4 INVESTMENT ACCOUNTING (w.r.t. AS - 13)

THEORY AND ILLUSTRATIONS

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1. PRINCIPLES OF INVESTMENT ACCOUNTING [VIDE AS 13]

1. Scope:

(a) ***Covers:*** AS 13 deals with accounting for investments in the financial statements of enterprises and related disclosure requirements.

(b) ***Excludes:*** This standard does not deal with :

(i) The basis for recognition of interest, dividends and rentals earned on investments which are covered by AS 9.

(ii) Operating or finance leases

(iii) Investments on retirement benefit plans and life insurance enterprises

(iv) Mutual funds, venture capital funds and / or the related asset management companies, banks and public financial institutions formed under a Central or State Government Act or so declared under the Companies Act, 2013.

(c) ***Securities held as stock-in-trade:*** Shares, debentures and other securities held as stock-in-trade (i.e., for sale in the ordinary course of business) are not 'investments' as defined in this standard. However, the manner in which they are accounted for and disclosed in the financial

statements is quite similar to that applicable in respect of current investments. Accordingly, the provisions of this standard, to the extent that they relate to current investments, are also applicable to shares, debentures and other securities held as stock-in-trade, with suitable modifications as specified in this standard.

2. **Definitions:**

(a) ***Investments:*** 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. Assets held as stock-in-trade (inventory) are not 'investments'.

(b) ***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.

(c) ***Market 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.

3. **Forms of Investment:**

(a) ***Operating:*** Enterprises hold investments for diverse reasons. For some enterprises, investment activity is a significant element of operations, and assessment of the performance of the enterprise may largely, or solely, depend on the reported results of this activity.

(b) ***Physical:*** Some investments have no physical existence and are represented merely by certificates or similar documents (e.g., shares) while others exist in a physical form (e.g., buildings).

(c) ***Marketable:*** For some investments, an active market exists from which a market value (fair value) can be established. For other investments, an active market does not exist and other means are used to determine fair value.

4. **Classification of Investments:**

(a) ***Current:*** A current investment is an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made. The intention to hold for not more than one year is to be judged at the time of purchase of investment.

(b) ***Long term:*** A long term investment is an investment other than a current investment.

(c) ***Disclosure:*** Further classification of current and long-term investments should be as specified in the statute governing the enterprise. In the absence of a statutory requirement, such further classification should disclose, where applicable, investments in :

(i) Government or Trust securities

(ii) Shares, debentures or bonds

(iii) Investment properties

(iv) Others - specifying nature

5. **Cost of Investment:**

(a) ***Acquired by purchase:*** Cost of investments purchased in cash or through bank includes : (i) Purchase Price, (ii) Acquisition charges such as brokerage, fees and duties.

(b) ***Acquired against securities:*** 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 issued. The fair value may not necessarily be equal to the nominal or par value of the securities issued.

(c) ***Acquired in exchange:*** 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 or the fair value of the investment acquired, whichever is more clearly evident.

(d) ***Interest, dividend after acquisition:*** Interest, dividends, etc. in connection with an investment are generally regarded as income, being the return on the investment.

(e) ***Interest, dividend before acquisition:*** Interest, dividend for pre-acquisition period represent a recovery of cost and do not form part of income.

Thus, when unpaid interest has accrued before the acquisition of a bond :

(i) it is included in the price for the investment;

(ii) on the subsequent receipt of interest it is allocated between pre-acquisition and post-acquisition periods;

(iii) the pre-acquisition portion is deducted from cost.

When dividends on equity are declared from pre-acquisition profits, a similar treatment may apply. If it is difficult to make such an allocation except on an arbitary basis, the cost of investment is normally reduced by dividends receivable only if they clearly represent a recovery of a part of the cost.

(f) ***Cost of Right Shares:***

(i) Subscribed: When right shares offered are subscribed for, the cost of the right shares is added to the carrying amount of the original holding.

(ii) Sold: If rights entitlements are not subscribed for but are sold in the market, the sale proceeds are taken to the profit and loss statement.

(iii) Acquired Cum-rights: However, 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.

6. Carrying Amount: Carrying amount, in simple terms, is the amount at which the closing balance of the investment is shown in the balance sheet.

(a) ***Current Investment:***

(i) ***Meaning:*** A current investment is an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made.

(ii) ***Carrying amount:*** Current investments should be carried at the lower of cost and fair value.

(iii) ***Basis of valuation:***

- ***Individual basis:*** The most prudent and appropriate method is to carry investments individually at the lower of cost and fair value.
- ***Category-wise:*** An enterprise may carry investments at the lower of cost and fair value computed category-wise (i.e. equity shares, preference shares, convertible debentures, etc.), if so required.
- ***Global basis:*** However, valuation of current investments on overall (or global) basis is not considered appropriate.

(iv) ***Reduction and reversal:*** Any reduction to fair value is debited to profit and loss account, however, if fair value of investment is increased subsequently, the increase in value of current investment up to the cost of investment is credited to the profit and loss account (and excess portion, if any, is ignored).

(b) ***Long-term Investment:***

(i) ***Meaning:*** A long-term investment is an investment other than a current investment.

(ii) ***Carrying amount:*** Long term investments are usually carried at cost/

(iii) ***Basis:*** The carrying amount of long-term investments is determined on an individual investment basis, since each such investment is to be valued at its individual cost.

(iv) ***Reduction and reversals:***

- Where there is a decline, other than temporary, in the carrying amounts of long-term valued investments, the resultant reduction in the carrying amount is charged to the profit and loss statement.
- 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.

(v) ***Examples of permanent decline:*** Following are the examples of a decline, other than temporary, in the carrying amounts of long term valued investments :

- Company in which investment is made is making cash operating losses which has resulted in reduction of its net worth,
- New regulation which has negative impact in the working of the investee,
- Significant reduction of quoted price of the investment, etc.

7. **Investment Properties:**

(a) ***Meaning:*** An investment property is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise.

(b) ***Accounting as per AS 10:*** An investment property is accounted for in accordance with cost model as prescribed in AS 10 (Revised), 'Property, Plant and Equipment'.

(c) ***Cost of Related Shares:*** The cost of any shares in co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property.

8. **Disposal of Investments:**

(a) ***Profit and Loss A/c:*** 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.

(b) ***Part disposal:*** When disposing of a part of the holding of an individual investment, the carrying amount to be allocated to that part is to be determined on the basis of the average carrying amount of the total holding of the investment.

9. **Reclassification of Investments:**

(a) ***LT to Current:*** Where long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

(b) ***Current to LT:*** Where investments are re-classified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer.

10. **Disclosure:** The following disclosures in financial statements in relation to investments are appropriate:

(a) The accounting policies followed for the determination of carrying amount of invesments.

(b) The amounts included in profit and loss statement for :

(i) Interest, dividends (showing separately dividends from subsidiary companies), and rentals on investments showing separately such income from long term and current investments. Gross income should be stated, the amount of income tax deducted at source being included under advance taxes paid.

(ii) Profits and losses on disposal of current investments and changes in carrying amount of such investments.

(iii) Profits and losses on disposal of long term investments and changes in the carrying amount of such investments.

(c) Significant restrictions on the right of ownership, realisability of investments or the remittance of income and proceeds of disposal.

(d) The aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments.

(e) Other disclosures as specifically required by the relevant statute governing the enterprise.

(f) Classification of investments.

11. **Summary Chart : AS 13**

EXHIBIT 1 : AS 13 : ACCOUNTING FOR INVESTMENT

Refer next Page No. 178

AS 13 : ACCOUNTING FOR INVESTMENT

1. Not Applicable to

- **Recognition of Income From Investments** → (Dividend / Rent / Interest)
- **Invest in Retirement Benefit Plans** → (AS-15)

2. Types of Investments

- **Current Investments (CI)** → Readily Realisable + Intention to held for less than one year
- **Long Term Investments (LTI)** → Other than CI

3. Cost of Investment

- **Acquisition Cost** → i.e. Purchase Cost
  - **Cash Paid** → Cash Amount
  - **Issue of Shares/ Securities** → FV of Securities Issued
  - **Asset Exchanged** → FV of Asset given up or FV of Investment acquired if clearly evident
  - **Right Shares** → If
    - Subscribed → Cost to be Added
    - Sold in Market → on
      - Cum Right Basis → *MV after being Ex-right is less than cost - Reduce Sale Proceeds (SP) from Carrying Amount (CA)*
      - Other Basis → *Transfer SP to P&L A/c*
- **Incidental Costs** → Ex: Brokerage, Fees, Duties

4. Important Areas

- **Duration**
  - CI = 1 Year or Lower
  - LTI = More than 1 Year
- **Valuation at BS Date**
  - CI = Lower of Cost & FV
  - LTI = Cost → If Permanent decline then → *then reduce the CA*
- **Reclassification**
  - LTI to CI - Lower of Cost & CA (BV)
  - CI to LTI - Lower of Cost & FV
- **Disclosure Required**
  1. A/c policy to calculate CA
  2. Show LTI & CI separately
  3. Amt. included in P&L
  4. *Total MV of Quoted Investment*
  5. *Total value of Unquoted Investment*

5. Important Notes

- Compulsory Acquisition of Shares of Co-op. Society
  - Add cost to value of investment
- Any Reducing in CA & Reversal
  - Charge to SPL
- On Sale - Difference between CA & Net
  - Charge to SPL

Note: CA = Carrying Amount

2. ACCOUNTING FOR INVESTMENT IN DEBENTURES ETC.

2.1 BASIC CONCEPTS

(1) **Types:** Securities purchased may be of two types: (i) Fixed Income Bearing (e.g. debentures); or (ii) Variable Income Bearing (e.g. equity shares).

(2) **Fixed Income Bearing Securities:** Fixed Income Securities e.g. Preference shares, government securities, debentures, bonds etc. earn fixed rate of interest at fixed intervals.

(3) **Interest :**

(a) *Calculation :* Interest is always calculated on the Nominal Value of the security.

(b) *Accrual :* Interest on securities accrues on due dates fixed in advance.

(c) *Payment :* Interest is paid to the holder of the security on the due date, irrespective of his actual period of holding.

(4) **Effect of Date of Transfer on Accounting of Interest :**

(a) *Transfer on Due Date:* If a security is transferred on the exact date when interest falls due, the entire interest up to that due date belongs to the seller.

(b) *Transfer on Other Date:* If a security is transferred on any other date, the interest received on the next due date by the purchaser is made up of (i) interest from the last due date upto date of transfer and (ii) interest after date of transfer. The seller has the right to claim the Interest upto the date of transfer as his income. The purchaser has the right to claim the interest after the date of transfer as his income.

(5) **Effect of Ex-Interest and Cum-Interest Price on Accounting:**

(a) *Accrued Interest :* When a security is purchased, interest accrued from the last due date upto the date of purchase needs to be considered. Such interest is = NV x % of interest x Months from last due date till date of purchase ÷ 12.

(b) *Ex-Interest :* When a security is purchased on any day after the due date, the price may either exclude or include such accrued interest. If the price is only towards the cost and excludes the accrued interest, it is known as ex-interest price. Thus, Ex-Interest Price = Cost of the Investment. Since the accrued interest, as seen above, belongs to the seller, the purchaser pays an additional amount towards the accrued interest to the seller. Thus, Total Payment by purchaser = Ex-Interest Price + Accrued Interest.

(c) *Cum-Interest :* Alternatively, if the price is towards the cost as well as the accrued interest, it is known as the cum-interest price. The total payment made by the purchaser is equal to this price. Thus, Total Payment by purchaser = Cum-Interest price. The accrued interest, in this case, is 'purchased' by the purchaser and belongs to him. The purchaser keeps back the accrued interest. Since the pre-acquisition interest is a capital receipt, it reduces his cost of investment. Thus, Cum-Interest price Less Accrued interest = Cost of the investment.

(d) *Examples :* If XYZ buys 200 Debentures of nominal value of ₹ 100 each of ICICI Ltd. (i) at ₹ 98 (ex-interest) on 1-3-2024, (ii) at ₹ 101 (cum-interest) on 1-3-2024. [interest @ 12% p.a. to be paid half-yearly on 30th June and 31st December]

(1) Nominal value [NV] of investment purchased is ₹ 20,000 in both the cases.

(2) If purchased on 1-3-2024, we have to calculate Accrued Interest [Jan. & Feb.]

= NV x % of Interest x Months from last due date till date of purchase ÷ 12

= ₹ 20,000 x 12% x 2 ÷ 12 = ₹ 400.

(3) If purchased ex-interest

Price paid = Cost = ₹ 19,600 (200 x ₹ 98)

Total Payment = Price paid + Accrued Interest Paid = ₹ 20,000 [(₹ 19,600) + ₹ 400].

(4) If purchased cum-interest,

Price Paid = Total Payment = ₹ 20,200 (200 x ₹ 101)

Cost = Price paid - Accrued Interest Retained = ₹ 19,800 [(₹ 20,200) - ₹ 400].

(e) *Sale Transactions*: The above discussion equally applies to securities sold, with suitable modifications (e.g. price is received instead of being paid; interest accrues upto the date of sale etc). Thus,

(i) *Accrued Interest*: When a security is sold, interest accrued from the last due date upto the date of sale needs to be considered. Such interest is = NV x % of Interest x Months from last due date till date of sale ÷ 12.

(ii) *Ex-Interest*: In case of an ex-interest sale price, the accrued interest belongs to the seller. The seller receives an additional amount towards the accrued interest from the purchaser, which is treated as income.

(iii) *Cum-Interest*: In case of a sale at a cum-interest price, the accrued interest is received along with the sale price. Such accrued interest is a revenue income for the seller.

(iv) *Examples*: If ABC sells 100 Debentures of nominal value of ₹ 100 each of ICICI Ltd. (i) at ₹ 98 (ex-interest) on 1-3-2024; (ii) at ₹ 101 (cum-interest) on 1-3-2024; [interest @ 12% p.a. to be paid half-yearly on 30th June and 31st December].

(1) Nominal value [NV] of investment sold is ₹ 10,000, in both the cases.

(2) If sold on 1-3-2024; we have to calculate Accrued Interest [Jan. & Feb.]
= NV x % of Interest x Months from last due date till date of sale ÷ 12
= ₹ 10,000 x 12% x 2 ÷ 12 = ₹ 200.

(3) If sold ex-interest;
Price received = *Capital receipt* = ₹ 9,800 [₹ 98 x 100];
Total receipts = *Price recd.* + *Accrued Interest recd* = ₹ 10,000 [(₹ 9,800) + ₹ 200]

(4) If sold cum-interest;
Price received = *Total receipts* = ₹ 10,100 [₹ 101 x 100];
Capital receipt = *Price received* - *Accrued Interest* = ₹ 9,900 [(₹ 10,100) - ₹ 200].

[Note: If the details are not available in an examination problem, students should assume that securities are traded at 'ex-interest' prices.]

(6) Accrued Interest: However, for the purpose of accounting, whether the price is cum-interest or ex-interest, accrued interest is always calculated and entered in the Income column in the Investment Account.

(7) Brokerage on Actual Price: Brokerage (on purchase or sale) is normally calculated on the purchase or sale price i.e. the cum-interest price. In case of purchase transaction, it is added to the purchase cost and in case of a sale transaction it is deducted from the Sale Price. [The **syllabus specifically excludes brokerage.]**

(8) Investment Account: A separate Investment Account is opened for each scrip purchased.

2.2 WORKSHEET 1 : ACCOUNTING ENTRIES IN JOURNAL

No.	Transaction/Entry		Amount
(1)	**Purchase [at Ex-Interest Price]**		
	Investment A/c	Dr.	[Towards Cost = Price]
	Interest A/c	Dr.	[Towards Accrued Interest]
	To Bank A/c		[Total Paid = Price + Interest]
	Notes:		
	1. Price Paid = Quoted Price + Brokerage		
	2. Accrued Interest upto date of purchase = NV x % of Interest x Months from last due date till date of purchase ÷ 12		
	3. Purchased ex-interest; so, Total Payment = Price paid + Accrued Interest.		
(2)	**Purchase [at Cum-Interest Price]**		
	Investment A/c	Dr.	[Towards Cost = Price - Interest]
	Interest A/c	Dr.	[Towards Accrued Interest]
	To Bank A/c		[Total Paid = Price]

Notes:
1. Price Paid = Quoted Price + Brokerage
2. Accrued Interest upto date of purchase
   = NV x % of Interest x Months from last due date till date of purchase ÷ 12
3. Purchased cum-interest; so, Cost = Price paid - Accrued interest.

(3) Sale [at Ex-Interest Price]

Bank A/c		Dr.	[Total Recd. = Price + Interest]
To Investment A/c			[Towards Capital = Price]
To Interest A/c			[Towards Accrued Interest]

Notes:
1. Price Received = Quoted Price – Brokerage
2. Accrued Interest upto date of sale
   = NV x % of Interest x Months from last due date till date of sale ÷ 12
3. Sold ex-interest; so, Total Receipts = Price received + Accrued Interest Received.

(4) Sale [at Cum-Interest Price]

Bank A/c		Dr.	[Price]
To Investment A/c			[Towards Capital = Price – Interest]
To Interest A/c			[Towards Accrued Interest]

Notes:
1. Price Received = Quoted Price – Brokerage
2. Accrued Interest upto date of sale
   = NV x % of Interest x Months from last due date till date of sale ÷ 12
3. Sold cum-interest; so, Received Towards Capital = Price received - Accrued Interest.

(5) Profit on Sale

Investment A/c	Dr.	
To P & L A/c		

Notes:
(1) On each sale, the profit or loss is calculated as Sale Price Less Weighted Average Cost.
Weighted Average Cost on date of sale is equal to

$$\frac{\text{No. of Securities Sold}}{\text{No. of Total Securites}} \times \text{Total Cost of Investments on Date of Sale}$$

(The Weighted Average Cost is to be used for ascertaining profit, as per Accounting Standard 13. Hence, even if an examination problem states that securities are sold out of a specific lot or out of the opening stock etc. Weighted Average Cost should be used for ascertaining profit.]
(2) Profit on sale of investment (whether current or long term investment) is transferred to profit & loss a/c, by the above Journal entry.
(3) Loss on sale of investments (whether current or long term) is debited to the Profit & Loss Account.

(6) Interest Received on due date

Bank A/c	Dr.	[Amount received]
To Interest A/c		

Notes:
(1) Interest Amount Received = NV x % of Interest x Months due ÷ 12
(2) If any tax at source is deducted [TDS], Tax at Source a/c is debited and the net amount (Total Less TDS) is debited to the Bank A/c.

(7) Accrued Interest at year-end

Accrued Interest A/c	Dr.	[Amount due]
To Interest A/c		

Note: Accrued Interest Amount Due = NV x % of Interest x Months due ÷ 12

(8)	**Interest Tfd. to P & L A/c at year-end** Interest A/c To P & L A/c	Dr.
Note. Net balance of Interest a/c (or column) is transferred at year end.		
(9)	**Valuation at year-end** Profit & Loss A/c To Investment A/c	Dr. [Cost - Market value]

Notes:

(1) At the year end, cost of each investment on hand (known as "carrying amount") is ascertained on Average Cost basis. This cost is compared with its market value. If market value of investment held as current asset is less than cost, depreciation is debited to profit & loss a/c, vide the above journal entry. This debit to Profit and Loss A/c due to change in carrying amount is as per the recommendation of AS 13.

(2) Investment held as fixed asset (long term) is valued at cost at the year-end as per AS 13 irrespective of the market price.

2.3 WORKSHEET 2 : FORMAT FOR INVESTMENT ACCOUNT

Dr. **Investment Account** **Cr.**

For the year ending .....

of ....[Name of Security/Share]

[Due Date for Interest, if any]

Date	Particulars	NV ₹	Income ₹	Capital ₹	Date	Particulars	NV ₹	Income ₹	Capital ₹
[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]

Notes:

(1) Investment Account is kept like a Cash Book having Many Columns (Cash, Bank etc.).

(2) This format can be used for debentures as well as shares.

(3) Entries involving Investment a/c (as per worksheet 1) are recorded in the Capital column above; and entries involving Interest or Dividend a/c are recorded in the Income column (see Worksheet 3 below).

(4) Columns [1] to [5] show the debit side of the Account; columns [6] to [10] show the credit side of the Account.

(5) Column [1] shows the date of purchase or of other debit transaction.

(6) Column [2] shows the name of the A/c credited.

(7) Column [3] is a memorandum column showing the nominal value of security purchased.

(8) Column [4] is an accounting column showing the amount of Income (Interest/Dividend).

(9) Column [5] is an accounting column showing the amount of actual cost of security purchased.

(10) Column [6] shows the date of sale or of other credit transaction.

(11) Column [7] shows the name of the account debited.

(12) Column [8] is a memorandum column showing the nominal value of the security sold.

(13) Column [9] is an accounting column showing the amount of Income (Interest/Dividend) received/ credited.

(14) Column [10] is an accounting column showing the capital receipts (sale proceeds) on sale of security.

2.4 WORKSHEET 3 : ENTRIES IN INVESTMENT ACCOUNT

Refer to Page No. 183.

Dr. **Cr.**

Investment Account
of ..... [Name of Security]
For the year ending.....
[Due Date for Interest, if any]

JV No.	Particulars	NV ₹	Income Amount	Capital Amount	JV No.	Particulars	NV ₹	Income Amount	Capital Amount
	Opening Balance b/d		Accrued Interest b/d	Balance b/d	[3]	**Sale ex-Interest** Bank		Accrued Interest	Price Received
[1]	**Purchase ex-Interest** Bank		Accrued Interest	Price Paid	[4]	**Sale cum-Interest** Bank		Accrued Interest	Price - Accrued Interest
[2]	**Purchase cum-Interest** Bank		Accrued Interest	Price - Accrued Interest	[5]	**Loss on Sale** P & L A/c			Wt. Avg. Cost - Sale Price
[5]	**Profit on Sale** P & L A/c			Sale Price - Wt. Avg. Cost	[6]	**Interest recd. on due date** Bank		Interest Received	
[8]	**Interest tfd. at year-end** P & L A/c		Bal. Fig. of Column		[7]	**Interest accrued on year-end** Balance c/d		Accrued Interest	
					[9]	**Valuation at year-end** Balance c/d			Cost or MV w.e. is lower
					[10]	**Loss on Valuation, if any** P & L A/c			Cost - MV at year-end
	Total					**Total**			

3. ACCOUNTING FOR INVESTMENTS IN EQUITY SHARES

3.1 BASIC CONCEPTS

(1) Examples: The income on Variable Income Securities e.g. equity shares is neither certain nor at a fixed rate nor received on a fixed date.

(2) Adjustment for Dividend:

(a) *Calculation:* Dividend is always calculated on the Face value or Nominal Value of the shares.

(b) *Accrual and Payment:* Dividend on shares accrues on the date of its declaration and is paid to the holder of the shares on the date of book-closure, irrespective of his actual period of holding.

(c) *Pre-acquisition Dividend:* Dividend is recorded only when actually received (i.e. no entry is passed for accrued dividend). Out of the total dividend received, dividend relating to the period before acquisition is treated as capital receipt and credited to the Investment A/c; and dividend after the date of acquisition of the shares is credited to Dividend Account. For example, if XYZ Ltd. pays a dividend on 30-09-2024 for the year ended on 31-03-2024, dividend on shares held as on 31-03-2024 will be treated as Revenue receipt (Income); and on shares acquired between 01-04-2024 and 30-09-2024 will be treated as Capital receipt.

3.2 RECORDING SHARE TRANSACTIONS IN INVESTMENT ACCOUNT

(1) Purchase: When shares are purchased-

(a) Nominal value is entered in the NV column (Dr.).

(b) Cost is entered in the Capital column (Dr.).

(2) Sale: When shares are sold-

(a) Nominal value is entered in the NV column (Cr.).

(b) Sale proceeds are entered in the Capital column (Cr.).

(3) Dividend Received: When dividend is actually received on the due date-

(a) The Pro-rata amount relating to the period *after* the date of acquisition is entered in the Income Column (Cr.).

(b) The Pro-rata amount relating to the period *before* the date of acquisition, if any, is entered in the Capital Column (Cr.).

(4) Bonus Shares: When bonus shares are received-

(a) The Nominal Value [NV] of such bonus shares is entered in the NV Column (Dr.).

(b) No amount is entered in the Capital column (Dr.).

[***Note:*** Bonus shares are entitled to pro-rata dividend from the date of their issue].

(5) Subscribing to Right Shares: When the rights shares are subscribed-

(a) Nominal value is entered in the NV column (Dr.).

(b) Cost is entered in the Capital column (Dr.).

[***Note:*** Right shares are entitled to pro-rata dividend from the date of their issue].

(6) Sale of Right Entitlements : When the rights are sold (without subscribing) -

(a) No entry is made in the Investment Account.

(b) Sale proceeds are, normally, credited to the Profit & Loss Account (as recommended by AS 13).

(7) Debentures Converted into Shares: If shares are received against convertible debentures, the Debentures Investment Account will be closed by transfer of its balance to a newly opened Shares Investment Account. Interest on debentures upto the date of conversion will be recorded in the Income column (Cr.) of the Debentures Investment Account.

Note : Other entries relating to shares are the same as explained in the case of debentures in para 2, above. Valuation at year-end is done as explained in Worksheet 2 (a).

4. ILLUSTRATIONS

4.1 CASELETS / CASE STUDIES [AS 13]

Illustration 1 :

Z Bank has classified its total investment on 31-3-2025 into three categories (a) held to maturity (b) available for sale (c) held for trading as per the RBI Guidelines. Held to maturity investments are carried at acquisition cost less amortised amount. Available for sale investments are carried at marked to market. Held for trading investments are valued at weekly intervals at market rates. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored. You are required to comment whether the policy of the bank is in accordance with AS 13 ?

Solution : ***(CA-Inter, Nov. 2021, 2019, adapted)***

As per AS 13 Accounting for Investments, the accounting standard is not applicable to Bank, Insurance Company, Mutual Funds. In this case Z Bank is a bank, therefore, AS 13 does not apply to it. For banks, the RBI has issued separate guidelines for classification and valuation of its investment and Z Bank should comply with those RBI Guidelines / Norms.

Illustration 2 :

How you will deal with following in the financial statements of the Parish Electronics Ltd. as on 31-3-2025 with reference to AS-13 ?

Parish Electronics Ltd. has current investmnet (X Ltd.'s shares) purchased for ₹ 5 lakhs, which the company wants to reclassify as long term investment. The market value of these investments as on date of Balance Sheet was ₹ 2.5 lakhs.

Solution : ***(CA-Inter, Oct. 2022, May 2019, Aug. 2018, adapted)***

As per AS 13 Accounting for Investments, where investments are reclassified from current to long-term, transfers are made at the lower of cost or fair value at the date of transfer.

In the given case, the market value of the investment (X Ltd. shares) is ₹ 2.50 lakhs, which is lower than its cost i.e., ₹ 5 lakhs. Therefore, the transfer to long-term investments should be made at market value of ₹ 2.50 lakhs. The loss of ₹ 2.50 lakhs should be charged to profit and loss account.

Illustration 3 :

An unquoted long-term investment is carried in the books at a cost of ₹ 2 lakhs. The published accounts of the unlisted company received in May, 2024 showed that the company was incurring cash losses with declining market share and the long-term investment may not fetch more than ₹ 20,000. How will you deal with this in preparing the financial statements of R Ltd. for the year ended 31st March, 2024 ?

Solution :

As stated in the question that financial statements for the year ended 31st March, 2024 are still under preparation - The answer has been given on the assumption that the financial statements are yet to be completed and approved by the Board of Directors.

Also, the fall in value of investments has been considered on account of conditions existing on the balance sheet date. Investments classified as long-term investments should be carried in the financial statements at cost. However, provision for diminution should be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. AS 13 (Revised) Accounting for Investments states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. On the above basis, the facts of the given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of long-term investment to ₹ 20,000 in the financial statements for the year ended 31st March, 2025.

Illustration 4 :

X Ltd. invests in long-term deposit worth ₹ 200 lakhs on 1st April 2025. It incurs brokerage cost of ₹ 1 lakh to be able to make the investment. What will be the cost of investments on 1-4-2025 ?

Solution :

The cost of the investment on 1st April, 2025 is ₹ 201 lakhs.

Illustration 5 :

Universal Plastics Traders acquired 5,000 shares of Maruti Ltd @ ₹ 80.40 each on 15th July, 2024. On 1st December, 2024 Maruti Ltd issued Right Shares in the ratio of 2 : 5 @ ₹ 98 per share. Universal Plastics Traders exercised their option for 50% of Right Shares and applied for the same. On 20th March, 2025 Universal Plastics Traders sold 1,600 shares of Maruti Ltd. @ ₹ 99.50 per share.

Calculate Profit/Loss on sale of shares on 20th March, 2025. ***(T.Y.B.Com., Apr. 2010, adapted)***

Solution :

Universal Plastics Traders

Particulars		₹
Cost of 5,000 shares @ ₹ 80.40 per share	... ...	4,02,000
Add : Rights Shares 1,000 shares at ₹ 98 per share	... ...	98,000
Total cost of 6,000 shares	... ...	5,00,000
Sale Price of 1,600 shares @ ₹ 99.50 per share	... ...	1,59,200
Less : Cost Price $\left(\frac{5,00,000 \times 1,600}{6,000}\right)$	... ...	1,33,333
Profit	... ...	**25,867**

Illustration 6 :

The investment portfolio of XYZ Ltd. as on 31-3-2025 considered of the following :

Current Investments	Total Cost	Fair Value as on 31-3-2025
1,000 Equity Shares of A Ltd.	5 lakhs	7 lakhs
500 Equity Shares of B Ltd.	10 lakhs	15 lakhs
1,000 Equity Shares of C Ltd.	15 lakhs	12 lakhs
Total	30 lakhs	34 lakhs

Give your comments on the following :

1. The company wants to value the above portfolio at ₹ 30 lakhs being lower of cost or fair market value.
2. Company wants to transfer 1,000 Equity Shares of C Ltd. from current investments to long-term investmetns on 31-3-2025 at cost of ₹ 15 lakhs. ***(CA-Inter, May 20, adapted)***

Solution :

As per AS 13 "Accounting for Investments", Valuation of current investments on overall (or global) basis is not considered appropriate. The more prudent and appropriate method is to carry investments individually at the lower of cost and fair value.

1. Hence the company has to value the current investment at ₹ 27 lakhs (A Ltd. shares at ₹ 5 lakhs; B Ltd. shares at ₹ 10 lakhs and C Ltd. shares at ₹ 12 lakhs). The company's decision to value the portfolio at ₹ 30 lakhs are not appropriate.
2. Moreover, where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer.

Hence, the company has to make transfer of 1,000 Equity Shares of C Ltd. at ₹ 12 lakhs (fair value) and not ₹ 15 lakhs (cost) as the fair value is less than cost.

Illustration 7 :

Paridhi Electronics Ltd. invested in the shares of Dhansukh Ltd. on 1st May 2025 at a cost of ₹ 10,00,000. Three fourth of these investments were current investments and the remaining investments were intended to be held for more than a year. The published accounts of Dhansukh Ltd. received inJanuary, 2026 reveals that the company has incurred cash losses with decline in market share and investment of Paridhi Electronics Ltd. may not fetch more than ₹ 7,50,000. The reduction in value is apparent to be non-temporary. You are required to explain how you will deal with the above in the financial statements of the Paridhi Electronics Ltd. as on 31-3-2026 with reference to AS 13 ? ***(CA-Inter, Oct. 2021, May 2021, 2018, adapted)***

Solution :

As per AS 13, "Accounting for Investments", carrying amount for current investments is the lower of cost and fair value. But long-term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the

value of the investments, such reduction being determined and made for each investment individually. The standard also states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. Pandhi Ltd. made three fourth of ₹ 10,00,000 i.e. ₹ 7,50,000 as current investment and remaining ₹ 2,50,000 as long term. The facts of the case given in the question clearly suggest that the provision for diminution should be made to reduce the carrying amount of shares for both categories of shares to bring them to market value. Hence the carrying value of investments will be shown at amount of ₹ 7,50,000 in the financial statements for the year ended 31st March 2025 and charge the difference of loss of ₹ 2,50,000 to profit and loss account.

Illustration 8 :

Gowtham Limited invested in shares of another company (with the intention to hold the shares for short-term period) on 30th November, 2024 at a cost of ₹ 4,25,000. It also earlier purchased Gold of ₹ 8,00,000 and Silver of ₹ 3,50,000 on 31st March, 2024.

Market values as on 31st March, 2025, of the above investments are as follows :

Shares ₹ 3,50,000, Gold ₹ 10,25,000, Silver ₹ 5,10,000

You are required to explain how will the above investments be shown (individually and in total) in the books of account of Gowtham Limited for the year ending 31st March, 2025 as per the provisions of AS 13.

(CA-Inter, May 2023, adapted)

Solution :

As per AS 13 (Revised) Accounting for Investments, for investment in shares - if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value, i.e., in case of shares, at lower of cost (₹ 4,25,000) and market value (₹ 3,50,000) as on 31st March, 2025, i.e. ₹ 3,50,000.

Gold and silver are generally purchased with an intention to hold it for long-term period (more than one year) until and unless given other otherwise. Hence, the investment in Gold and Silver (purchased on 31st March, 2024) should continue to be shown at cost (since there is no other than temporary diminution) as on 31st March, 2025, i.e. ₹ 8,00,000 and ₹ 3,50,000 respectively, though their market values have been increased.

Thus the shares, gold and silver will be shown at ₹ 3,50,000, ₹ 8,00,000 and ₹ 3,50,000 respectively and hence, total investment will be valued at ₹ 15,00,000 for the year ending on 31st March, 2025 as per AS 13.

Illustration 9 :

X Ltd. on 1-1-2025 had made an investment of ₹ 600 lakhs in the Equity shares of Y Ltd. of which 50% is made in the long-term category and the rest as temporary investment. The realisable value of all such investment on 31-3-2025 became ₹ 200 lakhs as Y Ltd. lost a case of copyright. From the given market conditions, it is apparent that the reduction in the value is not temporary in nature. How will you recognise the reduction in financial statements for the year ended on 31-3-2025 ?

Solution :

X Ltd. invested ₹ 600 lakhs in the Equity Shares of Y Ltd. Out of the same, the company intends to hold 50% shares for long-term period i.e. ₹ 300 lakhs and remaining as temporary (current) investment i.e. ₹ 300 lakhs. Irrespective of the fact that investment has been held by X Ltd. only for 3 months (from 1-1-2025 to 31-3-2025), AS 13 (Revised) lays emphasis on intention of the investor to classify the investment as current or long-term eventhough the long-term investment may be readily marketable.

In the given situation, the realisable value of all such investments on 31-3-2025 became ₹ 200 lakhs i.e. ₹ 100 lakhs in respect of current investment and ₹ 100 lakhs in respect of long-term investment.

As per AS 13 (Revised), Accounting for Investment, the carrying amount for current investments is the lower of cost and fair value. In respect of current investments for which an active market exists, market value generally provides the best evidence of fair value.

Accordingly, the carrying value of investment held as temporary investment should be shown at realisable value i.e. at ₹ 100 lakh. The reduction of ₹ 200 lakhs in the carrying value of current investment will be charged to the profit and loss account.

The standard further states that long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of long-term investment, the carrying amount is reduced to recognise the decline.

Here, Y Ltd. lost a case of copyright which drastically reduced the realisable value of its shares to one third which is quiet a substantial figure. Losing the case of copyright may effect the business

and the performance of the company in the long run. Accordingly, it will be appropriate to reduce the carrying amount of long-term investment by ₹ 200 lakhs and show the investments at ₹ 100 lakhs, since the downfall in the value of shares is other than temporary. The reduction of ₹ 200 lakhs in the carrying value of long term investment will also be charged to the statement of profit and loss.

Illustration 10 :

Omega Equity Investments Ltd., wants to re-classify its investments in accordance with AS 13. State the values, at which the investments have to be reclassified in the following cases :

1. Long-term investments in Company A, costing ₹ 8.5 lakhs are to be re-classified as current. The company had reduced the value of these investments to ₹ 6.5 lakhs to recognise a permanent decline in value. The fair value on date of transfer is ₹ 6.8 lakhs.
2. Current investment in Company C, costing ₹ 10 lakhs are to be re-classified as long-term as the company wants to retain them. The market value on date of transfer is ₹ 12 lakh.
3. Certain long-term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these investments was ₹ 18 lakhs but had been written down to ₹ 12 lakhs to recognise permanent decline as per AS 13.

(CA-Inter, May 2020, adapted)

Solution :

As per AS 13 Accounting for Investments, where long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer. And where investments are re-classified from current to long-term, transfers are made at lower of cost and fair value on the date of transfer. Accordingly, the re-classification will be done on the following basis :

1. In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 6.5 lakhs in the books.
2. In this case, re-classification of current investment into long-term investments will be made at ₹ 10 lakhs as cost is less than its market value at ₹ 12 lakhs.
3. In this case, the book value of the investment is ₹ 12 lakhs, which is lower than its cost i.e. ₹ 18 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at ₹ 12 lakhs.

Illustration 11 :

Blue-chip Equity Investments Ltd. wants to re-classify its investments in accordance with AS 13 (Revised). State the values, at which the investments have to be re-classified in the following cases:

1. Long-term investments in Company B, costing ₹ 7 lakhs are to be re-classified as current. The fair value on date of transfer is ₹ 8 lakhs and book value is ₹ 7 lakhs.
2. Current investment in Company C, costing ₹ 10 lakhs are to be re-classified as long-term as the company wants to retain them. The market value on date of transfer is ₹ 12 lakhs.

Solution :

As per AS (Revised) 'Accounting for Investments', where long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

And where investments are re-classified from current to long-term, transfers are made at lower of cost and fair value on the date of transfer.

Accordingly, the re-classification will be done on the following basis :

1. The carrying / book value of long-term investment is same as cost i.e. ₹ 7 lakhs. Hence this long-term investment will be re-classified as current investment at book value of ₹ 7 lakhs only.
2. In this case, re-classification of current investment into long-term investments will be made at ₹ 10 lakhs as cost it less than its market value of ₹ 12 lakhs.

Illustration 12 :

Mr. Mohan has invested some money in various Mutual Funds. Following information in this regard is given :

Mutual Funds	Date of Purchase	Purchase Cost (₹)	Brokerage Cost (₹)	Stamp Duty Cost (₹)	Market Value as on 31-3-2025
A	1-5-2021	50,000	200	20	48,225
B	5-8-2024	25,000	150	25	24,220
C	1-1-2025	75,000	300	75	78,190
D	7-5-2024	70,000	275	50	65,880

You are required to :

1. Classify his investment in accordance with AS-13 (revised)
2. Value of investment in mutual fund as on 31-3-2025

Solution : ***(CA-Inter, Dec. 2021, adapted)***

As per AS "Accounting for Investments", a current investment is an investment that is by its nature readily realisable 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. A long-term investment is an investment other than a current investment. Long-term investments are usually carried at cost. If there is a decline, other than temporary, in the value of a long-term investment; the carrying amount is reduced to recognise the decline.

Mutual Funds	Classification	Cost (₹)	Market Value (₹)	Carrying Value (₹)
A	Long-term Investment	50,220	48,225*	50,220
B	Current Investment	25,175	24,220	24,220
C	Current Investment	75,375	78,190	75,375
D	Current Investment	70,325	65,880	65,880
Total				2,15,695

Note : *The reduction in value of Mutual Fund A is considered to be temporary. If reduction in Market Value is assumed as other than temporary in nature, then the carrying value of ₹ 48,225 will be considered.

4.2 BONDS AND DEBENTURES

Illustration 13 :

On 1-4-2024 Mrs. Minal had ₹ 3,00,000, 12% Debentures at ₹ 94 each (face value ₹ 100). Interest is payable half yearly on 30th June and 31st December every year.
On 1-9-2024 Mrs. Minal sold ₹ 90,000 of 12% debentures at ₹ 95 cum-interest.
These 12% debentures were quoted at ₹ 96 per debenture at the stock exchange on 31-3-2025.
Draw up 12% Debenture account in the books of Mrs. Minal for the year ended 31-3-2025.

Solution : ***(T.Y.B.Com., Oct. 12, adapted)***

In the Books of Mrs. Minal

Dr. **12% Debentures A/c** **Cr.**

Date	Particulars	WN	F.V. ₹	Interest ₹	Cost ₹	Date	Particulars	WN	F.V. ₹	Interest ₹	Cost ₹
1-4-24	To Balance b/d	1	3,00,000	9,000	2,82,000	30-6-24	By Bank A/c (Interest)	2	-	18,000	-
31-3-25	To Profit and Loss A/c		-	29,700	-	1-9-24	By Bank A/c (Sale)	3	90,000	1,800	83,700
						1-9-24	By Profit and Loss A/c (Loss)	4	-	-	900
						31-12-24	By Bank A/c (Interest)	5	-	12,600	-
						31-3-25	By Balance c/d	6	2,10,000	6,300	1,97,400
			3,00,000	38,700	2,82,000				3,00,000	38,700	2,82,000

Working Notes :

1. Time Line

Date	1-4		30-6			1-9			31-12			31-3
Transaction	OP		I			S			I			CL
Months	A	M	J	J	A	S	O	N	D	J	F	M

2. Accrued Interest on 1-4-2024 = 3,00,000 x 12% x 3/12 = 9,000

3. Interest on 30-6-2024 = 3,00,000 x 12% x 6/12 = 18,000

4. **Sale on 1-9-2024**

Cum-interest (90,000 x 95/100)	=	85,500
Less : Interest (90,000 x 12% x 2/12)	=	(1,800)
Cost		83,700

5. **Profit / Loss on Sale**

Sales value	83,700
Less : Cost	(84,600)
Loss on Sale	900

FV	Cost
3,00,000	2,82,000
90,000	84,600

6. **Interest on 31-12-2024** = 2,10,000 x 12% x 6/12 = 12,600
7. **Accrued Interest 31-3-2025** = 2,10,000 x 12% x 3/12 = 6,300

Illustration 14 :

In 2023, M/s Wye Ltd. issued 12% fully paid debentures of ₹ 100 each, interest being payable half yearly on 30th September and 31st March of every accounting year.

On 1st December, 2024, M/s. Bull & Bear purchased 10,000 of these debentures at ₹ 101 ex-interest price, also paying brokerage @ 1% of ex-interest amount of the purchase. On 1st March, 2025 the firm sold all these debentures at ₹ 103 ex-interest price, again paying brokerage @ 1% of ex-interest amount. Prepare Investment Account in the books of M/s. Bull & Bear for the period 1st December, 2022 to 1st March, 2025. ***(CA-Inter, adapted)***

Solution :

In the Books of M/s Bull & Bear

12% Debentures of Wye Ltd. Investment Account

Dr. For the Period from 1st December, 2024 to 1st March, 2025 Cr.

Date	Particulars	WN	NV ₹	Interest ₹	Cost ₹	Date	Particulars	WN	NV ₹	Interest ₹	Cost ₹
1-12-24	To Bank A/c	1	10,00,000	20,000	10,20,100	1-3-25	By Bank A/c	2	10,00,000	50,000	10,19,700
1-3-25	To Profit and Loss A/c (Bal. Fig.)		-	30,000	-	1-3-25	By Profit and Loss A/c (Loss)				400
			10,00,000	50,000	10,20,100				10,00,000	50,000	10,20,100

Working Notes :

1. Cost of 12% Debentures purchased on 1-12-20224

Cost Value (10,000 x ₹ 101)	=	10,10,000
Add : Brokerage (1% of ₹ 10,10,000)	=	10,100
Total	=	10,20,100

2. Sale Proceeds of 12% Debentures Sold

Sale Price (10,000 x ₹ 103)	=	10,30,000
Less : Brokerage (1% of ₹ 10,30,000)	=	(10,300)
Total	=	10,19,700

Illustration 15 : (Opng. Accr. Int. / Cum. Pur. / Ex.Sales / Cum. Sale / 2 Int. Instal.)

Mr. Ram Nene held on 1-1-2024 ₹ 60,000 of 12% Government securities (Tax free) of ₹ 100 each of ₹ 56,500.

On 1-6-2024 he purchased a further of ₹ 40,000 of the security at ₹ 97 cum-interest.

On 31-7-2024 ₹ 50,000 of the security was sold at 94 ex-interest.

On 1-12-2024 ₹ 20,000 of the security was again sold at ₹ 96 cum-interest.

Interest on the security was paid each year on 31st March and 30th September and was credited by the bank on 3rd April and 4th October respectively. The price of the security on 31-12-2024, was 96. Mr. Nene closes his books on 31st December each year.

Draw up the Investment Account in the books of Mr. Nene. ***(T.Y.B.Com., Nov. 2022, adapted)***

Solution :

In the Books of Mr. Ram Nene

Investment Account of 12% Government Securities : (tax free)

For the year ending 31st December, 2024

[Due Date for Interest 31st March and 30th September]

Dr. **Cr.**

Date	Particulars	W. N.	NV ₹	Income ₹	Capital ₹	Date	Particulars	W. N.	NV ₹	Income ₹	Capital ₹
1-1-24	To Balance b/d	1	60,000	1,800	56,500	3-4-24	By Bank	2	--	3,600	--
1-6-24	To Bank	3	40,000	800	38,000	31-7-24	By Bank	4	50,000	2,000	47,000
31-12-24	To P & L A/c (Interest tfd.)		--	7,300	--	31-7-24	By P & L A/c (loss on sale)	5	--	--	250
						4-10-24	By Bank	6	--	3,000	--
						1-12-24	By Bank	7	20,000	400	18,800
						1-12-24	By P & L A/c (loss on sale)	8	--	--	100
						31-12-24	By Balance c/d	9	30,000	900	28,350
			1,00,000	9,900	94,500				1,00,000	9,900	94,500

Time Line

Date	1-1		31-3			1-6	31-7		30-9			1-12	31-12
Transaction	OP		I			P	S		I			S	CL
Months	J	F	M	A	M	J	J	A	S	O	N	D	

OP = Opening; P = Purchase; S = Sale; CL = Closing

Working Notes :

(1) Accrued interest on opening balance of ₹ 40,000 bonds for 3 months from Oct. to Dec.
₹ 60,000 x 12% x 3/12 = ₹ 1,800

(2) Interest amount upto 31st March received = ₹ 60,000 x 12% x 6/12 = ₹ 3,600

(3) (a) Price paid = (₹ 97 x 400 units) = ₹ 38,800
(b) Purchased after due date; so Accrued Interest
₹ 40,000 x 12% x 2 /12 = ₹ 800
(c) Purchase cum-interest; so Cost = ₹ 38,800 - ₹ 800 = ₹ 38,000.

(4) (a) Price received = (₹ 94 x 500 units) = ₹ 47,000
(b) Sold after due date; so, Accrued Interest
₹ 50,000 x 12% x 4/12 = ₹ 2,000
(c) Sold ex-interest; so, Total Receipts = ₹ 47,000 + ₹ 2,000 = ₹ 49,000

(5) Loss on sale of Debentures

Sale Proceeds	= ₹ 47,000
Less: Cost of Investments sold (Average cost; as per AS 13) $\frac{₹\,50,000}{₹\,1,00,000}$ x (56,500 + 38,000)	= ₹ 47,250
Loss on sale	= ₹ 250

(6) Interest amount upto 31st March received = ₹ 50,000 x 12% x 6/12 = ₹ 3,000

(7) (a) Price received = (₹ 96 x 200 units) = 19,200
(b) Sold after due date; so, Interest due
₹ 20,000 x 12% x 2/12 = ₹ 400
(c) Sold cum-interest; so, Capital = ₹ 19,200 - ₹ 400 = ₹ 18,800

(8) Loss on sale of Securities (cum-interest)

Sale Proceeds (excluding interest)	= ₹ 18,800
Less: Cost of Investments sold (Average cost vide AS 13) $\left(\frac{₹\,56,500 + ₹\,38,000 - ₹\,47,250}{₹\,50,000}\right)$ x ₹ 20,000	= ₹ 18,900
Loss on sale	= ₹ 100

(9) (a) Accrued interest on closing balance
₹ 30,000 x 12% x 3/12 = ₹ 900

(b) Calculation of cost of closing stock of investments

Date	Purchases/ Sales	Nominal Value	Cost
1-1-2024	Opening Balance	60,000	56,500
1-6-2024	Purchases	40,000	38,000
		1,00,000	94,500
31-7-2024	Sales	50,000	47,250
		50,000	47,250
1-12-2024	Sales	20,000	18,900
	Cost of closing stock	30,000	28,350

Market value of closing stock = ₹ 96 x 300 = ₹ 28,800
Cost being lower than the market price, closing stock of investments is valued at cost.

Illustration 16 :

Mr. Jayant holds 2,400, 6% debentures of ₹ 100 each in Gemini Ltd. as on 01-04-2024 at a cost of ₹ 2,80,000. Interest is payable on 30th June and 31st December every year. Other details are as follows :

1. On 01-06-2024, 800, 6% Debentures are purchased cum-interest at ₹ 81,600.
2. On 01-11-2024, 800, 6% Debentures are purchased ex-interest at ₹ 76,800.
3. On 30-11-2024, 1200, 6% Debentures are sold cum-interest for ₹ 1,29,000.
4. On 31-12-2024, 1600, 6% Debentures are sold ex-interest for ₹ 1,54,600.

Prepare 6% Debenture account in the books of Mr. Jayant valuing closing balance on 31-03-2025 at cost or market price whichever is lower. The Debentures are quoted at par on 31-03-2025. (Interest on 31/12/2024 to be recorded after giving effect to the sale transaction.)

Solution : ***(T.Y.B.Com., Oct. 2024, April 2014, March 2006, adapted)***

In the Books of Mr. Jayant

Dr. Investments in 6% Debenture Account for the year ended 31-3-2025 Cr.

Date	Particulars	W N	N.V ₹	Interest ₹	Cost ₹	Date	Particulars	W N	N.V ₹	Interest ₹	Cost ₹
1-4-24	To Balance b/d	1	2,40,000	3,600	2,80,000	30-6-24	By Bank A/c	3	-	9,600	-
1-6-24	To Bank	2	80,000	2,000	79,600	30-11-24	By Bank	5	1,20,000	3,000	1,26,000
1-11-24	To Bank	4	80,000	1,600	76,800	30-11-24	By P & L A/c	6	-	-	4,920
31-3-25	To P & L A/c (Bal. Fig.)		-	15,600	-	31-12-24	By Bank	7	1,60,000	4,800	1,54,600
						31-12-24	By P & L A/c	8	-	-	19,960
						31-12-24	By Bank	9	-	3,600	-
						31-3-25	By Balance c/d	10	1,20,000	1,800	1,20,000
						31-3-25	By P & L A/c	11	-	-	10,920
			4,00,000	22,800	4,36,400				4,00,000	22,800	4,36,400

Working Notes :

1. **Time Line**

Date	1-4			1-6	30-6				1-11	30-11	31-12			31-3	
Transaction	OP			P	I				P	S	S	I		CL	
Months	A	M	J	J		A	S	O	N		D		J	F	M

2. **Interest Accrued on 1-4-24** ₹
   2,40,000 x 6% x 3/12 = 3,600
3. **Purchase cum Interest on 1-6-24** ₹
   Total Payment = 81,600
   Less : Accrued Interest (80,000 x 6% x 5/12) = (2,000)
   Cost = 79,600

4. **Interest Received on 30-6-24** ₹
3,20,000 x 6% x 6/12 = 9,600

5. **Purchase Ex-Interest on 1-11-24** ₹
Ex-interest Cost = 76,800
Add : Accrued Interest (80,000 x 6% x 4/12) = 1,600
Total Payment = 78,400

6. **Sale cum Interest on 30-11-24** ₹
Selling Price = 1,29,000
Less : Interest (1,20,000 x 6% x 5/12) = (3,000)
Selling Price excluding Interest = 1,26,000

7. **Profit / Loss on Sale on 30-11-24** ₹
Sale Price (excluding interest) = 1,26,000
Less : Weighted Average Cost $\left(\frac{3,05,480 \times 1,20,000}{2,80,000}\right)$ = (1,30,920)
Loss on Sale = 4,920

8. **Sale on 31-12-24** ₹
Ex-interest Sale Price = 1,54,600
Add : Accrued Interest (1,60,000 x 6% x 6/12) = 4,800
Total Payment 1,59,400

9. **Profit / Loss on Sale of 31-12-24** ₹
Sale Price (excluding interest) = 1,54,600
Less : Weighted Average Cost $\left(\frac{1,30,920 \times 1,60,000}{1,20,000}\right)$ = (1,74,560)
Loss on Sale = (19,960)

10. **Interest on 31-12-24** ₹
1,20,000 x 6% x 6/12 = 3,600

11. **Interest Accrued on 31-3-25** ₹
1,20,000 x 6% x 3/12 = 1,800

12. **Valuation on 31-3-25** ₹
Cost = 1,30,920
Market Value = 1,20,000
So, valuation will be market price 1,20,000 and loss transferred to P & L A/c 10,920.

Illustration 17 : (Opng. Accr. Int. / Ex. Pur. / Cum. Pur. / Ex. Sale / Cum. Sale / 2 Int. Inst.)

Miss Bhagawati entered into the following transactions of purchase and sales of 12% Debentures of ₹ 100 each of Mansi Ltd. Interest is payable on 30th June and 31st December every year. Transactions are as under:

Date	No. of Debentures	Terms
01-04-2024	800	Opening Balance at a cost of ₹ 76,000
01-06-2024	300	Sold at ₹ 105 each cum-interest
01-09-2024	700	Purchased at ₹ 98 each Ex-Interest
01-12-2024	400	Purchased at ₹ 108 each Cum-Interest
01-02-2025	900	Sold at ₹ 97 each Ex-Interest.

Prepare Investment Account of 12% Debentures in the books of Bhagawati for the year ended 31st March, 2025. The market value on 31st March, 2025 was ₹ 67,500 of the said Investment. Apply AS-13. ***(TYBAF, April 2023, T.Y.B.Com., Nov. 2016, Mar. 07, adapted)***

Solution :

In the Books of M/s Bhagawati
Investment Account of 12% Debentures in Mansi Ltd.
For the year ended 31st March, 2025
(Due Date for Interest 30th June and 31st December)

Dr. **Cr.**

Date	Particulars	W N	N.V. ₹	Interest ₹	Cost ₹	Date	Particulars	W N	N.V. ₹	Interest ₹	Cost ₹
1-4-24	To Opening bal. b/d	1	80,000	2,400	76,000	1-6-24	By Bank A/c (Sold)	2	30,000	1,500	30,000
1-6-24	To P & L A/c (Profit on Sale)	3	–	–	1,500	30-6-24	By Bank A/c (Half yearly)	4	–	3,000	–
1-9-24	To Bank A/c (Purchased)	5	70,000	1,400	68,600	31-12-24	By Bank A/c (Half yearly)	7	–	9,600	–
1-12-24	To Bank A/c (Purchased)	6	40,000	2,000	41,200	1-2-25	By Bank A/c (Sold)	8	90,000	900	87,300
31-3-25	To P & L A/c		–	11,300	–	1-2-25	By P & L A/c (Loss on sale)	9	–	–	1,181
						31-3-25	By P & L A/c (Loss on valuation)	11	–	–	1,319
						31-3-25	By Balance c/d	10	70,000	2,100	67,500
			1,90,000	17,100	1,87,300				1,90,000	17,100	1,87,300

Working Notes :

(1) **Time Line**

Date	1-4		1-6	30-6		1-9			1-12	31-12		1-2	31-3
Transaction	OP		S	I		P			P	I		S	CL
Months	A	M	J		J	A	S	O	N	D		J	F	M

(2) **1-4-24 : Accrued Interest on Opening Balance for 3 months**

$$80,000 \times 12\% \times \frac{3}{12} = ₹\ 2,400$$

(3) **1-6-24 : Sale at Cum-Interest**

(a) Price received 300 x 105 — 31,500

(b) Sold after due date; so Interest accrued for 5 months (Jan.-May 24)

$$30,000 \times 12\% \times \frac{5}{12}$$ — 1,500

(c) Sold Cum-Interest; so Credit to Capital — 30,000

(4) **1-6-24 : Profit on Sale**

(a) Sale Price — 30,000

(b) Cost $30,000 \times \frac{76,000}{80,000}$ — 28,500

(c) Profit — 1,500

(5) **30-6-24 : Half-yearly Interest Received**

$$(80,000 - 30,000) \times 12\% \times \frac{6}{12}$$ — 3,000

(6) **1-9-24 : Purchased Ex-Interest**

(a) Price paid 700 x 98 (Credit to Capital) — 68,600

(b) Purchased after due date; so Accrued Interest for 2 months (July & Aug.)

$$70,000 \times 12\% \times \frac{2}{6}$$ — 1,400

(c) Total Payment (as purchased ex-interest) — 70,000

(7) **1-12-24 : Purchased Cum-Interest**

(a) Price paid 400 x 108	43,200
(b) Purchased after due date; so Accrued Interest for 5 months (July-Nov.) $40,000 \times 12\% \times \frac{5}{12}$	2,000
(c) Credit to Capital (as purchased cum-interest)	41,200

(8) **31-12-24 : Half-Yearly Interest Received**

$1,60,000 \times 12\% \times \frac{6}{12}$ 9,600

(9) **1-2-25 : Sale Ex-Interest**

(a) Price Received (Ex-Interest) 900 x 97	87,300
(b) Accrued Interest $90,000 \times 12\% \times \frac{1}{12}$	900

(10) **Loss on Above Sale**

(a) Cost $90,000 \times \frac{1,57,300}{1,60,000}$	88,481
(b) Sale Price	87,300
(c) Loss	1,181

(11) **31-3-25 : Interest Due & Valuation**

(a) Interest Due $70,000 \times 12\% \times \frac{3}{12}$	2,100
(b) Valuation	
Book Value (Bal. Fig.) 1,87,300 - 1,18,481	68,819
Market Value	67,500
(Lower of the two)	67,500

(12) **Loss on Valuation** is the balancing figure of the Account at year-end.

Illustration 18 :

Mr. Rohit holds 1,500, 6% Debentures of ₹ 100 each in Silver Ltd. as on 1st April, 2024 at a cost of ₹ 1,56,000. The investment interest is payable half yearly on 30th June and 31st December every year. The following transactions took place during the accounting year.

Date	Particulars	Number of Debentures	Rate
01-05-2024	Purchases	600	₹ 98 Cum-Interest
01-08-2024	Sales	720	₹ 97 Cum-Interest
01-11-2024	Purchases	900	₹ 101 Ex-Interest
01-02-2025	Sales	480	₹ 102 Ex-Interest

The books of accounts are closed on 31st March every year. Prepare Investment in 6% Debenture Account in the books of Mr. Rohit for the year ended 31-3-2025. Market Value of the above Investment on 31st March, 2025 was ₹ 1,78,200. ***(TYBAF, March 2025, adapted)***

Solution :

In the Books of Mr. Rohit

Dr. Investment Account of 6% Debentures for the year ended 31st March, 2025 Cr.

Date	Particulars	WN	FV ₹	Interest ₹	Cost ₹	Date	Particulars	WN	FV ₹	Interest ₹	Cost ₹
1-4-24	To Balance b/d	1	1,50,000	2,250	1,56,000	30-6-24	By Bank	3	-	6,300	-
1-5-24	To Bank	2	60,000	1,200	57,600	1-8-24	By Bank	4	72,000	360	69,480
1-11-24	To Bank	6	90,000	1,800	90,900	1-8-24	By Profit and Loss A/c	5	-	-	3,754
1-2-25	To Profit and Loss A/c	9	-	-	272	31-12-24	By Bank	7	-	6,840	-
31-3-25	To Profit and Loss A/c		-	11,190	-	1-2-25	By Bank	8	48,000	240	48,960
						31-3-25	By Profit and Loss A/c	10	-	-	4,378
						31-3-25	By Balance c/d	11	1,80,000	2,700	1,78,200
			3,00,000	16,440	3,04,772				3,00,000	16,440	3,04,772

Working Notes :

1. **1-4-2024 : Interest** = 1,80,000 x 6% x 3/12 = **₹ 2,250**
2. **1-5-2024 : Interest** = 80,000 x 6% x 4/12 = **₹ 1,200**

   Cost of Purchase = Cum Interest Purchase Price − Interest

   = 58,800 − 1,200 = **₹ 57,600**
3. **30-6-2024 : Interest** = 2,10,000 x 6% x 6/12 = **₹ 6,300**
4. **1-9-2024 : Selling Price** = Cum Interest Sales Price − Interest

   = (720 x 97) − (72,000 x 6% x 1/12)

   = 69,840 − 360 = **₹ 69,480**
5. **Profit / Loss on Sale** = Selling Price − Weighted Average Cost

   = 69,840 − 73,594

   Loss = **₹ 3,754**
6. **1-11-2024 : Interest** = 90,000 x 6% x 4/12 = **₹ 1,800**
7. **31-12-2024 : Interest** = 2,28,000 x 6% x 6/12 = **₹ 6,840**
8. **1-2-2025 : Interest** = 48,000 x 6% x 1/12 = **₹ 240**

   Selling Price = 480 x 102 = **₹ 48,960**
9. **Profit / Loss of Sale** = Ex-Interest Selling Price − Carrying Cost of Investment Sold

   = 48,960 − 48,688

   Profit = **₹ 272**
10. **31-3-2025 :** FV = ₹ 1,80,000, Cost = ₹ 1,82,578, M.P. = ₹ 1,78,200

    Loss on Valuation = 1,82,578 − 1,78,200 = **₹ 4,378**
11. **31-3-2025 : Interest** = 1,80,000 x 6% x 3/12 = **₹ 2,700**

Illustration 19 :

Mr. Shivam holds 1,000 - 10% Debentures of ₹ 100 each in TM Ltd. as on 1st April, 2024 at a cost of ₹ 1,20,000. Interest is payable half yearly on 30th September and 31st March every year. Transactions for the year are as follows :

Date	Particulars	Number of Debentures	Rate (₹)
30-6-2024	Purchased	500	102 Cum Interest
1-10-2024	Purchased	500	97 Ex Interest
31-12-2024	Sold	700	110 Cum Interest
1-2-2025	Sold	300	98 Ex Interest
1-3-2025	Purchased	200	105 Cum Interest

The books of accounts are closed on 31st March every year.

Prepare Investment in 10% Debenture Account in the books of Shivam for theyear ended 31-3-2025. Market value of the above investment on 31st March, 2025 was ₹ 1,30,000.

Solution : ***(TYBAF, April 2024, T.Y.B.Com., Nov. 2017, adapted)***

In the Books of Mr. Shivam

Dr. **Investment in 10% Debentures in TM Ltd. A/c** **Cr.**

Date	Particulars	WN	FV ₹	Interest ₹	Cost ₹	Date	Particulars	WN	FV ₹	Interest ₹	Cost ₹
2024						**2024**					
Apr. 1	To Balance b/d		1,00,000	-	1,20,000	Sept. 30	By Bank	2		7,500	
Jun. 30	To Bank	1	50,000	1,250	49,750	Dec. 31	By Bank	4	70,000	1,750	75,250
Oct. 1	To Bank	3	50,000	-	48,500	Dec. 31	By P & L A/c	5			1,138
Mar. 1	To Bank	6	20,000	833	20,167		(Loss on Sale)				
2025						**2025**					
Mar. 31	To P & L A/c			14,167		Feb. 1	By Bank	7	30,000	1,000	29,400
						Feb. 1	By P & L A/c	8			3,337
							(Loss on Sale)				

			2,20,000	16,250	2,36,417	Mar. 31	By Bank		1,20,000	6,000	1,26,000
						Mar. 31	By Balance c/d		2,20,000	16,250	2,36,417

Working Notes :

1. **Time Line**

Date	1-4		30-6			30-9	1-10		31-12		1-2	1-3	31-3
Transaction	OP		P			I	P		S		S	P	CL
Months	A	M	J	J	A	S	O	N	D	J	F	M	

2. **30-6-2024**

		₹
Purchase (500 x 102)	=	51,000
Less : Cum Interest (50,000 x 10% x 3/12)	=	1,250
	=	49,750

3. **30-9-2024**

		₹
Interest (1,50,000 x 10% x 6/12)	=	7,500

4. **1-10-2024**

Purchase - Ex Interest (500 x 97)	=	48,500

5. **31-12-2024**

		₹
Sold (700 x 110)	=	77,000
Less : Cum Interest (70,000 x 10% x 3/12)	=	1,750
Selling Price	=	75,250

6. **31-12-2024**

		₹
(a) Cost (70,000 x 2,18,250 ÷ 2,00,000)	=	86,388
(b) Selling Price	=	75,250
(c) Loss transferred to Profit and Loss A/c (a – b)	=	1,138

7. **1-3-2025**

		₹
Purchase (200 x 105)	=	21,000
Less : Cum Interest (20,000 x 10% x 5/12)	=	833
	=	20,167

8. **1-2-2025**

		₹
Sold (300 x 98)	=	29,400
Ex-Interest (30,000 x 10% x 4/12)	=	1,000

9. **1-2-2025**

		₹
(a) Selling Price	=	29,400
(b) Cost (30,000 x 1,41,862 ÷ 1,30,000)	=	32,737
(c) Loss (a – b)	=	3,337

10. **31-3-2025**

		₹
Interest (1,20,000 x 10% x 6/12)	=	6,000

Illustration 20 :

During the year ended 31st March, 2025 Mr. Virag bought and sold the following 12% Debentures of ₹ 100 each of Limozin Ltd. Interest being payable by Limozin Ltd. on 1st April and 1st October each year.

Date	Particulars
1st June, 2024	Bought 300 Debentures at ₹ 92 ex-interest
1st September, 2024	Bought 100 Debentures at ₹ 94 cum-interest
1st December, 2024	Sold 200 Debentures at ₹ 95 ex-interest
1st February, 2025	Bought 150 Debentures at ₹ 98 cum-interest

Books are closed on 31st March every year. Market price on 31st March, 2025 was ₹ 90 per Debenture.

You are required to prepare Investment in 12% Debentures in Limozin Ltd. Account for the year ended 31st March, 2025 in the books of Mr. Virag (Apply AS 13).

(TYBAF, April 2023, 2019, T.Y.B.Com., April 2015, Oct. 2010, adapted)

Solution :

In the Books of Mr. Virag

Investment in 12% Debenture in Limozin Ltd. Account

For the year ended 31-3-2025

Dr. Cr.

Date	Particulars	W. N.	Face Value ₹	Interest ₹	Cost ₹	Date	Particulars	W. N.	Face Value ₹	Interest ₹	Cost ₹
1-6-24	To Bank	1	30,000	600	27,600	1-10-24	By Bank	3		2,400	
1-9-24	To Bank	2	10,000	500	8,900	1-12-24	By Bank	4	20,000	400	19,000
1-12-24	To Profit and Loss A/c	5			750	31-3-25	By Profit and Loss A/c				850
1-2-25	To Bank	6	15,000	600	14,100	31-3-25	By Balance c/d	7,8	35,000	2,100	31,500
1-2-25	To Profit and Loss A/c			3,200							
			55,000	4,900	51,350				55,000	4,900	51,350

Working Notes :

1. **Time Line**

Date	1-4		1-6			1-9	1-10		1-12		1-2	31-3
Transaction	I		P			P	I		S		P	CL
Months	A	M	J	J	A	S	O	N	D	J	F	M

2. **Purchase on 1st June, 2024**

		₹
Ex-interest (300 x 92)	=	27,600
Interest (30,000 x 12% x 2/12)	=	600
Cum-interest	=	28,200

3. **Purchase on 1st September, 2024**

		₹
Ex-interest	=	8,900
Interest (10,000 x 12% x 5/12)	=	500
Cum-interest (100 x 94)	=	9,400

4. **Interest Received on 1st October, 2024**

		₹
40,000 x 12% x 6/12	=	2,400

5. **Sale on 1st December, 2024**

		₹
Ex-interest (200 x 95)	=	19,000
Interest (20,000 x 12% x 2/12)	=	400
Cum-interest	=	19,400

6. **Profit / Loss on Sale on 1st December, 2024**

		₹
Sale Price	=	19,400
Less : Cost (36,500 / 40,000) x 20,000	=	18,250
Profit	=	750

7. **Purchase on 1st February, 2025**

		₹
Ex-interest	=	14,100
Interest (15,000 x 12% x 4/12)	=	600
Cum-interest (150 x 98)	=	14,700

8. **Interest Accrued on 31st March, 2025**

		₹
35,000 x 6% x 6/12	=	2,100

9. **Valuation of Closing Balance on 31st March, 2025**

		₹
Cost	=	32,350
Market Price (350 x 90) (whichever is less i.e. 31,500)	=	31,500
Loss	=	850

Illustration 21 :

Mr. Manoj holds 1,500, 10% Debentures of ₹ 100 each in Rahul Ltd. as on 1st April 2024 at a cost of ₹ 1,80,000. Interest is payable half yearly on 30th September and 31st March every year. Following are the transactions for the year ended 31st March 2025.

Date	Particulars	Number of Debentures	Rate
31/05/2024	Purchase	1,200	₹ 95 Cum-Interest
30/06/2024	Purchase	300	₹ 90 Cum-Interest
01/11/2024	Sales	1,200	₹ 110 Cum-Interest
30/11/2024	Purchase	900	₹ 97 Ex-Interest
01/01/2025	Sales	600	₹ 105 Ex-Interest
01/02/2025	Purchase	300	₹ 93 Ex-Interest
01/03/2025	Sales	1,200	₹ 103 Cum-Interest

The books of accounts are closed on 31st March every year. Prepare Investment in 10% Debentures Account in the books of Manoj for the year ended 31st March 2025. Market value of the above investment on 31st March 2025 was ₹ 1,22,000.

(T.Y.B.Com., Nov. 2023, adapted)

Solution :

In the Books of Mr. Manoj

Investments in 10% Debentures Account

For the Year ended 31st March 2025

Dr. **Cr.**

Date	Particulars	WN	F.V. ₹	Interest ₹	Cost ₹	Date	Particulars	WN	F.V. ₹	Interest ₹	Cost ₹
1-4-24	To Balance b/d		1,50,000	-	1,80,000	30-9-24	By Bank A/c		-	15,000	-
31-5-24	To Bank A/c	1	1,20,000	2,000	1,12,000	1-11-24	By Bank A/c	3	1,20,000	1,000	1,31,000
30-6-24	To Bank A/c	2	30,000	750	26,250	1-1-25	By Bank A/c		60,000	1,500	63,000
1-11-24	To P & L A/c	4	-	-	3,700	1-3-25	By Bank A/c	6	1,20,000	5,000	1,18,600
30-11-24	To Bank A/c		90,000	1,500	87,300	1-3-25	By P & L A/c	7	-	-	3,559
1-1-25	To P & L A/c	5	-	-	1,167	31-3-25	By Bank A/c		-	6,000	-
1-2-25	To Bank A/c		30,000	1,000	27,900	31-3-25	By P & L A/c		-	-	158
31-3-25	To P & L A/c		-	23,250	-		(Loss on Valuation)				
						31-3-25	By Balance c/d	8	1,20,000	-	1,22,000
			4,20,000	28,500	4,38,317				4,20,000	28,500	4,38,317

Working Notes :

(1) 31/05/2024 Purchased 1,200 Debentures at ₹ 95

		₹
Cum Interest Price (1,200 x 95)	=	1,14,000
Less : Interest (1,20,000 x 10% /12 months x 2 months)	=	(2,000)
Cost	=	1,12,000

(2) 30/06/2024

		₹
Cum Interest Price (300 x 90)	=	27,000
Less : Interest (30,000 x 10% /12 months x 3 months)	=	(750)
Cost	=	26,250

(3) 01/11/2024

		₹
Cum Interest Price (1,200 x 110)	=	1,32,000
Less : Interest (1,20,000 x 10% /12 months x 1 month)	=	(1,000)
Cost	=	1,31,000

(4) 01/11/24 Profit or Loss on Sales

		₹
Selling Price	=	1,31,000
Less : Weighted average cost	=	1,27,300
Profit on Sales	=	3,700

WAC = 3,18,250 / 3,00,000 x 1,20,000 = 1,27,300

(5) 01/01/25 Profit or Loss on Sales

Selling Price	=	63,000
Less : Weighted average cost	=	61,833
Profit on Sales	=	1,167

WAC = 2,78,250/2,70,000 x 60,000 = 61,833

		₹
(6) 01/3/2025 Sales		
Cum Interest Price (1,200 x 103)	=	1,23,600
Less : Interest (1,20,000 x 10% /12 months x 5 months)	=	(5,000)
Cost	=	1,18,600
(7) 01/3/2025 Profit or Loss on Sales		₹
Selling Price	=	1,18,600
Less : Weighted average cost	=	1,22,159
Loss on Sales	=	3,559

WAC = 2,44,317/2,40,000 x 1,20,000 = 1,22,159

(8) Valuation of Closing Balance

Cost or Market Price whichever is lower will be the closing balance.

Cost ₹ 1,22,158

M.P. ₹ 1,22,000

Closing Balance is ₹ 1,22,000

4.3 SHARES

Illustration 22 :

The following transactions of Miss Naina took place during the year ended 31-3-2025.

Date	Transactions
12-4-2024	Purchased 1,00,000 Equity Shares of ₹ 10 each in "ABC" Ltd. for ₹ 50,00,000.
15-5-2024	"ABC" Ltd. made a Bonus issue of 3 Equity shares for every 2 shares held.
30-6-2024	Naina sold 1,25,000 Bonus shares for ₹ 20 each.

Prepare 'Equity Shares in ABC Ltd.' Account in the Books of Miss Naina for the year ended 31-3-2025.

Solution : ***(T.Y.B.Com., Oct. 2014, adapted)***

In the Books of Naina

Dr. Equity Shares in ABC Ltd. for the year ended 31st March, 2025 Cr.

Date	Particulars	Nominal Value ₹	Cost ₹	Date	Particulars	Nominal Value ₹	Cost ₹
12-4-24	To Cash & Bank	10,00,000	50,00,000	30-6-24	By Cash & Bank	12,50,000	25,00,000
15-5-24	To Bonus Share	15,00,000	-	31-3-25	By Balance c/d	12,50,000	25,00,000
		25,00,000	50,00,000			25,00,000	50,00,000

Working Note :

Equity Shares in ABC Ltd.	*No.*	*Rate*	*Amount*
1. **Purchase on 12-4-2024**			
NV	1,00,000	10.00	**10,00,000**
Cost	1,00,000	50.00	**50,00,000**
2. **Bonus on 15-5-2024**			
NV	1,50,000	10.00	**15,00,000**
3. **Sale on 1-10-2024**			
A. NV	1,25,000	10.00	**12,50,000**
B. Sale	1,25,000	20.00	**25,00,000**
C. Weighted Average Cost (50,00,000 x 1,25,000/2,50,000)	1,25,000	20.00	**25,00,000**
D. Profit (B - C)			**0**
4. **Balance c/f on 31-3-2025**			
NV	1,25,000	10.00	12,50,000
Cost	1,25,000	20.00	25,00,000

Illustration 23 :

On 1-4-2024 Aditya had 50,000 equity shares in T Ltd. The face value of the shares were ₹ 10 each but their book value was ₹ 24 per share.

On 2-6-2024 Aditya purchased 10,000 equity shares in T Ltd. at a premium of ₹ 6 per share.

On 1-7-2024, the directors of T Ltd. issued bonus shares at the rate of one share for every three shares held.
On 1-1-2025 Aditya purchased 5,000 right shares in T Ltd. of ₹ 10 each at ₹ 15 per share.
On 31-1-2025 he sold 20,000 equity shares in T Ltd. of ₹ 10 each at ₹ 30 per shares.
Show Investment Account as it would appear in Aditya's books for the year ended 31-3-2025.

Solution :

(T.Y.B.Com., Oct. 2018, Mar. 2012, adapted)

In the Books of Aditya

Investment Account of Equity Shares in T Ltd.
For the Year Ended 31st March, 2025

Dr. Cr.

Date	Particulars	WN	FV ₹	Cost ₹	Date	Particulars	WN	FV ₹	Cost ₹
2024					2025				
Apr. 1	To Balance b/d	1	5,00,000	12,00,000	Jan. 31	By Bank	6	2,00,000	6,00,000
June 1	To Bank	2	1,00,000	1,60,000	Mar. 31	By Balance c/d		6,50,000	10,97,353
July 1	To Bonus	3	2,00,000						
2025									
Jan. 1	To Bank	4	50,000	75,000					
Jan. 31	To Profit and Loss A/c	8		2,62,353					
			8,50,000	16,97,353				8,50,000	16,97,353

Working Notes :

No.	Date	Particulars	No.	Rate	Cost
1.	1-4-2024	Balance b/d	50,000	24.00	12,00,000
2.	1-6-2024	Purchase	10,000	16.00	1,60,000
3.	1-7-2024	Bonus	20,000		0
4.	1-1-2025	Rights	5,000	15.00	75,000
5.		Cost	85,000		14,35,000
6.	31-1-2025	Sale	20,000	30.00	6,00,000
7.		Cost (14,35,000 / 85,000 x 20,000)			3,37,647
8.		Profit			2,62,353

Illustration 24 :

On 1-4-2024, Mr. Day has 25,000 shares of Squares Ltd. at a book value of ₹ 25 per share (nominal value of ₹ 10 each). Further information is as under :

1. On 31st July 2024, the Directors of Squares Ltd. issued one equity bonus share for every five shares held by the shareholders.
2. On 30th September 2025, the Directors of Squares Ltd. announced a right issue which entitled the holders to susbscribe three shares for every two shares of ₹ 20 per share. Shareholders can transfer their rights in full or in part.

Mr. Day sold 1/4th of entitlement of Dhwani for a consideration of ₹ 5 per share and subscribed the rest on 5th October, 2024.

You are required to prepare Investment A/c in the books of Mr. Day for the year ending 31-3-2025.

Solution :

(CA-Inter, Sept. 2024, adapted)

In the Books of Mr. Day

Dr. Investment Account (Equity Shares in Square Ltd.) Cr.

Date	Particulars	WN	No. of Shares	₹	Date	Particulars	WN	No. of Shares	₹
1-4-24	To Balance b/d		25,000	6,25,000	31-3-25	By Balance c/d (Bal. Fig.)		63,750	13,00,000
31-7-24	To Bonus Issue	1	5,000	-					
5-10-24	To Bank A/c (Right Shares)	4	33,750	6,75,000					
			63,750	13,00,000				63,750	13,00,000

Working Notes :

1. Bonus Shares = $\frac{25,000}{5}$ = 5,000 Shares
2. Right Shares = $\left(\frac{25,000 + 5,000}{2}\right)$ x 3 = 45,000 Shares
3. Sale of Rights = 45,000 Shares x 1/4 x ₹ 5 = ₹ 56,250 (credited to Profit and Loss A/c)
4. Rights Subscribed = 45,000 Shares x 3/4 x ₹ 20 = ₹ 6,75,000

Illustration 25 :

Mr. X purchased 500 Equity shares of ₹ 100 each in Omega Co. Ltd. for ₹ 62,500 inclusive of brokerage and stamp duty. The company resolved to capitalise 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. ***(CA-Inter, adapted)***

Solution :

In the Books of X

Dr. Investment Account of Equity Shares in Omega Co. Ltd. **Cr.**

Particulars	WN	Nominal Value (₹)	Cost ₹	Particulars	WN	Nominal Value (₹)	Cost ₹
To Cash A/c		50,000	62,500	By Cash - Sale		50,000	45,000
To Bonus Shares	1	50,000	-	By Balance c/d	3	50,000	31,250
To Profit and Loss A/c	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
   Sale Proceeds = ₹ 45,000
   Average Cost = $\frac{500}{1,000}$ x 62,500 = ₹ 31,250
   Profit = ₹ 45,000 – ₹ 31,250 = ₹ 13,750
3. Valuation of Closing Balance of Shares at the end of year
   The total cost of 1,000 shares including bonus is ₹ 62,500
   Therefore, cost of 500 shares (carried forward) is $\frac{500}{1,000}$ x 62,500 = ₹ 31,250
   Market price of 500 shares = 92.50 x 500 = ₹ 46,250
   Cost being lower than the market price, therefore shares are carried forward at cost.

Illustration 26 :

On 1 April, 2024, Rajat has 50,000 Equity shares of P Ltd. at a book value of ₹ 15 per share (NV ₹ 10 each). He provides you the further information :

1. On 20th June, 2024 he purchased another 10,000 shares of P Ltd. at ₹ 16 per share.
2. On 1st August, 2024, P Ltd. issued one equity bonus share of every six shares held by the shareholders.
3. On 31st October, 2024, the directors of P Ltd. announced a right issue which entitles the holders to subscribe three shares for every seven shares at ₹ 15 per share. Shareholders can transfer their rights in full or in part.

Rajat sold 1/3rd of entitlement to Umang for a consideration of ₹ 2 per share and subscribed the rest on 5th November, 2024.

You are required to prepare Investment A/c in the books of Rajat for the year ending 31st March, 2025. ***(CA-Inter, adapted)***

Solution :

In the Books of Rajat

Dr. **Equity Shares in P Ltd. Investment Account** **Cr.**

Date	Particulars	WN	No. of Shares	₹	Date	Particulars	WN	No. of Shares	Cost ₹
1-4-24	To Balance b/d		50,000	7,50,000	31-3-25	By Balance c/d (Bal. Fig.)		90,000	12,10,000
20-6-24	To Bank A/c		10,000	1,60,000					
1-8-24	To Bonus Issue	1	10,000	-					
5-11-24	To Bank A/c (Right Shares)	4	20,000	3,00,000					
			90,000	12,10,000				90,000	12,10,000

Working Notes :

1. Bonus Shares = $\left(\frac{50,000 + 10,000}{6}\right)$ = 10,000 shares

2. Right Shares = $\left(\frac{50,000 + 10,000 + 10,000}{7}\right)$ x 3 = 30,000 shares

3. Sale of Rights = 30,000 shares x $\frac{1}{3}$ x ₹ 2
   = ₹ 20,000 to be credited to statement of profit and loss

4. Rights subscribed = 30,000 shares x $\frac{2}{3}$ x ₹ 15 = ₹ 3,00,000

Illustration 27 :

On 1st April 2024, Mr. Rajiv had 80,000 Equity shares of ₹ 10 each of XY Ltd. purchased at a cost of ₹ 20 per share.

On 30th April 2024, Mr. Rajiv purchased 20,000 Equity shares of ₹ 10 each of AB Ltd. at ₹ 30 per share. On the same day he also purchased 40,000 Equity shares of XY Ltd. at ₹ 15 each.

On 30th June 2024 he sold 4,000 Equity shares of AB Ltd. @ ₹ 25 per share.

On 1st August 2024, Board of Directors of XY Ltd. announced the Right issue of Equity shares, in the ratio of one share for every three shares held at ₹ 25 each. Full amount of Rights shares was payable by 15th August 2024. Shareholders were allowed to renounce their right either in part or full to the outsiders. Mr. Rajiv renounced 50% of his right at ₹ 10 per share and subscribed for the balance.

On 31st August 2024, AB Ltd. declared a divided @ ₹ 3 per share for the year ended 31st March 2024.

On 30th September 2024, XY Ltd. issued one bonus share for every four shares held as on that date.

On 31st December 2024, Mr. Rajiv sold 11,200 Equity Shares of XY Ltd. at ₹ 35 per share and 4,000 Equity Shares of AB Ltd. at ₹ 25 per share.

You are required to prepare :

1. Investment in Equity Shares of XY Ltd. A/c and
2. Investment in Equity Shares of AB Ltd. A/c in the books of Mr. Rajiv for the year ended 31st March, 2025. ***(T.Y.B.Com., Oct. 2024, adapted)***

Solution :

In the Books of Mr. Rajiv

Investment in Equity Shares of XY Ltd. Account
For the Year Ended 31st March 2025

Dr. **Cr.**

Date	Particulars	FV ₹	Dividend ₹	Cost ₹	Date	Particulars	FV ₹	Dividend ₹	Cost ₹
1/4/24	To Balanc b/d	8,00,000	-	16,00,000	31/12/24	By Bank A/c	1,12,000	-	3,50,000
30/4/24	To Bank A/c	4,00,000	-	6,00,000	31/12/25	By Balance c/d	16,38,000	-	25,27,200
15/8/24	To Bank A/c (Right)	2,00,000	-	5,00,000					

30/9/24	To Bonus	3,50,000		1,77,200			17,50,000		28,77,200
31/12/24	To P & L A/c	17,50,000		28,77,200					

Investment in Equity Shares of AB Ltd. Account

Dr. **For the Year Ended 31st March 2025** Cr.

Date	Particulars	FV ₹	Dividend ₹	Cost ₹	Date	Particulars	FV ₹	Dividend ₹	Cost ₹
30/4/24	To Bank A/c	2,00,000	-	6,00,000	30/6/24	By Bank A/c	40,000	-	1,00,000
					30/6/24	By P & L A/c	-	-	20,000
					31/8/24	By Bank A/c (Dividend)	-	-	48,000
					31/12/24	By Bank A/c	40,000	-	1,00,000
					31/12/24	By P & L A/c	-	-	8,000
					31/3/25	By Balance c/d	1,20,000	-	3,24,000
		2,00,000	-	6,00,000			2,00,000	-	6,00,000

Working Notes:

1. **30/06/24 : Sale of 4,000 Shares of AB Ltd.**

	₹
Selling Price (4,000 x 25)	1,00,000
Less : WAC (6,00,000/2,00,000 x 40,000)	(1,20,000)
Loss on Sale	20,000

2. **15/08/24 : Right Issue by XY Ltd.**
   One share for every three shares held
   Mr. Rajiv held 1,20,000 Shares on 1st August, hence he will receive (1,20,000/3) 40,000 Right Shares.
   He subscribed for 50% of Right shares i.e. 20,000 Shares (40,000 x 50%)
3. **31/8/24 :**
   Dividend @ ₹ 3 per share on 16,000 Shares of AB Ltd. = ₹ 48,000 (Pre Acquired Capital)
4. **30/9/24 : Bonus issue by XY Ltd.**
   One bonus share for every four shares held as on that date. Mr. Rajiv held 1,40,000 shares, so he will receive (1,40,000/4) 35,000 bonus shares
5. **31/12/24 : Sale of Shares**
   (a) **XY Ltd. :** 11,200 Shares at ₹ 35 per share

	₹
Selling Price (10,000 x 35)	3,50,000
Less : WAC (27,00,000/17,50,000 x 1,12,000)	(1,72,800)
Profit on Sales	1,77,200

   (b) **AB Ltd. :** 4,000 Shares at ₹ 25 per share

Selling Price (4,000 x 25)	1,00,000
Less : WAC (4,32,000/1,60,000 x 40,000)	(1,08,000)
Loss on Sales	8,000

Illustration 28 :

On 1st April 2024, Mr. Dhananjay had 3,000 Equity Shares of ₹ 100 each at a cost of ₹ 6,90,000. He furnished the following particulars for the year ended 31-03-2025.

Date	No. of Shares	Transaction Details
30/04/2024	2,000	Purchased @ ₹ 220 per share
31/07/2024	5,000	Bonus shares received
31/12/2024	4,000	Sale @ ₹ 220 per share

Following additional information is also provided by him :

1. On 31st August 2024, Dividend @ ₹ 30 per share for the year ended 31-03-2024 was received by him.
2. On 30 September, 2024, the company issued right shares, in the ratio of one share for every five shares held on payment of ₹ 200 per share. Mr. Dhananjay subscribed 50% of the rights and sold remaining to Mr. Pravin @ ₹ 150 per share.

You are requested to prepare the Investment in Equity Shares Account for the year ended 31st March 2025.

Solution : *(T.Y.B.Com., Nov. 2023, adapted)*

IN THE BOOKS OF MR. DHANANJAY

Dr. Investment in Equity Shares Account for the year ended 31st March, 2025 Cr.

Date	Particulars	FV ₹	Dividend ₹	Cost ₹	Date	Particulars	FV ₹	Dividend ₹	Cost ₹
1-4-24	To Balance b/d	3,00,000		6,90,000	31-8-24	By Bank		90,000	60,000
30-8-24	To Bank	2,00,000		4,40,000	31-12-24	By Bank	4,00,000		8,80,000
31-7-24	To Bonus	5,00,000		-	31-3-25	By Balance c/d	7,00,000		8,08,182
30-9-24	To Bank	1,00,000		2,00,000					
31-12-24	To P & L A/c	-		4,18,182					
31-3-25	To P & L A/c		90,000						
		11,00,000	90,000	17,48,182			11,00,000	90,000	17,48,182

Working Note :

31/12/24 Profit / Loss on Sales :

	₹
Selling Price	8,80,000
Less : Cost	4,61,818
Profit	4,18,182

WAC = 12,70,000 ÷ 11,00,000 x 4,00,000

Illustration 29 :

On 1st April, 2024 Mr. Mayur had 30,000 Equity Shares in Jai Ltd. at a book-value of ₹ 4,50,000 (Face value ₹ 10 per share). On 22nd June, 2024, he purchased another 5,000 shares of the company for ₹ 80,000.

The Directors of Jai Ltd. announced a bonus issue of equity shares in the ratio of one share for seven shares held on 16th August, 2024.

On 31st August, 2024 the Company made a right issue in the ratio of three shares for Eight shares held on payment of ₹ 15 per share. Due date for the payment was 30th September, 2024. Mr. Mayur subscribed to 2/3rd of the right shares and sold remaining of his entitlement to Vinayak for a consideration or ₹ 2 per share.

On 31st October, 2024 received dividends from Jai Ltd. @ 20% for the year ended 31st March, 2024. Dividend for shares acquired by him on 22nd June, 2024 are to be adjusted against the cost of purchase.

On 15th November, 2024 Mayur sold 30,000 Equity shares at a premium of ₹ 5 per share. You are required to prepare Investments account in the book of Mr. Mayur. Assume that the books of accounts are closed on 31st March, 2025 and shares valued at weighted average cost.

Solution : *(T.Y.B.Com., Mar. 08, adapted)*

In the Books of Mr. Mayur

Investment Account in Equity Shares of Jai Ltd.

Dr. For the year ended 31st March, 2025 Cr.

Date	Particulars	W N	No. of Shares ₹	Divid-end ₹	Cost ₹	Date	Particulars	W N	No. of Shares ₹	Divid-end ₹	Cost ₹
1-4-24	To Balance b/d	-	30,000	-	4,50,000	31-10-24	By Bank	4		60,000	10,000
22-6-24	To Bank	-	5,000	-	80,000	15-11-24	By Bank (Sale)	-	30,000	-	4,50,000
16-8-24	To Bonus issue	1	5,000	-	-	31-3-25	By Balance c/d	6	20,000	-	2,68,000
30-9-24	To Bank A/c (Right share)	2	10,000	-	1,50,000						
15-11-24	To P & L A/c	5	-	-	48,000						
31-3-25	To P & L A/c [Bal. Fig. tfd.]			60,000							
			50,000	60,000	7,28,000				50,000	60,000	7,28,000

Working Notes :

1. **Bonus Shares** = [30,000 + 5,000 + 7] = **5,000 shares**

2. **Right Shares** = $\left[(30,000 + 5,000 + 5,000) \times \frac{3}{8}\right]$ = **15,000 shares**

   Right Shares Subscribed = $\left[\frac{2}{3} \times 15,000 \text{ shares}\right]$ = **10,000 shares**

3. **Sale of Rights Entitlement** = $\left[\frac{1}{3} \times 15,000 \times 2\right]$ = **₹ 10,000**

   As per AS 13, Profit on sale of rights entitlement is directly credited to Profit and Loss account

4. **Dividend Received on 31-10-2024** [30,000 x 10 x 20%] = **₹ 60,000**

   Dividend Received on Shares Purchased on 22-6-2024

   = [5,000 x 10 x 20%] = **₹ 10,000**

   which is adjusted to Investment A/c (Cost)

5. **Profit / Loss on Sale of as on 15-11-2024**

Sale Proceeds [30,000 x 15]	₹ 4,50,000
Less : Cost $\left[\frac{(4,50,000 + 80,000 + 1,50,000) - 10,000}{50,000} \times 30,000\right]$	4,02,000
Profit	**₹ 48,000**

6. **Cost of 20,000 Shares as on 31-03-2025**

   = $\left[\frac{(4,50,000 + 80,000 + 1,50,000) - 10,000}{50,000}\right]$ x 20,000 = **₹ 2,68,000**

EXERCISES

OUTLINE

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5. THEORY QUESTIONS

5.1 DESCRIPTIVE QUESTIONS / ANSWER IN BRIEF

1. Distinguish between Ex-interest and Cum-interest Transactions in investments. ***(Oct. 2004)*** ***[Ans.: Para 2.1]***
2. Explain the concept of pre-acquisition dividend. ***[Ans.: Para 3.1]***
3. Explain in brief (i) Accounting treatment of sale of rights. (ii) Accounting treatment of Bonus Shares. ***[Ans.: Para 3.2]***
4. How do you classify investments for presentation in financial statements using AS-13. ***[Ans.: Para 4]***
5. Give 2 examples of charges which can be included in the cost of an investment as per AS 13 ? ***[Ans.: Para 5]***
6. How do you determine the carrying amount of current investments ? ***[Ans.: Para 6 (a)]***
7. Whether the accounting treatment at cost under the head Long Term Investments without providing for any diminution in value is correct in accordance with the provisions of AS 13. If not, what should have been the accounting treatment in such a situation ? Explain in brief. ***[Ans.: Para 6 (b)]***
8. What are the disclosure requirements of AS-13 "Accounting for investments" ? ***[Ans.: Para 10]***

5.2 SHORT NOTES / TOPICS FOR CONFERENCE, SEMINAR, CASE STUDY, FIELD VISIT, ETC.

1. Accounting for Investment in Debentures ***[Ans.: Para 1]***
2. Ex-interest and Cum-Interest Price ***[Ans.: Para 1.1]***

3. Weighted Average Cost of Investment [Ans.: Para 1.2]
4. Debenture Investment Account [Ans.: Para 1.3]
5. Entries in Investment Account [Ans.: Para 1.4]
6. Accounting for Investment in Equity Shares [Ans.: Para 2]
7. Pre-acquisition Dividend [Ans.: Para 2.1]
8. Shares Investment Account [Ans.: Para 2.2]
9. Accounting for Bonus Shares in Shares Investment Account [Ans.: Para 2.2]
10. Accounting for sale of rights in Shares Investment Account [Ans.: Para 2.2]
11. Accounting for subscription to rights in Shares Investment Account [Ans.: Para 2.2]

6. OBJECTIVE QUESTIONS

6.1 MULTIPLE CHOICE QUESTIONS

1. Following is not a Fixed Income Bearing Security
   (a) Debentures (b) Equity Shares
   (c) Preference Shares (d) Government security
2. Interest is always calculated on the
   (a) Market Value of the security (b) Nominal Value of the security
   (c) Book value of the security (d) Weighted Average Cost of the security
3. Interest on bonds accrues
   (a) on the last day of the financial year
   (b) on due dates fixed in advance
   (c) on the date fixed by board resolution
   (d) as declared by the company in the beginning of every financial year
4. Interest is paid
   (a) to the holder of the security on the due date prorata as per his actual period of holding
   (b) to the original investor if the security is sold cum-interest
   (c) to the holder of the security on the due date irrespective of his actual period of holding
   (d) to the original investor if the security is sold ex-interest
5. If a security is transferred on 31st March, 2025 being the exact date when interest falls due
   (a) the entire interest up to 31st March 2025 belongs to the purchaser
   (b) the interest up to 30th March, 2025 belongs to the purchaser
   (c) the entire interest up to 31st March, 2025 belongs to the seller
   (d) none of the above
6. A security is transferred on 31st May, 2024; while the next interest falls due on 30th June, 2024
   (a) The purchaser has the right to claim the Interest upto 31st May, 2024 as his income
   (b) The seller has the right to claim the Interest upto 31st May, 2024 as his income
   (c) The seller has the right to claim the Interest upto 30th June, 2024 as his income
   (d) Interest for June 2024 is divided equally between the seller and the purchaser
7. XYZ buys 200 Debentures of nominal value of ₹ 100 each of ICICI Ltd. at ₹ 98 (ex-interest) on 1-3-2024 from ABC. Interest @ 12% p.a. is to be paid half-yearly on 30th June and 31st December.
   (a) Nominal value of investment purchased is ₹ 20,000
   (b) Nominal value of investment purchased is ₹ 19,600
   (c) Nominal value of investment purchased is ₹ 20,200
   (d) Nominal value of investment purchased is ₹ 19,800
8. XYZ buys 200 Debentures of nominal value of ₹ 100 each of ICICI Ltd. at ₹ 98 (cum-interest) on 1-3-2024 from ABC. Interest @ 12% p.a. is to be paid half-yearly on 30th June and 31st December.
   (a) Nominal value of investment purchased is ₹ 20,000
   (b) Nominal value of investment purchased is ₹ 19,600
   (c) Nominal value of investment purchased is ₹ 20,200
   (d) Nominal value of investment purchased is ₹ 19,800
9. XYZ buys 200 Debentures of nominal value of ₹ 100 each of ICICI Ltd. at ₹ 98 (ex-interest) on 1-3-2024 from ABC. Interest @ 12% p.a. is to be paid half-yearly on 30th June and 31st December.

(a) XYZ has the right to claim interest of ₹ 400
(b) ABC has the right to claim interest of ₹ 400
(c) XYZ has the right to claim interest of ₹ 2,400
(d) XYZ has the right to claim interest of ₹ 1,200

10. XYZ buys 200 Debentures of nominal value of ₹ 100 each of ICICI Ltd. at ₹ 98 (ex-interest) on 1-3-2024 from ABC. Interest @ 12% p.a. is to be paid half-yearly on 30th June and 31st December. Price paid by XYZ towards capital is
(a) ₹ 20,000 (b) ₹ 19,600
(c) ₹ 20,200 (d) ₹ 19,800

11. XYZ buys 200 Debentures of nominal value of ₹ 100 each of ICICI Ltd. at ₹ 98 (ex-interest) on 1-3-2024 from ABC. Interest @ 12% p.a. is to be paid half-yearly on 30th June and 31st December. Total payment made by XYZ is
(a) ₹ 19,600 (b) ₹ 20,200
(c) ₹ 20,000 (d) ₹ 19,800

12. XYZ buys 200 Debentures of nominal value of ₹ 100 each of ICICI Ltd. at ₹ 101 (cum-interest) on 1-3-2024 from ABC. Interest @ 12% p.a. is to be paid half-yearly on 30th June and 31st December. Price paid by XYZ towards capital is
(a) ₹ 19,600 (b) ₹ 20,200
(c) ₹ 20,000 (d) ₹ 19,800

13. XYZ buys 200 Debentures of nominal value of ₹ 100 each of ICICI Ltd. at ₹ 101 (cum-interest) on 1-3-2024 from ABC. Interest @ 12% p.a. is to be paid half-yearly on 30th June and 31st December. Total payment made by XYZ is
(a) ₹ 19,600 (b) ₹ 20,200
(c) ₹ 20,000 (d) ₹ 19,800

14. XYZ buys Debentures of nominal value of ₹ 100 each of ICICI Ltd. at ₹ 98 (ex-interest) on 1-3-2024 from ABC. Interest of ₹ 400 has accrued from the last due date till the date of purchase. In the entry for recording this investment in the books of XYZ
(a) ₹ 400 will be credited to Interest A/c (b) ₹ 400 will be debited to Interest A/c
(c) ₹ 400 will be debited to Investment A/c (d) ₹ 400 will be credited to Investment A/c

15. On each sale of investment, the profit or loss is calculated as
(a) Sale Price Less Simple Average Cost (b) Sale Price Less Weighted Average Cost
(c) Sale Price Less Cost on FIFO basis (d) Sale Price Less Cost on LIFO basis

16. Profit on sale of investment
(a) is transferred to profit & loss a/c only if the investment is current investment
(b) is transferred to profit & loss a/c
(c) is transferred to capital reserve a/c if the investment is long term investment
(d) none of the above

17. If market value of investment held as current asset is less than cost
(a) difference is credited to profit & loss a/c (b) difference is debited to profit & loss a/c
(c) difference is ignored (d) difference is debited to capital reserve a/c

18. If market value of investment held as long term asset is less than cost
(a) difference is credited to profit & loss a/c (b) difference is debited to profit & loss a/c
(c) difference is ignored (d) difference is debited to capital reserve a/c

19. Dividend on shares accrues
(a) on the last day of the financial year (b) on due dates fixed in advance
(c) on the date it is declared (d) on the first day of the financial year

20. Dividend is paid
(a) to the holder of the shares on the date of book-closure prorata as per his actual period of holding
(b) to the original investor if the shares are sold cum-dividend
(c) to the holder of the shares on the date of book-closure irrespective of his actual period of holding
(d) to the original investor if the shares are sold ex-dividend

21. XYZ Ltd. pays a dividend on 30-09-2024 for the year ended on 31-03-2024,
(a) dividend on shares held as on 30-09-2024 will be treated as Revenue receipt (Income) irrespective of the date of acquisition

(b) dividend on shares held as on 30-09-2024 will be treated as Capital receipt irrespective of the date of acquisition
(c) dividend on shares held as on 31-03-2024 will be treated as Revenue receipt (Income); and on shares acquired between 01-04-2024 and 30-09-2024 will be treated as Capital receipt
(d) dividend on shares acquired between 01-04-2024 and 30-09-2024 will be treated as Revenue receipt (Income), and on shares acquired between 01-04-2023 and 31-03-2024 will be treated as Capital receipt

22. The current investments are valued on closing date at
(a) Market value (b) Cost of purchase
(c) Lower of cost and market value (d) Higher of cost and fair value

23. Any reduction to market value of current investment from cost, on valuation date is debited to
(a) Revaluation reserve (b) Profit and loss account
(c) Capital reserve (d) General reserve

24. Current investments should be valued at the lower of cost and market value determined on
(a) Individual investment basis
(b) Either individual investment basis or by category of investment
(c) On an overall (or global) basis
(d) None of the above

25. Interest on securities is paid
(a) To the holder of the security on the due date, in respect of his actual period of holding
(b) To the holders of the security on the due date, irrespective of his actual period of holding
(c) To the original purchaser of the security
(d) None of the above

26. When dividend is actually received on the due date,
(a) The entire amount is entered in the Capital Column (Cr.) of the Investment A/c
(b) The entire amount is entered in the Income Column (Dr.) of the Investment A/c
(c) The pro-rata amount relating to the period after the date of acquisition is entered in the Income Column (Cr.) of the Investment A/c
(d) The pro-rata amount relating to the period before the date of acquisition is entered in the Income Column (Cr.) of the Investment A/c

27. When bonus shares are received -
(a) The Nominal Value [NV] of such bonus shares is entered in the NV Column (Dr.); and no amount is entered in the Capital column (Dr.) of the Investment A/c
(b) The Nominal Value [NV] of such bonus shares is entered in the NV Column (Dr.); and in the Capital column (Dr.) of the Investment A/c
(c) The Nominal Value [NV] of such bonus shares is entered in the NV Column (Cr.); and in the Capital column (Cr.) of the Investment A/c
(d) The Nominal Value [NV] of such bonus shares is entered in the Capital Column (Dr.); and no amount is entered in the NV column (Dr.) of the Investment A/c

28. When the rights shares are subscribed -
(a) Nominal Value is entered in the NV column (Cr.); and Cost is entered in the Capital column (Cr.) of the Investment A/c
(b) Nominal value is entered in the Capital column (Dr.) of the Investment A/c
(c) Nominal Value is entered in the NV column (Dr.); and Cost is entered in the Capital column (Dr.) of the Investment A/c
(d) Cost is entered in the NV column (Dr.) of the Investment A/c

29. When the rights are sold (without subscribing)
(a) Sale proceeds are credited to the Investment Account
(b) Sale proceeds are debited to the Investment Account
(c) No entry is made in the Investment Account; and Sale proceeds are credited to the Profit & Loss Account
(d) None of the above

30. The cost of Right shares is
(a) Added to the cost of investments (b) Subtracted from the cost of investments
(c) No treatment is required (d) None of the above

31. Long term investments are carried at
(a) Fair value (b) Cost less other than temporary decline
(c) Cost and market value whichever is less (d) Cost and market value whichever is higher

32. Current investments are carried at
(a) Fair value (b) Cost
(c) Cost and fair value, whichever is less (d) Cost and market value whichever is higher

33. Cost of investment includes
(a) Purchase costs (b) Brokerage and stamp duty paid
(c) Both (a) and (b) (d) None of the above

34. Mr. Vikram used loan of ₹ 1,00,000 to invest in Equity Shares of P Ltd. He purchased 9,000 Equity Shares (Face value ₹ 10 each) for ₹ 1,00,000 on 25th March, 2025. P. Ltd. declared and paid dividend @ 20% on 30th March for the year 2024-25. What is the carrying amount of investment as on 31st March, 2025 as per AS 13 and suggest the treatment of dividend received from P Ltd. ?
(a) Carrying amount of investment as on 31st March, 2025 is ₹ 72,000 and the dividend is deducted from the nominal value of investment.
(b) Carrying amount of investment as on 31st March, 2025 is ₹ 90,000 and the dividend is credited to Profit and Loss A/c.
(c) Carrying amount of investment as on 31st March, 2025 is ₹ 1,00,000 and the dividend is credited to Profit and Loss A/c.
(d) Carrying amount of investment as on 31st March, 2025 is ₹ 82,000 and the dividend is deducted from the cost of investment.

35. A Ltd. acquired 2,000 Equity shares of Omega Ltd. on cum-right basis at ₹ 75 per share. Subsequently, Omega Ltd. made a right issue of 1 : 1 at ₹ 60 per share, which was subscribed for by A. Total cost of investments at the year-end will be
(a) ₹ 2,70,000 (b) ₹ 1,50,000
(c) ₹ 1,20,000 (d) ₹ 1,70,000

36. AS-13 (Revised) Deals with accounting for investments in the financial statement of :
(a) Individuals (b) Enterprises
(c) Both (a) and (b) (d) None of (a) and (b)

37. AS 13 does not deal with :
(a) Operating or finance leases
(b) Investments on retirement benefit plans and life insurance enterprises
(c) Both (a) and (b)
(d) None of (a) and (b)

38. A current investment is an investment that is by its nature :
(a) readily realisable (b) intended to be held for not more than one year
(c) both (a) and (b) (d) none of (a) and (b)

39. On 1st April, 2024 HIL has made an investment of ₹ 200 lakhs in the Equity shares of Rose Limited of which 50% is made in the long-term category i.e. long-term investment and rest as temporary investment i.e. current investment. The realisable value of all such investments on 31st March, 2025 becomes ₹ 50 lakhs as Rose Limited lost a copyright. From the given market conditions, it is apparent that the reduction in the value of investment is not temporary in nature.
Answer the following question :
How will you recognise the reduction in the value of the investments in the financial statements for the year ended 31st March 2025 as per AS 13 (Revised) ?
(a) The reduction of ₹ 50 lakhs in the carrying value of current investment will be charged to the profit and loss account. There will be no impact on the value of long-term investments.
(b) The reduction of ₹ 75 lakhs in the carrying value of current investment will be charged to the profit and loss account. There will be no impact on the value of long-term investments.
(c) The reduction of ₹ 75 lakhs in the carrying value of current investment will be charged to the profit and loss account. The reduction of ₹ 75 lakhs in the carrying value of long-term investment will also be charged to the profit and loss account.
(d) The reduction of ₹ 75 lakhs in the carrying value of current investment will be charged to the profit and loss account. The reduction of ₹ 75 lakhs in the carrying value of long-term investment will also be charged to the capital reserve account.

6.2 FILL IN THE BLANKS

1. Interest is always calculated on the _____ Value of the security.
2. If a security is transferred on the exact date when interest falls due, the entire interest up to that due date belongs to the _____ .
3. If a security is transferred on any date other that the due date for payment of interest, the (seller/purchaser) has the right to claim the Interest upto the date of transfer as his income.
4. If a security is transferred on any date other than the due date for payment of interest, the purchaser has the right to claim the Interest (upto/after) the date of transfer as his income.
5. Dividend on shares accrues on the date of its _____ .
6. Dividend on shares is paid to the holder of the share on the date of _____ , irrespective of his actual period of holding.
7. If XYZ Ltd. pays a dividend on 30-09-2024 for the year ended on 31-03-2024, dividend on shares held as on 31-03-2024 will be treated as (Revenue/Capital) receipt; and on share acquired between 01-04-2024 and 30-09-2024 will be treated as (Revenue/Capital) receipt.
8. When shares are purchased, Cost is entered in the (Capital/NV) column (Dr.) in the Investment Account.
9. When dividend is actually received on the due date, the pro-rata amount relating to the period after the date of acquisition is entered in the (Capital/Income) Column (Cr.).
10. When dividend is actually received on the due date, the pro-rata amount relating to the period (before/after) the date of acquisition, if any, is entered in the Capital Column (Cr.).
11. Weighted Average Cost of Securities on Date of Sale

$$= \frac{?}{\text{Total No. Securities}} \times \text{Total Cost of Investments on date of Sale}$$

6.3 MATCH THE FOLLOWING COLUMNS

[A]

	COLUMN A		COLUMN B
1.	Fixed Income Bearing Securities	(a)	on due dates fixed in advance
2.	Variable Income Bearing Securities	(b)	on the last day of the financial year
3.	Interest is always calculated on the	(c)	the entire interest up to 31st March, 2025 belongs to the seller
4.	Interest on securities accrues	(d)	the interest up to 30th March, 2025 belongs to the purchaser
5.	Interest is paid	(e)	Debentures
6.	If a security is transferred on 31st March, 2025	(f)	Sale Price Less Cost on FIFO basis
7.	Dividend on shares accrues	(g)	to the holder of the security on the due date irrespective of his actual period of holding
		(h)	Equity Shares
		(i)	Market Value of the security
		(j)	on the date it is declared
		(k)	Nominal Value of the security
		(l)	to the original investor if the security is sold ex-interest

[B]

	COLUMN A		COLUMN B
1.	Profit on sale of investment	(a)	is ignored
2.	Excess of cost of investment held as current asset over its market value	(b)	is credited to capital reserve a/c
		(c)	is credited to profit & loss a/c
3.	Excess of cost of investment held as long term asset over its market value	(d)	to the original investor if the shares are sold ex-dividend
4	On each sale of investment, the profit or loss is calculated as	(e)	Sale Price Less Weighted Average Cost

5.	Dividend is paid	(f) to the holder of the shares on the date of book closure (g) is debited to profit and loss a/c

(c)

COLUMN A	COLUMN B
1. Investment Accounting	(a) Equity Shares
2. Fixed Income Bearing Securities	(b) Pre acquisition Dividend
3. Variable Income Bearing Securities	(c) AS 11
4. Ex-interest or Cum-interest	(d) AS 13
5. Shares purchased	(e) Govt. Securities Purchased
	(f) AS 14
	(g) Debentures

6.4 STATE WHETHER TRUE OR FALSE

1. Interest is always calculated on the Market Value of the security.
2. Interest is paid to the holder of the security on the due date, in respect of his actual period of holding.
3. If a security is transferred on the exact date when interest falls due, the entire interest upto that due date belongs to the purchaser.
4. If a security is transferred on any date other than the due date for payment of interest, the purchaser has the right to claim the Interest upto the date of transfer as his income.
5. If a security is transferred on any date other than the due date for payment of interest, the seller has the right to claim the Interest after the date of transfer as his income.
6. Ex-Interest price Less Accrued interest = Cost of the investment.
7. Total Payment by purchaser = Ex-Interest Price - Accrued Interest.
8. Dividend is always calculated on the Face value or Nominal Value of the shares.
9. Dividend on shares accrues on the date of the book-closure by the company.
10. Dividend on shares is paid to the holder of the shares on the date of declaration, irrespective of his actual period of holding.
11. When bonus shares are received only the Nominal Value of such bonus shares is entered in the Investment A/c.
12. When the rights are sold (without subscribing) no entry is made in the Investment Account.
13. When the rights are sold (without subscribing), sale proceeds are credited to the Profit & Loss Account.
14. Whether the price is cum-interest or ex-interest, accrued interest is always calculated and entered in the Income column in the Investment Account.
15. Profit on sale of current investment is transferred to profit & loss a/c; while profit on sale of long term investment is transferred to Capital Reserve.
16. Investment held as long term investment is always valued at cost at the year end as per AS 13.
17. Nominal Value Column in the Investment Account is only a memorandum column.
18. As per the provisions of AS 13, a current investment is an investment, that by its nature, is readily realisable and is intended to be held for not more than six months from the date on which such investment is made. ***(CA-Inter, May 2019, adapted)***
19. Assets held as stock-in-trade (inventory) are not 'investments' as per AS 13.
20. AS 13 is not applicable to such investments which have no physical existence and are represented merely by certificates.

6.5 CHECK YOUR ANSWERS

6.1

1. (b)	7. (a)	13. (b)	19. (c)	25. (b)	31. (b)	37. (c)
2. (b)	8. (a)	14. (b)	20. (c)	26. (c)	32. (c)	38. (c)
3. (b)	9. (b)	15. (b)	21. (c)	27. (a)	33. (c)	39. (c)

4. (c)	10. (b)	16. (b)	22. (c)	28. (c)	34. (d)
5. (c)	11. (c)	17. (b)	23. (b)	29. (c)	35. (a)
6. (b)	12. (d)	18. (c)	24. (b)	30. (a)	36. (b)

6.2 (1) Nominal/Face (2) Seller (3) Seller (4) After (5) Declaration (6) Book closure (7) Revenue; Capital (8) Capital (9) Income (10) Before (11) No. of Securities Sold

6.3 **A** : (1) - (e), (2) - (h), (3) - (k), (4) - (a), (5) - (g), (6) - (c), (7) - (j)
B : (1) - (c), (2) - (g), (3) - (a), (4) - (e), (5) - (f)
C : (1) - (d), (2) - (g), (3) - (a), (4) - (e), (5) - (b)

6.4 **True** : 8, 11, 12, 13, 14, 16, 17, 19
False : 1, 2, 3, 4, 5, 6, 7, 9, 10, 15, 18, 20

18. ***False;*** A current investment is an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made.