

COMPREHENSIVE QUESTION ON INVESTMENT ACCOUNTS

(July 2021 Examination Question – 20 marks)

Mr. Z has made following transactions during the financial year 2020-21:

Investment 1: 8% Corporate Bonds having face value ₹100.

Date	Particulars
01-06-2020	Purchased 36,000 Bonds at ₹86 cum-interest. Interest is payable on 30th September and 31st March every year.
15-02-2021	Sold 24,000 Bonds at ₹92 ex-interest

Interest on the bonds is received on 30th September and 31st March.

Investment 2: Equity Shares of G Ltd having face value ₹10.

Date	Particulars
01-04-2020	Opening balance 8000 equity shares at a book value of ₹190 per share
01-05-2020	Purchased 7,000 equity shares @ ₹230 on cum right basis Brokerage of 1% was paid in addition.
15-06-2020	The company announced a bonus issue of 2 shares for every 5 shares held
01-08-2020	The company made a rights issue of 1 share for every 7 shares held at ₹230 per share. The entire money was payable by 31.08.2020
25-08-2020	Rights to the extent of 30% of his entitlements was sold @ ₹75 per share. The remaining rights were subscribed.
15-09-2020	Dividend @ ₹6 per share for the year ended 31.03.2020 was received on 16.09.2020. No dividend payable on Right issue and Bonus issue.
01-12-2020	Sold 7,000 shares @ ₹260 per share. Brokerage of 1 % was

Date	Particulars
	incurred extra.
25-01-2021	Received interim dividend @ ₹3 per share for the year 2020-21.
31-03-2021	The shares were quoted in the stock exchange @ ₹260.

Both investments have been classified as Current investment in the books of Mr. Z. On 15th May 2021, Mr. Z decides to reclassify investment in equity shares of Z Ltd. as Long term Investment. On 15th May 2021, the shares were quoted in the stock exchange @ ₹180.

You are required to:

- Prepare Investment Accounts in the books of Mr. Z for the year 2020-21, assuming that the average cost method is followed.
- Profit and loss Account for the year 2020-21, based on the above information.
- Suggest values at which investment in equity shares should be reclassified in accordance with AS 13.

SUGGESTED ANSWER

WN#1: Analysis of transactions – 8% Corporate Bond

Date	Particulars
01.06.2020	Purchase of bonds Number of bonds purchase = 36,000 bonds Nominal value = 36,000 bonds * ₹100 = ₹36,00,000 Cum interest price = ₹36,00,000 * ₹86 = ₹30,96,000 Interest accrued = ₹36,00,000 * 8% * 2/12 = ₹48,000 Cost of investment = ₹30,96,000 - ₹48,000 = ₹30,48,000
30.09.2020	Interest receipt Interest income = ₹36,00,000 * 8% * 6/12 = ₹1,44,000
15.02.2021	Sale of 24,000 bonds Sale price of bonds = 24,000 bonds * ₹92 = ₹22,08,000

	<p>Cost of bonds sold = ₹30,48,000 * 24,000 / 36,000 = ₹20,32,000 Profit on sale of bonds = ₹1,76,000 Interest compensation received = ₹24,00,000 * 8% * 4.5/12 = ₹72,000</p>
31.03.2021	<p>Closing date Interest income = ₹12,00,000 * 8% * 6/12 = ₹48,000 Cost of investments held = ₹30,48,000 * 12,000 / 36,000 = ₹10,16,000 It is assumed that fair value of investment is more than the cost and therefore, it is carried at cost itself.</p>

WN#2: Analysis of transactions – Equity shares

Date	Particulars
01.04.2020	<p>Opening balance 8000 equity shares of ₹10 each = 8000 * ₹190/ share = ₹15,20,000</p>
01.05.2020	<p>Purchase of 7000 equity shares Purchase price = 7000 shares * ₹230/share = ₹16,10,000 Brokerage = ₹16,10,000 * 1% = ₹16,100 Cost of investments = ₹16,10,000 + ₹16,100 = ₹16,26,100</p>
15.06.2020	<p>Bonus issue Total number of shares held = 15,000 shares Bonus ratio = 2:5 Number of bonus shares received = 15,000 * 2/5 = 6,000 shares Cost of bonus shares = Nil</p>
01.08.2020	<p>Right issue Total number of shares held = 21,000 shares Right ratio = 1:7 Right to subscribe for right shares = 21,000 * 1/7 = 3,000 shares</p>
25.08.2020	<p>Right share subscription and renunciation Right renunciation proceeds = 3000 shares * 30% * ₹75/ share = ₹67,500 (Recognised in the Statement of Profit and Loss) Right shares subscribed = 3000 shares * 70% * ₹230/ share = ₹4,83,000</p>
15.09.2020	<p>Dividend received Dividend related to 8000 shares (to be recognised in Statement of Profit and Loss) = 8000 * ₹6 = ₹48,000</p>

	Dividend related to 7000 shares (pre-acquisition dividend to be adjusted to the cost) = 7000 shares * ₹6 = ₹42,000
01.12.2020	<p>Sale of 7000 shares Sale consideration = 7000 shares * ₹260/share = ₹18,20,000 Brokerage = ₹18,20,000 * 1% = ₹18,200 Net proceeds received = ₹18,20,000 – ₹18,200 = ₹18,01,800</p> <p>Average cost per share = (15,20,000+16,26,100+0+4,83,000-42,000) / (8000 + 7000 + 6000 +2100) = ₹155.29/ share Cost of shares sold = 7000 shares * 155.29/ share ₹10,87,000</p> <p>Profit on sale of equity shares = ₹18,01,800 - ₹10,87,000 = ₹7,14,800</p>
25.01.2021	<p>Interim dividend received Dividend received = (23,100 – 7,000) * ₹3 = ₹48,300</p>
31.03.2021	<p>Closing balance Fair value per share = ₹260/ share Cost per share = ₹155.29/ share Investments will be carried at cost itself. Cost of investment = 16,100 shares * 155.29/ share = ₹25,00,100</p>

(a) Investment Accounts in the books of Mr. Z

Investment in 8% Corporate Bond Account

Date	Particulars	Nominal Value	Interest	Amount	Date	Particulars	Nominal Value	Interest	Amount
1.6.20	To Bank	36,00,000	48,000	30,48,000	30.9.20	By Bank	-	1,44,000	-
15.2.21	To P&L	-	-	1,76,000	15.2.21	By Bank	24,00,000	72,000	22,08,000
31.3.21	To P&L	-	2,16,000	-	31.3.21	By Bank	-	48,000	-
					"	By balance c/d	12,00,000	-	10,16,000
		36,00,000	264,000	32,24,000			36,00,000	2,64,000	32,24,000

Investment in Equity Shares of G Limited Account

Date	Particulars	No. of shares	Dividend	Amount	Date	Particulars	No. of shares	Dividend	Amount
1.4.20	To balance b/d	8,000	-	15,20,000	15.9.20	By Bank	-	48,000	42,000
1.5.20	To Bank	7,000	-	16,26,100	1.12.20	By Bank	7,000	-	18,01,800
15.6.20	To Bonus	6,000	-	-	25.1.21	By Bank	-	48,300	-
25.8.20	To Bank	2,100	-	4,83,000	31.3.21	By balance c/d	16,100	-	25,00,100
1.12.20	To P&L	-	-	7,14,800					
31.3.21	To P&L	-	96,300	-					
		23,100	96,300	43,43,900			23,100	96,300	43,43,900

(b) Profit and Loss Account for the year ended March 31, 2021 (An extract)

Particulars	₹	Particulars	₹
		Proceeds from right renunciation	67,500
		Interest income	2,16,000
		Dividend income	96,300
		Profit on sale of Corporate Bonds	1,76,000
To Net Profit	12,70,600	Profit on sale of Equity shares	7,14,800
	12,70,600		12,70,600

(c) Transfer of investments from current to long-term

As per AS 13 Accounting for investments, the reclassification from current investment to long-term investment need to be made at lower of cost and fair value as on the date of transfer.

Cost of investment in equity shares of G Limited = ₹25,00,100

Fair value of investments as on the date of reclassification = 16,100 shares * ₹180

= ₹28,98,000

Lower of the above = ₹25,00,100.

Therefore, the reclassification to long-term investments need to be made at ₹25,00,100.