3. INVESTMENT ACCOUNTS
(As per AS-13)

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC

MODEL NO.	N-11	M-12	N-12	M-13	N-13	M-14	N-14	M-15	N-15	M-16	N-16
Model – 1	-	-	-	-	-	-	-	-	-	-	4
Model – 2	-	-	-	05	-	-	-	08	-	-	-
Model – 3	-	-	08	-	04	-	-	-	-	-	-
Model – 4	-	-	-	-	-	-	08	-	10	-	-
Model – 5	-	08	-	-	-	08	-	-	-	-	-
Model – 6	-	-	-	-	-	-	-	-	-	-	-
Model – 7	-	-	-	-	-	-	-	-	-	08	-
Model – 8	-	-	-	-	-	-	-	-	-	-	-

Model – 1 : purchase and sale of investment
Model – 2 : Fixed income Investment
Model – 3 : Variable income investment with bonus
Model – 4 : Variable income investments with rights issue and bonus issue
Model – 5 : Combinations (Fixed and Variable)
Model – 6 : Reclassification
Model – 7 : Convertible Debentures
Model – 8 : Theory

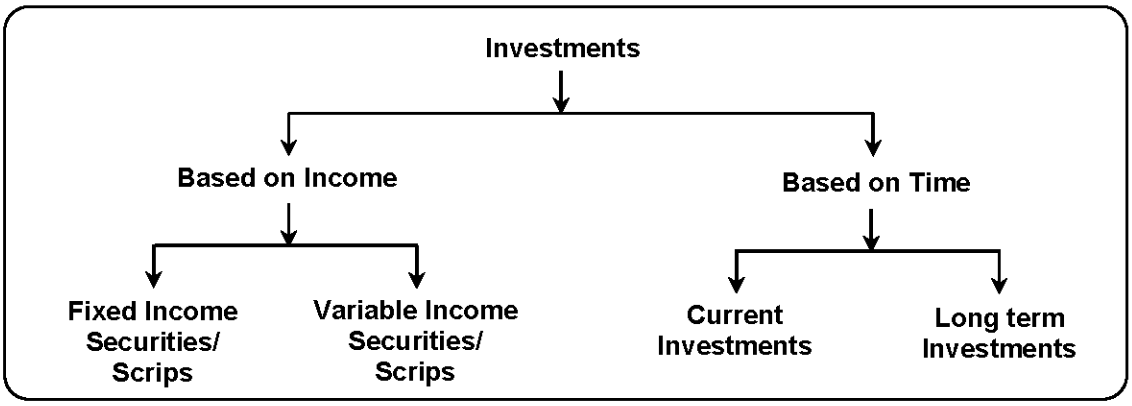
Meaning of Investment: Investment is an asset which is held by the enterprise for earning income by way of dividends, interest and rentals, for capital appreciation or for other benefits to the investing enterprise. But assets held as stock-in-trade are not investments.

Investment Properties: Investment Property is treated as long term investment. However, it is carried in the financial statements not at cost but at cost less accumulated depreciation. It is done because the Companies Act, 2013 requires that depreciation should be claimed on all depreciable fixed assets including investment property (building).

The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property is added to the carrying amount of the investment property.

Example: X Ltd. Purchased a flat from a co-operative society for Rs.50,00,000. To obtain the membership of the society, X Ltd. had to purchase 1,000 shares of Rs.100 each. Thus, the cost of acquisition of this investment property becomes Rs.50,00,000 + Rs.1,00,000 = Rs.51,00,000.

Classification of Investments:



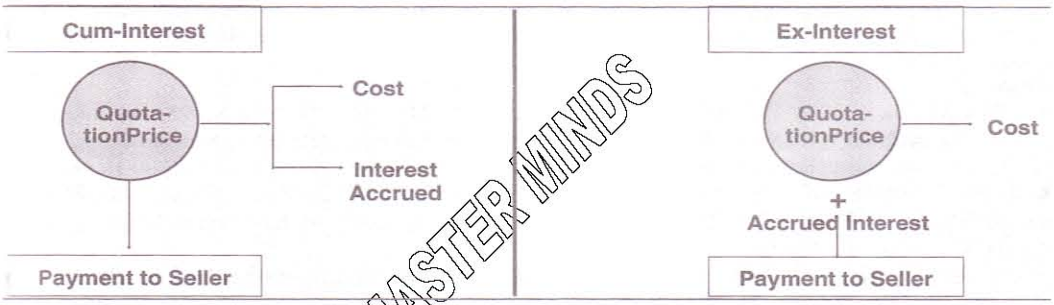
1. **Fixed Income Securities:** Investments having fixed income over the years for which they will be held are called as fixed income securities. **Eg.** Investment in govt. securities and debentures.
2. **Variable Income Securities:** Investments having variable income over the years for which they will be held are called as Variable Income Securities. **E.g.:** Investment in Equity Shares.
3. **Current Investments:** A short term Investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made.
4. **Long Term Investments:** An investment other than a short term investment is called long-term investment.

Accounting treatment for investments

A separate investment Account should be made for each scrip purchased. The scrip purchased may be broadly dividend into two categories viz., fixed income bearing scrips and variable income bearing scrips. The entries in investment Account for these two broad categories of scrips will be made as under:

1. **Fixed Income Securities:**

   A. **Accounting For Purchases:**



i. **Ex-Interest Purchase:** In such cases the purchaser has to pay in addition to an amount towards the market price of the debentures (here in after referred to as principal amount), Interest accrued from the last interest paid upto the date of purchase.

For E.g.: X purchased one 10% Debenture @ Rs.109 Ex-interest on 31st August and the date of payment of interest is on 30th June & 31st December every year. Pass the journal entry and prepare Investment A/c (extract) for the above.

❅	Debentures A/c	Dr	109.00	
	Interest on Debentures A/c (100X10%X 2/12)	Dr	1.67	
	To Bank A/c			110.67

Debentures A/c (Extract)

Date	Particulars	F. V.	Interest	Amount	Date	Particulars	F.V.	Interest	Amount
31/8	To Bank	100	1.67	109	31/12	By Bank (100×10%×6/12)	-	5	-
31/12	To P&L (100×10%×4/12)		3.33						

ii. **Cum interest purchase:** In this case market price includes interest accrued from the last interest paid date up to the date of purchase.

For E.g.: X purchased one 10% Debenture @ Rs.109 Cum-interest on 31st August and the date of payment of interest is on 30th June & 31st December every year. Pass the journal entry and prepare Investment A/c (extract) for the above.

Value of the Investments:	=	109.00
Less: Interest (100X10%X2/12)	=	1.67
Cost of Investment	=	107.33

✵	Debentures A/c Interest A/c To Bank A/c	Dr Dr	107.33 1.67	 109.00

Debentures A/c (Extract)

Date	Particulars	F. V.	Interest	Amount	Date	Particulars	F.V.	Interest	Amount
31/8 31/12	To Bank To P&L (100×10%×4/12)	100	1.67 3.33	107.33	31/12	By Bank	-	5	-

Note:

1. Interest should always be calculated with respect to nominal value or face value.
2. In case the quotation is not given the same should be treated as ex-interest quotation.
3. A separate investment account is to be opened for each type of investment.
4. The cost of investment includes brokerage charges & stamp duties etc.

B. Accounting For Sale:

i. Ex-Interest Sale:

For E.g.: X sold one 10% Debenture @ Rs.109 Ex-interest on 31st August and the date of payment of interest on the above is 30th June & 31st December every year. Pass the journal entry and prepare Investment A/c (extract) for the above.

✵	Bank A/c To Interest A/c To Investments A/c	Dr	110.67	 1.67 109.00

ii. Cum-Interest Sale:

For E.g.: X sold one 10% Debenture @ Rs.109 Cum-interest on 31st August and the date of payment of interest on the above is 30th June & 31st December every year. Pass the journal entry and prepare Investment A/c (extract) for the above.

✵	Bank A/c To Interest A/c To Investments A/c	Dr	109.00	 1.67 107.33

C. Determination Of Profit/Loss On Sale Of Investments:

For E.g.: If Investments are sold at Rs.120 (net off brokerage, stamp duties etc) and the cost of investments is Rs.109, then the profit/loss on sale of such investments will be determined as follows:

Net Sale proceeds (i.e. Net of Brokerage, duties etc.)	=	120
Less: Cost of Investments	=	109
Profit/Loss	=	11

❅	Bank A/c	Dr	120	
	To P & L A/c			11
	To Investments A/c			109

Note: As per AS-13 In respect of shares, debentures and other securities held as stock-in-trade, the cost of stocks disposed of is determined by applying an appropriate cost formula (e.g. first-in first-out; average cost, etc.). These cost formulae are the same as those specified in Accounting Standard (AS) 2, in respect of Valuation of Inventories.

For E.g.: Given below are the particulars regarding an Investment which is purchased on different dates. Find out the cost of Investment sold under various methods.

Date	Particulars	Face Value	Cost
30th August	Purchased (10,000 shares)	1,00,000	1,20,000
31st August	Purchased (1,000 shares)	10,000	12,000
5th September	Purchased (1,000 shares)	10,000	11,000

Solution:

a) **Computation of cost when all the above shares are sold at Rs.2,50,000 (Say):**

Net sale proceeds = 2,50,000
Less: Total Cost = 1,43,000
Profit = 1,07,000

b) **Computation of cost when only part of the shares are sold, (i.e.,5,000 shares) for 1,25,000:**

i. **FIFO:** Cost per share = 1,20,000/10,000 = Rs.12
Cost of Investments sold = 5,000 x 12 = Rs.60,000.

ii. **Average Cost basis:**

Average cost per share $= \frac{1,20,000 + 12,000 + 11,000}{12,000}$ = 11.92 per share

Avg. cost of 5,000 shares = 5,000 × 11.92 = 59,600.

D. CARRYING AMOUNT OF INVESTMENTS:

a. **Current Investment:** It will be recorded at cost or Fair value whichever is lower. This exercise has to be done for each investment.

b. **Long term Investments:** These investments are always required to be valued at cost unless when there is a other than temporary decline in the value of Investments. In such a case the investments are to be valued at Fair value. This exercise should also be done for each investment.

Any reduction in the carrying amount of investment and any reversals of such reductions should be charged or credited to the profit and loss account by giving respective debit or credit to investment A/c (Amount Column)

For E.g.: A long-term investment is carried in the books at cost of Rs.2 lakhs. The published accounts of company 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. Further there are no indications in increase in the share price in the near future. How you will deal with it in the financial statement of investing company for the year ended 31.03.2003?

Sol.: As per AS-13, investments classified as long-term investments should be carried in the financial statements at cost. However, provision for decrease shall be made to recognize a permanent decline in the value of the investments. The facts of given case clearly suggest that the provision for decrease should be made to reduce the carrying amount of long-term investment of Rs.20,000 in the financial statements for the year ended 31st March, 2003.

Entry for reduction in value of the investments:

❁	P & L A/c Dr To Investments A/c	1,80,000	 1,80,000

Note: Shares, debentures and other securities held as stock-in-trade (i.e. for sale in the ordinary course of business) are not 'Investments' as defined in AS-13. However, as per the footnote given in the standard, the manner in which these are accounted for and disclosed in the financial statements is quite similar to that applicable in respect of current investments and accordingly, the provisions of AS-13, to the extent that they relate to current investments are also applicable to shares, debentures and other securities held as stock-in-trade, with suitable modifications as specified in the standard.

Example: M/s Innovative Garments Manufacturing Company Limited invested in the shares of another company on 1st October, 2014 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, 2012. Market value as on 31st March, 2015 of above investments are as follows:

Particulars	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, 2015 as per the provisions of Accounting Standard 13 "Accounting for Investments"?

Answer: As per AS-13 'Accounting for investments' for investment in shares – if the investment is purchased with an intention to hold for short term period then it will be shown at the realizable value of Rs. 2,25,000 as on 31st March, 2015

If equity shares are acquired with an intention to hold for long term period then it will continue to be shown at cost in the balance sheet of company. However, provision for diminution shall be made to recognize a decline, if other than temporary, in the value of the investments.

As per the standard, investment acquired for long term period shall be shown at cost. Gold and Silver are generally purchased with an intention to hold it for long term period until and unless given otherwise. Hence, the investment in Gold and Silver (purchased on 1st March, 2012) shall continue to be shown at cost as on 31st March, 2015 i.e., Rs. 4,00,000 and Rs. 2,00,000 respectively, though their realizable values have been increased.

2. Variable Income Securities

A. Salient Features:

- No guaranty of dividends and dividend should be recognized as income only when the right to receive payment is established as per AS-9.
- The amount of dividend accruing between the date of last dividend payment and the date of purchase can't be immediately ascertained.

B. Accounting For Purchase: Entry at the time of purchase of these securities:

❁	Shares A/c Dr To Bank A/c	XXX	 XXX

C. Accounting For Sale:

The entire amount of sale proceeds should be credited to the amount column of Investment A/c unless the amount of accrued dividend can be specifically established. Entry at the time of sale of securities:

❁	Bank A/c Dr To Shares A/c	XXX	 XXX

D. **Treatment of Dividend Income:** The dividend received for a particular period of time is assumed to be evenly distributed over the period. In the case of shares, amount of dividends for the period for which the shares were not held by the investor should not be treated as Revenue Receipt but should be treated as Capital Receipt.

E.g.: Date of purchase of share of X Ltd: 1/1/2017. Dividend declared by X Ltd on 30th June 2017 for the year ending 31st march 2017 is 1,200/-Dividend income is to be considered as follows:

Dividends

Dividends relating to the period for which the investor did not hold the shares (or) pre acquisition dividend i.e., for April to December (9 months). Pre-acquisition dividend/ capital profit:

$$\frac{1,200}{12} \times 9 = 900$$

Dividends relating to post acquisition period (or) Post acquisition dividends:

$$\frac{1,200}{12} \times 3 = 300$$

Investment A/c

Particulars	Face value	dividend	Amount	Particulars	Face Value	dividend	Amount
---	--	--	--	By Bank		300	900

Note: When dividends on Equity shares declared from pre-acquisition profits, similar treatment is done i.e., the amount of such dividend received by the investor is entered on the credit side in the amount column, so as to reduce the acquisition cost.

Bonus Shares: When an investment is acquired by way of issue of bonus shares no amount is entered in the cost column of investment account, since the investor has not to pay anything. However face value will be included with respective amount.

Right Shares:

a) **If subscribed:** When right shares offered are subscribed for, the cost of right shares is added to the carrying amount of the original holdings.

Ex: X Ltd. purchased 10,000 shares of Rs.10 each at Rs.25 per share of Y Limited during 2013-14. During 2015-16, Y Ltd offered rights issue at one share for every two held at a price of Rs.20 per share. If X Limited subscribes to the rights issue, the carrying cost of the investment will be as under:

	Rs.
Cost of original holding (10,000 x Rs.25)	2,50,000
Cost of rights issue (5,000 x Rs.20)	1,00,000
Carrying cost of investments (for 15000 shares)	3,50,000

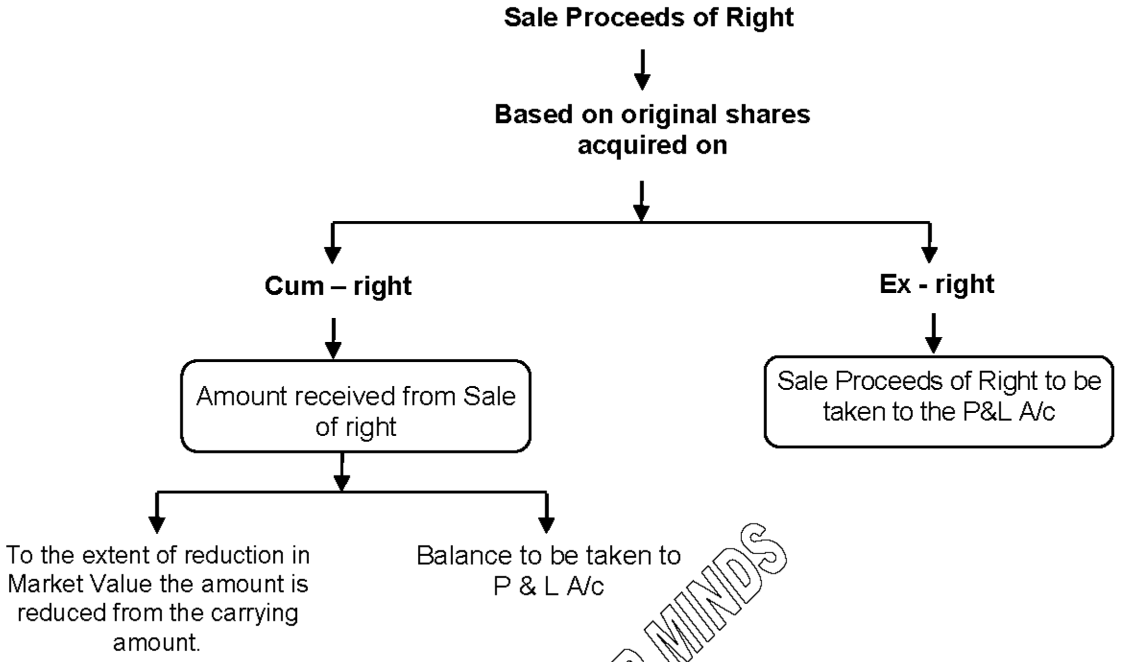
b) **If sold:** If rights are not subscribed for but sold in the market, then the accounting treatment of proceeds from sale of such right shares is based on the fact whether the original holding is purchased at cum-right price or ex-right price.

Example for sale proceeds of right shares when original shares acquired on - cum right price.

Mr. X acquires 200 shares of a company on cum-right basis for Rs.50,000. He subsequently receives an offer of right to acquire fresh shares in the company in the proportion of 1 : 1 at Rs.110 each. Suppose, he does not subscribe but sells the rights for Rs.15,000. The ex-right market value of 200 shares bought by X immediately after the rights falls to Rs.40,000. In this case out of sale proceeds of Rs.15,000, Rs.10,000 may be applied to reduce the carrying amount to the market value Rs.40,000 and Rs.5,000 would be credited to the profit and loss account.

Example for sale proceeds of right shares when original shares acquired on Ex-right price.

Mr. X acquires 200 shares of a company on Ex-right basis for Rs.50,000. He subsequently receives an offer of right to acquire fresh shares in the company in the proportion of 1 : 1 at Rs.110 each. Suppose, he does not subscribe but sells the rights for Rs.15,000. In this case entire sale proceeds of Rs.15,000, would be credited to the profit and loss account.



SOME IMPORTANT POINTS

1. **Brokerage & Expenses:** Stock brokers, who make contracts between buyers and sellers of shares and securities, are paid a commission which is called "Brokerage". As a rule brokerage is calculated as a percentage on the Market Price [whether it is ex-interest (or) cum-interest] of investments purchased or sold. In case of a seller, brokerage and expenses are deducted from the selling price and in the case of a buyer brokerage and expenses are added with the cost price.

2. Generally scrips in India are quoted Cum-Interest / dividend. If the scrips are quoted ex-interest /dividend, the scrips sold / purchased are delivered after the expiry of the 'Record Date' (i.e. last date fixed by the company for the purpose of payment of interest or dividend. The company makes the payment of interest or dividend only to those persons whose names appear in the Register as on the 'Record Date').

3. Government securities and debentures are, as a rule, always quoted ex-interest in India and incase of other scrips it is Cum-quotation. But unless otherwise specifically mentioned in the problem fixed interest bearing securities are assumed to be purchased at ex-interest purchase price.

4. 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 (which in appropriate cases, may be indicated by the issue price as determined by statutory authorities).

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

   Ex: X Limited acquired 10,000 shares of Rs.100 each (market value Rs.130 each) in Y Ltd. by the issue of its 10,000 shares (face value and market value per share being Rs.100 and Rs.120 respectively). To ascertain the cost of the investment, in such a case, market value of the shares issued is to be considered. Therefore, the value of the investment is 10,000 x Rs.120 = Rs.1,20,000.

5. 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. It may be appropriate to consider the fair value of the investment acquired if it is more clearly evident.

Ex: X Limited acquired 10,00 shares of Rs.100 each (market value Rs.120 each) in exchange for a machinery (W.D.V. Rs.90,000 and market value Rs.1,10,000). The cost of the investment in this case, would be either the fair value of shares acquired, i.e., Rs.1,20,000 or the fair value of the machinery given up i.e. Rs.1,10,000, which is more clearly evident.

6. Fair value is the amount for which an asset could be exchanged between a knowledgeable willing buyer and knowledgeable willing seller in an arm's length transaction. Under appropriate circumstances, market value or net realisable value provides an evidence of fair value.

7. **Market 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.

8. **Reclassification of 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.

Where investments are reclassified from current to long term, transfer is made at the lower of cost and fair value at the date of transfer.

Any reduction in the carrying amount and any reversals of such reductions should be charged or credited to the Profit & Loss Account.

9. **Disclosure Requirements as per AS – 13:**

The following disclosure in financial statements in relation to investments are appropriate:-

a) The accounting policies for the determination of carrying amount of investments.

b) The amounts included in profit and loss statement for:

i) Interest, dividends (showing separately from subsidiary companies), and rentals on investments showing separately such income from long term and current investments. Gross income should be stated, the amount of income tax deducted at source being included under Advance Taxes Paid.

ii) Profit and losses on disposal of current investments and changes in carrying amount of such investments.

iii) Profits and losses and disposal of long term investments and changes in the carrying amount of such investments.

c) The aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments.

d) Other disclosure as specifically required by the relevant statute governing the enterprise.

10. **Non applicability of AS – 13:**

The Accounting standard does not deal with the following

a) The basis for recognition of interest, dividend and rentals earned on investment.

b) Operating or finance leases.

c) Investments of retirement benefit plans and life insurance enterprises.

d) Mutual funds, venture capital fund and/ or related asset management companies, banks and public financial institutions.

PROFORMA FOR PREPARATION OF INVESTMENT A/C

Investment Account….

For the year ending on ….

(Here enter the name of the scrip ……………)

Dr. [Here enter the Due Dates of Fixed Income Bearing Scrip] Cr.

Date	Particulars	Nominal Value (Rs.)	*Interest **Dividend (Rs.)	Amount (Rs.)	Date	Particulars	Nominal Value (Rs.)	*Interest **Dividend (Rs.)	Amount (Rs.)
…	To Bal. b/d	……	……	…	…	By Bank A/c (Sale)	……	……	……
…	To Bank A/c (Purchase)	……	……	…	…	By P & L A/c (Loss)			……
…….	To P & L A/c (Profit)			…	…	By Bank A/c	……	……	……
…	To P & L A/c (T/F)		……		…	By P & L A/c (T / F)		……	
					…	By Bal. c/d	……	……	……
		……	……	……			……	……	……

* If investment Account relates to a fixed income Bearing Scrip.

* * If investment Account relates to a Variable income Bearing Scrip

PROBLEMS FOR CLASSROOM DISCUSSION

Problem 1: Accounting treatment for purchase and sale of investment: Madhuri Dixit Purchased on 1st March, 2001 Rs.24,000 5% Bharat Debenture Stock @ 90 cum-interest, interest being payable on 31st March and 30th September each year. Stamp and expenses on purchase amounted to Rs.20 and brokerage @ 2% was charged on cost; interest for the half-year was received on the due date. On 1st September Rs.10,000 of stock was sold @ 92 ex-interest less brokerage @ 2%. On 30th September, Rs.8,000 stock was purchases @ 91 ex-interest plus brokerage @ 2% and charges Rs.10. On 1st December Rs.6,000 stock was sold @ 94 cum interest less brokerage @ 2%. The Market price of stock on 31st December was 88%. Show the Investment Account for the year ending on 31st December, 2001 assuming FIFO Method. Calculation should be made in the multiple of rupee. Madhuri Dixit holds the Bharat Debenture Stock as a current asset. **(May - 2010 Similar Problem)**

(Ans.: Total of Madhuri Dixit investment account interest column 1408)

(Solve problem no.1 of assignment problems as rework)

Note:____

Problem 2: (PRINTED SOLUTION AVAILABLE) Accounting treatment for Fixed Income Securities: Mr. Purohit furnishes the following details relating to his holding in 8% Debentures (Rs.100 each) of P Ltd., held as Current assets:

1.04.2009 Opening balance – Face value Rs.1,20,000, Cost Rs.1,18,000

1.07.2009 100 Debentures purchased ex-interest at Rs.98

1.10.2009 Sold 200 Debentures ex-interest at Rs.100

1.01.2010 Purchased 50 Debentures at Rs.98 cum-interest

1.02.2010 Sold 200 Debentures ex-interest at Rs.99

Due dates of interest are 30th September and 31st March.

Mr. Purohit closes his books on 31.3.2010. 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 31.3.2010 is Rs.99. **(PM)**

(May-2010, 2015 Similar Problem)

(Solve problem no.2 of assignment problems as rework)

(Ans: Balance C/d nominal Value Rs.95,000, cost Rs.93,414, P&L A/c Transfer Rs 9,233.)

Note:

Problem 3: (PRINTED SOLUTION AVAILABLE) Ajanta Investment Corporation has done the following transactions in 6% State Government Stock between 1st September 2009 and 31st July 2011 and all these transactions are cum-interest except those marked as ex-interest. Interest is payable half-yearly on 1st February and 1st August. The accounting period ends on 30th June every year:

1st September 2009- Purchased Rs.10,000 stock @ Rs. 101.50

1st October 2009-Purchased Rs.25,000 stock @ Rs. 101

1st November 2009-Sold Rs.15,000 stock @ Rs. 103.25

1st November 2009-Purchased Rs.5,000 stock @ Rs. 103

15th January 2010-Sold Rs.10,000 stock @ Rs. 105 ex-interest

1st March 2010-Sold Rs.4,000 stock @ Rs. 102.50

15th July 2010-Purchased Rs.5,000 stock @ Rs. 101.25 ex-interest

1st November 2010-Purchased Rs. 5,000 stock @ Rs. 102

15th January 2011-Sold Rs.15,000 stock @ Rs. 103

1st July 2011-Purchased Rs. 2,000 stock @ Rs. 102

Write up the Investment Account in the books of the Corporation, showing the profits and losses on the transactions using the average cost method and also showing the amount of interest for each accounting period duly realized.

(RTP- M-12) ***(Ans: P&L A/c Transfer Rs 67 ,Balance C/d nominal Value Rs.6041, cost Rs.6,000)***

Note:

Problem 4: Convertible Debentures A Pvt. Ltd. follows the calendar year for accounting purposes. The company purchased 5,000 nos. of 13.5% Convertible Debentures of Face Value of Rs. 100 each of P Ltd. on 1st May 2014 @ Rs. 105 on cum interest basis. The interest on these instruments is payable on 31st March & 30th September respectively. On August 1st 2014 the company again purchased 2,500 of such debentures @ Rs. 102.50 each on cum interest basis. On October 1st, 2014 the company sold 2,000 Debentures @ Rs. 103 each. On 31st December, 2014 the company received 10,000 equity shares of Rs. 10 each in P Ltd. on conversion of 20% of its holdings. 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 2014 on Average Cost Basis. **(NOV 2016),May -2015)**

(Ans: Debentures acc Bal c/d nominal Value Rs.4,40,000 , cost Rs.4,48,434, P&L A/c Transfer Rs52,313. Equity investment acc Balance c/d nominal value-1,00,000 cost-90,000)

Note:

Problem 5: (PRINTED SOLUTION AVAILABLE)Accounting for Variable income bearing securities: On 01-04-2011, Mr. T. Shekharan purchased 5,000 equity shares of Rs. 100 each in V Ltd. @ Rs. 120 each from a broker, who charged 2% brokerage. He incurred 50 paisa per Rs. 100 as cost of shares transfer stamps. On 31-01-2012 bonus was declared in the ratio of 1 : 2. Before and after the record date of bonus shares, the shares were quoted at Rs. 175 per share and Rs. 90 per share respectively. On 31-03-2012, 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. **(PM)** ***(Ans: Value of closing stock Rs.4,10,000)***

(Solve problem no.3 of assignment problems as rework)

Note:

Problem 6: (PRINTED SOLUTION AVAILABLE) Accounting for Bonus shares, right shares and pre-acquisition dividend: On 1-4-2014, Sundar had 25,000 equity shares of 'X' Ltd. at a book value of Rs.15 per share (Face value Rs.10). On 20-6-2014, he purchased another 5,000 shares of the company at Rs.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 16-8-2014)

Rights basis 3:7 (Date 31-8-2014) Price Rs.15 per share

Due date for payments 30-9-2014

Shareholders can transfer their rights in full or in part. Accordingly Sundar sold 33.33% of his entitlement to Sekhar for a consideration of Rs.2 per share.

Dividends: Dividends for the year ended 31-3-2014 at the rate of 20% were declared by X Ltd. and received by Sundar on 31-10-2014. Dividends for shares acquired by him on 20-6-2014 are to be adjusted against the cost of purchase.

On 15-11-2014, Sundar sold 25,000 equity shares at a premium of Rs.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 31-12-2014 and shares are valued at average cost. **(Nov-2009, May 97-Similar Problem, (SM))**

(Solve problem no.4 and 5 of assignment problems as rework)

(Ans.: Total of Investment A/c Rs.6,49,444)

Note:

Problem 7: Accounting for Variable income bearing securities with rights issue and bonus issue: A limited purchased 5,000 equity shares (face value Rs.100 each) of Allianz limited for Rs.105 each on 1st April,2014. The shares were quoted cum dividend. On 15th May,2014. Allianz limited declared & paid dividend of 2% for year ended 31st March,2014. On 30th June,2014 Allianz limited issued bonus shares in ratio of 1:5. On 1st October,2014 Allianz limited issued right shares in the ratio of 1:12 @45 per share. A limited subscribed to half of the rights issue and the balance was sold at Rs.5 per right entitlement. The company declared interim dividend of 1% on 30th November,2014. Right shares were not entitled to dividend. The company sold 3,000 shares on 31st December,2014 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. **(Nov - 15)**

Note:

Problem 8: Consolidated problem: Mr. Brown has made following transactions during the financial year 2011-12:

Date	Particulars
01.05.2011	Purchased 24,000 12% Bonds of Rs.100 each at Rs.84 cum-interest. Interest is payable on 30th September and 31st March every year.
15.06.2011	Purchased 1,50,000 equity shares of Rs.10 each in Alpha Limited for Rs.25 each through a broker, who charged brokerage @ 2%.
10.07.2011	Purchased 60,000 equity shares of Rs.10 each in Beeta Limited for Rs.44 each through a broker, who charged brokerage @2%.
14.10.2011	Alpha Limited made a bonus issue of two shares for every three shares held.
31.10.2011	Sold 80,000 shares in Alpha Limited for Rs.22 each.
01.01.2012	Received 15% interim dividend on equity shares of Alpha Limited.
15.01.2012	Beeta Limited made a right issue of one equity share for every four shares held at Rs.5 per share. Mr. Brown exercised his option for 40% of his entitlements and sold the balance rights in the market at Rs.2.25 per share.
01.03.2012	Sold 15,000 12% Bonds at Rs.90 ex-interest.
15.03.2012	Received 18% interim dividend on equity shares of Beeta Limited.

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, 2012.

(May-2012, PM) *(Ans: Rs.7,47,000 & Rs.26,01,000 & Rs.27,22,800)*

(Solve problem no.6 of assignment problems as rework)

Note:____

Problem 9: Accounting for Re-classification of investments: Bharat Ltd. Wants to re- classify its investments in accordance with AS-13. Decide on the amount of transfer, based on the following information:

1. A portion of Current Investments purchased for Rs.20 lakhs, to be re-classified as Long Term Investments, as the company has decided to retain them. The market value as on the date of Balance sheet was Rs.25 lakhs.
2. Another portion of current investments purchased for Rs.15 lakhs, to be re-classified as long term investments. The market value of these investments as on the date of balance sheet was Rs.6.5 lakhs.
3. Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was Rs.18 lakhs but had been written down to Rs.12 lakhs to recognize permanent decline, as per AS 13.

(Solve problem no.7 of assignment problems as rework)

Note: ____

ASSIGNMENT PROBLEMS

Problem 1: Accounting treatment for purchase and sale of investment: In 2011, M/s. Wye Ltd. issued 12% fully paid debentures of Rs. 100 each, interest being payable half yearly on 30th September and 31st March of every accounting year.

On 1st December, 2012, M/s. Bull & Bear purchased 10,000 of these debentures at Rs. 101 cum-interest price, also paying brokerage @ 1% of cum-interest amount of the purchase. On 1st March, 2013 the firm sold all of these debentures at Rs. 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, 2012 to 1st March, 2013.

(PM) *(Ans: Total of Interest Column Rs.50,000, Loss on sale Rs. 700)*

Problem 2: Accounting treatment for Fixed Income Securities: The following information is presented by Mr. Z, relating to his holding in 9% Central Government Bonds.

Opening balance (face value) Rs.1,20,000, Cost Rs.1,18,000 (Face value of each unit is Rs.100).

1.03.2008 Purchased 200 units, ex-interest at Rs.98.

1.07.2008 Sold 500 units, ex-interest out of original holding at Rs.100.

1.10.2008 Purchased 150 units at Rs.98, cum interest.

1.11.2008 Sold 300 units, ex-interest at Rs.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.

(May-2013 Similar Problem, PM) *(Ans: Balance C/d Face Value Rs.75,000, Interest Rs.1,688, P&L A/c Transfer Rs 9,938.)*

Problem 3: Accounting for Variable income bearing securities: On 1.5.2012, Mr. Mishra purchased 800 equity shares of Rs.10 each in FILLCO Ltd. @ Rs.50 each from a Broker who charged 5%. He incurred 20 paise per Rs.100 as cost of shares transfer stamps. On 31.10.2012, Bonus was declared in the ratio of 1 : 4. The shares were quoted at Rs.110 per share and Rs.60 per share Before and after the record date of bonus shares, respectively. On 30.11.2012 Mr. Mishra sold the bonus shares to a Broker, who charged 5%. You are required to prepare Investment account in the books of Mr.Mishra for the year ending 31.12.2012 and closing value of investment shall be made at cost or market value whichever is lower.

(Nov-2003, Nov 2013) *(Ans.: Value of closing stock Rs.33,664)*

Problem 4: Accounting for Variable income bearing securities with rights issue: 1st April, 2014, Hasan has 20,000 equity shares of Vayu Ltd. at a book value of Rs.20 per share (face value Rs.10 each). He provides the following information:

1. On 10th June, 2014, he purchased another 5,000 shares of Vayu Ltd. at Rs.15 per share.
2. On 1st August, 2014, Vayu Ltd. issued one bonus share for every five shares held by the shareholders.
3. On 31st August, 2014, the directors of Vayu Ltd. announced a rights issue which entitles the shareholders to subscribe two shares for every six shares held at Rs.15 per share. The Shareholders can transfer their rights in full or in part.

   Hasan sold 1/4th of his right shares holding to harish for a consideration of Rs.3 per share and subscribed the rest on 31st of october, 2014. Prepare Investment A/c in the books of hasan as on 31st October, 2014. **(Nov-14)** *(Ans: Balance C/d no of shares 37,500, Amount Rs 5,80,000.)*

Problem 5: Accounting for Bonus shares, right shares and pre-acquisition dividend: On 1st April, 2009, XY Ltd. has 15,000 equity shares of ABC Ltd. at a book value of Rs.15 per share (face value Rs.10 per share). On 1st June, 2009, XY Ltd. acquired 5,000 equity shares of ABC Ltd. for Rs.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 2009.
2. Right shares are to be issued to the existing shareholders on 1st September 2009. 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 31.3.2009 were declared by ABC Ltd. @ 20%, which was received by XY Ltd. on 31st October 2009. XY Ltd.

i) Took up half the right issue.

ii) Sold the remaining rights for Rs. 8 per share.

iii) Sold half of its share holdings on 1st January 2010 at Rs.16.50 per share. Brokerage being 1%.

You are required to prepare Investment account of XY Ltd. for the year ended 31st March 2010 assuming the shares are being valued at average cost.

(**Note:** Solve the problem on Ex-Right basis.) **(PM)**

(Ans: Balance C/d no of shares 13,000, Amount Rs 1,69,500, P&L A/c Transfer Rs.30,000)

Problem 6: Consolidated problem: Smart Investments made the following investments in the year 2013-14: 12% State Government Bonds having face value Rs. 100

Date	Particulars
01.04.2013	Opening Balance (1200 bonds) book value of Rs. 126,000
02.05.2013	Purchased 2,000 bonds @ Rs. 100 cum interest
30.09.2013	Sold 1,500 bonds at Rs. 105 ex interest

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

Equity Shares of X Ltd.	
15.04.2013	Purchased 5,000 equity shares @ Rs. 200 on cum right basis Brokerage of 1% was paid in addition (Face Value of shares Rs. 10)
03.06.2013	The company announced a bonus issue of 2 shares for every 5 shares held.
16.08.2013	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 31.08.2013.
22.8.2013	Rights to the extent of 20% was sold @ Rs. 60. The remaining rights were subscribed.
02.09.2013	Dividend @ 15% for the year ended 31.03.2013 was received on 16.09.2013
15.12.2013	Sold 3,000 shares @ Rs. 300. Brokerage of 1% was incurred extra.
15.01.2014	Received interim dividend @ 10% for the year 2013-14
31.03.2014	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. **(SM)*(Ans: 12% bonds a/c is Rs.1,68,937.50 & E/shares value is Rs.7,40,000)***

Problem 7: Accounting for Re-classification of investments: In preparing the Financial Statements of Santhanam Ltd. for the year ended 31st March, 2009, you come across the following issue. State with reasons, how you would deal with it in the Financial Statements:

An unquoted long term investment is carried in the books at its cost of Rs.5 lakhs. The published accounts of the unlisted company received in May, 2009 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than Rs.80,000. **(Nov. 2009 similar Problem)**

Problem-8: CANARA Bank has classified its total investment on 31.03.2012 into three categories (a) held to maturity (b) available for sale (c) held for trading.

Held to maturity investment is carried at acquisition cost less amortised amount. Available for sale in investments are carried at marked to market. Held for trading investments are valued at weekly intervals at market rates. Net depreciation if any is charged to revenue and net appreciation if any is ignored. Comment whether the policy of the bank is in accordance with **AS-13**?

Solution: As per Para 2(d) of AS-13 (refer point 13.3), the accounting standard is not applicable to Bank, Insurance Company, Mutual Funds'; in these cases CANARA Bank is a bank, therefore **AS-13** does not apply here. For the banks the RBI has issued guidelines for classification and valuation of the investment. Therefore the CANARA Bank should comply with RBI guidelines.

ABC ANALYSIS

	A Category	**B Category**	**C Category**
Class Room Problems	2,3,6,7,8	4,9	1,5
Assignment Problems	2,4,6	1,3,7,8	5

Verified by: Mahesh Sir,
G.S.R.Sir

Executed by: Sai Ram Sir

THE END