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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.

Question 1

On 1.4.2010, Mr. Krishna Murty 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 31.1.2011 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 31.3.2011 Mr. Krishna Murty sold bonus shares to a Broker, who charged 2% brokerage.

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

(November, 2003)

Answer

In the books of Mr. Krishna Investment Account for the year ended 31st March, 2011 (Scrip: Equity Shares of TELCO Ltd.)

Date		*Particulars*	*Nominal Value (Rs.)*	*Cost (Rs.)*	*Date*		**Particulars**	*Nominal Value (Rs.)*	*Cost (Rs.)*
1.4.2010	To	Bank A/c	1,00,000	1,23,000	31.3.2011	By	Bank A/c	50,000	44,100
31.1.2011	To	Bonus shares	50,000	–	31.3.2011	By	Balance c/d	1,00,000	82,000
31.3.2011	To	Profit & loss A/c	–	3,100					
			1,50,000	1,26,100				1,50,000	1,26,100

Working Notes:

(i) Cost of equity shares purchased on 1.4.2010 = 1,000 × Rs. 120 + 2% of Rs. 1,20,000 + ½% of Rs. 1,20,000 = Rs. 1,23,000

(ii) Sale proceeds of equity shares sold on 31st March, 2011 = 500 × Rs. 90 – 2% of Rs. 45,000 = Rs. 44,100.

(iii) Profit on sale of bonus shares on 31st March, 2011

= Sales proceeds – Average cost

Sales proceeds = Rs. 44,100

Average cost = Rs. (1,23,000 × 50,000)/1,50,000

= Rs. 41,000

Profit = Rs. 44,100 – Rs. 41,000 = Rs. 3,100.

(iv) Valuation of equity shares on 31st March, 2011

Cost = (Rs. 1,23,000 × 1,00,000)/1,50,000 = Rs. 82,000)

Market Value = 1,000 shares × Rs. 90 = Rs. 90,000

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

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 on cum right basis. 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. ***(November, 2010)***

Answer

In the books of XY Ltd.

Investment in equity shares of ABC Ltd.

for the year ended 31st March, 2010

Date	*Particulars*	*No.*	*Income ₹*	*Amount ₹*	*Date*	*Particulars*	*No.*	*Income ₹*	*Amount ₹*
2009 April 1	To Balance b/d	15,000	-	2,25,000	2009 Sept. 1	By Bank A/c (W.N 3)	-	-	16,000
June 1	To Bank A/c	5,000	--	1,00,000	2009 Oct. 31	By Bank A/c (W.N. 5)	-	30,000	10,000
July 1	To Bonus Issue (W.N. 1)	4,000	-	-	2010 Jan. 1	By Bank A/c (W.N.4)	13,000	-	2,12,355
Sept.1	To Bank A/c (W.N. 2)	2,000	-	24,000	March 31	By Balance c/d (W.N. 6)	13,000	-	1,61,500
2010 March 31	To P & L A/c (W.N. 4)	-	-	50,855					
"	To P & L A/c	-	30,000	-					
		26,000	30,000	3,99,855			26,000	30,000	3,99,855

Working Notes:

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

$$\text{Bonus Shares} = \frac{15{,}000 \text{ shares} + 5{,}000 \text{ shares}}{5} \text{ x } 1 = 4{,}000 \text{ shares}$$

2. **Calculation of right shares subscribed**

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

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

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

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

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

(Since shares are purchased cum right basis, therefore, amount received from sale of rights will be credited to investment a/c)

4. **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) were sold.

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

= ₹ 2,25,000 + ₹ 1,00,000 + ₹ 24,000 –₹ 16,000 – ₹ 10,000

= ₹ 3,23,000

Average cost of 13,000 shares would be

$$= \frac{3,23,000}{26,000} \times 13,000 = ₹\ 1,61,500$$

	₹
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	(1,61,500)
Profit on sale	50,855

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**

$$13{,}000 \times \frac{3{,}23{,}000}{26{,}000} = ₹\ 1{,}61{,}500.$$

Closing value of shares would be ₹ 1,61,500.

Question 3

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

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

1.3.2008	*Purchased 200 units, ex-interest at Rs.98.*
1.7.2008	*Sold 500 units, ex-interest out of original holding at Rs.100.*
1.10.2008	*Purchased 150 units at Rs.98, cum interest.*
1.11.2008	*Sold 300 units, ex-interest at Rs.99 out of original holdings.*

Interest dates are 30th September and 31st March. Mr. Z closes his books every 31st December. Show the investment account as it would appear in his books. ***(June, 2009)***

Answer

9% Central Government Bonds (Investment) Account

Particulars		*Face Value*	*Interest*	*Principal*	*Particulars*		*Face Value*	*Interest*	*Principal*
2008		*Rs.*	*Rs.*	*Rs.*	*2008*		*Rs.*	*Rs.*	*Rs.*
Jan.1	To Balance b/d	1,20,000	2,700	1,18,000	March 31	By Bank A/c	-	6,300	-
March	To Bank				July 1	By Bank			

1	A/c	20,000	750	19,600		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						
		1,55,000	13,388	1,53,333			1,55,000	13,388	1,53,333

Working Note:

Calculation of closing balance:		*Units*		*Rs.*
Bonds in hand remained in hand at 31st 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 1st March		20,000		19,600
Purchased on 1st October		15,000		14,700
		75,000		73,633

Question 4

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

1.4.2009	*Opening balance – Face value Rs.1,20,000, Cost Rs.1,18,000*
1.7.2009	*100 Debentures purchased ex-interest at Rs.98*
1.10.2009	*Sold 200 Debentures ex-interest at Rs.100*
1.1.2010	*Purchased 50 Debentures at Rs.98 cum-interest*
1.2.2010	*Sold 200 Debentures ex-interest at Rs.99*

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

Mr. Purohit closes his books on 31.3.2010. Brokerage at 1% is to be paid for each transaction. Show Investment account as it would appear in his books. Assume FIFO method. Market value of 8% Debentures of P Limited on 31.3.2010 is Rs.99. ***(May, 2010)***

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*
			Rs.	*Rs.*				*Rs.*	*Rs.*
1.4.2009	To Balance b/d	1,20,000	-	1,18,000	30.9.2009	By Bank	-	5,200	-
1.7.2009	To Bank (ex-Interest)	10,000	200	9,898	1.10.2009	By Bank	20,000	-	19,800
1.10.2009	To Profit & Loss A/c			133	1.2.2010	By Bank (ex-Interest)	20,000	533	19,602
1.1.2010	To Bank (cum-Interest)	5,000	100	4,849	1.2.2010	By Profit & Loss A/c			64
31.3.2010	To Profit & Loss A/c	-	9,233	~~69~~	31.3.2010	By Bank	-	3,800	-
					31.3.2010	By Balance c/d	95,000	-	93,414
		1,35,000	9,533	1,32,880			1,35,000	9,533	1,32,880

Working Notes:

1. ***Valuation of closing balance as on 31.3.2010:***

Market value of 950 Debentures at Rs. 99 = Rs. 94,050

Cost price of

$$\left(\frac{1,18,000}{1,20,000} x 80,000\right) = 8$$

800 Debentures cost **=** 8 78,667

100 Debentures cost	=	9,898
50 Debentures Cost-	=	4,849
		93,414

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

2. **Profit on sale of debentures as on 1.10.2009**

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

3. **Loss on sale of debentures as on 1.2.2010**

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

EXERCISES

1. *On 1.4.96, Sundar had 25,000 equity shares of 'X' Ltd.at a book value of Rs. 15 per share (Face value Rs.10). On 20.6.96, 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 tems of the issue are as follows:

Bonus basis 1:6 (Date 16.8.96).

Rights basis 3:7 (Date 31.8.96) Price Rs. 15 per share.

Due date for payment 30.9.96.

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 31.3.96 at the rate of 20% were declared by X Ltd. and received by Sundar on 31.10.96. Dividends for shares acquired by him on 20.6.96 are to be adjusted against the cost of purchase.

On 15.11.96, 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 31.12.96 and shares are valued at average cost.

(Hints: Profit on sale of investment Rs.50,000)