>-</td>
<td>₹1,18,000</td>
<td>30.9.20X1</td>
<td>By Bank (1,300 x 100 x 8% x 6/12)</td>
<td>-</td>
<td>₹5,200</td>
<td>-</td>
</tr>
<tr>
<td>1.7.20X1</td>
<td>To Bank (ex-Interest) (W.N.1)</td>
<td>10,000</td>
<td>200</td>
<td>₹9,898</td>
<td>1.10.20X1</td>
<td>By Bank (W.N.4)</td>
<td>20,000</td>
<td>-</td>
<td>₹19,800</td>
</tr>
<tr>
<td>1.10.20X1</td>
<td>To Profit &amp; Loss A/c (W.N.4)</td>
<td>133</td>
<td>1.2.20X2</td>
<td></td>
<td></td>
<td>By Bank (ex-Interest)</td>
<td>20,000</td>
<td>533</td>
<td>₹19,602</td>
</tr>
<tr>
<td>Date</td>
<td>Description</td>
<td>Amount</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------</td>
<td>--------------------------------------------------</td>
<td>--------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1.20X2</td>
<td>To Bank (cum-Interest) (W.N.2)</td>
<td>5,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2.20X2</td>
<td>By Profit &amp; Loss A/c (W.N.5)</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>By Balance c/d (W.N.5)</td>
<td>4,849</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31.3.20X2</td>
<td>To Profit &amp; Loss A/c (Bal. fig.)</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31.3.20X2</td>
<td>By Bank (950 x 100 x 8% x 6/12)</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>By Balance c/d (W.N.3)</td>
<td>95,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

|                          |                                                  |              |
|                          | 1.35,000                                         | 9,533        |
|                          | 1,32,880                                         |              |
|                          | 1,35,000                                         | 9,533        |
|                          | 1,32,880                                         |              |

**Working Notes:**

1. **Purchase of debentures on 1.7.20X1**
   - Interest element = 100 x 100 x 8% x 3/12 = ₹ 200
   - Investment element = (100 x 98) + [1%(100 x 98)] = ₹ 9,898

2. **Purchase of debentures on 1.1.20X2**
   - Interest element = 50 x 100 x 8% x 3/12 = ₹ 100
   - Investment element = ((50 x 98) + [1%(50 x 98)]) – 100 = ₹ 4,849

3. **Valuation of closing balance as on 31.3.20X2:**
   - Market value of 950 Debentures at ₹ 99 = ₹ 94,050
   - Cost of
     - 800 Debentures cost = \( \frac{1,18,000}{1,20,000} \times 80,000 \) = ₹ 78,667
     - 100 Debentures cost = ₹ 9,898
     - 50 Debentures cost = ₹ 4,849
     - Value at the end = ₹ 93,414, 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)
   - Total = ₹ 19,800
### INVESTMENT ACCOUNTS

<table>
<thead>
<tr>
<th>Less: Cost of Debentures  ( \frac{118,000}{120,000} \times 20,000 ) =</th>
<th>(19,667)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit on sale</td>
<td>133</td>
</tr>
</tbody>
</table>

5. **Loss on sale of debentures as on 1.2.20X2**

<table>
<thead>
<tr>
<th>Description</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales price of debentures (200 x ₹ 99)</td>
<td>19,800</td>
</tr>
<tr>
<td>Less: Brokerage @ 1%</td>
<td>(198)</td>
</tr>
<tr>
<td></td>
<td>19,602</td>
</tr>
<tr>
<td>Less: Cost of Debentures  ( \frac{118,000}{120,000} \times 20,000 ) =</td>
<td>(19,666)</td>
</tr>
<tr>
<td>Loss on sale</td>
<td>64</td>
</tr>
<tr>
<td>Interest element in sale of investment = 200 x 100 xx 8% x 4/12</td>
<td>₹ 533</td>
</tr>
</tbody>
</table>