KEY TO UNSOLVED QUESTIONS IN ACCOUNTS BOOK GROUP-1

INVESTMENT ACCOUNTS

Solution to illustration 1

In the books of M/s Bull & Bear

Investment Account for the period from 01.12.2019 to 01.03.2020

(Scrip: 12% Debentures of X Ltd.)

Date	Particulars	Nominal value (₹)	Interest	Amount (₹)	Date	Particulars	Nominal value (₹)	Interest	Amount (₹)
1.12.19	To Bank A/c (w.n.1)	10,00,000	20,000	10,00,100	1.03.20	By Bank (w.n.2)	10,00,000	50,000	9,99,400
1.3.20	To Profit & loss A/c* (b.f.)	-	30,000			By Profit & loss A/c (b.f.)			700
		10,00,000	50,000	10,00,100			10,00,000	50,000	10,00,100

* This represents income for M/s. Bull & Bear for the period 01.12.2019 to 01.03.2020, i.e., interest for three months- 01.12.2019 to 01.03.2020).

Working Notes:

1. Cost of 12% debentures purchased on 01.12.2019

	₹
Cost Value (10,000 x ₹ 101)	10,10,000
Add: Brokerage (1% of ₹ 10,10,000)	10,100
Less: Interest (10,000 x 100 x12% x 2/12)	(20,000)
Total	10,00,100

2. Sale proceeds of 12% debentures sold

	₹
Sales Price (10,000 x ₹ 106)	10,60,000
Less: Brokerage (1% of ₹ 10,60,000)	(10,600)
Less: Interest (10,000 x 100 x12% x 5/12)	(50,000)
Total	9,99,400

Solution to illustration 2

In the books of Mr. Krishna Murty

Investment Account for the year ended 31.03.2020

(Scrip: Equity Shares of TELCO Ltd.)

Date	Particulars	Nominal value (₹)	Amount (₹)	Date	Particulars	Nominal value (₹)	Amount (₹)
1.4.19	To bank a/c (w.n.1)	1,00,000	1,23,000	31.3.20	By Bank A/c (w.n.2)	50,000	44,100
31.1.20	To bonus share (w.n.5)	50,000	-	31.3.20	By Balance c/d (w.n.4)	1,00,000	82,000
31.3.20	To profit & loss a/c(w.n.3)	-	3,100				
		1,50,000	1,26,100			1,50,000	1,26,100

Working Notes:

1. Cost of equity shares purchased on 01.04.2019 = (1,000 x₹ 120) + (2% of ₹ 1,20,000) + (½% of ₹ 1,20,000) = ₹ 1,23,000

2. Sale proceeds of equity shares (bonus) sold on 31.03.2020= (500 x ₹ 90) – (2% of ₹ 45,000) = ₹ 44,100.

3. Profit on sale of bonus shares on 31.03.2020: = Sales proceeds – Average cost

Sales proceeds: = ₹ 44,100

Average cost = ₹(1, 23,000/1500) x 500 = ₹41,000

Profit = ₹ 44,100 – ₹ 41,000 = ₹ 3,100

4. Valuation of equity shares on 31.03.2020

Cost = (₹ 1,23,000/1,500) x 1,000 = ₹ 82,000

Market Value = 1,000 shares × ₹ 90 = ₹ 90,000

Closing balance has been valued at ₹ 82,000 being lower than the market value.

5. Bonus shares do not have any additional cost.

Solution to illustration 3

In the books of X

Investment Account

[Scrip: Equity shares in Omega Co. Ltd.]

Particulars	Nominal Value	Amount	Particulars	Nominal Value	Amount
	₹	₹		₹	₹
To Bank A/c	50,000	62,500	By Bank A.c - Sale (500 x 90)	50,000	45,000
To Bonus shares (W.N.1)	50,000	-	By Balance c/d (W.N. 3)	50,000	31,250
To P & L A/c (W.N. 2)	-	13,750			
	1,00,000	76,250		1,00,000	76,250
To Balance b/d	50,000	31,250			

Working Notes:

1. Bonus shares do not have any additional cost.

2. Profit on sale of bonus shares = Sales proceeds – Average cost

Sales proceeds = ₹ 45,000

Average cost = 62,500/1000 x 500 = ₹31,250

Profit = ₹ 45,000 – ₹31,250 = ₹ 13,750.

3. Valuation of Closing Balance of Shares at the end of year
The total cost of 1,000 share including bonus is ₹62,500

Therefore, cost of 500 shares (carried forward) is 62,500/1000x500 = ₹ 31,250

Market price of 500 shares = 92.50 x 500 = ₹ 46,250

Cost being lower than the market price, therefore shares is carried forward at cost.

Solution to illustration 4

In the books of T. Shekharan
Investment Account for the year ended 31.03.2020
(Script: Equity Shares of V Ltd.)

Date	Particulars	Nominal value (₹)	Amount (₹)	Date	Particulars	Nominal value (₹)	Amount (₹)
1.4.19	To bank a/c (w.n.1)	5,00,000	6,15,000	31.3.20	By Bank A/c (w.n.2)	2,50,000	2,20,500
31.1.20	To bonus	2,50,000	-	31.3.20	By Balance c/d (w.n.4)	5,00,000	4,10,000

31.3.20	To share profit & loss a/c(W.N.3)	-	15,500				
		7,50,000	6,30,500			7,50,000	6,30,500

Working Notes:

1. Cost of equity shares purchased on 01.04.2019

= Cost + Brokerage + Cost of transfer stamps

= (5,000 x ₹ 120) + (2% of ₹ 6,00,000) + (½% of ₹ 6,00,000)

= ₹ 6,15,000

2. Sale proceeds of equity shares sold on 31.03.2020

= Sale price – Brokerage

= (2,500 x ₹ 90) – (2% of ₹ 2,25,000)

= ₹ 2,20,500

3. Profit on sale of bonus shares

= Sales proceeds – Average cost

Sales proceeds = ₹ 2,20,500

Average cost = ₹ (6,15,000 /7,50,000) x 2,50,000 = ₹ 2,05,000

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

4. Valuation of equity shares on 31.03.2020

Cost = ₹ [6,15,000 x 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.

Solution to illustration 5

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

Date	Particulars	No. of shares	Amount (₹)	Date	Particulars	No. of shares	Amount (₹)
1.4.19	To Balance b/d	50,000	7,50,000	31.3.20	By Balance c/d (Bal. fig.)	90,000	12,10,000
20.6.19	To Bank A/c	10,000	1,60,000				
1.8.19	To Bonus issue (w.n.1)	10,000	-				
	To Bank A/c (right						
		90,000	12,10,000			90,000	12,10,000

Working Note :

(1) Bonus shares = (50,000 + 10,000)/6 = 10,000 shares

(2) Right shares = (50,000 + 10,000 + 10,000)/7 X 3 = 30,000 shares

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

(4) Right subscribed = 30,000 share = 2/3 x ₹15 = ₹3,00,000

Solution to illustration 6

Books of Sundar

Investment Account

(Scrip: Equity Shares in X Ltd.)

		No.	Dividend	Amount			No.	Dividend	Amount
01.04.19	To Bal b/d	25,000		3,75,000	31.10.19	By Bank (dividend on shares acquired on 20/6/19)	--	50,000	10,000
20.06.19	To Bank	5,000		80,000					
16.08.19	To Bonus (W.N.1)	5,000		—					
30.09.19	To Bank (Rights Shares) (W.N.3)	10,000		1,50,000					
15.11.19	To Profit (on sale of shares)			44,444	15.11.19	By Bank (Sale of shares)	25,000		3,75,000
31.12.19	To P & L A/c		50,000						
					31.12.19	By Bal. c/d (W.N.6)	20,000		2,64,444
		45,000	50,000	6,49,444			45,000	50,000	6,49,444

Profit and Loss Account (An extract)

To Balance c/d	1,04,444	By Sale of rights (W.N.3) By Dividend (W.N.4) By Profit transferred	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. **Right Shares =** (25,000+5,000+5,000)/7 x 3 = 15,000 shares
3. Right shares renounced = 15,000×1/3 = 5,000 shares

Sale of right shares = 5,000 x 2 = ₹ 10,000

Right shares subscribed = 15,000 – 5,000 = 10,000 shares

Amount paid for subscription of right shares = 10,000 x 15 = ₹ 1,50,000

4. **Dividend received** = 25,000 (shares as on 01.04.2019) × 10 × 20% = ₹ 50,000

Dividend on shares purchased on 20.06.2019 = 5,000×10×20% = ₹ 10,000 is adjusted to Investment A/c

5. Profit on sale of 25,000 shares

= Sales proceeds – Average cost

Sales proceeds = ₹ 3,75,000

Average cost = (3,75,000+80,000+1,50,000-10,000)/45,000 x 25,000= ₹ 3,30,556

Profit = ₹ 3,75,000– ₹ 3,30,556 = ₹44,444.

6. **Cost of shares on 31.12.2019**

(3,75,000+80,000+1,50,000-10,000)/45,000 x 20,000= ₹2,64,444

Solution to illustration 7

Investment Account-Equity Shares in X Ltd.

Date		No. of shares	Dividend ₹	Amount ₹	Date		No. of shares	Dividend ₹	Amount ₹
1.1.19	To Bal. b/d	20,000	-	3,20,000	2019 Oct. 20	By Bank dividend) [20,000 x 10 x 15%] [5,000 x 10 x 15%]		30,000	7,500
June 1	To bank	5,000	-	70,000	Nov. 1	By Bank	20,000		2,60,000
									1,429
Aug.2	To bonus issue	5,000		-	Nov,1	By P & L			

						A/c(W.N.2)			
Sep,30	To bank (Right)(w.n.1)	5,000	-	75,000	Dec,31	By balance c/d (W.N.3)	15,000		1,96,071
Dec, 31	To Profit & Loss A/c (Dividend income)		30,000						
		35,000	30,000	4,65,000			35,000	30,000	4,65,000

Working Notes:

1. Right shares

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

No. of right shares subscribed =10,000 x 50% = 5,000 shares

Amount of right shares issued = 5,000 x 15 = ₹ 75,000

No. of right shares sold = 10,000 – 5,000 = 5,000 shares

Sale of right shares = 5,000 x 1.5 = ₹ 7,500 to be credited to statement of profit and loss

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

	₹
(₹3,20,000 + ₹ 70,000 + ₹ 75,000)	4,65,000
Less: Dividend on shares purchased on June 1 (since the dividend pertains to the year ended 31.03.2019, i.e., the pre-acquisition period)	(7,500)
Cost of 35,000 shares	4,57,500
Cost of 20,000 shares (Average cost basis)	2,61,429
Sale proceeds	2,60,000
Loss on sale	1,429

3. Value of investment at the end of the year

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

$\frac{475500}{35000}$ x 15,000= ₹1,96,071. Here, Net realisable value is ₹14 per share i.e. 15,000 shares x ₹ 14= ₹ 2,10,000 and cost x 15,000= ₹1,96,071. Therefore, value of investment at the end of the year will be ₹1,96,071.

Solution to illustration 8

In the books of Nidhi

Investment Accounts for the year ending 31st March 2020

[Scrip : 8% Bonds Account]

Date	Particulars	Nominal Value (₹)	Interest (₹)	Amount (₹)	Date	Particulars	Nominal Value (₹)	Interest (₹)	Amount (₹)
1.4.19	To Bank A/c (W.N.1)	12,00,000	40,000	9,26,000	1.5.19	By Bank A/c (12,00,000 x 8% x 6/12)	-	48,000	-
1.10.2019	To Profit & Loss A/c (W.N.6)			11,500	1.10.19	By Bank A/c (W.N 2)	3,00,000	10,000	2,43,000
					1.11.19	By Bank A/c (W.N.3)	-	36,000	-
31.3.2020	To Profit & loss A/c		84,000		31.3.20	By Balance c/d (W.N.4)	9,00,000	30,000	6,94,500
		12,00,000	1,24,000	9,37,500			12,00,000	1,24,000	9,37,500

Investment Accounts for the year ending 31st March 2020

[Scrip : Equity shares of X Ltd.]

Date	Particulars	No.	Dividend (₹)	Amount (₹)	Date	Particulars	No.	Dividend (₹)	Amount (₹)
12.4.19	To Bank A/c	1,00,000		40,00,000	15.5.19	By Bank A/c	1,25,000		25,00,000
15.5.19	To Bonus Issue	1,50,000			1.12.19	By Bank A/c (W.N.7)		2,25,000	
15.5.19	To Profit on sale (W.N. 5)			5,00,000					
31.3.20	To Profit & Loss A/c		2,25,000		31.3.20	By Balance c/d (W.N.8)	1,25,000		20,00,000
		2,50,000	2,25,000	45,00,000			2,50,000	2,25,000	45,00,000

Working Notes:

1.

12,000 bonds x ₹ 80.50 = 9,66,000

Accrued interest = ₹ 12,00,000 x 8/100x 5/12 = ₹ 40,000.

Cost of investment = ₹ 9,66,000 – 40,000 = ₹9,26,000.

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

2.

Total amount received = 3,000 x 81

Accrued interest = 3,00,000 x 8/100 x 5/12 = ₹ 10,000

3.

Interest = ₹ 9,00,000 x 8/100 x 1/2 = ₹ 36,000.

4.

Cost of bonds on 31.3.2019 will be ₹ 9,26,000/ 12,000 x 9,000 = ₹ 6,94,500. Interest accrued on bonds on 31.3.2019 = 9,00,000 x 8% x 5/12 = ₹30,000

5.

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

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

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

6.

		₹
Sale value	=	2,43,000
Cost of ₹3,00,0008% bonds = 9,26,000/12,00,000 x 3,00,000	=	2,31,500
Profit	=	11,500

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

8.

Cost per share after bonus = ₹ 16

Number of shares = 1,25,000

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

Solution to illustration 9

In the books of Smart Investments
Investment Accounts for the year ending 31st March 2020
[Scrip : 12% Govt. Bonds]

Date	Particulars	Nos.	Interest	Amount	Date	Particulars	Nos.	Interest	Amount
01.04.19	To Opening balance b/d (W.N.7)	1,200	3,600	1,26,000	30.06.19	By Bank A/c (Interest) (3,200 x 100 x 12% x 6/12)	-	19,200	-
02.5.19	To Bank A/c (W.N.8)	2,000	8,000	1,92,000	30.09.19	By Bank A/c (W.N.1) & (W.N.9)	1,500	4,500	1,57,500
30.09.19	To P & L A/c (Profit on Sale)			8,437	31.12.19	By Bank A/c (Interest)	-	10,200	-

	(W.N.1)					(1,700 x 100 x 12% x 6/12)			
31.03.20	To P & L A/c (Interest)		27,400		31.03.20	By bal. c/d (W.N.2) & (W.N.10)	1,700	5,100	1,68,937
		3,200	39,000	3,26,437			3,200	39,000	3,26,437

Investments in Equity shares of X Ltd. for year ended 31.3.2020

Date	Particulars	Nos.	Dividend	Amount	Date	Particulars	Nos.	Dividend	Amount
15.4.19	To Bank A/c (W.N.3)	5,000		10,10,000	16.9.19	By Bank (Dividend) (5,000 x 10 x 15%) (refer note 1 and 2)	-	-	7,500
3.6.19	To Bonus Issue	2,000	-	-					
31.8.19	To Bank A/c (W.N.11)	800		2,00,000	15.12.19	By Bank (Sale) (W.N.4)	3,000	-	8,91,000
15.12.19	To P & L A/c (W.N.5)			4,28,500	15.1.20	By Bank (interim dividend) (W.N.12)		4,800	
31.3.20	To P & L A/c		4,800						
					31.3.20	By Bal. c/d (W.N.6)	4,800		7,40,000
		7800	4,800	16,38,500			7800	4,800	16,38,500

Working Notes:

1. Profit on sale of bonds on 30.09.19

= Sales proceeds – Average cost

Sales proceeds= = ₹1,57,500 (i.e., 1,500 x 105)

Average cost = ₹ [(1,26,000+1,92,000) x 1,500/3,200] = 1,49,063

Profit = 1,57,500– ₹ 1,49,063=₹8,437

2. Valuation of bonds on 31.03.20

Cost = ₹3,18,000/3,200 x1,700 = 1,68,937.50

3. Cost of equity shares purchased on 15.04.2019

= Cost + Brokerage=

= (5,000 x ₹ 200) + 1% of (5,000 x ₹ 200) =₹ 10,10,000

4. Sale proceeds of equity shares on 15.12.2019

= Sale price – Brokerage

= (3,000 x₹ 300) – 1% of (3,000 x₹ 300) =₹ 8,91,000.

5. Profit on sale of shares on 15.12.2019

= Sales proceeds – Average cost

Sales proceeds = ₹ 8,91,000

Average cost = ₹ [(10,10,000+2,00,000-7,500) x 3,000/7,800]

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

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

6. Valuation of equity shares on 31.03.2020

Cost = ₹ [12,02,500 x4,800/7,800] = ₹ 7,40,000

Market Value = 4,800 shares x ₹ 220 = ₹ 10,56,000

Closing stock of equity shares has been valued at ₹ 7,40,000 i.e. cost being lower than the market value.

7. **Interest accrued on opening balance of bonds** = 1,200 x 100 x 12% x 3/12

= ₹ 3,600

8. **Interest element in bonds purchased on 02.05.2019**

= 2,000 x 100 x 12% x 4/12 = ₹ 8,000

Cost of investment (amount in investment column)

= (2,000 x 100) – 8,000 = ₹ 1,92,000

9. **Interest element in bonds sold on 30.09.2019**

= 1,500 x 100 x 12% x 3/12 = ₹ 4,500

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

= 1,700 x 100 x 12% x 3/12 = ₹ 5,100

11. **Right shares**

No. of right shares issued = (5,000 + 2,000) x 1/7 = 1,000 shares No.
of right shares sold = 1,000 x 20% = 200 shares

Proceeds from sale of right shares = 200 x 60 = ₹ 12,000 to be credited to statement of profit and loss

No. of right shares subscribed = 1,000 – 200 = 800 shares
Amount of right shares subscribed = 800 x 250 = ₹ 2,00,000

12. **Amount of interim dividend** = (5,000 + 2,000 + 800 – 3,000) x 10 x 10% = ₹ 4,800

Note:

1. No dividend is received on bonus shares as bonus shares are declared on 03.06.2019 and dividend pertains to the year ended 31.03.2019.
2. The amount of dividend for the period, for which shares were not held by the investor, has been treated as capital receipt.

Solution to illustration 10

In the books of Mr. Brown 12% Bonds for the year ended 31st March, 2020

Date	Particulars	No.	Interest	Amount	Date	Particulars	No.	Interest	Amount
			₹	₹				₹	₹
2019 May, 1	To Bank A/c	24,000	24,000	19,92,000	2019 Sept. 30	By Bank-Interest (24,000 x 100 x 12% x 6/12)	-	1,44,000	
2020 March 1	To P & L A/c	-	-	1,05,000	2020 Mar. 1	By Bank A/c	15,000	75,000	13,50,000
2020 March 31	To P & L A/c (b.f.)		2,49,000		2020 Mar. 31	By Bank-Interest (9,000 x 100 x 12% x6/12) x 6/12)		54,000	
						By Balance c/d	9,000		7,47,000
		24,000	2,73,000	20,97,000			24,000	2,73,000	20,97,000

12% Bond

Working Notes:

1. 01.05.2019 - Purchase of bonds

Purchase of bond 24,000 X 84 20,16,000

Less: Interest element in purchase of bonds = 24,000 x 100 x 12% x 1/12 = (24,000)

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

2. 30.09.2019 - Received Interest

24,000 x 100 x 12% x 6/12 = 1,44,000

3. 01.03.2020 - Sale of 12% Bond

Sales price (15,000 x 90) ₹13,50,000

Less: Cost of bond sold =19,92,000/24,000 X 15,000 (₹12,45,000)

Profit on sale ₹ 1,05,000

Interest (15,000 x 100 x 12% x 5/12) 75,000

4. 31.03.2020 - Received Interest

9,000 x 100 x 12% x 6/12 = 54,000

5. 31.03.2020 - Closing balance of 12 % Bond

19,92,000/24,000 X 9,000 = ₹7,47,000

Investment in Equity shares of Alpha Ltd. for the year ended 31st March, 2020

Date	Particulars	No.	Dividend	Amount	Date	Particulars	No.	Dividend	Amount
June 15	To Bank A/c (W.N.)	1,50,000	--	38,25,000	Oct. 31	By Bank A/c	80,000	--	17,60,000
Oct. 14	To Bonus Issue (W.N.)	1,00,000	-	-	2020 Jan. 1	By Bank A/c – dividend (W.N.)		2,55,000	
Oct. 31	To P & L A/c			5,36,000	March 31	By Balance c/d	1,70,000	-	26,01,000
2020 Mar. 31	To P & L A/c		2,55,000						
		2,50,000	2,55,000	43,61,000			2,50,000	2,55,000	43,61,000

Shares of alpha Ltd.

Working Notes:

1. 15.06.2019 – Purchase

Purchase of Equity shares 1,50,000 X 25	37,50,000
Add: Brokerage @ 2%	75,000
Total	38,25,000

2. 14.10.2019 Issue of Bonus Shares

1,50,000/3 X 2	1,00,000

3. 31.10.2019 - sale of equity shares of Alpha Ltd.

Sales price (80,000 x 22)	17,60,000
Less: Cost of shares sold =38,25,000/2,50,000 X 80,000	(12,24,000)
Profit on sale	5,36,000

4. 01.01.2020- Interim Dividend

(1,70,000 x 10 x 15%) =	2,55,000

5. 31.03.2020 - Closing balance of equity shares of Alpha Ltd.

38,25,000/2,50,000 x 1,70,000 =	26,01,000

Investment in Equity shares of Beeta Ltd. for the year ended 31st March, 2020

Date	Particulars	No.	Dividend	Amount	Date	Particulars	No.	Dividend	Amount

2019 July 10	To bank A/c ([60,000 x44]+[2% x(60,000 x44])	60,000	--	26,92,800	2019 Mar 15	By Bank – Dividend [(60,000 +6,000) x 10 x 18%]	-	1,18,800	
2020 Jan. 15	To Bank A/c	6,000	-	30,000	March 31	By Balance c/d (bal. fig.)	66,000	--	27,22,800
March 31	To P & L A/c	-	1,18,800	-					
		66,000	**1,18,800**	**27,22,800**			**66,000**	**1,18,800**	**27,22,800**

Shares of Beeta Ltd.

Working Notes:

1. 10.07.2019- Purchase of shares of Beeta Ltd.

60,000 x 44	26,40,000
Add: Brokerage 2%	52,800
Total	26,92,800

2. 15.01.2020 - Calculation of right shares subscribed by Beeta Ltd.

Right Shares 60000/4 X 1 =	15,000 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

3. 15.01.2020 - 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 to purchase right share = 9,000 x ₹ 2.25 =	₹ 20,250

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

4. 15.03.2020 – Interim Dividend 18%

66,000 x 10 x 18% =	1,18,800

Solution to illustration 11

In the books of A Ltd
Investment in equity shares of Allianz Ltd.

Date	Particulars	No.	Dividend ₹	Amount ₹	Date	Particulars	No.	Dividend ₹	Amount ₹
2019					2019				
April 1	To Bank A/c (W.N.1)	5,000	-	5,35,500	May 15	By Bank A/c (dividend) (W.N.6)	-	-	10,000
June 30	To Bonus Issue (W.N 2)	1,000	-	-					
					Nov. 30	By Bank A/c (Interim dividend) (W.N.7)	-	6,000	-
Oct. 1	To Bank A/c (W.N. 3)	250	-	11,250					
Dec.31	To P & L A/c	-	-	21,660					
2020	(W.N. 5)				Dec. 31 2020	By Bank A/c (W.N.5)	3,000	-	2,79,300
March 31	To P & L A/c (b.f.)	-	6,000	-					
					March 31	By Balance c/d (W.N. 7)	3,250	-	2,79,110
		6,250	6,000	5,68,410			6,250	6,000	5,68,410

Working Notes:

1. Calculation of cost of purchase on 01.04.2019

₹ 105 x 5,000 shares = ₹ 5,25,000

Add: Brokerage (2%) = ₹ 10,500

₹ 5,35,500

2. Calculation of number of bonus shares issued

Bonus share = $\frac{5,000}{5}$ x 1 = 1,000

3. Calculation of right shares subscribed

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

Share subscribed = $\frac{500}{2}$ = 250

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

4. Calculation of sale of right entitlement

250 shares x ₹ 5 per share = ₹ 1,250

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

5. Calculation of profit on sale of shares

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

3,000 shares were sold on 31.12.2019

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 - $\frac{5,36,750}{6,250}$ x 3,000 = ₹ 2,57,640

	₹
Sale proceeds of 3,000 shares (3,000 x ₹ 95)	2,85,000
Less: 2% Brokerage	(5,700)
	2,79,300
Less: Cost of 3,000 shares	(2,57,640)
Profit on sale	21,660

6. **Dividend received on investment held as on 15.05.2019**
   = ₹ 10,000 (5,000 x ₹ 100 x 2%) adjusted to Investment A/c
7. **Dividend amounting ₹ 6,000 received on 30.11.2019 will be credited to P&L A/c**
8. **Calculation of closing value of shares (on average basis) as on 31st March, 2020**

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

Solution to illustration 12

As it is stated in the question that financial statements for the year ended 31st March, 2017 are under preparation, the views have been given on the basis that the financial statements are yet to be completed and approved by the Board of Directors. Also, the fall in value of investments has been considered on account of conditions existing on the balance sheet date.

Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution should be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. AS 13 (Revised) 'Accounting for Investments' states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. On these bases, the facts of the given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of long term investment to ₹20,000 in the financial statements for the year ended 31st March, 2017.

Solution to illustration 13

X Ltd. invested ₹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. ₹300 lakhs and remaining as temporary (current) investment i.e. ₹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 realisable value of all such investments on 31.3.2017 became ₹200 lakhs i.e. ₹100 lakhs in respect of current investment and ₹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 realisable value i.e. at ₹100 lakhs. The reduction of ₹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 recognise the decline.

Here, Y Ltd. lost a case of copyright which drastically reduced the realisable 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 ₹ 200 lakhs and show the investments at ₹ 100 lakhs, since the downfall in the value of shares is other than temporary. The reduction of ₹200 lakhs in the carrying value of long term investment will also be charged to the Statement of profit and loss.

Solution to illustration 14

As per AS 13 (Revised) 'Accounting for Investments', for investment in shares – if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value, i.e., in case of shares, at lower of cost (₹2,50,000) and market value (₹2,25,000) as on 31 March 2020, i.e., ₹2,25,000.

If equity shares are acquired with an intention to hold for long term period (more than one year), then should be considered as long-term investment to be shown at cost in the Balance Sheet of the company. However, provision for diminution should be made to recognise a decline, if other than temporary, in the value of the investments.

Gold and silver are generally purchased with an intention to hold it for long term period (more than one year) until and unless given otherwise. Hence, the investment in Gold and Silver (purchased on 1st March, 2017) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2020, i.e., ₹4,00,000 and ₹2,00,000 respectively, though their market values have been increased.

Solution to illustration 15

As per AS 13 (Revised), 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.

(1) In the first case, the market value of the investment is ₹25 lakhs, which is higher than its cost i.e. ₹20 lakhs. Therefore, the transfer to long term investments should be carried at cost i.e. ₹20 lakhs.

(2) In the second case, the market value of the investment is ₹6.5 lakhs, which is lower than its cost i.e. ₹15 lakhs. Therefore, the transfer to long term investments should be carried in the books at the market value i.e. ₹6.5 lakhs. The loss of ₹8.5 lakhs should be charged to profit and loss account.

As per AS 13 (Revised), where long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

(3) In the third case, the book value of the investment is ₹12 lakhs, which is lower than its cost i.e. ₹18 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at ₹12 lakhs.

SOLUTIONS TO PRACTICE PROBLEMS

Solution 1:

In the books of XY Ltd. Investment in equity shares of ABC Ltd. for the year ended 31.03.2020

Date	Particular	No.	Dividend	Amount	Date	Particulars	No.	Dividend	Amount
		₹	₹	₹			₹	₹	₹
1.4.19	To balance b/d	15,000	-	2,25,000	31.10.19	By bank a/c (w.n.4)	-	30,000	10,000
1.6.19	To bank a/c	5,000	-	1,00,000	1.1.20	By bank a/c (w.n.3)	13,000	-	2,12,355
1.7.19	To bonus issue (w.n.1)	4,000	-	-	31.3.20	By balance c/d (w.n.6)	13,000	-	1,69,500
1.9.19	To bank a/c (w.n.2)	2,000	-	24,000					
1.1.20	To P&L A/c (w.n.3)	-	-	42,855					
31.3.20	To P&L A/c	-	30,000	-					
		26,000	30,000	3,91,855			26,000	30,000	3,91,855

Working Notes:

1. Calculation of no. of bonus shares issued

Bonus shares = (15,000 shares + 5,000 shares)/5 shares

Right shares = (15,000 shares + 5,000 shares + 4,000 shares)/6 shares

Shares Subscribed by XY Ltd = 4,000/2 = 2,000 Shares

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

2. Calculation of sale of right entitlement

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

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

3. Calculation of profit on sale of shares

Total holding = 15,000 shares original

5,000 shares purchased

4,000 shares bonus

2,000 shares right shares

26,000 shares

50% of the holdings were sold i.e. 13,000 shares (26,000 x1/2)

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

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

4. Dividend received on investment held as on 01.04.2019

= 15,000 shares x ₹10 x 20%

= ₹ 30,000 will be transferred to Profit and Loss A/c

Dividend received on shares purchased on 01.06.2019

= 5,000 shares x ₹10 x 20% = ₹10,000 will be adjusted to Investment A/c

Note: No dividend is received on bonus shares as bonus shares are declared on 01.07.2019 and dividend pertains to the year ended 31.03.2019.

5. Calculation of closing value of shares (on average basis) as on 31.03.2020

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

Solution 2:

In the Books of Mr. Z

9% Central Government Bonds (Investment) Account

Particulars		Nominal Value	Interest	Amount	Particulars		Nominal Value	Interest	Amount
2019		₹	₹	₹	**2019**		₹	₹	₹
Jan.1	To Balance b/d (W.N.1)	1,20,000	2,700	1,18,000	Mar 31	By Bank A/c (W.N.3)		6,300	
Mar 1	To Bank A/c (W.N.2)	20,000	750	19,600	July 1	By Bank A/c (W.N.4)	50,000	1,125	50,000
July 1	To P&L	-	-	833	Sept. 30	By Bank	-	4,050	-

	A/c(W.N.5)					A/c (W.N.6)			
Oct. 1	To Bank A/c (150 x 98)	15,000	-	14,700	Nov.1	By Bank A/c (W.N.7)	30,000	225	29,700
Nov.	To P&L A/c (W.N.8)			200	Dec.31	By Balance c/d (W.N. 9 & W.N. 10)	75,000	1,688	
Dec. 31	To P&L A/c (b.f.)(Transfer)		9,938						
		1,55,000	13,388	1,53,333			1,55,000	13,388	1,53,333

Working Notes:

1. **Interest element in opening balance of bonds** = 1,20,000 x 9% x 3/12 = ₹ 2,700

2. **Purchase of bonds on 01.03.2019**

   Interest element in purchase of bonds = 200 x 100 x 9% x 5/12 = ₹ 750

   Investment element in purchase of bonds = 200 x 98 = ₹ 19,600

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

4. **Sale of bonds on 01.07.2019**

   Interest element = 500 x 100 x 9% x 3/12 = ₹ 1,125

   Investment element = 500 x 100 = ₹ 50,000

5. **Profit on sale of bonds on 01.07.2019**

   Cost of bonds = (1,18,000/ 1,200) x 500 = ₹ 49,167

   Sale proceeds = ₹ 50,000

   Profit element = ₹ 833

6. **Interest for half-year ended 30 September**

   = 900 x 100 x 9% x 6/12 = ₹ 4,050

7. **Sale of bonds on 01.11.2019**

   Interest element = 300 x 100 x 9% x 1/12 = ₹ 225 Investment element = 300 x 99 = ₹ 29,700

8. **Profit on sale of bonds on 01.11.2019**

   Cost of bonds = (1,18,000/ 1,200) x 300 = ₹ 29,500 Sale proceeds = ₹ 29,700

   Profit element = ₹ 200

9. Closing value of investment

Calculation of closing balance:	**Nominal value**		**₹**
Bonds in hand remained in hand at 31st December 2019			
From original holding (1,20,000 – 50,000 – 30,000)=	40,000	$\frac{1,18,000}{1,20,000}$ x 40,000	39,333
Purchased on 1st March	20,000		19,600
Purchased on 1st October	15,000		14,700
	75,000		73,633

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

Solution 3:

Investment A/c of Mr. Purohit for the year ending on 31-3-2020
(Scrip: 8% Debentures of P Limited)
(Interest Payable on 30th September and 31st March)

Date	**Particulars**	**Nominal Value**	**Interest**	**Amount**	**Date**	**Particulars**	**Nominal Value**	**Interest**	**Amount**
			₹	₹				₹	₹
			-	1,18,000				5,200	-
						x 100 x 8% x 6/12)			
1.7.19	To Bank (ex-Interest) (W.N.1)	10,000	200	9,898	1.10.19	By Bank (W.N.4)	20,000	-	19,800
1.10.19	To Profit & Loss A/c (W.N.4)			133	1.2.20	By Bank (ex-Interest) (w.n.5)	20,000	533	19,602
1.1.20	To Bank (cum-Interest) (W.N.2)	5,000	100	4,849	1.2.20	By Profit & Loss A/c (W.N.5)			64
31.3.20	To Profit & Loss A/c(Bal. fig.)	-	9,233		31.3.20	By Bank (950 x 100 x 8% x 6/12)			-
					31.3.20	By Balance c/d (W.N.3)	95,000	-	93,414
		1,35,000	9,533	1,32,880			1,35,000	9,533	1,32,880

Working Notes:

1. Purchase of debentures on 01.07.2019

Interest element = 100 x 100 x 8% x 3/12 = ₹ 200

Investment element = (100 x 98) + [1%(100 x 98)] = ₹ 9,898

2. Purchase of debentures on 01.01.2020

Interest element = 50 x 100 x 8% x 3/12 = ₹ 100

Investment element = {(50 x 98) + [1% (50 x 98)]} – 100 = ₹ 4,849

3. Valuation of closing balance as on 31.03.2020:

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

Cost of 800 Debentures cost

$= \frac{1,18,000}{1,20,000}$ x 80,000 = 78,667

100 Debentures cost = 9,898

50 Debentures cost = 4,849

93,414

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

4. Profit on sale of debentures as on 01.10.2019

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

5. Loss on sale of debentures as on 01.02.2020

	₹
Sales price of debentures (200 x ₹ 99)	19,800
Less: Brokerage @ 1%	(198)
	19,602
Less: Cost of Debentures $\frac{1,18,000}{1,20,000}$ x 20,000 =	(19,666)
Loss on sale	64
Interest element in sale of investment = 200 x 100 x 8% x 4/12	₹533

Solution 4:

Investments in 13.5% convertible Debentures in P Ltd. Account

(Interest payable 31st March & 30th September

Date	Particulars	Nominal	Interest	Amount	Date	Particulars	Nominal	Interest	Amount
		₹	₹	₹			₹	₹	₹
2018					2018				
May1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank (6 months int.)		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000		By Bank			
Oct.1	To P&L A/c			2,167	Oct.1	By Equity share	2,00,000		2,06,000
					Dec.31		1,10,000		1,12,108
Dec.31	To P&L A/c		52,313		Dec.31	By Bank (see note 1)			
					Dec.31	By Balance c/d		3,713	
							4,40,000	14,850	4,48,434
		7,50,000	69,188	7,66,542			7,50,000	69,188	7,66,542

Note 1: ₹3,713 received on 31.12.2018 represents interest on the debentures converted till date of conversion.

Note 2: Cost being lower than Market Value the debentures are carried forward at Cost.

Investment in Equity shares in P Ltd. Account

Date	Particulars	Nominal	Amount	Date	Particulars	Nominal	Amount
		₹	₹			₹	₹
2018				2018			
Dec.31	To 13.5 % Deb.	1,00,000	1,12,108	Dec.31	By P&L A/c		22,108
				Dec.31	By Bal. c/d	1,00,000	90,000
		1,00,000	1,12,108			1,00,000	1,12,108

Note1: Cost being higher than Market Value the shares are carried forward at Market Value.

Working Notes:

1. Interest paid on ₹ 5,00,000 purchased on May 1st, 2018 for the month of April 2018, as part of purchase price: 5,00,000 x 13.5% x 1/12 = ₹5,625

2. Interest received on 30th Sept. 2018

On ₹5,00,000 = 5,00,000 x 13.5% x ½ = 33,750

On ₹2,50,000 = 2,50,000 x 13.5% x ½ = 16,875

Total ₹ 50,625

3. Interest paid on ₹2,50,000 purchased on Aug. 1st 2018 for April 2018 to July 2018 as part of purchase price:

2,50,000 x 13.5% x 4/12 = ₹ 11,250

4. Profit on Sale of Debentures

Cost of acquisition

(₹ 5,19,375 + ₹ 2,45,000) x ₹ 2,00,000/₹ 7,50,000 = 2,03,833

Less: Sale Price (2,000 x 103) = 2,06,000

Profit on sale = ₹ 2,167

5. Interest on 1,100 Debentures (being those converted) for 3 months i.e. Oct - Dec. 2018 1,10,000 x 13.5% x 3/12 = ₹ 3,713
6. Cost of Debentures converted to Equity Shares

(₹ 5,19,375 + ₹ 2,45,000) x 1,10,000/7,50,000= ₹ 1,12,108

7. Cost of Balance Debentures

(₹5,19,375 + ₹ 2,45,000) x ₹ 4,40,000/₹7,50,000 = ₹ 4,48,434

8. Interest on Closing Debentures for period Oct.-Dec. 2018 carried forward (accrued interest)

Solution 5:

Investment Account for the year ending on 31st December, 2018

Scrip: 8% Convertible Debentures in C Ltd.

[Interest Payable on 31st March and 30th September]

Date	Particulars	Nominal value ₹	Interest ₹	Amount ₹	Date	Particulars	Nominal Value (₹)	Interest (₹)	Amount (₹)
1.4.18	To Bank A/c	2,00,000	-	2,16,000	30.09.18	By Bank A/c	-	12,000	-
1.7.18	To Bank A/c (W.N.1)	1,00,000	2,000	1,10,000		[₹3,00,000 x 8% x (6/12]			
31.12.18	To P & L A/c	-	14,033	-	1.10.18	By Bank A/c	80,000		84,000

	[Interest]				1.10.18	By P&L A/c (loss) (W.N.1)			2,933
					1.12.18	By Bank A/c (Accrued interest) (₹ 55,000 x .08 x 2/12)		733	
					1.12.18	By Equity shares in C Ltd. (W.N. 3 and 4)	55,000		59,767
					31.12.18	By Balance c/d (W.N.5)	1,65,000	3,300	1,79,300
		3,00,000	16,033	3,26,000			3,00,000	16,033	3,26,000

SCRIP: Equity Shares in C LTD.

Date	Particulars	Nominal	Amount (₹)	Date	Particulars	Nominal	Amount (₹)
1.12.18	To8 % debentures	50,000	59,767	31.12.18	By balance c/d	50,000	59,767
		50,000	59,767			50,000	59,767

Working Notes:

(i) Cost of Debenture purchased on 1st July = ₹1,12,000 – ₹2,000 (Interest) = ₹1,10,000

(ii) Cost of Debentures sold on 1st Oct.

(iii) (₹2,16,000 + ₹1,10,000) x 80,000/3,00,000 = ₹ 86,933

Loss on sale of Debentures = ₹ 86,933– ₹84,000 = ₹2,933

Nominal value of debentures converted into equity shares =₹ 55,000 [(₹ 3,00,000 – 80,000) x.25]

Interest received before the conversion of debentures

Interest on 25% of total debentures = 55,000 x 8% x 2/12 = 733

(iv) Cost of Debentures converted = (₹ 2,16,000 + ₹1,10,000) x 55,000/3,00,000 = ₹ 59,767
(v) Cost of closing balance of Debentures = (₹ 2,16,000 + ₹1,10,000) x 1,65,000 / 3,00,000 = ₹ 1,79,300
(vi) Closing balance of Debentures has been valued at cost.
(vii) 5,000 equity Shares in C Ltd. will be valued at cost of ₹ 59,767 being lower than the market value ₹ 75,000 (₹15 x 5,000)

Note: It is assumed that interest on debentures, which are converted into cash, has been received at the time of conversion.

Solution 6:

Investment Account-Equity Shares in X Ltd.

Date		No. of shares	Dividend	Amount	Date		No. of shares	Dividend	Amount
			₹	₹				₹	₹
2017					2018				
April 1	To Balance b/d	4,000	-	60,000	Jan. 20	By Bank (dividend)		8,000	2,000
Sept 1	To Bank	1,000	-	14,000	Feb. 1	By Bank	4,000		56,000
Sept.30	To Bonus Issue	2,000		—	Mar. 31	By Balance c/d	4,000		42,250
Dec.1	To Bank (Right)	1,000	-	12,500					
2018									
Feb. 1	To Profit & Loss A/c			13,750					
March-31	To Profit & Loss A/c (Dividend income)		8,000						
		8,000	8,000	1,00,250			8,000	8,000	1,00,250

Working Notes:

1. Cost of shares sold — Amount paid for 8,000 shares

	₹
(₹ 60,000 + ₹ 14,000 + ₹ 12,500)	86,500
Less: Dividend on shares purchased on 1st Sept, 2017	(2,000)
Cost of 8,000 shares	84,500
Cost of 4,000 shares (Average cost basis*)	42,250
Sale proceeds (4,000 shares @ 14/-)	56,000
Profit on sale	13,750

* For ascertainment of cost for equity shares sold, average cost basis has been applied.

2.Value of investment at the end of the year

Closing balance will be valued based on lower of cost (₹ 42,250) or net realizable value (₹13 x 4,000). Thus, investment will be valued at ₹ 42,250.

3. Calculation of sale of right entitlement

1,000 shares x ₹ 8 per share = ₹ 8,000

Amount received from sale of rights will be credited to P & L A/c as per AS 13

'Accounting for Investments'.

4. Dividend received on investment held as on 1st April, 2017

= 4,000 shares x ₹ 10 x 20%

= ₹ 8,000 will be transferred to Profit and Loss A/c

Dividend received on shares purchased on 1stSep. 2017

= 1,000 shares x ₹ 10 x 20% = ₹ 2,000 will be adjusted to Investment A/c

Note: No dividend is received on bonus shares as bonus shares are declared on 30th Sept., 2017 and dividend pertains to the year ended 31.3.2017.

Solution 7:

In the books of Alpha Ltd.

Investment in 13.5% Debentures

For the year ended on 31st Dec, 2019

Date	Particulars	Nominal	Interest	Amount	Date	Particulars	Nominal	Interest	Amount
2019		₹	₹	₹			₹	₹	₹
May 1	To Bank	5,00,000	5,625	5,19,375	Sept. 30	By Bank (6 months int.)		50,625	
Aug. 1	To Bank	2,50,000	11,250	2,45,000		By Bank			
Oct. 1	To P&L A/c			2,167	Oct. 1		2,00,000		2,06,000
Dec.31	To P&L A/c		52,313			By Balance c/d			
		_____		_____	Dec. 31		5,50,000	18,563	5,60,542
		7,50,000	69,188	7,66,542			7,50,000	69,188	7,66,542

Note: Cost being lower than Market Value the debentures are carried forward at Cost.

Working Notes:

1. Interest paid on ₹ 5,00,000 purchased on May 1st, 2019 for the month of April 2019, as part of purchase price: 5,00,000 x 13.5% x 1/12 = ₹ 5,625
2. Interest received on 30th Sept. 2019

   On ₹ 5,00,000 = 5,00,000 x 13.5% x ½ = 33,750

On ₹ 2,50,000 = 2,50,000 x 13.5% x ½ = 16,875

Total ₹ 50,625

3. Interest paid on ₹ 2,50,000 purchased on Aug. 1st 2019 for April 2019 to July 2019 as part of purchase price:

2,50,000 x 13.5% x 4/12 = ₹ 11,250

4. Profit on Sale of Debentures Cost of acquisition

(₹ 5,19,375 + ₹ 2,45,000) x ₹ 2,00,000/₹ 7,50,000	=	2,03,833
Less: Sale Price (2,000 x 103)	=	2,06,000
Profit on sale	=	₹ 2,167

5. Cost of Balance Debentures

(₹ 5,19,375 + ₹ 2,45,000) x ₹ 5,50,000/₹ 7,50,000 = ₹ 5,60,542

6. Interest on Closing Debentures for period Oct.-Dec. 2019 carried forward (accrued interest)

₹ 5,50,000 x 13.5% x 3/12 = ₹ 18,563

Solution 8:

As per AS 13, "Accounting for Investments" Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. The standard also states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.

On this basis, the facts of the case given in the question clearly suggest that the provision for diminution should be made to reduce the carrying amount of shares to ₹ 45,000 in the financial statements for the year ended 31st March, 2020 and charge the difference of loss of ₹ 2,55,000 to profit and loss account.

Solution 9:

As per AS 13 'Accounting for Investments', where investments are reclassified from current to long-term, transfers are made at the lower of cost or fair value at the date of transfer.

In the given case, the market value of the investment (X Ltd. shares) is ₹2.50 lakhs, which is lower than its cost i.e. ₹ 5 lakhs. Therefore, the transfer to long term investments should be made at cost of ₹2.50 lakhs. The loss of ₹2.50 lakhs should be charged to profit and loss account.

Solution 10:

As per AS 13 'Accounting for Investments', the accounting standard is not applicable to Bank, Insurance Company, Mutual Funds. In this case Z Bank is a bank; therefore, AS 13 does not apply to it. For banks, the RBI has issued separate guidelines for classification and valuation of its investment and Z Bank should comply with those RBI Guidelines/Norms. Therefore, though Z Bank has not followed the provisions of AS 13, yet it would not be said as non-compliance since, it is complying with the norms stipulated by the RBI.

Solution 11:

As per AS 13 'Accounting for Investments', if the shares are purchased with an intention to hold for short-term period then investment will be shown at the realizable value i.e. ₹3,75,000

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 the company i.e. ₹4,50,000. However, provision for diminution shall be made to recognize a decline, if other than temporary, in the value of the investments i.e. provision of ₹75,000 shall be made if the reason of decline is other than temporary.

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 31st March, 2017) shall continue to be shown at cost as on 31st March, 2020 i.e., ₹ 5,00,000 and ₹ 2,25,000 respectively, though their realizable values have been increased.

EXAMINATION QUESTIONS

Nov 2019 (New Course)

Question.3. (a) **(10 Marks)**

Solution:

In the books of Mr. HARSH

10% Debentures of Exe Limited.

Date	Particulars	Face Value	Interest	Amount	Date	Particulars	Face Value	Interest	Amount
2019					**2019**				
1.4	To bal b/d	1250000	31250	1225000	30.6	By Bank		107500	
1.6	To Bank	900000	37500	890820	31.12	By Bank		167500	
1.11	To Bank	1200000	40000	1353800					
2020 31.1	To Profit on sale			134920	**2020** 31.1	By Bank	1350000	11250	1458900
31.3	To P & L		227500		31.3	By Bal c/d	2000000	50000	2145640
		3350000	**336250**	**3604540**			**3350000**	**336250**	**3604540**

01.04.2019 (01.01.2019 to 31.03.2019)

Interest (accrued): 12,50,000 x 10% x 3/12 31,250

Purchase

01.06.2019

Ex interest value: 9000 x 98 8,82,000

Add: Brokerage @ 1% 8,820

Total 8,90,820

01.01.2019 to 31.05.2019

Interest (paid): 9,00,000 x 10% x 5/12 37,500

30.06.2019

Interest 21,50,000 x 10% x 6/12 1,07,500

Purchase

01.11.2019

Cum interest value : 12000 x 115 13,80,000

Add: Brokerage @ 1% 13,800

Less: Interest 12,00,000 x 10% x 4/12 (40,000)

Ex interest value 13,53,800

31.12.2019

Interest 33,50,000 x 10% x 6/12	1,67,500

Sale

31.01.2020	
Cum interest value (13,500 x 110)	14,85,000
Less: cost of acquisition	
(cost of 12,500 = 12,25,000)	(12,25,000)
(cost of 1000 = (8,90,820/9000 x 1000)	(98,980)
Less: Brokerage 1%	(14,850)
Less: Interest (13,50,000 x 10% x 1/12)	(11,250)
Profit on sale	1,34,920
31.03.2020	
Interest: 20,00,000 x 10% x 3/12	50,000

Carrying cost as per AS-13

(A) 8,90,820/9000 x 8000	7,91,840
(B) For 12000 Debentures	13,53,800
Total (A+B)	21,45,640
Market Value	
20,000 x 115 =	23,00,000
whichever is less	21,45,640

Nov-2019 (Old Course)

Question. 5. (b) **(8 Marks)**

Solution:

In the books of XYZ Ltd.

9% Government Securities

Date	Particulars	Face Value	Interest	Amount	Date	Particulars	Face Value	Interest	Amount
2019					**2019**				
01.4	To bal b/d	1,00,000	2,250	90,000	1.6	By Bank	60,000	2,250	54,150
01.5	To Bank	80,000	2,400	73,600	30.6	By Bank		5,400	
01.6	To profit on sale			150	30.9	By Bank	40,000	900	37,900
30.9	To profit on sale			1,900	31.12	By Bank		4,050	
01.12	To Bank	10,000	375	10,000	**2020** 1.3	By Bank	10,000	150	9,500

2020 01.3	To profit on sale			300					
31.3	To P & L		9,525		31.3	By Bal c/d	80,000	1,800	74,400
		1,90,000	14,550	1,75,950			1,90,000	14,550	1,75,950

01.04.2019
Interest : 1,00,000 x 9% x 3/12 = 2,250

Purchase
01.05.2019
Cum interest value : 800 x 95 76,000
Less interest: 80,000 x 9% x 4/12 (2,400)
Ex interest value 73,600

Sale
01.06.2019
Cum interest value: 600 x 94 56,400
Less interest: 60,000 x 9% x 5/12 2,250
Ex interest value 54,150
Less cost of acquisition: 90,000 / 1,00,000 x 60,000 54,000
Profit on sale 150

30.06.2019
Interest 1,20,000 x 9% x 6/12 5,400

Sale
30.09.2019
Cum interest value: 400 x 97 38,800
Less interest: 40,000 x 9% x 3/12 900
Ex interest value 37,900
Less cost of acquisition : 90,000 / 1,00,000 x 40,000 36,000
Profit on sale 1,900

Purchase
01.12.2019
At Face Value: 100 x 100 10,000
Interest: 10,000 x 9% x 5/12 375
31.12.2019
Interest 90,000 x 9% x 6/12 4,050

Sale

01.03.2020	
Ex interest value (100 x 95)	9,500
Less cost of acquisition : 73,600 / 80,000 x 10,000	9,200
Profit on sale	300
Interest: 10,000 x 9% x 2/12	150
31.03.2020	
Interest: 80,000 x 9% x 3/12	1,800

Nov-2019 (Old Course)

Question.7. (b) **(4 Marks)**

Answer:

(i) Long term investment in company A shall be carried at ₹8 lakhs

(ii) Long term investment in company B shall be carried at ₹5 lakhs

(iii) Current term investment in company C shall be carried at ₹8 lakhs

(iv) Current term investment in company D shall be carried at ₹11 lakhs

May 2019 (New Course)

Question 1 (b) **(5 Marks)**

Answer:

As per AS 13 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are **made at the lower of cost and carrying amount** at the date of transfer; and where investments are reclassified from current to long term, transfers are made **at lower of cost and fair value** on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 12 lakhs in the books.

In this case also, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 5 lakhs in the books.

In this case, reclassification of current investment into long-term investments will be made at ₹ 7 lakhs as cost is less than its fair value of ₹ 8.5 lakhs on the date of transfer.

In this case, market value (considered as fair value) is ₹ 3.8 lakhs on the date of transfer which is lower than the cost of ₹ 4 lakhs. The reclassification of current investment into long-term investments will be made at ₹ 3.8 lakhs.

May 2019 (Old Course)

Question 1 (d) **(5 Marks)**

Answer:

As per AS 13 'Accounting for Investments', 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.

When long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

(i) In the first case, the market value of the investments is ₹ 30 lakhs, which is higher than its cost i.e. ₹ 25 lakhs. Therefore, the transfer to long term investments should be made at cost i.e. ₹ 25 lakhs

(ii) In the second case, the market value of the investment is ₹ 12.5 lakhs, which is lower than its cost i.e. ₹20 lakhs. Therefore, the transfer to long term investments should be made in the books at the market value i.e. ₹ 12.5 lakhs. The loss of ₹ 7.50 lakhs (20-12.5) should be charged to Profit and Loss account.

(iii) In the third case, the book value of the investments is ₹ 11 lakhs, which is lower than its cost, i.e. ₹ 15 lakhs. As the transfer should be at carrying amount, hence this re- classified current investment should be carried at ₹ 11 lakhs.

May 2019 (Old Course)

Question 5 (b) **(8 Marks)**

Answer:

Investment Account of Mr. Ashok for the year ending on 31.03.2020
(Scrip: 12% Debentures of XYZ Limited) (Interest Payable on 30th June and 31st December)

Date	Particulars	Nominal Value	Interest	Amount	Date	Particulars	Nominal Value	Interest	Cost
1.4.2019	To Balance b/d	18,00,000	54,000	17,64,000	30.6.2019	By Bank (27,00,000 x 12% x 6/12)	-	1,62,000	-
1.6.2019	To Bank A/c	9,00,000	45,000	10,35,000	1.9.2019	By Bank A/c	13,50,000	27,000	14,58,000
1.9.2019	To Profit & Loss A/c	-	-	1,35,000	1.12.2019	By Bank A/c	9,00,000	45,000	9,45,000
31.1.2020	To Bank A/c	13,50,000	13,500	13,50,000	1.12.2019	By Profit & Loss A/c	-	-	13,500
31.3.2020	To Profit & Loss A/c (Bal. fig.)	-	2,02,500	-	31.12.2019	By Bank A/c (4,50,000 x 12%x6/12)	-	27,000	-
					31.3.2020	By Balance c/d	18,00,000	54,000	18,67,500
		40,50,000	3,15,000	42,84,000			40,50,000	31,50,000	42,84,000

Working Notes:

1. Purchase Cost of 9,000 debentures on 1.6.2019

	₹
9,000 Debentures @ ₹ 120 cum interest	10,80,000
Less: Interest for 5 months	(45,000)
Purchase cost of 9,000 debentures	10,35,000

2. Loss on sale of debentures as on 1.12.2019

	₹
Sales price of Debentures (9,000 x ₹ 105)	9,45,000
Less: Cost price of Debentures ₹ (4,41,000 + 5,17,500)	(9,58,500)
Loss on sale	13,500

3.Valuation of closing balance as on 31.03.2020

Market value of 18,000 Debentures at ₹105 = ₹ 18,90,000
Cost price of 4,500 Debentures = 5,17,500
Cost price of 13,500 Debentures =13,50,000
=18,67,500

Value at the end is ₹ 18,67,500/- which is less than the market value of ₹ 18,90,000. Hence valued at ₹ 18,67,500/-

4. Profit on sale of debentures (sold on 1.9.2019)

	₹
Sales price of Debentures (13,500 x ₹ 110)	14,85,000
Less: Interest for 2 months (13,500 x ₹100 x 12% x 2/12)	(27,000)
Less : Cost price of debentures 17,64,000 x $\frac{13,500}{18,000}$	(13,23,000)
Profit on sale	1,35,000

NOV 2018 (New Course)

Question 2. (a) **(10 Marks)**

Answer:

(a) **In the books of Nisha**

8% Bonds for the year ended 31st March, 2020

Date	Particulars	No.	Interest ₹	Amount ₹	Date	Particulars	No.	Interest ₹	Amount ₹
1.4.19	To Bank A/c	9,000	30,000	6,94,500	1.5.19	By Bank Interest	-	36,000	
1.10.19	To P&L A/c (w.n.1)	-	-	8,625	1.10.19	By Bank A/c	2,250	7,500	1,82,250
31.3.20	To P&L A/c		63,000		1.11.19	By Bank-Interest		27,000	-
					31.3.20	By Balance c/d (w.n. 2)	6,750	22,500	5,20,875
		9,000	93,000	7,03,125			9,000	93,000	7,03,125

Investments in Equity Shares of ABC Ltd. for the year ended 31st March, 2020

Date	Particulars	No.	Dividend ₹	Amount ₹	Date	Particulars	No.	Dividend ₹	Amount ₹
1.7.19	To Bank A/c	12,000	-	5,38,560	15.3.20	By Bank dividend	-	23,760	-
15.1.20	To Bank A/c (w.n.3)	1,200	-	6,000	31.3.20	By Balance c/d (bal.fig.)	13,200	-	5,44,560
31.3.20	To P&L A/c	-	23,760	-					
		13,200	23,760	5.44.560			13,200	23,760	5,44,560

Considering that dividend was received on right shares also.

Working Notes:

1. **Profit on sale of 8% Bonds**

   Sales price ₹ 1,82,250

   Less: Cost of bond sold = 6,94,500/9,000x 2,250 (₹ 1,73,625)

   Profit on sale ₹ 8,625

2. **Closing balance as on 31.3.2018 of 8 % Bonds**

   6,94,500/ 9,000 x 6,750= ₹ 5,20,875

3. **Calculation of right shares subscribed by ABC Ltd.**

   Right Shares = 12,000/4 x 1= 3,000 shares

   Shares subscribed by Nisha = 3,000 x 40%= 1,200 shares

   Value of right shares subscribed = 1,200 shares @ ₹ 5 per share = ₹ 6,000

4. **Calculation of sale of right entitlement by ABC Ltd.**

   No. of right shares sold = 3,000 – 1,200 = 1,800 rights for ₹ 4,050

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

Question 5 (a) **(8 Marks)**

Answer:

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

Date	Particulars	No.	Amount ₹	Date	Particulars	No.	Amount ₹
01.4.2019	To bal b/d	30,000	4,50,000	31.10.2019	By bank (dividend)	----	10,000
22.06.2019	To bank	5,000	80,000				
10.08.2019	To bonus	5,000	--				
30.09.2019	To bank (right shares)	10,000	1,50,000				
15.11.2019	To profit (on sale of share)		32,000	15.11.2019	By bank (sale of share)	20,000	3,00,000
				31.3.2020	By bal c/d	30,000	4,02,000
		50,000	**7,12,000**			**50,000**	**7,12,000**

Working notes:

(1) Bonus Shares = (30,000 + 5,000) / 7 = 5,000 shares

(2) Right shares = $\frac{(30,000+5,000+5,000)}{8}$ x 3 =15,000 Shares

(3) Rights shares sold = 15,000×1/3 = 5,000 shares

(4) Dividend received = 30,000×10×20% = ₹ 60,000 will be taken to P&L statement

(5) Dividend on shares purchased on 22.6.2017= 5,000×10×20% = ₹ 10,000 is adjusted to Investment A/c

(6) Profit on sale of 20,000 Shares = Sales proceed – Average Cost

Sales proceed = ₹3,00,000

Average cost = $\frac{(4,50,000+80,000+1,50,000-10,000)}{50,000}$ x 20,000 = ₹2,68,000

Profit = ₹ 3,00,000– ₹ 2,68,000= ₹ 32,000.

(7) Cost of shares on 31.3.2018

$\frac{(4,50,000+80,000+1,50,000-10,000)}{50,000}$ x 30,000 = ₹ 4,02,000

(8) Sale of rights amounting ₹ 10,000 (₹ 2 x 5,000 shares) will not be shown in investment A/c but will directly be taken to P & L statement.

Nov-2018 (old course)

Question 7(a) **(4 Marks)**
Answer:

As per AS 13 "Accounting for Investments", Valuation of current investments on overall (or global) basis is not considered appropriate. Sometimes, the concern of an enterprise may be with the value of a category of related current investments and not with each individual investment, and accordingly the investments may be carried at the lower of cost and fair value computed category-wise (i.e. equity shares, preference shares, convertible debentures, etc.). However, the more prudent and appropriate method is to carry investments individually at the lower of cost and fair value.

(i) Hence the company has to value the current investment at ₹ 27 Lacs (A Ltd. shares at ₹ 5 lacs; B Ltd. shares at ₹ 10 lacs and C Ltd. shares at ₹ 12 lacs). The company's decision to value the portfolio at ₹ 30 lacs is not appropriate.
(ii) Moreover, 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.

Hence, the company has to make transfer of 1,000 equity shares of C Ltd.at ₹ 12 lacs (fair value) and not ₹ 15 lacs (cost) as the fair value is less than cost.

MAY-2018 (New Course)

Question 2. (a) **(10 Marks)**
Answer:
Investment in Equity shares of JP Power Ltd.

Date	Particulars	No.	Dividend ₹	Amount ₹	Date	Particulars	No.	Dividend ₹	Amount ₹
01.01.19	To Bank A/c	600		12,000	31.03.19	By Balance c/d	1,500		34,500
15.03.19	To Bank A/c	900		22,500					
		1,500		34,500			1,500		34,500
01.04.19	To Balance b/d	1,500		34,500	15.09.19	By Bank-dividend		4,500	3,000
20.05.19	To Bank A/c	1,000		23,000	20.12.19	By Bank	1,500		33,000

25.07.19	To Bonus shares	2,500		–	01.02.20	By Bank	1,000		24,000
					31.03.20	By Balance c/d	3,100		36,812.50
12.11.19	To Bank A/c	600		12,000					
20.12.19	To P&L A/c (profit on sale)			15,187.50					
01.02.20	To P&L A/c (profit on sale)		4,500						
31.03.20	To P&L A/c (dividend)			12,125					
		5,600	4,500	96,812.50			5,600	4,500	96,812.50

Working Notes:

1. Calculation of Weighted average cost of equity shares

600 shares purchased at ₹ 12,000

900 shares purchased ₹ 22,500

1,000 shares purchased at ₹ 23,000

2,500 shares at nil cost

600 right shares purchased at ₹ 12,000

Total cost of 5,600 shares is ₹ 66,500 [₹ 69,500 less ₹ 3,000 (pre-acquisition dividend received on 1,000 shares purchased on 20.5.19].

Hence, weighted average cost per share will be considered as ₹ 11.875 per share (66,500/5,600).

2. It has been considered that no dividend was received on bonus shares as the dividend pertains to the year ended 31st March, 2019.

3. Calculation of right shares subscribed by Vijay

Right Shares (considering that right shares have been granted on Bonus shares also) = 5,000/5 x 1= 1,000 shares

Shares subscribed = 1,000 x 60%= 600 shares

Value of right shares subscribed = 600 shares @ ₹ 20 per share = ₹ 12,000

Calculation of sale of right renouncement

No. of right shares sold = 1,000 x 40% = 400 shares

Sale value of right = 400 shares x ₹ 3 per share = ₹ 1,200

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

4. Profit on sale of equity shares

As on 20.12.19

Sales price (1,500 shares at ₹ 22)	33,000
Less: Cost of shares sold (1,500 x ₹ 11.875)	(17,813)
Profit on sale	15,187

As on 1.2.20

Sales price (1,000 shares at ₹ 24)	24,000
Less: Cost of shares sold (1,000 x ₹ 11.875)	(11,875)
Profit on sale	12,125

Balance of 3,100 shares as on 31.3.20 will be valued at ₹ 36,812.50 (at rate of ₹ 11.875 per share)

May-2018 (Old Course)

Question 7 (c) **(4 Marks)**

Answer :

Re-classification will be done on the following basis:

(i) As per AS 13, where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer. In this case, fair value is ₹37,000 which is lower than the cost of ₹39,000. The reclassification of current investment as long-term investments will be made at ₹37,000.

(ii) As per AS 13 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer**.** The carrying / book value of the long-term investment is same as cost i.e. ₹16 lakhs. Hence this long-term investment will be reclassified as current investment at book value of ₹16 lakhs only.