2. INVESTMENT ACCOUNTS (AS 13 REVISED)

NO. OF PROBLEMS IN 42e OF CA INTER: CLASSROOM - 11, ASSIGNMENT - 11

NO. OF PROBLEMS IN 41.5e OF CA INTER: CLASSROOM - 07, ASSIGNMENT – 10

NO. OF PROBLEMS IN 42.5(2nd Version) OF CA INTER: CLASSROOM - 07, ASSIGNMENT - 11

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC AND CA INTER

MODEL NO.	N-11	M-12	N-12	M-13	N-13	M-14	N-14	M-15	N-15	M-16	N-16	M-17	N-17	M-18 (O)	M-18 (N)	N-18 (O)	N-18 (N)	M-19 (N)
Model - 1	-	13	8	5	4	8	13	8	10	5	9	8	-	4	4	4	-	5
Model - 2	-	-	-	5	-	-	-	8	-	8	4	-	-	-	-	-	-	-
Model - 3	-	-	8	-	4	-	8	-	10	-	-	-	8	-	10	8	-	-
Model - 4	-	8	-	-	-	8	-	-	-	-	-	-	-	-	-	-	10	-
Model - 5																		-

Model – 1 : AS – 13

Model – 2 : Fixed income Investment

Model – 3 : Variable income investment

Model – 4 : Comprehensive problems

Model – 5 : Theory

SIGNIFICANCE OF EACH PROBLEM COVERED IN THIS MATERIAL

Problem No. in this material	Problem No. in new SM	Problem No. in old SM	Problem No. in old PM	RTP	MTP	Previous Exams	Remarks
CR 1	ILL-2(AS)	-		-	-	-	
CR 2	-	-	-	-	-	-	
CR 3	-	-	8	-	-	-	
CR 4	-	-	-	M-18(N&O)	-	N-16	
CR 5	ILL-6	ILL-1	-	-	-	N-18(O)	
CR 6	ILL-11	-	9	-	-	-	
CR 7	ILL-10	-	5	-	-	-	
ASG 1	-	-	-	M-18(N)	-	-	
ASG 2	ILL-3(AS)	-	AS-57	-	-	-	
ASG 3	ILL-4(AS)	-	AS-58	-	-	-	
ASG 4	PQ-2	-	3	-	-	M-13	
ASG 5	ILL-1	-	1	-	-	-	
ASG 6	-	-	-	M-19	-	-	
ASG 7	ILL-2	ILL-2	-	-	-	-	
ASG 8	ILL-5	-	6	-	-	-	
ASG 9	PQ-1	-	-	-	-	-	
ASG 10	-	-	-	-	-	M-18(N)	
ASG 11	ILL-9	-	-	-	M18&N18	N-18	

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.

Note: Assets held as stock-in-trade are not investments.

AS - 13: ACCOUNTING FOR INVESTMENTS

Objective:

This standard deals with

a) Accounting for investments in financial statements and

b) Disclosure requirements of investments.

Scope:

This standard doesn't deals with the following items:

a) The bases for recognition of interest, dividend, and rentals earned on investments

b) Operating or finance leases

c) Investment of retirement benefit plans and life insurance enterprises

d) Investments acquired by Mutual funds, venture capital funds and/or the related asset management companies, banks and public financial institutions.

Classification of Investments:

Investments

CURRENT INVESTMENT | LONG TERM INVESTMENT

1. **Current Investments:** Investment which is readily realizable and is intended to be held for not more than one year from the date on which such investment is made.
2. **Long Term Investments:** An investment other than current investment is called long-term investment.

Cost of Investment:

- Cost of investment comprises of ***purchase price*** and **acquisition charges** such as ***brokerage, fees and duties*** etc.
- Investments acquired by issue of shares or other securities - purchase price of investment are the ***fair value of the securities issued.***
- Investments acquired in exchange for another asset-Acquisition cost of investment is

  Fair value of the asset given up
  Or
  Fair value of the investment received
  } **whichever is clearly evident**

- **Pre- acquisition Interest:** When interest has accrued in pre-acquisition period and was included in cost of investment at the time of acquisition, then subsequent receipt of such interest is deducted from the cost of investment
- **Dividend:** When dividend is declared from pre-acquisition profits then such amount of dividend is deducted from the cost of investment on receipt of such dividend.

  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 incomes 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:

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

- **Right Shares:**

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 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. X subscribes for the right issue. Thus, the total cost of X's holding of 400 shares would amount to Rs. 72,000 (50,000 + 22,000).*

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.

Fair value: 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 realizable value provides an evidence of fair value.

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.

Carrying Amount of Investment (Valuation of investment for the purpose of balance sheet):

1. CURRENT INVESTMENT:

a) Carrying amount of each current investment is the lower of cost and fair value.

b) Any reduction in realizable value is debited to profit and loss account.

c) However if realizable value of investment is increased subsequently, the increase in value of current investment to the level of cost is credited to profit and loss account.

2. LONGTERM INVESTMENT:

a) It usually carried at cost.

b) If there is a decline in value of investment and, if such decline is not temporary, then carrying amount of investment is reduced by the amount of such decline.

c) The resultant reduction in carrying amount is charged to the profit and loss account. This reduction amount is reversed when there is a rise in the value of investment but such rise in value should not be temporary

Indicators for Other than temporary decline in the value:

- Cost of investment is more than the market value
- Investee's assets and performance declining
- Expected cash flows from the investments are not great
- Restrictions on distribution of profits to investor etc.,

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	1,80,000	
	To Investments A/c			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.

3. INVESTMENT PROPERTY:

a) **An investment** property is accounted for in accordance with cost model as prescribed In AS 10: Property, Plant and Equipment.

b) 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.*

__Disposal of Investments:__

a) __When an__ investment is disposed of, the difference between the carrying amount and net sale proceeds is recognized in the profit and loss account.

b) __When only a__ part of total investment is disposed of, the carrying amount of that part of investment is determined on the basis of the average carrying amount of total investment.

__Reclassification of Investments:__

a) 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.

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

__Disclosures:__

a) Accounting policies followed for Valuation of investments.

b) Classification of investment into current and long term.

c) Aggregate amount of quoted & unquoted securities separately.

d) Any significant restriction on investment like minimum holding period for sale ,utilization of sale proceeds, or non-remittance

e) Of sale proceeds of investments held outside India.

PROBLEMS FOR CLASSROOM DISCUSSION

__MODEL 1: PROBLEMS ON AS - 13__

__**PROBLEM 1:**__ **(PRINTED SOLUTION AVAILABLE)** X Ltd. on 1-1-2017 had made an investment of Rs. 600 lakhs in the equity shares of Y Ltd. of which 50% is made in the long term category and the rest as temporary investment. The realisable value of all such investment on 31-3-2017 became Rs. 200 lakhs as Y Ltd. lost a case of copyright. From the given market conditions, it is apparent that the reduction in the value is not temporary in nature. How will you recognise the reduction in financial statements for the year ended on 31-3-2017? ***(NEW SM)***

PROBLEM 2: On 15th June, 2018, Y limited wants to re-classify its investments in accordance with AS 13 (revised).

Decide and state the amount of transfer, based on the following information:

a. A portion of long term investments purchased on 1st March, 2017 are to be re classified as current investments. The original cost of these investments was Rs. 14 lakhs but had been written down by Rs. 2 lakhs (to recognize other than temporary decline in value). The market value of these investments on 15th June, 2018 was Rs. 11 lakhs.

b. Another portion of long term investments purchased on 15th January, 2017 are to be re classified as current investments. The original cost of these investments was Rs. 7 lakhs but had been written down to Rs. 5 lakhs (to recognize other than temporary decline in value). The fair value this investment on15th June, 2018 was Rs. 4.5 lakhs.

c. A portion of current investments purchased on 15th March, 2018 for Rs. 7 lakhs are to be re classified as long term investments, as the company has decided to retain them. The market value of these investments on 31st March, 2018 was Rs. 6 lakhs and fair value on 15th June 2018 was Rs. 8.5 lakhs.

d. Another portion of current investments purchased on 7th December, 2017 for Rs. 4 lakhs are to be re classified as long term investments. The market value of these investments was:

On 31st March, 2018 Rs. 3.5 lakhs

On 15th June, 2018 Rs. 3.8 lakhs *(SOLVE PROBLEM NO. 3 OF ASSIGNMENT PROBLEMS AS REWORK)*

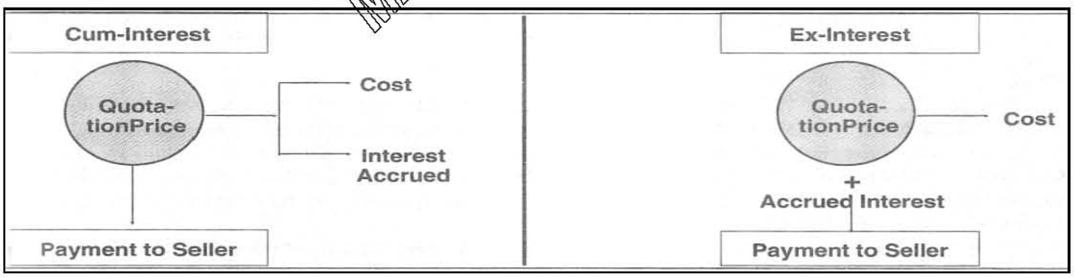
Note:____

ACCOUNTING TREATMENT FOR INVESTMENTS

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

Dr. **Debentures A/c (Extract)** **Cr.**

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	109	31/12	By Bank (100×10%×6/12)	-	5	-

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

Dr. **Debentures A/c (Extract)** **Cr.**

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

***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 $= \dfrac{1{,}20{,}000 + 12{,}000 + 11{,}000}{12{,}000} = 11.92$ per share

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

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.

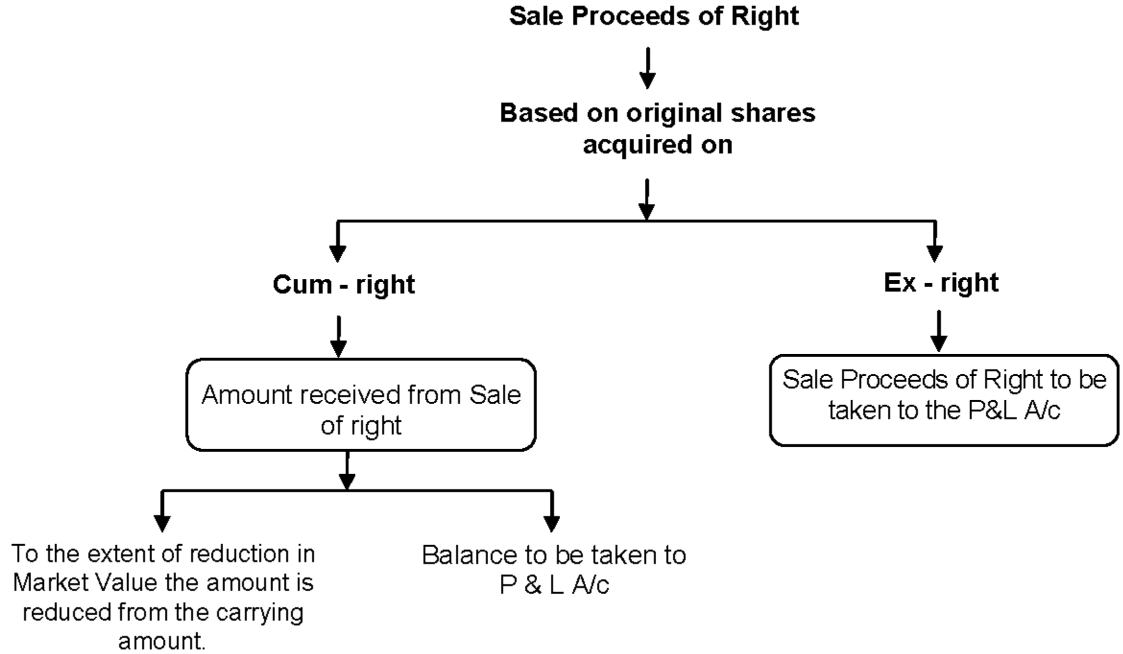
B. **Accounting For Purchase:** Entry at the time of purchase of these securities:

❁	Shares A/c To Bank A/c	Dr	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 To Shares A/c	Dr	XXX	 XXX



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 By P & L A/c (T / F)	……	…… ……	……
……	To 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

MODEL 2: PROBLEMS ON FIXED INCOME INVESTMENTS

PROBLEM 3: (PRINTED SOLUTION AVAILABLE) Mr. Chatur had 12% Debentures of Face Value Rs. 100 of M/s. Unnati Ltd. as current investments.

He provides the following details relating to the investments.

01-04-2014	Opening balances 4,000 debentures costing Rs. 98 each
01-06-2014	Purchased 2,000 debentures @ Rs. 120 cum interest
01-09-2014	Sold 3,000 debentures @ Rs. 110 cum interest
01-12-2014	Sold 2,000 debentures @ Rs. 105 ex interest
31-01-2015	Purchased 3,000 debentures @ Rs. 100 ex interest
31-03-2015	Market value of the investments Rs. 105 each

Interest due dates are 30th June and 31st December.

Mr. Chatur closes his books on 31-03-2015. He incurred 2% brokerage for all his transactions. Show investment account in the books of Mr. Chatur assuming FIFO method is followed.

(OLD PM) (ANS.: PROFIT: RS. 45,000; VALUE OF INVESTMENT: 4,20,000)

(SOLVE PROBLEM NO. 4 &5 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

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PROBLEM 4: 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. ***(A) (M15, N16, RTP N17, RTP M18 (N&O))***

(ANS.: DEBENTURES ACC BAL C/D NOMINAL VALUE RS.4,40,000, COST RS. 4,48,434, P&L A/C TRANSFER RS. 52,313. EQUITY INVESTMENT ACCOUNT BALANCE C/D NOMINAL VALUE-1,00,000 COST-90,000)

(SOLVE PROBLEM NO. 6 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

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MODEL 3: PROBLEMS ON VARIABLE INCOME INVESTMENTS

PROBLEM 5: (PRINTED SOLUTION AVAILABLE) 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. *(A) (NEW SM, OLD SM, SIMILAR: N18 (O) - 8M) (ANS.: TOTAL OF INVESTMENT A/C Rs.6,49,444)*

(SOLVE PROBLEM NO. 7,8,9,10 OF ASSIGNMENT PROBLEMS AS REWORK)

PROBLEM 6: 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 @ Rs. 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. *(A) (NEW SM, OLD PM)*

(ANS.: TOTAL OF INVESTMENT A/C RS. 2,79,110)

MODEL 4: COMPREHENSIVE PROBLEMS

PROBLEM 7: 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.

(A) (NEW SM, OLD PM, M12) (ANS: RS.7,47,000 & RS.26,01,000 & RS.27,22,800)

(SOLVE PROBLEM NO. 11 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

PRINTED SOLUTIONS TO SOME SELECTIVE PROBLEMS

PROBLEM NUMBERS TO WHICH SOLUTIONS ARE PROVIDED: 1,3, 5

PROBLEM NO.1

X Ltd. invested Rs. 600 lakhs in the equity shares of Y Ltd. Out of the same, the company intends to hold 50% shares for long term period i.e. Rs. 300 lakhs and remaining as temporary (current) investment i.e. Rs. 300 lakhs. Irrespective of the fact that investment has been held by X Ltd. only for 3 months (from 1.1.2017 to 31.3.2017), AS 13 (Revised) lays emphasis on intention of the investor to classify the investment as current or long term even though the long term investment may be readily marketable.

In the given situation, the realizable value of all such investments on 31.3.2017 became Rs. 200 lakhs i.e. Rs. 100 lakhs in respect of current investment and Rs. 100 lakhs in respect of long term investment.

As per AS 13 (Revised), 'Accounting for Investment', the carrying amount for current investments is the lower of cost and fair value. In respect of current investments for which an active market exists, market value generally provides the best evidence of fair value.

Accordingly, the carrying value of investment held as temporary investment should be shown at realizable value i.e. at Rs. 100 lakhs. The reduction of Rs. 200 lakhs in the carrying value of current investment will be charged to the profit and loss account.

Standard further states that long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of long term investment, the carrying amount is reduced to recognize the decline.

Here, Y Ltd. lost a case of copyright which drastically reduced the realizable value of its shares to one third which is quiet a substantial figure. Losing the case of copyright may affect the business and the performance of the company in long run. Accordingly, it will be appropriate to reduce the carrying amount of long term investment by Rs. 200 lakhs and show the investments at Rs. 100 lakhs, since the downfall in the value of shares is other than temporary. The reduction of Rs. 200 lakhs in the carrying value of long term investment will also be charged to the Statement of profit and loss.

PROBLEM NO.3

Investment A/c of Mr. Chatur for the year ending on 31-03-2015

(Scrip: 12% Debentures of Unnati Limited)

(Interest Payable on 30th June and 31st December) (Amt. in Rs.)

Date	Particulars	Nominal Value	Interest	Cost	Date	Particulars	Nominal Value	Interest	Cost
1.4.14	To Balance b/d	4,00,000	12,000	3,92,000	30.6.14	By Bank (6,00,000 x 6%)	-	36,000	-
1.6.14	To Bank	2,00,000	10,000	2,34,800	1.9.14	By Bank	3,00,000	6,000	3,17,400
1.9.14	To Profit & Loss A/c	-	-	23,400	1.12.14	By Bank	2,00,000	10,000	2,05,800
31.1.15	To Bank	3,00,000	3,000	3,06,000	1.12.14	By Profit & Loss a/c	-	-	9,600
31.3.15	To Profit & Loss A/c (Bal .fig.)	45,000			31.12.14	By Bank (Rs. 1,00,000 x	-	6,000	-

						6%)			
					31.3.15	By Profit & Loss A/c	-	-	3,400
					31.3.15	By Balance c/d	4,00,000	12,000	4,20,000
		9,00,000	70,000	9,56,200			9,00,000	70,000	9,56,200

Working Notes:

1. Valuation of closing balance as on 31.03.2015:

Market value of 4,000 Debentures at Rs. 105	= Rs. 4,20,000
Cost price of 1,000 debentures at	1,17,400
3,000 debentures at	3,06,000
	4,23,400

Value at the end = Rs. 4,20,000 i.e. whichever is less

2. Profit on sale of debentures as on 01.09.2014

	Amount (Rs.)
Sales price of debentures (3,000 x Rs. 110)	3,30,000
Less: Brokerage @ 2%	(6,600)
	3,23,400
Less: Interest for 2 months	(6,000)
Less: Cost price of Debentures $\left(3{,}92{,}000 \times \frac{4{,}000}{2{,}94{,}000}\right)$	3,000
Profit on sale	23,400

3. Loss on sale of debentures as on 1.12.2014

	Amount (Rs.)
Sales price of debentures (2,000 x Rs. 105)	2,10,000
Less: Brokerage @ 2%	(4,200)
	2,05,800
Less: Cost price of Debentures (98,000 + 1,17,400)	(2,15,400)
Loss on sale	9,600

4. Purchase Cost of 2,000 debentures on 1.6.2014

	Amount (Rs.)
2,000 Debentures @Rs. 120 cum interest	2,40,000
Add: Brokerage @ 2%	4,800
	2,44,800
Less: Interest for 5 months	(10,000)
Purchase cost of 2,000 debentures	2,34,800

5. Sale value for 3,000 debentures on 1.9.2014

	Amount(Rs.)
Sales price of debentures cum interest (3,000 x Rs. 110)	3,30,000
Less: Brokerage @ 2%	(6,600)
	3,23,400
Less: Interest for 2 months	(6,000)
Sale value for 3,000 debentures	3,17,400

PROBLEM NO. 5

Problem is based on the treatment of sale proceeds of right issue: Treatment of rights issue is based on original shares either purchased before or after announcement of right shares of the corresponding company. In the given case the problem is silent regarding the original shares purchased before or after right announcement. So, here we are assuming original shares purchased before right announcement i.e. at Ex-right price.

Dr. **Investment account for the year ending on 31st Dec.2014** **Cr.**

Scrip: Equity shares in X Ltd

Date	Particulars	No.	Dividend (Rs.)	Cost (Rs.)	Date	Particulars	No.	Dividend (Rs.)	Cost (Rs.)
01-4-14	To Bal b/d	25,000	-	3,75,000	31-10-14	By Bank A/c (Note 5)	-	50,000	10,000
20.6.14	To Bank A/c	5,000	-	80,000	15-11-14	By Bank A/c. (Sale of shares)	25,000	-	3,75,000
16.8.14	To Bonus	5,000	-	-	31.12.14	By Balance c/d (Note 8)	20,000	-	2,64,444
30.9.14	To Bank A/c (Right)	10,000	-	1,50,000					
31.12.14	To P & L A/c		50,000	44,444 (WN-9)					
		45,000	**50,000**	**6,49,444**			**45,000**	**50,000**	**6,49,444**

Dr. **Profit & Loss Account (Extract)** **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance c/d	1,04,444	By Income from Sale of Rights By Dividends By Profit on Sale of Shares	10,000 50,000 44,444
	1,04,444		**1,04,444**

Working Notes:

1. Bonus shares = (25,000 + 5,000) / 6 = 5,000 shares.
2. Rights shares = (25,000 + 5,000 + 5,000)/ 7 x 3 = 15,000 shares.
3. Rights shares subscribed = (2/3 x 15,000) = 10,000 shares.
4. Sale of rights entitlement = 1/3 x 15,000 x Rs.2 = Rs.10,000.
5. (Amount received by selling rights entitlement will be credited to Profit and Loss Account (AS-13)).
6. Dividend received on shares held on 01.04.2014 = 25,000 X 10 X 20% = Rs.50,000.
7. (Dividend received on shares purchased on 20.06.2014 = 5,000 X 10 x 20% = Rs.10,000 will be adjusted to investment Account).
8. At the time of calculating cost of shares, Rs.10,000 (sale of rights) will not be consideration. It will be treated as windfall gain and it will be credited to Profit and Loss Account. However, dividend received on shares purchased on 20.06.2014 - Rs.10,000 will be taken into consideration.

   Cost of 20,000 shares = Rs.(3,75,000+80,000+1,50,000 - 10,000) / 45,000 x 20,000 (Average basis) = Rs.2,64,444
9. Profit on sale of 25,000 shares = Sale proceeds - Average Cost.

   = 3,75,000 - 3,30,556 (Refer note) = Rs.44,444

   Note: Average cost= $\frac{3{,}75{,}000+80{,}000+1{,}50{,}000-10{,}000}{45{,}000} X 25{,}000$ = Rs.3,30,556.(Approx.)

ASSIGNMENT PROBLEMS

MODEL 1: PROBLEMS ON AS - 13

PROBLEM 1: Paridhi Electronics Ltd. invested in the shares of another unlisted company on 1st May 2012 at a cost of Rs. 3,00,000 with the intention of holding more than a year. The published accounts of unlisted company received in January, 2017 reveals that the company has incurred cash losses with decline in market share and investment of Paridhi Electronics Ltd. may not fetch more than Rs. 45,000.

You are required to explain how you will deal with the above in the financial statements of the Paridhi Electronics Ltd. as on 31.03.17 with reference to AS 13? *(RTP M18 (N))*

PROBLEM 2: M/s Innovative Garments Manufacturing Company Limited invested in the shares of another company on 1st October, 2016 at a cost of Rs. 2,50,000. It also earlier purchased Gold of Rs. 4,00,000 and Silver of Rs. 2,00,000 on 1st March, 2014. Market value as on 31st March, 2017 of above investments are as follows:

Particulars	Amount (Rs.)
Shares	2,25,000
Gold	6,00,000
Silver	3,50,000

How above investments will be shown in the books of accounts of M/s Innovative Garments Manufacturing Company Limited for the year ending 31st March, 2017 as per the provisions of Accounting Standard 13 "Accounting for Investments"? *(NEW SM)*

PROBLEM 3: ABC Ltd. wants to re-classify its investments in accordance with AS 13 (Revised). Decide and state on the amount of transfer, based on the following information:

a) A portion of current investments purchased for Rs. 20 lakhs, to be reclassified as long term investment, as the company has decided to retain them. The market value as on the date of Balance Sheet was Rs. 25 lakhs.

b) Another portion of current investments purchased for Rs. 15 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of balance sheet was Rs. 6.5 lakhs.

c) 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 other than temporary decline as per AS 13 (Revised). *(NEW SM)*

MODEL 2: PROBLEMS ON FIXED INCOME INVESTMENTS

PROBLEM 4: 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).

01.03.2008	Purchased 200 units, ex-interest at Rs.98.
01.07.2008	Sold 500 units, ex-interest out of original holding at Rs.100.
01.10.2008	Purchased 150 units at Rs.98, cum interest.
01.11.2008	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. *(A)*

(NEW SM, SIMILAR: M13) (ANS.: BALANCE C/D FACE VALUE RS. 75,000, INTEREST RS. 1,688, P&L A/C TRANSFER RS. 9,938.)

PROBLEM 5: 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. *(B) (NEW SM, OLD PM) (ANS: TOTAL OF INTEREST COLUMN RS.50,000, LOSS ON SALE RS. 700)*

PROBLEM 6: A Ltd. purchased on 1st April, 2018 8% convertible debenture in C Ltd. of face value of Rs. 2,00,000 @ Rs. 108. On 1st July, 2018 A Ltd. purchased another Rs. 1,00,000 debenture @ Rs. 112 cum interest.

On 1st October, 2018 Rs. 80,000 debenture was sold @ Rs. 108. On 1st December, 2018, C Ltd. give option for conversion of 8% convertible debentures into equity share of Rs. 10 each. A Ltd. receive 5,000 equity share in C Ltd. in conversion of 25% debenture held on that date. The market price of debenture and equity share in C Ltd. at the end of year 2018 is Rs. 110 and Rs. 15 respectively.

Interest on debenture is payable each year on 31st March, and 30th September.

The accounting year of A Ltd. is calendar year.

Prepare investment account in the books of A Ltd. on average cost basis. **(RTP-M19)**

MODEL 3: PROBLEMS ON VARIABLE INCOME INVESTMENTS

PROBLEM 7: Accounting for Variable income bearing securities: On 01.04.20X1, Mr. Krishna Murthy purchased 1,000 equity shares of Rs. 100 each in TELCO Ltd. @ Rs. 120 each from a Broker, who charged 2% brokerage. He incurred 50 paise per Rs. 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 Rs. 175 per share and Rs. 90 per share respectively. On 31.03.20X2, Mr. Krishna Murthy sold bonus shares to a Broker, who charged 2% brokerage. Show the Investment Account in the books of Mr. Krishna Murthy, who held the shares as Current assets and closing value of investments shall be made at Cost or Market value whichever is lower.

(B) (NEW SM) (ANS.: VALUE OF CLOSING INVESTMENT: RS. 82,000)

PROBLEM 8: On 1st April, 20X1, Rajat has 50,000 equity shares of P Ltd. at a book value of Rs 15 per share (nominal value Rs 10 each). He provides you the further information:

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

ii) On 1st August, 20X1, P Ltd. issued one equity bonus share for every six shares held by the shareholders.

iii) 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 Rs 15 per share. Shareholders can transfer their rights in full or in part.

Rajat sold 1/3rd of entitlement to Umang for a consideration of Rs 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. ***(A) (NEW SM) (ANS.: VALUE OF CLOSING INVESTMENT: Rs.12,10,000)***

PROBLEM 9: 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.) ***(A) (NEW SM, OLD SM, SIMILAR: MTP2 N18 (N&O))***

(ANS: BALANCE C/D NO OF SHARES: 13,000, AMOUNT RS 1,69,500, P&L A/C TRANSFER RS.30,000)

PROBLEM 10: Mr. Vijay entered into the following transactions of purchase and sale of equity shares of JP power Ltd. The shares have paid up value of Rs. 10 per share.

Dates	No. of shares	Terms
01.01.2016	600	Buy @ Rs. 20 per share
15.03.2016	900	Buy @ Rs. 25 per share
20.05.2016	1000	Buy @ Rs. 23 per share
25.07.2016	2500	Bonus Shares received
20.12.2016	1500	sale @ Rs. 22per share
01.02.2017	1000	sale @ Rs. 24 per share

Additional information:

1. On 15.09.2016 dividend @ Rs. 3 per share was received for the year ended 31.03.2016
2. On 12.11.2016 company made a right issue of equity shares in the ration of one share for five shares held on payment of Rs. 20 per share. He subscribed to 60% of the shares and renounced the remaining shares on receipt of the premium of Rs. 3 per share.
3. Share are to be valued on weighted average cost basis. You are required to prepare Investment Account for the year ended 31.03.2016 and 31.03.2017.

(M18 (N) - 10M) (ANS.: VALUE OF INVESTMENT AS ON 31.03.2017: RS. 36,812.50)

PROBLEM 11: 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% were 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. ***(A) (NEW SM, MTP1 M18 (N&O), MTP1 N18 (N), SIMILAR: N18 (N) - 10M)***

(ANS.: 12% BONDS A/C IS RS.1,68,937.50 & E/SHARES VALUE IS RS.7,40,000)

ADDITIONAL PROBLEMS FOR SELF PRACTICE

PROBLEM 1: The following transactions of Nidhi took place during the year ended 31st March 20X2:

1st April	Purchased Rs. 12,00,000, 8% bonds at Rs. 80.50 cum-interest. Interest is payable on 1st November and 1st May.
12th April	Purchased 1,00,000 equity shares of Rs. 10 each in X Ltd. for Rs. 40,00,000

1st May	Received half-year's interest on 8% bonds.
15th May	X Ltd. made a bonus issue of three equity shares for every two held. Nidhi sold 1,25,000 bonus shares for Rs 20 each.
1st October	Sold Rs 3,00,000, 8% bonds at Rs 81 ex-interest.
1st November	Received half-year's bond interest.
1st December	Received 18% dividend on equity shares in X Ltd.

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

(A) (NEW SM, OLD SM) (ANS.: VALUE OF BONDS - Rs. 6,94,500; SHARES- Rs.20,00,000)

PROBLEM 2: Accounting for Bonus shares, right shares and pre-acquisition dividend: On 1st January 20X1, Singh had 20,000 equity shares in X Ltd. Nominal value of the shares was Rs. 10 each but their book value was Rs. 16 per share. On 1st June 20X1, Singh purchased 5,000 more equity shares in the company at a premium of Rs. 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 Rs 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 Rs 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 Rs 3 per share. The market price of share on 31-12-20X1 was Rs 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.

(A) (NEW SM, SIMILAR: RTP N18 (N)) (ANS.: VALUE OF CLOSING INVESTMENT Rs.1,96,071)

THE END