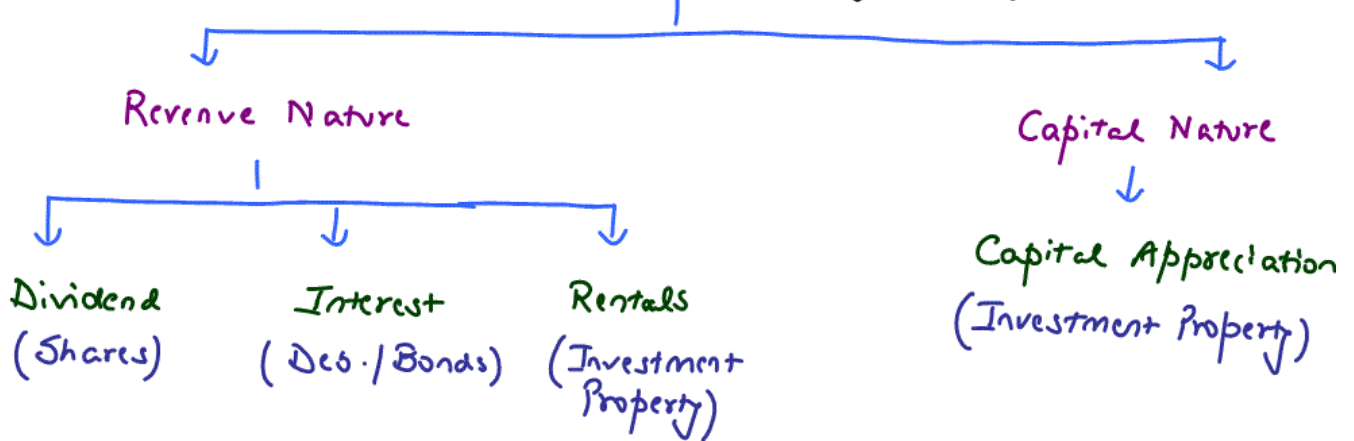


INVESTMENT ACCOUNTS

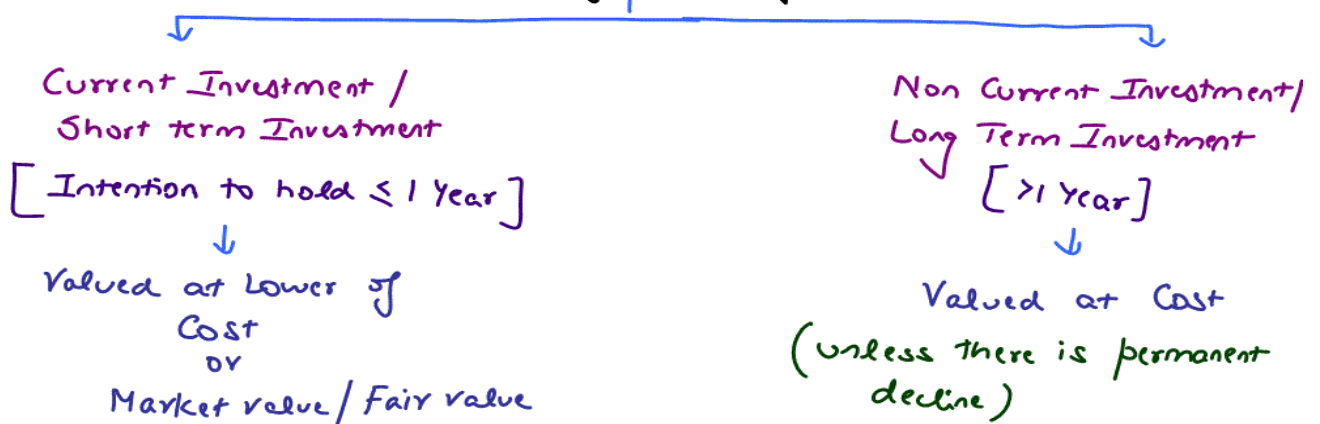
INVESTMENT

(Assets held for the purpose of earning Income)



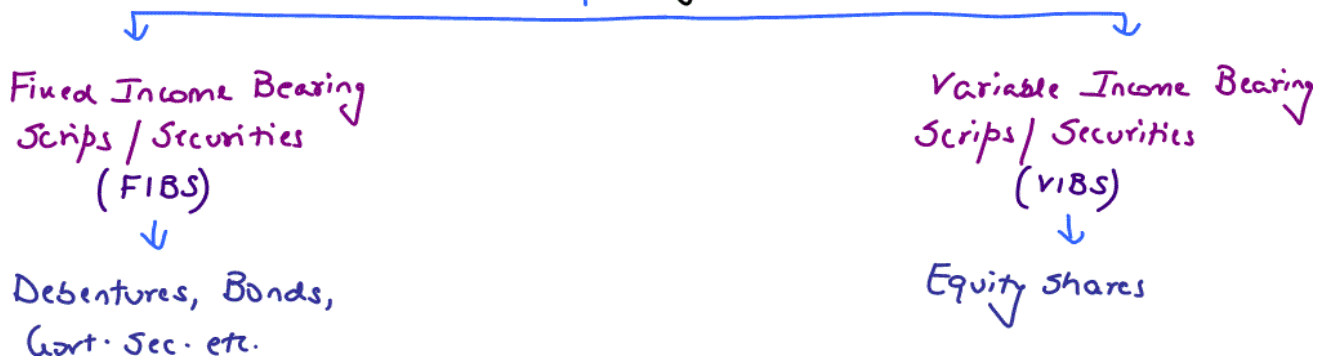
Classification of Investments

[On the basis of Period of Holding]



Classification of Investments

(On the basis of Income)



FIBS: Fixed Income Bearing Scrips / Securities : Journal Entries

- | | |
|---|---|
| <p>1) Purchase of Investment</p> <p style="padding-left: 40px;">Investment A/c - Dr</p> <p style="padding-left: 40px;">Interest on Investment A/c - Dr</p> <p style="padding-left: 80px;">To Bank A/c</p> | <p>2) Receipt of Interest</p> <p style="padding-left: 40px;">Bank A/c - Dr</p> <p style="padding-left: 80px;">To Interest on Investment</p> |
| <p>3) Sale of Investment</p> <p style="padding-left: 40px;">Bank A/c - Dr</p> <p style="padding-left: 80px;">To Investment A/c</p> <p style="padding-left: 80px;">To Interest on Investment</p> | <p>4) Profit / (Loss) on Sale</p> <p style="padding-left: 40px;"><u>Profit</u> Investment A/c - Dr</p> <p style="padding-left: 80px;">To P&L A/c</p> <p style="padding-left: 40px;"><u>Loss</u> P&L A/c - Dr</p> <p style="padding-left: 80px;">To Investment A/c</p> |

Notes:

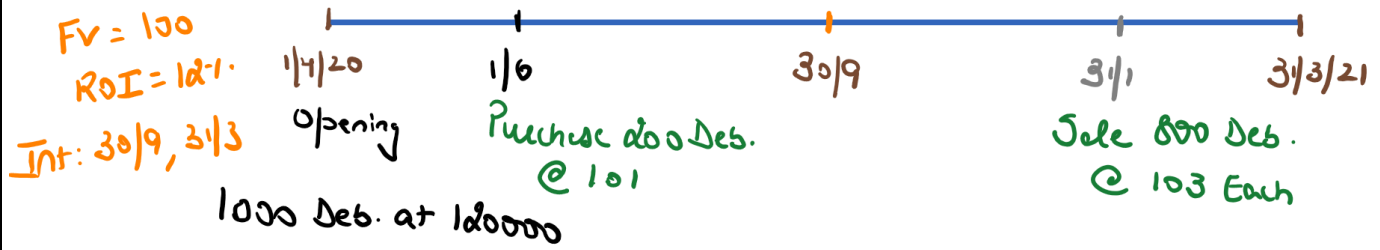
- 1) Interest is always calculated on Face value
- 2) Transaction can be Ex-interest or Cum Interest
 - Ex-interest : Excluding Interest
 - Cum-interest : Including Interest
- 3) Cost of Investment

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 2%, Ex-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 = $200 \times 101 = 20200$
 + 2% 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 = $800 \times 103 = 82400$
 - 2% 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

$$\text{Nominal value} = 40000 \quad \text{Cost} = 44604$$

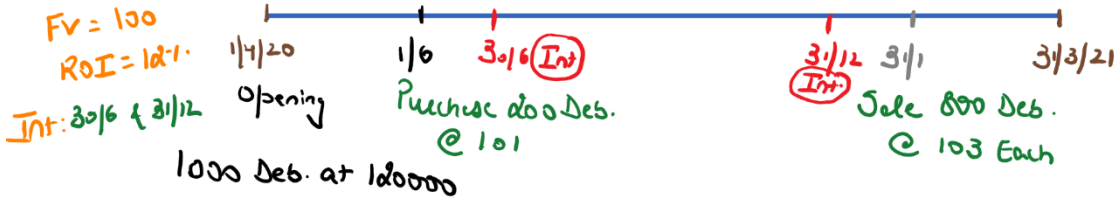
Assuming Current Investments, valued at lower of Cost or Market value

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

1) opening Acc. Int. = $100000 \times 12\% \times \frac{3}{12} = 3000$

2) Interest = $20000 \times 12\% \times \frac{5}{12} = 1000$

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

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

8) Interest = $40000 \times 12\% \times \frac{3}{12} = 1200$

5) Interest = $80000 \times 12\% \times \frac{1}{12} = 800$

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 3/9 (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 30th June and 31st 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						
		33,50,000	3,36,250	36,04,540			33,50,000	3,36,250	36,04,540

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)
Profit on sale	1,34,920

4. Valuation of closing balance as on 31.3.2020:

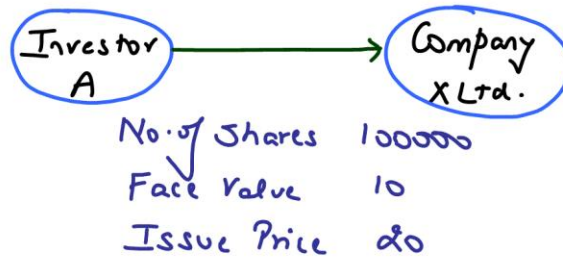
Market value of 20,000 Debentures at Rs.115 = Rs.23,00,000

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

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
To Bank A/c 1L x 20

(X Ltd.) Bank A/c - Dr 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	200000	(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

Subscribe 15000 @ 15/sh. Inv. in Eq. Sh. of X Ltd. 15000 x 15
To Bank A/c 15000 x 15

Sale of Rights 10000 @ 2/right
20000 fwd. to P&L A/c as per PARA 13 of AS-13

(X Ltd.) Bank A/c - Dr 25000 x 15
To Eq. Sh. Cap. 25000 x 10
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	-					
		10,920	14,880	20,46,247			10,920	14,880	20,46,247

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

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

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.



Shares As on 1/4/19

No: 2000

Dividend: 3000

Revenue Nature
(Post Acq. Div)

Credited to P&L A/c

Shares Purchased after 1/4/19

No: 5000

Dividend: 7500

Capital Nature
Pre Acq. Div

Credited to Inv. A/c

Concept 3: Conversion of Debentures into Shares

Entry:

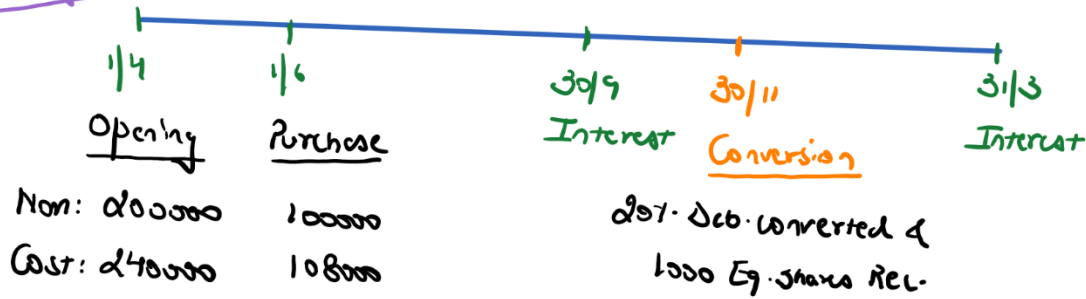
Investment in Equity Shares of Co. A/c - Dr ★
 To Investment in — Debentures of Co.

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.

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

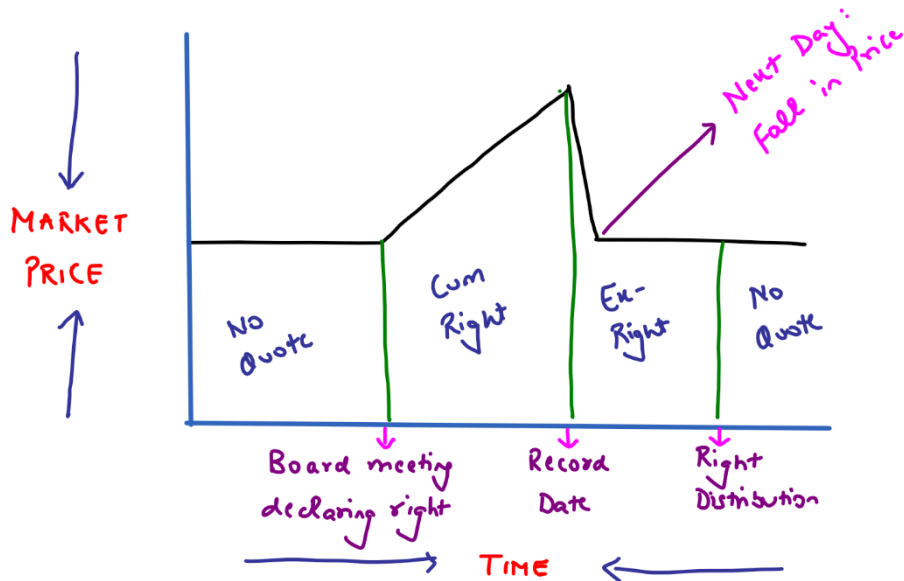
3L x 20% →

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 (trfd 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.