

12

Investment Accounts

BASIC CONCEPTS

- Investment Accounting is done as per Accounting Standard-13.
- Two type of Investments :
 - Long Term Investments
 - Current Investments
- Valuation of Current investment – Lower of Cost or Fair Value/net Realizable Value
- Valuation of Long Term investment – At cost
- Reclassification :
 - From Current to Permanent → Valuation at Cost or Fair value, whichever is lower
 - From Permanent to Current → Valuation at Cost or 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.
- Sale of Rights:
 - If rights are not subscribed for but are sold in the market, the sale proceeds of rights are taken to the profit and loss statement as per para 13 of AS 13 “Accounting for Investment”. In this case, the sale proceeds will not appear in the dividend column of the Investment account.
 - However, when the investments are acquired on cum-right basis and the market value of investments immediately after their becoming ex-right is lower than the cost for which they were acquired, it may be appropriate to apply the sale proceeds of rights to reduce the carrying amount of such investments to the market value. In this case, the sale proceeds will credited to Investment account.

- Here, it is pertinent to note that if right shares are issued during the year, then year-end fall in the market value of the shares shall not be considered as immediate fall in the market value of the shares after issue of right shares and in such a case, the sale proceeds of rights shall be taken to the profit and loss statement.

Question 1

In 2011, 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, 2012, 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, 2013 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, 2012 to 1st March, 2013.

Answer

In the books of M/s Bull & Bear
Investment Account
for the period from 1st December 2012 to 1st March, 2013
(Scrip: 12% Debentures of M/s. Wye Ltd.)

Date	Particulars	Nominal Value (₹)	Interest	Cost (₹)	Date	Particulars	Nominal Value (₹)	Interest	Cost (₹)
1.12.2012	To Bank A/c (W.N.1)	10,00,000	20,000	10,00,100	1.03.2013	By Bank A/c (W.N.2)	10,00,000	50,000	9,99,400
1.3.2013	To Profit & loss A/c	-	30,000		1.3.2013	By Profit & loss A/c			700
		10,00,000	50,000	10,00,100			10,00,000	50,000	10,00,100

Working Notes:

- (i) Cost of 12% debentures purchased on 1.12.2012 ₹
- | | | |
|--|---|------------------|
| Cost Value (10,000 × ₹ 101) | = | 10,10,000 |
| Add: Brokerage (1% of ₹ 10,10,000) | = | 10,100 |
| Less: Cum Interest (10,000 × 100 × 12% × 2/12) | = | (20,000) |
| Total | = | <u>10,00,100</u> |
- (ii) Sale proceeds of 12% debentures sold on 31st March, 2013 ₹

12.3 Accounting

Sales Price (10,000 × ₹ 106)	=	10,60,000
Less: Brokerage (1% of ₹ 10,60,000)	=	(10,600)
Less: Cum Interest (10,000 × 100 × 12% × 5/12)	=	<u>(50,000)</u>
Total	=	<u>9,99,400</u>

Question 2

On 1st April, 2009, XY Ltd. has 15,000 equity shares of ABC Ltd. at a book value of ₹ 15 per share (face value ₹ 10 per share). On 1st June, 2009, XY Ltd. acquired 5,000 equity shares of ABC Ltd. for ₹ 1,00,000. ABC Ltd. announced a bonus and right issue.

- (1) Bonus was declared, at the rate of one equity share for every five shares held, on 1st July 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 ₹ 8 per share.
- (iii) Sold half of its share holdings on 1st January 2010 at ₹ 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.

Answer

**In the books of XY Ltd.
Investment in equity shares of ABC Ltd.
for the year ended 31st March, 2010**

Date	Particulars	No.	Dividend ₹	Amount ₹	Date	Particulars	No.	Dividend ₹	Amount ₹
2009 April 1	To Balance b/d	15,000	-	2,25,000	2009 Oct. 31	By Bank A/c (W.N. 5)	-	30,000	10,000
June 1	To Bank A/c	5,000	--	1,00,000	2010 Jan. 1	By Bank A/c (W.N.4)	13,000	-	2,12,355
July 1	To Bonus Issue (W.N. 1)	4,000	-	-	March 31	By Balance c/d (W.N. 6)	13,000	-	1,69,500
Sept.1	To Bank A/c (W.N. 2)	2,000	-	24,000					

2010 March 31	To P & L A/c (W.N. 4)	-	-	42,855				
"	To P & L A/c	-	30,000	-				
		<u>26,000</u>	<u>30,000</u>	<u>3,91,855</u>		<u>26,000</u>	<u>30,000</u>	<u>3,91,855</u>

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

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

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

$$\text{Value of right shares subscribed} = 2,000 \text{ shares @ ₹ 12 per share} = ₹ 24,000$$

3. Calculation of sale of right entitlement

$$2,000 \text{ shares} \times ₹ 8 \text{ per share} = ₹ 16,000$$

Amount received from sale of rights will be credited to P & L A/c as per para 13 of AS 13 'Accounting for Investments'.

4. Calculation of profit on sale of shares

Total holding	=	15,000 shares	original
		5,000 shares	purchased
		4,000 shares	bonus
		<u>2,000 shares</u>	right shares
		<u>26,000 shares</u>	

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

$$= \frac{3,39,000}{26,000} \times 13,000 = ₹ 1,69,500$$

12.5 Accounting

	₹
Sale proceeds of 13,000 shares (13,000 x ₹16.50)	2,14,500
Less: 1% Brokerage	<u>(2,145)</u>
	2,12,355
Less: Cost of 13,000 shares	<u>(1,69,500)</u>
Profit on sale	<u>42,855</u>

5. **Dividend received on investment held as on 1st April, 2009**

= 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, 2009

= 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, 2009 and dividend pertains to the year ended 31.3.2009.

6. **Calculation of closing value of shares (on average basis) as on 31st March, 2010**

$$13,000 \times \frac{3,39,000}{26,000} = ₹ 1,69,500.$$

Closing value of shares would be ₹ 1,69,500.

Question 3

The following information is presented by Mr. Z, relating to his holding in 9% Central Government Bonds.

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

1.3.2008 Purchased 200 units, ex-interest at ₹ 98.

1.7.2008 Sold 500 units, ex-interest out of original holding at ₹ 100.

1.10.2008 Purchased 150 units at ₹ 98, cum interest.

1.11.2008 Sold 300 units, ex-interest at ₹ 99 out of original holdings.

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

Answer

In the Books of Mr. Z
9% Central Government Bonds (Investment) Account

Particulars		Face Value	Interest	Principal	Particulars		Face Value	Interest	Principal
2008		₹	₹	₹	2008		₹	₹	₹
Jan. 1	To Balance b/d	1,20,000	2,700	1,18,000	March 31	By Bank A/c	-	6,300	-
March 1	To Bank A/c	20,000	750	19,600	July 1	By Bank A/c	50,000	1,125	50,000
July 1	To P&L A/c	-	-	833	Sept. 30	By Bank A/c	-	4,050	-
Oct. 1	To Bank A/c	15,000	-	14,700	Nov. 1	By Bank A/c	30,000	225	29,700
Nov. 1	To P&L A/c	-	-	200	Dec. 31	By Balance c/d	75,000	1,688	73,633
Dec. 31	To P&L A/c (Transfer)		9,938						
		<u>1,55,000</u>	<u>13,388</u>	<u>1,53,333</u>			<u>1,55,000</u>	<u>13,388</u>	<u>1,53,333</u>

Working Note:

Calculation of closing balance:	Units		₹
Bonds in hand remained in hand at 31 st December 2008			
From original holding (1,20,000 – 50,000 – 30,000)=	40,000	$\frac{1,18,000}{1,20,000} \times 40,000 =$	39,333
Purchased on 1 st March	20,000		19,600
Purchased on 1 st October	<u>15,000</u>		<u>14,700</u>
	<u>75,000</u>		<u>73,633</u>

Question 4

Mr. Purohit furnishes the following details relating to his holding in 8% Debentures (₹ 100 each) of P Ltd., held as Current assets:

- 1.4.2009 Opening balance – Face value ₹ 1,20,000, Cost ₹ 1,18,000
 1.7.2009 100 Debentures purchased ex-interest at ₹ 98
 1.10.2009 Sold 200 Debentures ex-interest at ₹ 100

12.7 Accounting

1.1.2010 Purchased 50 Debentures at ₹98 cum-interest

1.2.2010 Sold 200 Debentures ex-interest at ₹99

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

Mr. Purohit closes his books on 31.3.2010. 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 ₹99.

Investment A/c of Mr. Purohit
for the year ending on 31-3-2010
(Scrip: 8% Debentures of P Limited)
(Interest Payable on 30th September and 31st March)

Date	Particulars	Nominal Value	Interest	Cost	Date	Particulars	Nominal Value	Interest	Cost
			₹	₹				₹	₹
1.4.09	To Balance b/d	1,20,000	-	1,18,000	30.9.09	By Bank	-	5,200	-
1.7.09	To Bank (ex-Interest)	10,000	200	9,898	1.10.09	By Bank	20,000	-	19,800
1.10.09	To Profit & Loss A/c			133	1.2.10	By Bank (ex-Interest)	20,000	533	19,602
1.1.10	To Bank (cum-Interest)	5,000	100	4,849	1.2.10	By Profit & Loss A/c			64
31.3.10	To Profit & Loss A/c (Bal. fig.)	-	9,233		31.3.10	By Bank	-	3,800	-
		_____	_____	_____	31.3.10	By Balance c/d	95,000	-	93,414
		<u>1,35,000</u>	<u>9,533</u>	<u>1,32,880</u>			<u>1,35,000</u>	<u>9,533</u>	<u>1,32,880</u>

Working Notes:

1. Valuation of closing balance as on 31.3.2010:

Market value of 950 Debentures at ₹ 99 = ₹ 94,050

Cost price of

$$800 \text{ Debentures cost} = \left(\frac{1,18,000}{1,20,000} \times 80,000 \right) = 78,667$$

$$100 \text{ Debentures cost} = 9,898$$

$$50 \text{ Debentures Cost-} = \underline{4,849}$$

$$\underline{93,414}$$

Value at the end = ₹ 93,414 i.e whichever is less

2. Profit on sale of debentures as on 1.10.2009

	₹
Sales price of debentures (200 x ₹ 100)	20,000
Less: Brokerage @ 1%	<u>(200)</u>
	19,800
Less: Cost price of Debentures $\left(\frac{1,18,000}{1,20,000} \times 20,000 \right) =$	<u>(19,667)</u>
Profit on sale	<u>133</u>

3. Loss on sale of debentures as on 1.2.2010

	₹
Sales price of debentures (200 x ₹ 99)	19,800
Less: Brokerage @ 1%	<u>(198)</u>
	19,602
Less: Cost price of Debentures $\left(\frac{1,18,000}{1,20,000} \times 20,000 \right) =$	<u>(19,666)</u>
Loss on sale	<u>64</u>

Question 5

Mr. Brown has made following transactions during the financial year 2011-12:

Date	Particulars
01.05.2011	Purchased 24,000 12% Bonds of ₹ 100 each at ₹ 84 cum-interest. Interest is payable on 30th September and 31st March every year.
15.06.2011	Purchased 1,50,000 equity shares of ₹ 10 each in Alpha Limited for ₹ 25 each through a broker, who charged brokerage @ 2%.
10.07.2011	Purchased 60,000 equity shares of ₹ 10 each in Beeta Limited for ₹ 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 ₹ 22 each.
01.01.2012	Received 15% interim dividend on equity shares of Alpha Limited.

12.9 Accounting

15.01.2012 *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.*

01.03.2012 *Sold 15,000 12% Bonds at ₹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.

Answer

In the books of Mr. Brown 12% Bonds for the year ended 31st March, 2012

Date	Particulars	No.	Interest ₹	Amount ₹	Date	Particulars	No.	Interest ₹	Amount ₹
2011 May, 1	To Bank A/c	24,000	24,000	19,92,000	2011 Sept. 30	By Bank-Interest	-	1,44,000	
2012 March 31	To P & L A/c (W.N.1)	-	-	1,05,000	2012 Mar. 1	By Bank A/c	15,000	75,000	13,50,000
	To P & L A/c		2,49,000		2012 Mar. 31	By Bank-Interest		54,000	
						By Balance c/d (W.N.2)			
							9,000	-	7,47,000
		<u>24,000</u>	<u>2,73,000</u>	<u>20,97,000</u>			<u>24,000</u>	<u>2,73,000</u>	<u>20,97,000</u>

Investment in Equity shares of Alpha Ltd. for the year ended 31st March, 2012

Date	Particulars	No.	Dividend ₹	Amount ₹	Date	Particulars	No.	Dividend ₹	Amount ₹
2011 June 15	To Bank A/c	1,50,000	--	38,25,000	2011 Oct. 31	By Bank A/c	80,000	-	17,60,000
2011 Oct. 14	To Bonus Issue (1,50,000/3 x2)	1,00,000	-	-	2012 Jan. 1	By Bank A/c - dividend		2,55,000	
2012 Mar. 31	To P & L A/c (W.N.3)			5,36,000	2012 March 31	By Balance c/d (W.N.4)	1,70,000	-	26,01,000
	To P & L A/c								
			<u>2,55,000</u>				<u>2,50,000</u>	<u>2,55,000</u>	<u>43,61,000</u>
		<u>2,50,000</u>	<u>2,55,000</u>	<u>43,61,000</u>					

Investment in Equity shares of Beeta Ltd. for the year ended 31st March, 2012

Date	Particulars	No.	Dividend ₹	Amount ₹	Date	Particulars	No.	Dividend ₹	Amount ₹
2011 July 10	To Bank A/c	60,000	--	26,92,800	2012 Mar. 15	By Bank - dividend	-	1,18,800	
2012 Jan. 15	To Bank A/c	6,000	-	30,000	2012 March 31	By Balance c/d			

	(W.N. 5) To P & L A/c								
March 31		-	1,18,800	-	(bal.fig.)	66,000	-	27,22,800	
		66,000	1,18,800	27,22,800		66,000	1,18,800	27,22,800	

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	<u>₹ 1,05,000</u>

2. Closing balance as on 31.3.2012 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	<u>₹ 5,36,000</u>

4. Closing balance as on 31.3.2012 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.

12.11 Accounting

Question 6

On 1st April, 2011, Rajat has 50,000 equity shares of P Ltd. at a book value of ₹ 15 per share (face value ₹ 10 each). He provides you the further information:

- (1) On 20th June, 2011 he purchased another 10,000 shares of P Ltd. at ₹ 16 per share.
- (2) On 1st August, 2011, P Ltd. issued one equity bonus share for every six shares held by the shareholders.
- (3) On 31st October, 2011, 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 1/3rd of entitlement to Umang for a consideration of ₹ 2 per share and subscribed the rest on 5th November, 2011.

You are required to prepare Investment A/c in the books of Rajat for the year ending 31st March, 2012.

Answer

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

Date	Particulars	No. of shares	Amount (₹)	Date	Particulars	No. of shares	Amount (₹)
1.4.11	To Balance b/d	50,000	7,50,000	31.3.12	By Balance c/d (Bal. fig.)	90,000	12,10,000
20.6.11	To Bank A/c	10,000	1,60,000				
1.8.11	To Bonus issue (W.N.1)	10,000	-				
5.11.11	To Bank A/c (right shares) (W.N.4)						
		<u>20,000</u>	<u>3,00,000</u>				
		<u>90,000</u>	<u>12,10,000</u>			<u>90,000</u>	<u>12,10,000</u>

Working Notes:

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

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

$$(3) \text{ Sale of rights} = 30,000 \text{ shares} \times \frac{1}{3} \times ₹ 2 = ₹ 20,000 \text{ to be credited to P \& L A/c as per AS 13.}$$

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

Question 7

On 01-04-2011, 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 paise per ₹ 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 ₹ 175 per share and ₹ 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.

Answer

**In the books of T. Shekharan
Investment Account
for the year ended 31st March, 2012
(Script: Equity Shares of V Ltd.)**

Date	Particulars	Nominal Value (₹)	Cost (₹)	Date	Particulars	Nominal Value (₹)	Cost (₹)
1.4.2011	To Bank A/c (W.N.1)	5,00,000	6,15,000	31.3.2012	By Bank A/c (W.N.2)	2,50,000	2,20,500
31.1.2012	To Bonus shares	2,50,000	—	31.3.2012	By Balance c/d (W.N.4)	5,00,000	4,10,000
31.3.2012	To Profit and Loss A/c (W.N.3)		15,500				
		<u>7,50,000</u>	<u>6,30,500</u>			<u>7,50,000</u>	<u>6,30,500</u>

Working Notes:

- Cost of equity shares purchased on 1st April, 2011**
 = Cost + Brokerage + Cost of transfer stamps
 = 5,000 × ₹ 120 + 2% of ₹ 6,00,000 + ½% of ₹ 6,00,000
 = ₹ 6,15,000
- Sale proceeds of equity shares sold on 31st March, 2012**
 = Sale price – Brokerage
 = 2,500 × ₹ 90 – 2% of ₹ 2,25,000
 = ₹ 2,20,500.
- Profit on sale of bonus shares on 31st March, 2012**
 = Sales proceeds – Average cost
 Sales proceeds = ₹ 2,20,500

12.13 Accounting

Average cost = ₹ [6,15,000 × 2,50,000/7,50,000]

= ₹ 2,05,000

Profit = ₹ 2,20,500 – ₹ 2,05,000 = ₹ 15,500.

4. Valuation of equity shares on 31st March, 2012

Cost = ₹ [6,15,000 × 5,00,000/7,50,000] = ₹ 4,10,000 i.e ₹ 82 per share

Market Value = 5,000 shares × ₹ 90 = ₹ 4,50,000

Closing stock of equity shares has been valued at ₹ 4,10,000 i.e. cost being lower than the market value.

Question 8

Mr. Chatur had 12% Debentures of Face Value ₹ 100 of M/s. Unnati Ltd. as current investments.

He provides the following details relating to the investments.

1-4-2014 Opening balance 4,000 debentures costing ₹ 98 each

1-6-2014 Purchased 2,000 debentures @ ₹ 120 cum interest

1-9-2014 Sold 3,000 debentures @ ₹ 110 cum interest

1-12-2014 Sold 2,000 debentures @ ₹ 105 ex interest

31-1-2015 Purchased 3,000 debentures @ ₹ 100 ex interest

31-3-2015 Market value of the investments ₹ 105 each

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

Mr. Chatur closes his books on 31-3-2015. He incurred 2% brokerage for all his transactions.

Show investment account in the books of Mr. Chatur assuming FIFO method is followed.

Answer

Investment A/c of Mr. Chatur
for the year ending on 31-3-2015
(Scrip: 12% Debentures of Unnati Limited)
(Interest Payable on 30th June and 31st December)

Amt. in ₹

<i>Date</i>	<i>Particulars</i>	<i>Nominal Value</i>	<i>Interest</i>	<i>Cost</i>	<i>Date</i>	<i>Particulars</i>	<i>Nominal Value</i>	<i>Interest</i>	<i>Cost</i>
1.4.2014	To Balance b/d	4,00,000	12,000	3,92,000	30.6.2014	By Bank (6,00,000 x 6%)	-	36,000	-
1.6.2014	To Bank	2,00,000	10,000	2,34,800	1.9.2014	By Bank	3,00,000	6,000	3,17,400
1.9.2014	To Profit & Loss A/c			23,400	1.12.2014	By Bank	2,00,000	10,000	2,05,800
31.1.2015	To Bank	3,00,000	3,000	3,06,000	1.12.2014	By Profit & Loss a/c	-	-	9,600
31.3.2015	To Profit & Loss A/c (Bal .fig.)		45,000		31.12.14	By Bank (1,00,000 x 6%)	-	6,000	-
					31.3.2015	By Profit & Loss A/c	-	-	3,400
					31.3.2015	By Balance c/d	<u>4,00,000</u>	<u>12,000</u>	<u>4,20,000</u>
		<u>9,00,000</u>	<u>70,000</u>	<u>9,56,200</u>			<u>9,00,000</u>	<u>70,000</u>	<u>9,56,200</u>

12.15 Accounting

Working Notes:

1. Valuation of closing balance as on 31.3.2015:

Market value of 4,000 Debentures at ₹ 105 =	₹ 4,20,000
Cost price of 1,000 debentures at	1,17,400
3,000 debentures at	<u>3,06,000</u>
	<u>4,23,400</u>

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

2. Profit on sale of debentures as on 1.9.2014

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

3. Loss on sale of debentures as on 1.12.2014

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

4. Purchase Cost of 2,000 debentures on 1.6.2014

	₹
2,000 Debentures @ ₹ 120 cum interest	2,40,000
Add: Brokerage @ 2%	<u>4,800</u>
	2,44,800
Less: Interest for 5 months	<u>(10,000)</u>
Purchase cost of 2,000 debentures	<u>2,34,800</u>

5. Sale value for 3,000 debentures on 1.9.2014

	₹
Sales price of debentures cum interest (3,000 x ₹ 110)	3,30,000
Less: Brokerage @ 2%	<u>(6,600)</u>
	3,23,400
Less: Interest for 2 months	<u>(6,000)</u>
Sale value for 3,000 debentures	<u>3,17,400</u>

Question 9

A Limited purchased 5,000 equity shares (face value ₹ 100 each) of Allianz Limited for ₹ 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 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, 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.

Answer

In the books of A Ltd.

**Investment in equity shares of Allianz Ltd.
for the year ended 31st March, 2015**

Date	Particulars	No.	Dividend ₹	Amount ₹	Date	Particulars	No.	Dividend ₹	Amount ₹
2014					2014				
April 1	To Bank A/c	5,000	-	5,35,500	May 15	By Bank A/c (dividend)	-	-	10,000
June 30	To Bonus Issue (W.N 2)	1,000	-	-	Oct. 1	By Bank (rights sales)	-	1,250	-
Oct. 1	To Bank A/c (W.N. 3)	250	-	11,250	Nov. 30	By Bank A/c (Interim dividend)	-	6,000	-
Dec.31	To P & L A/c (W.N. 5)	-	-	21,660	Dec. 31	By Bank A/c (W.N.5)	3,000	-	2,79,300

12.17 Accounting

2015 March 31	To P & L A/c	-	7,250	-	2015 March 31	By Balance c/d (W.N. 7)	3,250		2,79,110
		<u>6,250</u>	<u>7,250</u>	<u>5,68,410</u>			<u>6,250</u>	<u>7,250</u>	<u>5,68,410</u>

Working Notes:

1. **Calculation of cost of purchase on 1st April, 2014**

$$₹ 105 \times 5,000 \text{ shares} = ₹ 5,25,000$$

$$\text{Add: Brokerage (2\%)} = ₹ \underline{10,500}$$

$$₹ \underline{5,35,500}$$

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**

$$\text{Right Shares} = \frac{6,000}{12} = 500 \text{ shares}$$

$$\text{Shares subscribed} = \frac{500}{2} = 250 \text{ shares}$$

$$\text{Value of right shares subscribed} = 250 \text{ shares @ ₹ 45 per share} = ₹ 11,250$$

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

$$250 \text{ shares} \times ₹ 5 \text{ per share} = ₹ 1,250$$

(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
		<u>250 shares</u>	right shares
		<u>6,250 shares</u>	

3,000 shares were sold on 31.12.2014

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	<u>(5,700)</u>
	2,79,300
Less: Cost of 3,000 shares	<u>(2,57,640)</u>
Profit on sale	<u>21,660</u>

6. **Dividend received on investment held as on 15th May, 2014**

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

Dividend amounting ₹ 6,000 received on 30.11.2014 will be credited to P&L A/c

7. **Calculation of closing value of shares (on average basis) as on 31st March, 2015**

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