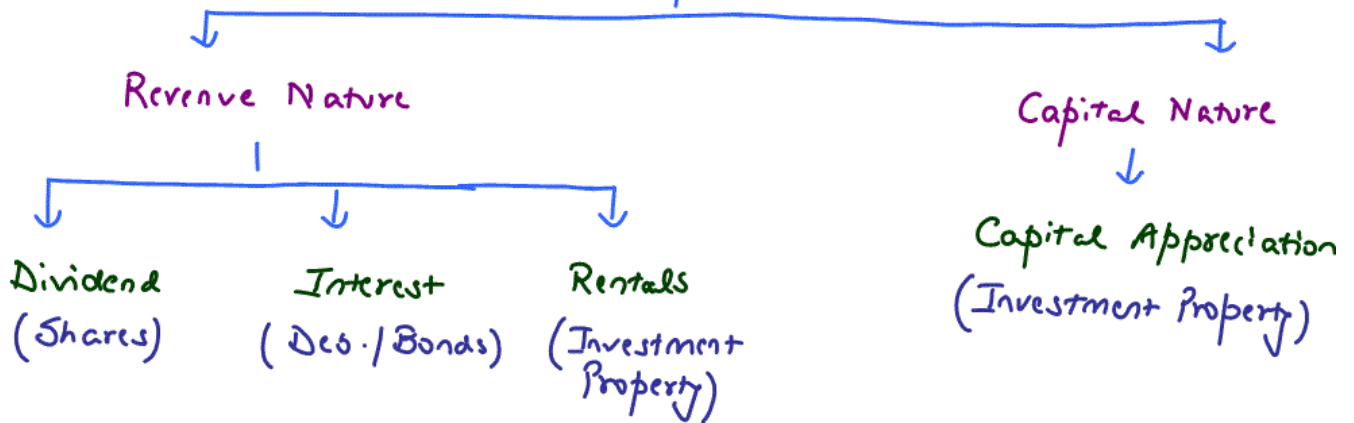


# INVESTMENT ACCOUNTS

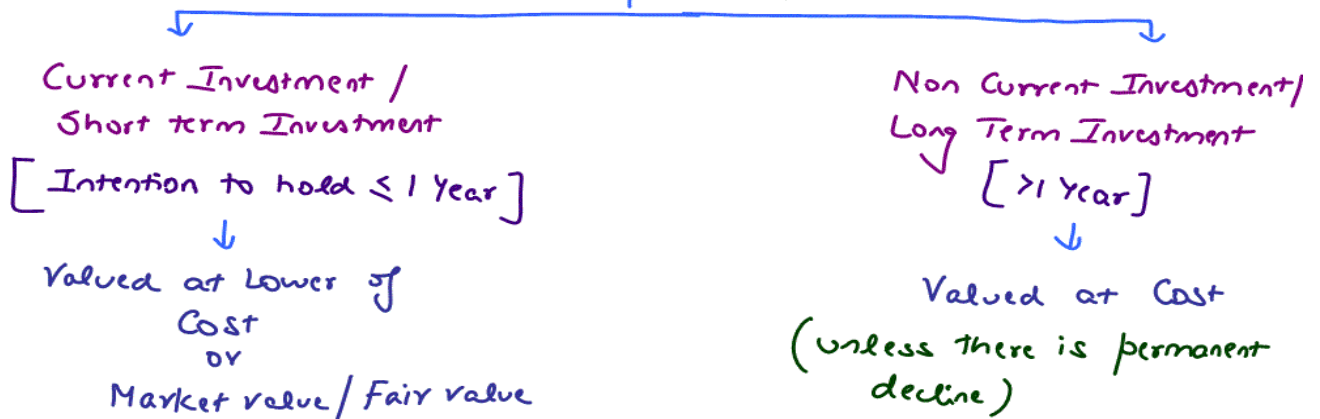
## INVESTMENT

(Assets held for the purpose of earning Income)



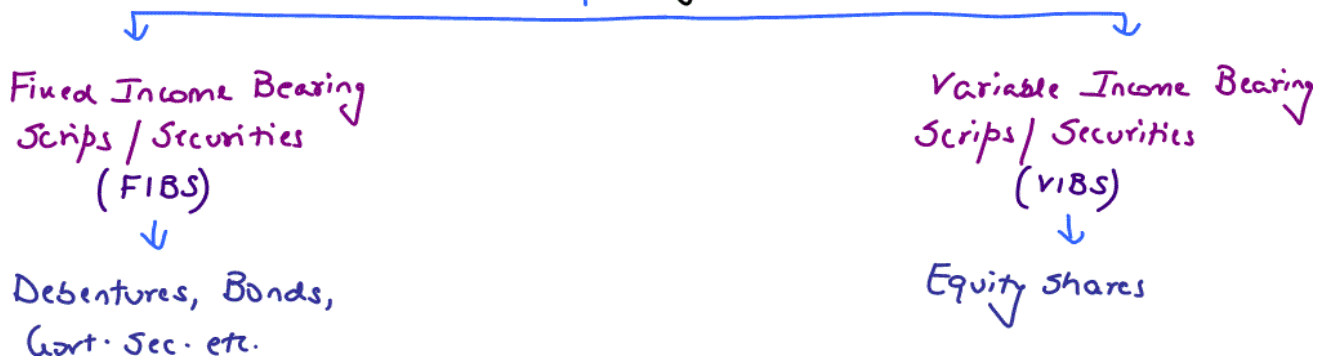
## Classification of Investments

[On the basis of Period of Holding]



## Classification of Investments

(On the basis of Income)



## FIBS: Fixed Income Bearing Scrips / Securities : Journal Entries

1) Purchase of Investment

Investment A/c - Dr  
Interest on Investment A/c - Dr  
To Bank A/c

2) Receipt of Interest

Bank A/c - Dr  
To Interest on Investment

3) Sale of Investment

Bank A/c - Dr  
To Investment A/c  
To Interest on Investment

4) Profit / (Loss) on Sale

Profit Investment A/c - Dr  
To P&L A/c  
Loss P&L A/c - Dr  
To Investment A/c

### Notes:

- 1) Interest is always calculated on Face value
- 2) Transaction can be Ex-interest or Cum Interest

Ex-interest : Excluding Interest  
Cum-interest : Including Interest

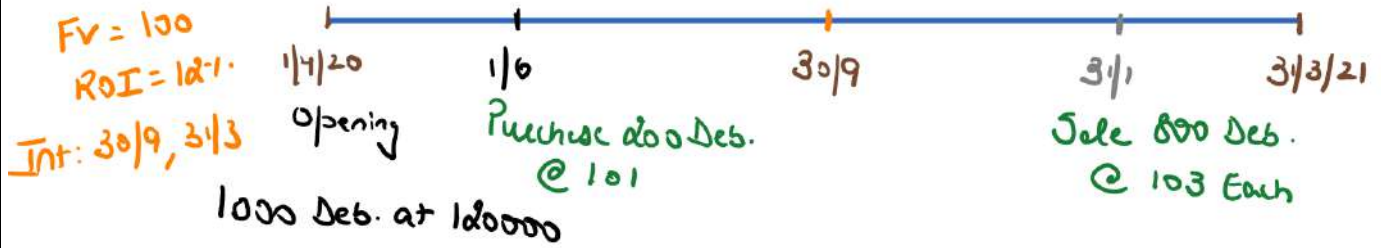
3) Cost of Investment

Purchase Cost	xx
+ Brokerage / Commission	xx
+ Stamp Duty	xx
	xx

4) Incidental Expenses like Brokerage, Commission etc.  
Purchase : +                      Sale : -

Example:

Investment in 12% Deb. of X Ltd.



Case 1: Brokerage & Int. interest (FIFO)

Inv. in 12% Deb. of X Ltd. A/c

Date	Particulars	Nominal	Interest	Amount	Date	Particulars	Nominal	Interest	Amount
1/4	To Bal b/d	100000	-	120000	3/9	By Bank A/c	-	7200	-
1/6	To Bank A/c	20000	400	20604	3/1	By Bank A/c	80000	3200	80752
3/3	To P&L A/c	-	12400	-	3/3	By P&L (loss)	-	-	15248
						By Bank	-	2400	-
						By Bal b/d	40000	-	44604

1) Interest =  $20000 \times 12\% \times \frac{2}{12} = 400$

2) Cost =  $200 \times 101 = 20200$   
 + dt. Brokerage = 404  
20604

3) Interest =  $120000 \times 12\% \times \frac{6}{12} = 7200$

7) Interest =  $40000 \times 12\% \times \frac{6}{12} = 2400$

4) Interest =  $80000 \times 12\% \times \frac{4}{12} = 3200$

5) Sale =  $800 \times 103 = 82400$   
 - dt. Brokerage = (1648)  
80752

6) Profit/Loss  
 Cost =  $\frac{120000}{100000} \times 80000 = 96000$   
 Sale = 80752  
 Loss = 15248

Case 2: Brokerage dt., Cum Interest  
(FIFO)

W.N: 2  
Purchase

$$\begin{aligned} \text{Cost} &= 200 \times 101 = 20200 \\ + \text{Brokerage dt.} &= 404 \\ - \text{Interest} &= (400) \\ \hline &20204 \end{aligned}$$

W.N: 5  
Sale

$$\begin{aligned} \text{Sale} &= 800 \times 103 = 82400 \\ - \text{Brokerage dt.} &= (1648) \\ - \text{Interest} &= (3200) \\ \hline &77552 \end{aligned}$$

W.N: 6 Profit/(Loss)

$$\begin{aligned} \text{Cost of Inv. sold} &= 96000 \\ - \text{Sale Proceeds} &= (77552) \\ \hline &18448 \end{aligned}$$

Loss

Case 3: Brokerage dt., Ex-interest  
(Weighted Avg./Avg-cost)

Date		Nominal	Cost	Sale	Profit/(Loss)
1/4	Opening	100000	120000	—	—
1/6	Purchase	20000	20604		
		<hr/>	<hr/>		
		120000	140604		
3/1	Sale	(80000)	(93736)	80752	12984
		<hr/>	<hr/>		
		40000	46868		Loss

Case 4: Same as Case 1

Market value on 3/3 a) 120 b) 105

3/3 Balance

Nominal value = 40000 Cost = 44604

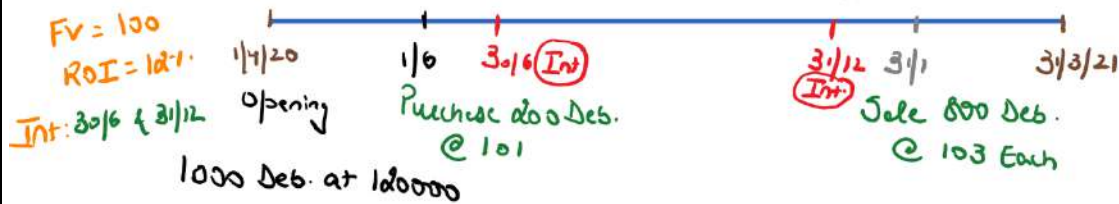
Assuming Current Investments, valued at lower of Cost or Market value

a) Market value =  $400 \times 120 = 48000$   
Value = 44604

b) Market value =  $400 \times 105 = 42000$   
Value = 42000 Loss Recognised = 2604

Example:

Investment in 12-1 Dec. of X Ltd.



Case 1: Brokerage 2%, Ex-interest  
(FIFO)

Inv. in 12-1 Dec. of X Ltd. A/c

Date	Particulars	Nominal	Interest	Amount	Date	Particulars	Nominal	Interest	Amount
1/1	To Bal b/d	100000	3000 <sup>1</sup>	102000	30/6	By Bank A/c	-	7200 <sup>4</sup>	-
1/6	To Bank A/c	20000	1000 <sup>2</sup>	20604 <sup>3</sup>	31/12	By Bank A/c	-	7200	-
3/3	To P&L A/c	-	12400	-	3/1	By Bank A/c	80000	800 <sup>5</sup>	80752 <sup>6</sup>
					3/3	By P&L (loss)	-	-	15248 <sup>7</sup>
						By Bal c/d	40000	1200 <sup>8</sup>	44604

1) opening All. Int. =  $100000 \times 12\% \times 3/12 = 3000$

2) Interest =  $20000 \times 12\% \times 5/12 = 1000$

3) Cost =  $200 \times 101 = 20200$   
 + 2% Brokerage = 404  
20604

4) Interest =  $120000 \times 12\% \times 6/12 = 7200$

8) Interest =  $40000 \times 12\% \times 3/12 = 1200$

5) Interest =  $80000 \times 12\% \times 1/12 = 800$

6) Sale =  $800 \times 103 = 82400$   
 - 2% Brokerage = (1648)  
80752

7) Profit/Loss  
 Cost =  $\frac{120000}{100000} \times 80000 = 96000$   
 Sale = 80752  
 Loss = 15248

Points to Remember:



Case 1: Transaction on 1/10 (After Interest Date)

a) Ex-interest = Int = Nil

b) Cum interest = Int = Nil

Case 2: Transaction on 30/9 (on the day of Interest)

a) Ex-interest = Can be 1st Transaction & then interest or vice versa.

b) Cum interest = First transaction & then interest

**Question**

Mr. Harsh provides the following details relating to his holding in 10% debentures (face value of Rs. 100 each) of Exe Ltd., held as current assets:

1.4.2019	Opening balance – 12,500 debentures, cost Rs. 12,25,000
1.6.2019	Purchased 9,000 debentures @ Rs. 98 each ex-interest
1.11.2019	Purchased 12,000 debentures @ Rs. 115 each cum-interest
31.1.2020	Sold 13,500 debentures @ Rs. 110 each cum-interest
31.3.2020	Market value of debentures @ Rs. 115 each

Due dates of interest are 30<sup>th</sup> June and 31<sup>st</sup> December. Brokerage at 1% is to be paid for each transaction. Mr. Harsh closes his books on 31.3.2020.

Show investment account as it would appear in his books assuming FIFO method is followed.

**Solution**

**Investment Account of Mr. Harsh for the year ending on 31-3-2020**  
**(Scrip: 10% Debentures of Exe Limited)**

	Part.	Nom.	Int.	Cost		Part.	Nom.	Int	Cost
1.4	To Bal b/d	12,50,000	31,250	12,25,000	30.06	By Bank 21,500X100 X10%X1/2	-	1,07,500	-
1.6	To Bank (W.N.1)	9,00,000	37,500	8,90,820	31.12	By Bank 33,500X100 X10%X1/2		1,67,500	
1.11	To Bank (W.N.2)	12,00,000	40,000	13,53,800	31.1	By Bank (W.N.3)	13,50,000	11,250	14,58,900
31.1	To Profit & Loss A/c (W.N.3)			1,34,920	31.3	By Balance c/d (W.N.4)	20,00,000	50,000	21,45,640
31.3	To Profit & Loss A/c (Bal. fig.)		2,27,500						
		<b>33,50,000</b>	<b>3,36,250</b>	<b>36,04,540</b>			<b>33,50,000</b>	<b>3,36,250</b>	<b>36,04,540</b>

**Working Notes:****1. Purchase of debentures on 1.6.19**

Interest element =  $9,000 \times 100 \times 10\% \times 5/12 = \text{Rs.} 37,500$

Investment element =  $(9,000 \times 98) + [1\%(9,000 \times 98)] = \text{Rs.} 8,90,820$

**2. Purchase of debentures on 1.11.2019**

Interest element =  $12,000 \times 100 \times 10\% \times 4/12 = \text{Rs.} 40,000$

Investment element =  $12,000 \times 115 \times 101\% \text{ less } 40,000 = \text{Rs.} 13,53,800$

**3. Profit on sale of debentures as on 31.1.20**

Particulars	Amount
Sales price of debentures (13,500 x Rs. 110)	14,85,000
Less: Brokerage @ 1%	(14,850)
	14,70,150
Less: Interest (1,35,000/ 12)	(11,250)
	14,58,900
Less: Cost of Debentures [(12,25,000 + (890820 X 1,00,000/9,00,000)]	(13,23,980)
<b>Profit on sale</b>	<b>1,34,920</b>

**4. Valuation of closing balance as on 31.3.2020:**

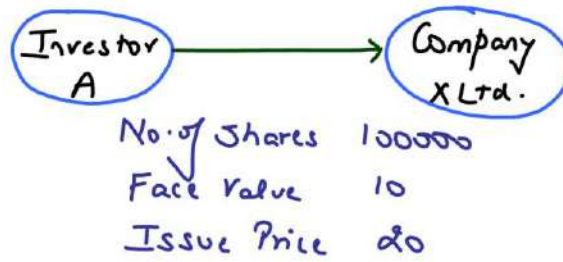
Market value of 20,000 Debentures at Rs.115 = Rs.23,00,000

Cost of	
8,000 Debentures	$8,90,820 / 9,000 \times 8,000 = 7,91,840$
12,000 Debentures	$= 13,53,800$
<b>Total</b>	<b>21,45,640</b>

Value at the end is Rs. 21,45,640, i.e., which is less than market value of Rs.23,00,000.

# VIBS: Variable Income Bearing Scrips / Securities

## 1. Original Shares



(A)	Investment in Eq. Sh. of X Ltd. - Dr	1L x 20	Bank A/c - Dr	1L x 20
	To Bank A/c	1L x 20	To Eq. Sh. Cap.	1L x 10
			To Sec. Premium	1L x 10

## 2. Bonus Shares : Shares issued free of cost

Original Shares 100000  
 Bonus Scheme 1 for every 2  
 Bonus Shares =  $1L \times \frac{1}{2} = 50000$  sh.

(A) No Entry for Bonus Issue. Only no. of Shares will increase which reduces cost / share

(X Ltd.) Res. & Surplus - Dr 50000 x 10  
 To Eq. Sh. Cap. 50000 x 10

### Investment A/c

	No.	Amount	
To Bank	100000	2000000	(Original Shares)
To Bonus Issue	50000	-	(Bonus Shares)

## 3. Right Shares : Offer given to existing shareholders to purchase shares at concessional rate. Shareholders can subscribe shares or they can sell their rights to outsiders

Original sh. = 100000  
 Right Issue = 1 for every 4 @ 15 per share

Right Shares =  $1L \times \frac{1}{4} = 25000$  Shares

(A)	Right Entitlement = 25000		(X Ltd.)
	Subscribe	Sale of Rights	Bank A/c - Dr
	15000 @ 15/sh.	10000 @ 2/right	25000 x 15
	Inv. in Eq. Sh. of X Ltd. 15000 x 15	↓	To Eq. Sh. Cap.
	To Bank A/c 15000 x 15	20000 fwd. to P&L A/c	25000 x 10
		as per PARA 13 of AS-13	To Sec. Premium
			25000 x 5

Note: Person (B) purchasing right from A

Total cost of Investment to B = 17 | share

2 paid to A      15 paid to X Ltd.

Inv. in Eq. Sh. of X Ltd. 10000 x 17

To Bank A/c 10000 x 17

### Question

Smart Investments made the investments in Equity Shares of X Ltd:

01.04.2019	Opening: 2,000 Equity Shares at cost of 3,00,000
15.04.2019	Purchased 5,000 equity shares @ Rs. 200 per share Brokerage of 1% was paid in addition (Face Value of shares Rs.10)
03.06.2019	The company announced a bonus issue of 2 shares for every 5 shares held.
16.08.2019	The company made a rights issue of 1 share for every 7 shares held at Rs. 250 per share. The entire money was payable by 31.08.2019.
22.08.2019	Rights to the extent of 20% was sold @ Rs. 60. The remaining rights were subscribed
02.09.2019	Dividend @ 15% for the year ended 31.03.2019 was received on 16.09.2019
15.12.2019	Sold 3,000 shares @ Rs. 300. Brokerage of 1% was incurred extra.
15.01.2020	Received interim dividend @ 15% for the year 2019-20
31.03.2020	The shares were quoted in the stock exchange @ Rs. 220

Prepare Investment A/cs in books of Smart Investments. Assume that average cost method is followed.

### Solution

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

Date	Particulars	No.'s	Income	Amount	Date	Particulars	No.'s	Income	Amount
01.04	To Balance b/d	2,000		3,00,000	16.09	By Bank A/c (Dividend)	-	3,000	7,500
15.04	To Bank A/c	5,000	-	10,10,000	15.12	By Bank A/c	3,000	-	8,91,000
03.06	To Bonus Issue A/c	2,800	-	-	15.01	By Bank A/c (Interim dividend)	-	11,880	-
31.08	To Bank A/c	1,120	-	2,80,000	31.03	By Balance c/d	7,920	-	11,47,747
15.12	To P & L A/c-(Profit)	-	-	4,56,247					
31.03	To P & L A/c-Transfer	-	14,880	-					
		<b>10,920</b>	<b>14,880</b>	<b>20,46,247</b>			<b>10,920</b>	<b>14,880</b>	<b>20,46,247</b>

Working Notes:



- 1) **Cost of equity shares purchased on 15/4/2019** = Cost + Brokerage =  $(5,000 \times \text{Rs. } 200) + 1\%$  of  $(5,000 \times \text{Rs. } 200) = \text{Rs. } 10,10,000$
- 2) **Bonus shares** =  $\frac{7,000}{5} \times 2 = 2,800$  shares
- 3) **Right shares** =  $\frac{2,000 + 5,000 + 2,800}{7} \times 1 = 1,400$  shares

Shares subscribed =  $1,400 \times 80\% = 1,120$  shares

Value of right shares subscribed =  $1,120$  shares @ Rs. 250 per share = Rs. 2,80,000

Calculation of sale of right entitlement:  $(1,400 \text{ shares} \times 20\%) \times \text{Rs. } 60$  per share = Rs. 16,800

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

'Accounting for Investments'

4) **Dividend received**

**On Opening holding:**  $2,000 \text{ shares} \times \text{Rs. } 10 \times 15\% = \text{Rs. } 3,000$  credited to Dividend Account

**On shares purchased on 15th April, 2019** =  $5,000 \text{ shares} \times \text{Rs. } 10 \times 15\% = \text{Rs. } 7,500$  will be adjusted to Investment A/c

Note: It is presumed that no dividend is received on bonus shares & right shares.

- 5) **Sale proceeds of equity shares on 15/12/2019** = Sale price – Brokerage =  $(3,000 \times \text{Rs. } 300) - 1\%$  of  $(3,000 \times \text{Rs. } 300) = \text{Rs. } 8,91,000$ .

- 6) **Profit on sale of shares on 15/12/2019** = Sales proceeds – Average cost

Sales proceeds = Rs. 8,91,000

Average cost =  $\frac{(3,00,000 + 10,10,000 + 2,80,000 - 7,500)}{10,920} \times 3,000$

=  $[15,82,500 \times 3,000 / 10,920] = 4,34,753$

Profit = Rs. 8,91,000 – Rs. 4,34,753 = Rs. 4,56,247.

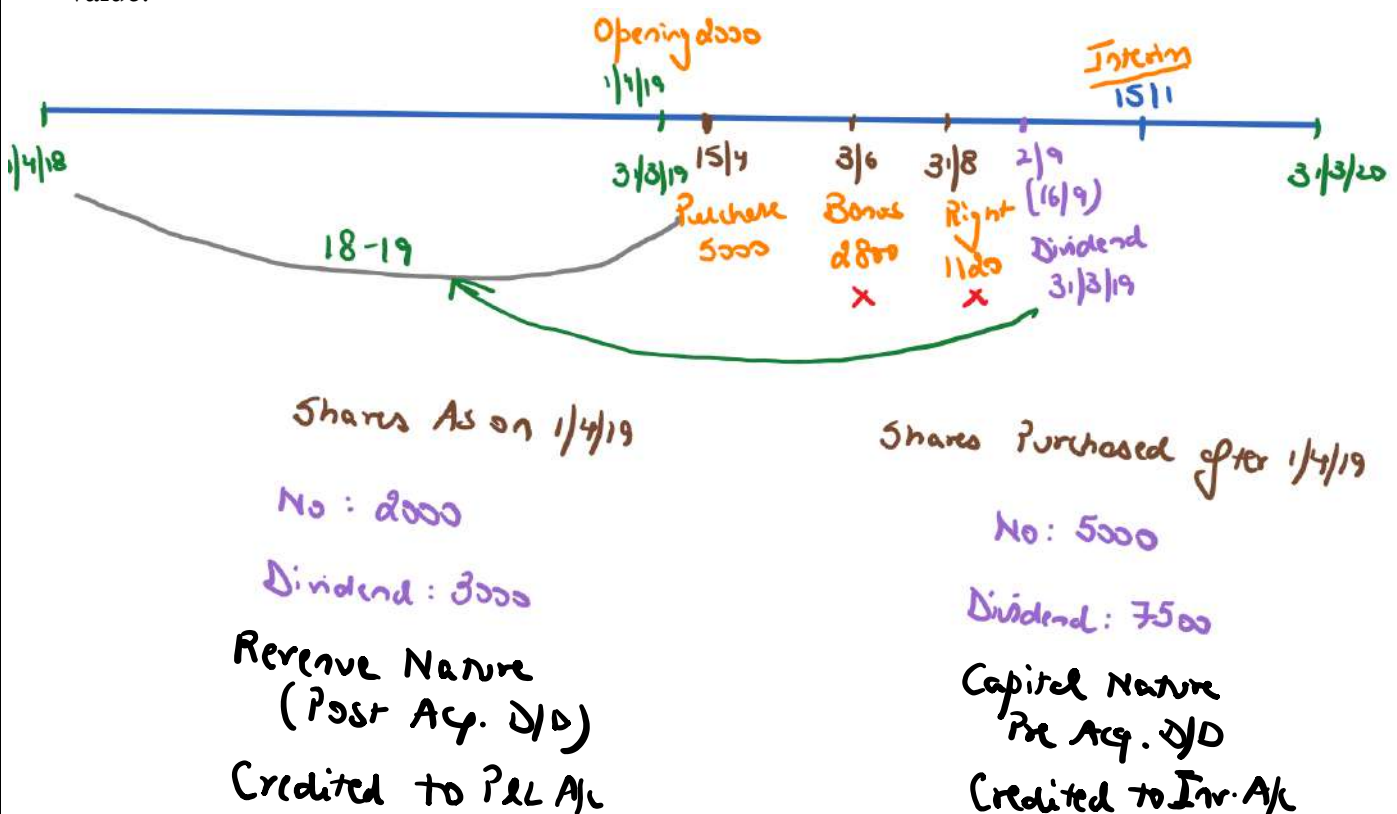
- 7) **Amount of Interim Dividend** =  $(2,000 + 5,000 + 2,800 + 1,120 - 3,000) \times 10 \times 15\% = 11,880$

8) **Valuation of equity shares on 31st March, 2020**

Cost = Rs.  $[15,82,500 \times 7,920 / 10,920] = \text{Rs. } 11,47,747$

Market Value =  $7,920 \text{ shares} \times \text{Rs. } 220 = \text{Rs. } 17,42,400$

Closing stock of equity shares has been valued at Rs. 11,47,747 i.e. cost being lower than the market value.



### Concept 3: Conversion of Debentures into Shares

#### Entry:

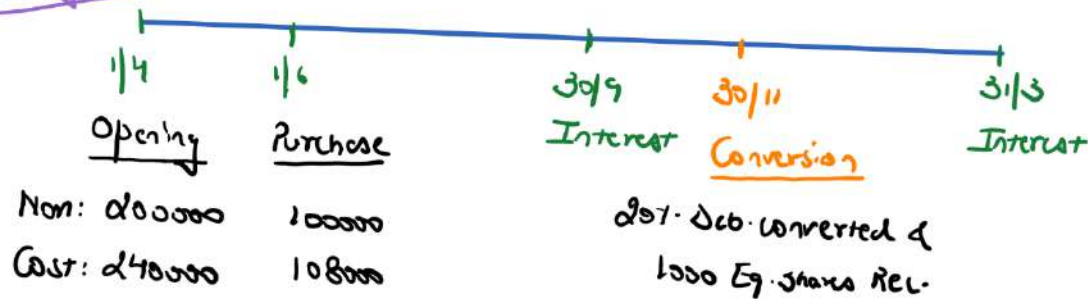
Investment in Equity Shares of Co. A/c - Dr ★  
 To Investment in — Debentures of Co.

Amount: ★ Cost of Deb. converted will become cost of Equity shares received.

Note: Interest on debentures converted will be received at time of conversion.

#### Example:

1st. Deb. of X Ltd.



Non: 200000  
 Cost: 240000

100000  
 108000

1st. Deb. converted &  
 1000 Eq. shares rec.

$$\text{Cost of Debentures converted} = \frac{(240000 + 108000)}{300000} \times 60000 \Rightarrow 69600$$

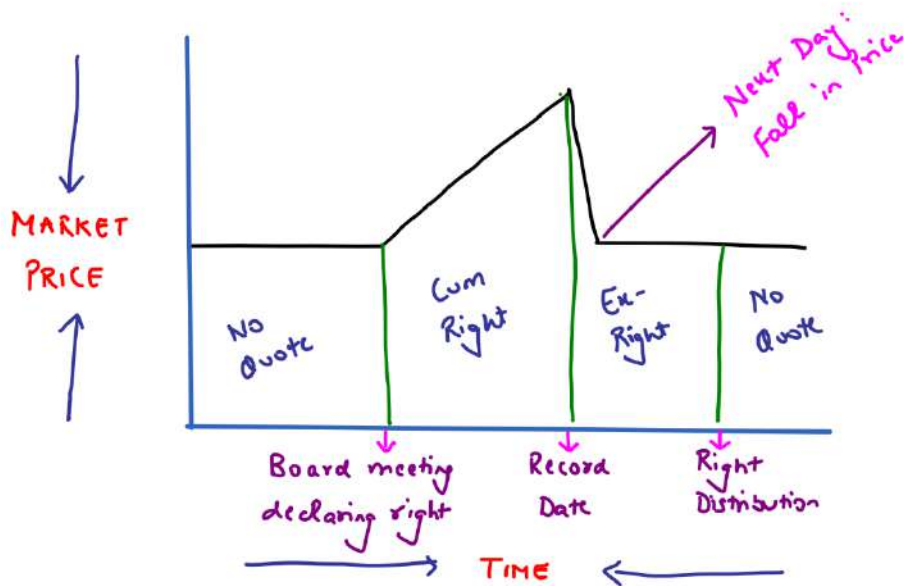
3L x 20% →

Investment in Equity Shares of X Ltd. A/c - Dr 69600 (No. 1000)  
 To Investment in 1st. Deb. of X Ltd. A/c 69600  
(Nom. value 60000)

$$\text{Interest Rec. on Conversion} = 60000 \times 12\% \times \frac{2}{12} = 1200$$

## Concept 4: Exception to PARA 13 of AS 13

Para 13: Profit on sale of Rights to be credited to P&L A/c.



### Example:

Cum Right Price of Share = 12000

Ex-Right Price of share = 10000

So Sale of right upto maximum of 2000

Will be credited to Investment A/c. (Cost of Investment will reduce)

Any excess will be profit on sale of right (Tfd to P&L A/c)

Case 1: Right Sale = 3000  $\left\{ \begin{array}{l} 2000 \text{ Credited to Investment A/c} \\ 1000 \text{ Credited/transferred to P\&L A/c} \end{array} \right.$

Case 2: Right Sale = 1500  $\rightarrow$  1500 Credited to Investment A/c.