

12

Investment Accounts

Learning Objectives

After studying this chapter, you will be able to:

- ◆ Understand the meaning of the term 'investments'.
- ◆ Learn the classification of investments.
- ◆ Compute the acquisition cost and carrying amounts of investments.
- ◆ Calculate the profit/loss on disposal of investments.

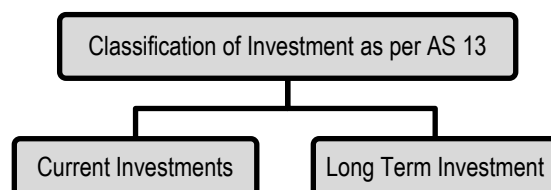
1. Introduction

Investments are assets held by an enterprise for earning income by way of dividends, interest and rentals, for capital appreciation, or for other benefits to the investing enterprise. Investment Accounting is done as per AS-13 which deals with all kind of investments except:

- (i) interest, dividends and rentals earned on investments
- (ii) operating or financial leases
- (iii) investment of retirement benefit plans and life insurance enterprises
- (iv) mutual funds
- (v) assets held as Stock-in-trade are not 'Investments'.

2. Classification of Investments

The investments are classified into two categories as per AS 13, viz., Current Investments and Long-term Investments.

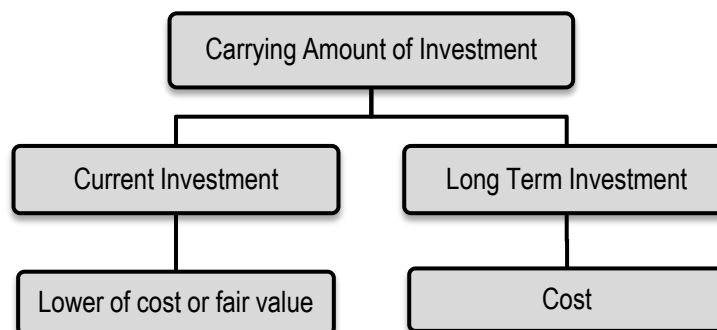


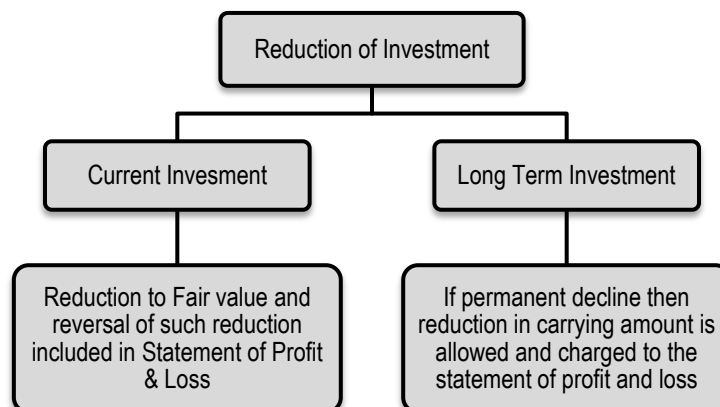
2.1 Current Investments

- A current investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made.
- **The carrying amount** for current investments is the lower of cost and fair value.
- **Fair Value** is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. Under appropriate circumstances, market value or net realisable value provides an evidence of fair value.
- **Market Value** is the amount obtainable from the sale of an investment in an open market, net of expenses necessarily to be incurred on or before disposal.
- Any reduction to fair value and any reversals of such reductions are included in the statement of profit and loss.

2.2 Long Term Investments

- A long-term investment is an investment other than a current investment.
- Long term investments are usually carried at cost.
- If there is a permanent decline in the value of a long term investment; the carrying amount is reduced to recognize the decline.
- The reduction in carrying amount is charged to the statement of profit and loss.
- The reduction in carrying amount is reversed when there is a rise in the value of the investment, or if the reasons for the reduction no longer exist.





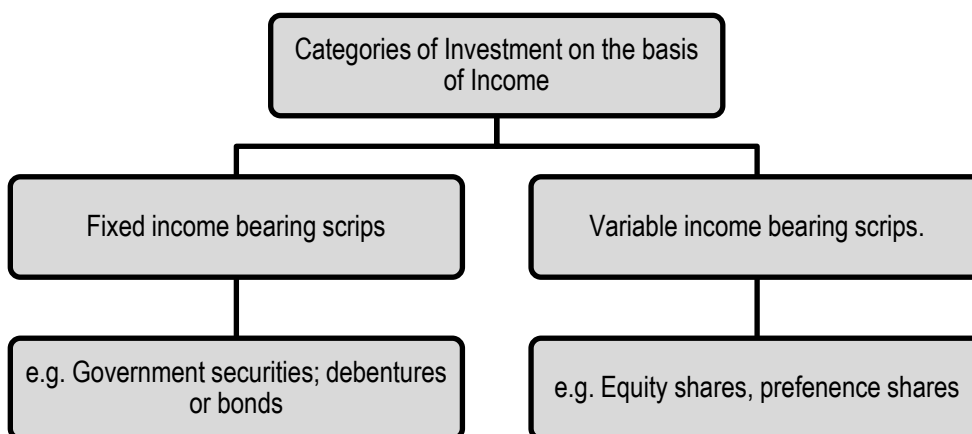
3. Investment Acquisitions

1. The cost of an investment includes acquisition charges such as brokerage, fees and duties.
2. If an investment is acquired, or partly acquired, by the issue of shares or other securities, the acquisition cost is the fair value of the securities or asset issued.

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

If an investment is acquired in exchange, or part exchange, for another asset, the acquisition cost of the investment is determined by reference to the fair value of the asset given up. It may be appropriate to consider the fair value of the investment acquired if it is more clearly evident.

3. A separate Investment Account should be made for each scrip purchased. The scrips purchased may be broadly divided into two categories viz.,



The entries in Investment Account for these two broad categories of scrips will be made as under:

- (i) **Fixed income Bearing Securities:** The investment in Government securities or debentures comes under this category. In this type of scrip, the interest accrued from the date of last payment to the date of transaction can be easily calculated.

In case the transaction is on 'Ex-interest' basis i.e., the amount of interest accrued to the date of transaction has to be paid in addition to the price of security.

The following entries are made in the books of Purchaser:

Investment Account	Dr.	(With the price settled on ex- interest basis)*
Interest accrued Account	Dr.	(Accrued interest till the date of transaction)**
To Bank A/c		(With total amount paid)

* This amount will appear in Capital Column of 'Investment A/c'.

**This amount will appear in Income Column of 'Investment A/c'.

In case the transaction is on cum-interest basis, a part of purchase price is related to the interest accrued from the date of the last interest paid to the date of transaction. And hence in this case the cost of investment has to be calculated by subtracting the amount of accrued interest from the Purchase Price.

The following entries are made in the books of Purchaser:

Investment Account	Dr.	(With the price settled on cum- interest less Interest Accrued)*
Interest accrued Account	Dr.	(Accrued interest till the date of transaction)**
To Bank A/c		(With total amount paid)

* This amount will appear in Capital Column of 'Investment A/c'.

**This amount will appear in Income Column of 'Investment A/c'.

When the interest amount is actually received, it is entered in the Income Column credit side. The net effect of these entries will be that the amount credited to the income will be only the interest arising between the date of purchase and the one on which it next falls due.

Note:

- (a) Interest amount is always calculated with respect to nominal value.
- (b) In case the quotation is not qualified, the same will be treated as ex-interest quotation.
- (ii) **Variable Income Bearing Securities:** The investment in equity shares comes under this category. The following points should be noted with respect to investment

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in equity shares:

- (a) dividends from investments in shares are not recognised in the statement of profit and loss until a right to receive payment is established;
- (b) the amount of dividend accruing between the date of last dividend payment and the date of purchase cannot be immediately ascertained;
- (c) the dividend received for a particular period of time is assumed to be evenly distributed over the period.

In the following way the information is incorporated in the books of investor at the time of purchase:

Investment Account	Dr.	(With the entire purchase price)*
To Bank A/c		(With total amount paid)

* This amount will appear in Capital Column of 'Investment A/c'.

The adjustment with respect to dividend is made when the dividend is actually received as under:

Bank A/c	Dr	(with total dividend received)
To Investment A/c		(with the amount of dividend for the period for which the investor did not hold the share)*
To Investment A/c		(with the amount of dividend for the post – acquisition period)**

* This amount will appear in Capital Column of 'Investment A/c'.

**This amount will appear in Income Column of 'Investment A/c'.

- The important point with respect to investment in equity shares is that the amount of dividends for the period, for which the shares were not held by the investor, should not be treated as revenue receipt but they should be treated as capital receipt.
 - When dividends on equity shares are declared from pre-acquisition profits, similar treatment is done *i.e.*, the amount of such dividend received by the investor is entered on the credit side in the capital column, so as to reduce the acquisition cost.
 - If it is difficult to make an allocation between pre and post acquisition periods except on an arbitrary basis, the cost of investment is normally reduced by dividends receivable, if they clearly represent recovery of part of cost.
4. When right shares offered are subscribed for, the cost of the right shares is added to the carrying amount of the original holding.

If rights are not subscribed for but are sold in the market, the sale proceeds are taken to the profit and loss statement as per para 13 of AS 13 “Accounting for Investment”.

Where the investments are acquired on cum-right basis and the market value of investments immediately after their becoming ex-right is lower than the cost for which they were acquired, it may be appropriate to apply the sale proceeds of rights to reduce the carrying amount of such investments to the market value.

For e.g., Mr. X acquires 200 shares of a company on cum-right basis for ₹ 50,000. He subsequently receives an offer of right to acquire fresh shares in the company in the proportion of 1:1 at ₹ 110 each. X subscribes for the right issue. Thus, the total cost of X's holding of 400 shares would amount to ₹ 72,000 (50,000 + 22,000).

Suppose, he does not subscribe but sells the rights for ₹ 15,000. The ex-right market value of 200 shares bought by X immediately after the rights falls to ₹ 40,000. In this case out of sale proceeds of ₹ 15,000, ₹ 10,000 may be applied to reduce the carrying amount to the market value ₹40,000 and ₹ 5,000 would be credited to the profit and loss account.

5. Where an investment is acquired by way of issue of bonus shares, no amount is entered in the capital column of investment account since the investor has not to pay anything.

4. Disposal of Investments

- On disposal of an investment, the difference between the carrying amount and the disposal proceeds, net of expenses is recognised in the profit and loss statement.
- When a part of the holding of an individual investment is disposed, the carrying amount is required to be allocated to that part on the basis of the average carrying amount of the total holding of the investment.
- In respect of shares, debentures and other securities held as stock-in-trade, the cost of stocks disposed of may be determined by applying an appropriate cost formula (e.g. first-in, first-out, average cost, etc.). These cost formulae are the same as those specified in AS 2, 'Valuation of Inventories'.

(i) Fixed Income Bearing Securities: The amount of accrued interest from the date of last payment to the date of sale is credited in the income column and only the sale proceeds, net of accrued interest, is credited in the capital column of investment account.

In case the transaction is on 'Ex-interest' basis, entire sale proceeds is credited in the capital column and the amount of accrued interest from the date of last payment to the date of sale, separately received from the buyer will be taken to the credit side of the income column of investment account.

(ii) Variable Income Bearing Securities: In case of these securities, the entire amount of sale proceeds should be credited in the capital column of investment account, unless the

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amount of accrued dividend can be specifically established.

The entries in the books at the time of sale of investments will be just the reverse of the entries passed for their acquisition.

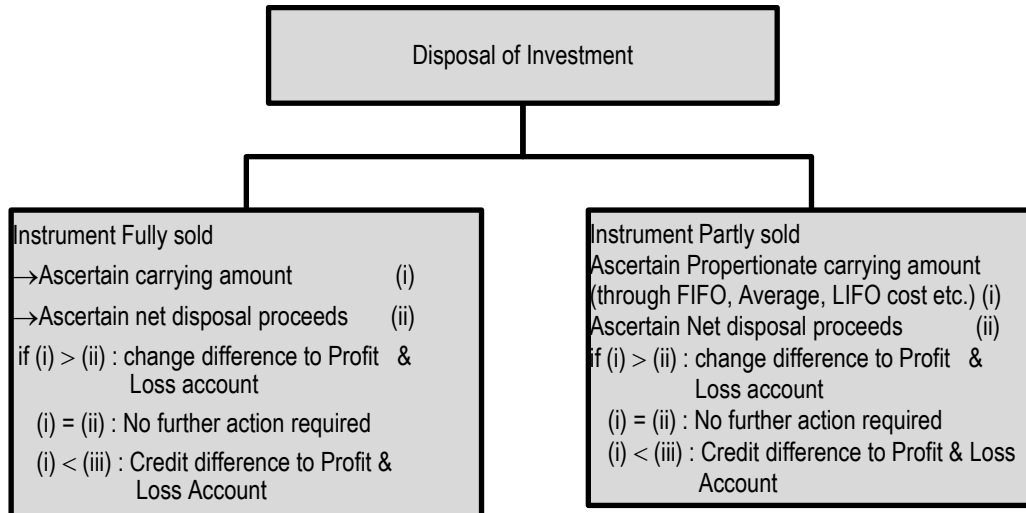


Illustration 1

On 1.4.2014, Sundar had 25,000 equity shares of 'X' Ltd. at a book value of ₹ 15 per share (Face value ₹ 10). On 20.6.2014, he purchased another 5,000 shares of the company at ₹16 per share. The directors of 'X' Ltd. announced a bonus and rights issue. No dividend was payable on these issues. The terms of the issue are as follows:

Bonus basis 1:6 (Date 16.8.2014).

Rights basis 3:7 (Date 31.8.2014) Price ₹ 15 per share.

Due date for payment 30.9.2014.

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

Dividends: Dividends for the year ended 31.3.2014 at the rate of 20% were declared by X Ltd. and received by Sundar on 31.10.2014. Dividends for shares acquired by him on 20.6.2014 are to be adjusted against the cost of purchase.

On 15.11.2014, Sundar sold 25,000 equity shares at a premium of ₹ 5 per share.

You are required to prepare in the books of Sundar.

- (1) Investment Account
- (2) Profit & Loss Account.

For your exercise, assume that the books are closed on 31.12.2014 and shares are valued at average cost.

Solution

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

		No.	Amount			No.	Amount
			₹				₹
1.4.2014	To Bal b/d	25,000	3,75,000	31.10.2014	By Bank	—	10,000
6.2014	To Bank	5,000	80,000		(dividend		
16.8.2014	To Bonus	5,000	—		on shares		
30.9.2014	To Bank	10,000	1,50,000		acquired on		
	(Rights				20/6/2014)		
	Shares)						
15.11.2014	To Profit (on		44,444	15.11.2014	By Bank	25,000	3,75,000
	sale of shares)				(Sale of		
					shares)		
				31.12.2014	By Bal. c/d	<u>20,000</u>	<u>2,64,444</u>
		<u>45,000</u>	<u>6,49,444</u>			<u>45,000</u>	<u>6,49,444</u>

Profit and Loss Account (An extract)

To Balance c/d	1,04,444	By Profit transferred	44,444
		By Sale of rights	10,000
		By Dividend	<u>50,000</u>
	<u>1,04,444</u>		<u>1,04,444</u>

Working Notes:

- (1) Bonus Shares = $\frac{(25,000 + 5,000)}{6} = 5,000$ shares
- (2) Right Shares = $\frac{(25,000 + 5,000 + 5,000)}{7} \times 3 = 15,000$ shares
- (3) Rights shares renounced = $15,000 \times \frac{1}{3} = 5,000$ shares
- (4) Dividend received = $25,000 \times 10 \times 20\% = ₹ 50,000$
Dividend on shares purchased on 20.6.2014 = $5,000 \times 10 \times 20\% = ₹ 10,000$ 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 = $\frac{(3,75,000 + 80,000 + 1,50,000 - 10,000)}{45,000} \times 25,000 = ₹ 3,30,556$

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$$\text{Profit} = ₹ 3,75,000 - ₹ 3,30,556 = ₹ 44,444.$$

(6) Cost of shares on 31.12.2014

$$\frac{(3,75,000 + 80,000 + 1,50,000 - 10,000)}{45,000} \times 20,000 = ₹ 2,64,444$$

Illustration 2

On 1.4.2014, Mr. Krishna Murty purchased 1,000 equity shares of ₹ 100 each in TELCO Ltd. @ ₹ 120 each from a Broker, who charged 2% brokerage. He incurred 50 paise per ₹ 100 as cost of shares transfer stamps. On 31.1.2015 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 31.3.2015 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.

Solution

**In the books of Mr. Krishna Murty
Investment Account
for the year ended 31st March, 2015
(Scrip: Equity Shares of TELCO Ltd.)**

Date	Particulars	Nominal Value (₹)	Cost (₹)	Date	Particulars	Nominal Value (₹)	Cost (₹)
1.4.2014	To Bank A/c	1,00,000	1,23,000	31.3.2015	By Bank A/c	50,000	44,100
31.1.2015	To Bonus shares	50,000	—	31.3.2015	By Balance c/d	1,00,000	82,000
31.3.2015	To Profit & loss A/c (W.N.(iii))		3,100				
		<u>1,50,000</u>	<u>1,26,100</u>			<u>1,50,000</u>	<u>1,26,100</u>

Working Notes:

- (i) Cost of equity shares purchased on 1.4.2014 = $1,000 \times ₹ 120 + 2\% \text{ of } ₹ 1,20,000 + \frac{1}{2}\% \text{ of } ₹ 1,20,000 = ₹ 1,23,000$
- (ii) Sale proceeds of equity shares (bonus) sold on 31st March, 2015 = $500 \times ₹ 90 - 2\% \text{ of } ₹ 45,000 = ₹ 44,100$.
- (iii) Profit on sale of bonus shares on 31st March, 2015
 = Sales proceeds – Average cost
 Sales proceeds = ₹ 44,100
 Average cost = ₹ $(1,23,000 \times 50,000) / 1,50,000 = ₹ 41,000$
 Profit = ₹ 44,100 – ₹ 41,000 = ₹ 3,100.

(iv) Valuation of equity shares on 31st March, 2015

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

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

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

Illustration 3

Mr. X purchased 500 equity shares of ₹ 100 each in Omega Co. Ltd. for ₹ 62,500 inclusive of brokerage and stamp duty. Some years later the company resolved to capitalize its profits and to issue to the holders of equity shares, one equity bonus share for every share held by them. Prior to capitalisation, the shares of Omega Co. Ltd. were quoted at ₹ 175 per share. After the capitalisation, the shares were quoted at ₹ 92.50 per share. Mr. X. sold the bonus shares and received at ₹ 90 per share.

Prepare the Investment Account in X's books on average cost basis.

Solution

In the books of A
Investment Account
[Scrip: Equity shares in Omega Co. Ltd.]

	Nominal Value	Cost		Nominal Value	Cost
	₹	₹		₹	₹
To Cash	50,000	62,500	By Cash Sale	50,000	45,000
To Bonus shares	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 cost.

2. Profit on sale of bonus shares

= Sales proceeds – Average cost

Sales proceeds = ₹ 45,000

Average cost = $\frac{500}{1,000} \times 62,500 = ₹ 31,250$

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

3. The total cost of 1,000 share including bonus is ₹ 62,500

Therefore, cost of 500 shares (carried forward) is $\frac{500}{1,000} \times 62,500 = ₹ 31,250$

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

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

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Illustration 4

On 1st January 2014, Singh had 20,000 equity shares in X Ltd. Face value of the shares was ₹10 each but their book value was ₹ 16 per share. On 1st June 2014, Singh purchased 5,000 more equity shares in the company at a premium of ₹ 4 per share.

On 30th June, 2014, the directors of X Ltd. announced a bonus and rights issue. Bonus was declared at the rate of one equity share for every five shares held and these shares were received on 2nd August, 2014.

The terms of the rights issue were:

- Rights shares to be issued to the existing holders on 10th August, 2014.
- Rights issue would entitle the holders to subscribe to additional equity shares in the Company at the rate of one share per every three held at ₹ 15 per share-the whole sum being payable by 30th September, 2014.
- Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.
- Singh exercised his option under the issue for 50% of his entitlements and the balance of rights he sold to Ananth for a consideration of ₹ 1.50 per share.
- Dividends for the year ended 31st March, 2014, at the rate of 15% were declared by the Company and received by Singh on 20th October, 2014.
- On 1st November, 2014, Singh sold 20,000 equity shares at a premium of ₹ 3 per share.

The market price of share on 31-12-2014 was ₹ 14. Show the Investment Account as it would appear in Singh's books on 31-12-2014 and the value of shares held on that date.

Solution

Investment Account-Equity Shares in X Ltd.

Date		No. of shares	Dividend	Amount	Date		No. of shares	Dividend	Amount
			₹	₹				₹	₹
2014					2014				
Jan. 1	To Balance b/d	20,000	-	3,20,000	Oct. 20	By Bank	30,000	7,500	
June 1	To Bank	5,000	-	70,000	Nov. 1	(dividend) By Bank	20,000	2,60,000	
Aug. 2	To Bonus Issue	5,000	-	—	Nov. 1	By P & L A/c		1,429	
Sep. 30	To Bank (Right)	5,000	-	75,000	Dec. 31	By Balance c/d	15,000	1,96,071	
Nov. 1	To Profit & Loss A/c (Dividend income)		30,000						
		<u>35,000</u>	<u>30,000</u>	<u>4,65,000</u>			<u>35,000</u>	<u>30,000</u>	<u>4,65,000</u>
Jan. 1, 2015	To Balance b/d	15,000		1,96,071					

Working Notes:**1. 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	<u>(7,500)</u>
Cost of 35,000 shares	<u>4,57,500</u>
Cost of 20,000 shares (Average cost basis)	2,61,429
Sale proceeds	<u>2,60,000</u>
Loss on sale	<u>1,429</u>

2. 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 realizable value.

Here, Net realizable value is ₹14 per share i.e. 15,000 shares x ₹ 13 = ₹ 2,10,000 and

cost = $\frac{4,57,500}{35,000} \times 15,000 = ₹ 1,96,071$. Therefore, value of investment at the end of the

year will be ₹ 1,96,071.

Illustration 5

The following transactions of Nidhi took place during the year ended 31st March 2014:

1st April	Purchased ₹ 12,00,000, 8% bonds at ₹ 80.50 cum-interest. Interest is payable on 1st November and 1st May.
12th April	Purchased 1,00,000 equity shares of ₹ 10 each in X Ltd. for ₹ 40,00,000
1st May	Received half-year's interest on 8% bonds.
15th May	X Ltd. made a bonus issue of three equity shares for every two held. Nidhi sold 1,25,000 bonus shares for ₹ 20 each.
1st October	Sold ₹ 3,00,000, 8% bonds at ₹ 81 ex-interest.
1st November	Received half-year's bond interest.
1st December	Received 18% dividend on equity shares in X Ltd.

Prepare the relevant investment account in the books of Nidhi for the year ended 31st March, 2014.

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Solution:

**In the books of Nidhi
8% Bonds Account
[Interest Payable: 1st November & 1st May]**

Date	Particulars	Nominal Value (₹)	Interest (₹)	Cost (₹)	Date	Particulars	Nominal Value (₹)	Interest (₹)	Cost (₹)
1.4.14	To Bank A/c (W.N.1)	12,00,000	40,000	9,26,000	1.5.14	By Bank A/c	-	48,000	-
31.3.15	To Profit & Loss A/c (W.N 6)		84,000	11,500	1.10.14	By Bank A/c (W.N 2)	3,00,000	10,000	2,43,000
					1.11.14	By Bank A/c (W.N 3)	-	36,000	-
					31.3.15	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 in Equity Shares of X Ltd. Account

Date	Particulars	No.	Dividend (₹)	Cost (₹)	Date	Particulars	No.	Dividend (₹)	Cost (₹)
12.4.14	To Bank A/c	1,00,000		40,00,000	15.5.14	By Bank A/c	1,25,000		25,00,000
15.5.14	To Bonus Issue	1,50,000			1.12.14	By Bank A/c		2,25,000	
31.3.15	To Profit & Loss A/c (W.N 5)		2,25,000	5,00,000	31.3.15	By Balance c/d	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:

- On 1st April, 2014, 12,000, 8% bonds were purchased @ ₹ 80.50 cum-interest. Total amount paid 12,000 bonds x ₹ 80.50 = 9,66,000 which includes accrued interest for 5 months. i.e. 1st November, 2013 to 31st March, 2014. Accrued interest will be ₹ 12,00,000 x 8/100 x 5/12 = ₹ 40,000. Therefore, cost of investment purchased = ₹ 9,66,000 – 40,000 = ₹ 9,26,000.
- On 1st October, 2014, 3,000 bonds were sold @ ₹ 81 ex-interest. Total amount received = 3,000 x 81 + accrued interest for 5 months = ₹ 2,43,000 + ₹ 10,000 (3,00,000 x 8/100 x 5/12)
- On 1st November, 2014, interest will be received for 9,000 bonds @ 8% for 6 months, i.e., ₹ 9,00,000 x 8/100 x 1/2 = ₹ 36,000.

4. Cost of bonds on 31.3.2014 will be ₹ 9,26,000/12,000 x 9,000 = ₹ 6,94,500.
Interest accrued on bonds on 31.3.2014 = 9,00,000 x 8% x 5/12 = ₹30,000
5. Profit on sale of bonus shares:
Cost per share after bonus = ₹ 40,00,000/2,50,000 = ₹ 16
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. Profit on sale of bonds ₹
Sale value = 2,43,000
Cost of ₹3,00,000 8% bonds = 9,26,000/12,00,000 x 3,00,000 = 2,31,500
Profit = 11,500

Illustration 6

Smart Investments made the following investments in the year 2013-14:

12% State Government Bonds having face value ₹100

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

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

Equity Shares of X Ltd.	
15.04.2013	Purchased 5,000 equity shares @ ₹ 200 on cum right basis Brokerage of 1% was paid in addition (Face Value of shares ₹ 10)
03.06.2013	The company announced a bonus issue of 2 shares for every 5 shares held.
16.08.2013	The company made a rights issue of 1 share for every 7 shares held at ₹ 250 per share. The entire money was payable by 31.08.2013.
22.8.2013	Rights to the extent of 20% was sold @ ₹ 60. The remaining rights were subscribed.
02.09.2013	Dividend @ 15% for the year ended 31.03.2013 was received on 16.09.2013
15.12.2013	Sold 3,000 shares @ ₹ 300. Brokerage of 1% was incurred extra.
15.01.2014	Received interim dividend @ 10% for the year 2013-14
31.03.2014	The shares were quoted in the stock exchange @ ₹ 220

Prepare Investment Accounts in the books of Smart Investments. Assume that the average cost method is followed.

Solution

In the books of Smart Investments

12% Govt. Bonds for the year ended 31st March, 2014

Date	Particulars	Nos.	Interest	Amount	Date	Particulars	Nos.	Interest	Amount
1.4.13	To Opening balance b/d	1,200	3,600	1,26,000	30.6.13	By Bank A/c (Interest) (3,200 x 100 x 12% x 6/12)	-	19,200	-
2.5.13	To Bank A/c	2,000	8,000	1,92,000	30.9.13	By Bank A/c	1,500	4,500	1,57,500
31.3.14	To P & L A/c (Interest)		27,400		31.12.13	By Bank A/c (Interest) (1,700 x 100 x 12% x 6/12)	-	10,200	-
	To P & L A/c (Profit on Sale)			8,437.50	31.3.14	By Bal. c/d	1,700	5,100	1,68,937.50
		3,200	39,000	3,26,437.50			3,200	39,000	3,26,437.50

Investments in Equity shares of X Ltd. for year ended 31.3.2014

Date	Particulars	Nos.	Dividend	Amount	Date	Particulars	Nos.	Dividend	Amount
15.4.13	To Bank A/c	5,000		10,10,000					
3.6.13	To Bonus Issue	2,000	-	-	16.9.13	By Bank (Dividend)	-	-	7,500
31.8.13	To Bank A/c	800		2,00,000	15.12.13	By Bank (Sale)	3,000	-	8,91,000
31.3.14	To P & L A/c		4,800	4,28,500	15.1.14	By Bank (interim dividend)		4,800	
					31.3.14	By Bal. c/d	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 30.9.13**

= Sales proceeds – Average cost

Sales proceeds = ₹1,57,500

Average cost = ₹ [(1,26,000+1,92,000) × 1,500/3,200] = 1,49,062.50

Profit = 1,57,500 – ₹ 1,49,062.50 = ₹8,437.50

2. Valuation of bonds on 31st March, 2014

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

3. Cost of equity shares purchased on 15/4/2013

= Cost + Brokerage

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

4. Sale proceeds of equity shares on 15/12/2013

= Sale price – Brokerage

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

5. Profit on sale of shares on 15/12/2013

= Sales proceeds – Average cost

Sales proceeds = ₹ 8,91,000

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

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

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

6. Valuation of equity shares on 31st March, 2014

Cost = ₹ [12,02,500 × 4,800/7,800] = ₹ 7,40,000

Market Value = 4,800 shares × ₹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.

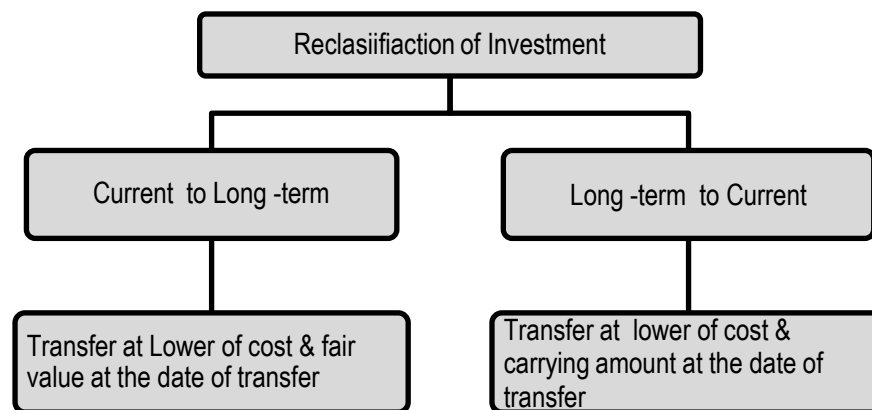
Note:

1. It is presumed that no dividend is received on bonus shares as bonus shares are declared on 3.6.2013 and dividend pertains to the year ended 31.03.2013.
2. The amount of dividend for the period, for which shares were not held by the investor, has been treated as capital receipt.

5. Valuation in case of Reclassification of Investment

When Investments are classified from Current Investment to Permanent Investment, Permanent Investment is valued at Cost Price or Fair Value, whichever is less.

When Investments are classified from Permanent Investment to Current Investment, Current Investment is valued at Cost Price or Carrying Amount, whichever is less.



Summary

- 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.