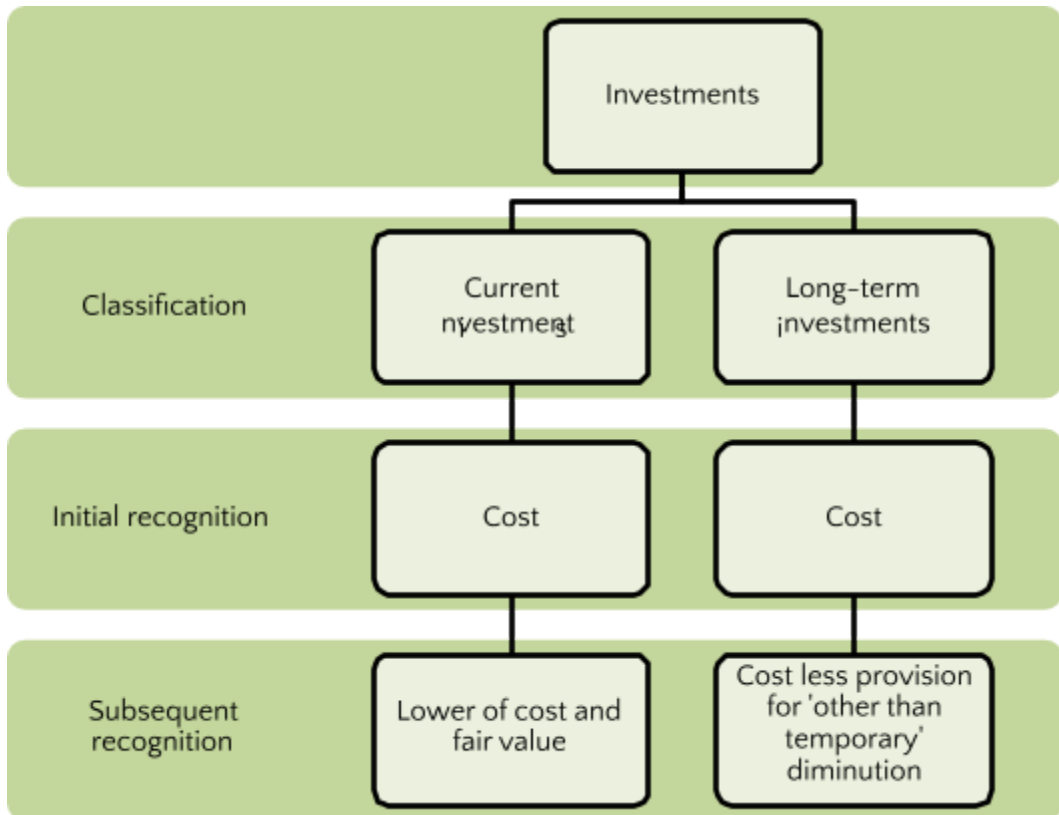


INVESTMENT ACCOUNTS

CHAPTER OVERVIEW



1. INTRODUCTION

Investments are assets held by an enterprise for earning income by way of dividends, interest and rentals, for capital appreciation, or for other benefits to the investing enterprise. Investment Accounting is done as per AS 13, *Accounting for Investments* which deals with accounting for investments in the financial statements and related disclosure requirements except:

- (i) Bases for recognition of interest, dividends and rentals earned on investments
- (ii) operating or financial leases
- (iii) investment of retirement benefit plans and life insurance enterprises
- (iv) mutual funds, etc.

Note: Assets held as Stock-in-trade are not 'Investments'.

2. CLASSIFICATION OF INVESTMENTS

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

2.1 Current Investments

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

Example: A Ltd. acquired 1,000 shares of B Ltd. on 1st April, 20X2 with an intention to hold them for a period of 15 months. Suggest the classification of such investment (in accordance with AS 13) as on 31st March, 20X3.

Investment in 1,000 shares is not a current investment because it is intended to be held for more than one year from the investment date even though the remaining period as on the reporting date may be less than one year.

- **The carrying amount** for current investments is the lower of cost and fair value.
- **Fair Value** is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. Under appropriate circumstances, market value or net realisable value provides an evidence of fair value.

- **Market Value** is the amount obtainable from the sale of an investment in an open market, net of expenses necessarily to be incurred on or before disposal.
- Any reduction to fair value and any reversals of such reductions are included in the statement of profit and loss.

2.2 Long-term Investments

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



3. COST OF INVESTMENTS

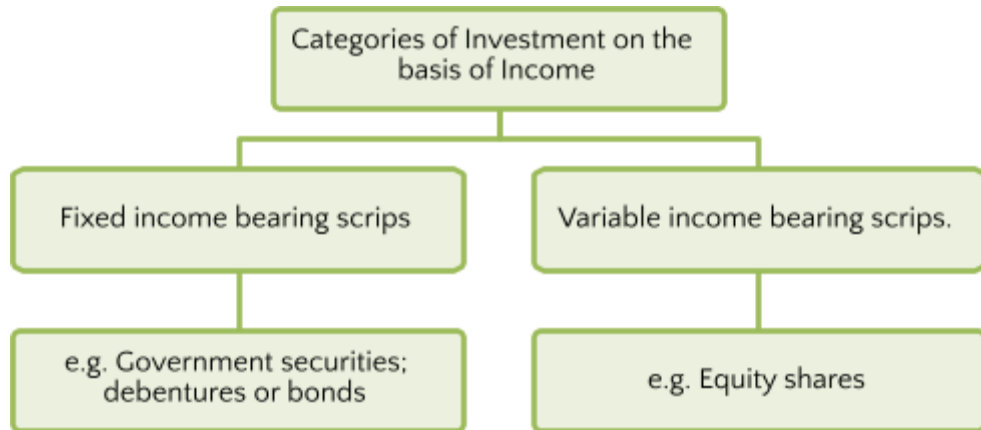
1. The cost of an investment includes acquisition charges such as brokerage, fees and duties.
2. If an investment is acquired, or partly acquired, by the issue of shares or other securities, the acquisition cost is the fair value of the securities issued.

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

If an investment is acquired in exchange, or part exchange, for another asset, the acquisition cost of the investment is determined by reference to the fair value of the asset given up or the fair value of the investment acquired, whichever is more clearly evident.

Type of acquisition	Cost of investments
Cash/ bank	Cash price including charges such as brokerages, fees and duties
Issue of shares/ other securities	Fair value of securities issued
In exchange for another asset	Fair value of asset given up or fair value of investment acquired, whichever is more clearly evident

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



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

- (i) **Fixed income Bearing Securities:** These refer to securities having fixed return of income. Investment in Government securities or debentures comes under this category.

Transaction for fixed income bearing securities may occur on following basis:

- (a) Ex-interest basis
- (b) Cum- interest basis

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

The following entries are made in the books of Purchaser:

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

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

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

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

The following entries are made in the books of Purchaser:

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

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

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

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

Note:

- (a) Interest amount is always calculated with respect to nominal value (par value/ nominal value).
 - (b) In case the quotation does not specify whether it is ex-interest or cum-interest, the same will be treated as ex-interest quotation as per the general practice
- (ii) **Variable Income Bearing Securities:** These refer to securities having variable return of income. Investment in equity shares comes under this category. The following points should be noted with respect to investment in equity shares:
- (a) dividends from investments in shares are not recognised in the statement of profit and loss until a right to receive payment is established;
 - (b) the amount of dividend accruing between the date of last dividend payment and the date of purchase cannot be immediately ascertained.

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

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

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

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

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

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

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

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

If rights are not subscribed for but are sold in the market, the sale proceeds are taken to the statement of profit and loss.

Right shares	Accounting
When right shares offered are subscribed	Cost of right shares should be added to carrying amount of the original holding.
If rights are not subscribed for but are sold	Sale proceeds should be taken to statement of profit and loss (refer note below for an exception).

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

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

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

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



4. DISPOSAL OF INVESTMENTS

- On disposal of an investment, the difference between the carrying amount and the disposal proceeds, net of expenses is recognised in the profit and loss statement.
- When a part of the holding of an individual investment is disposed, the carrying amount is required to be allocated to that part on the basis of the average carrying amount of the total holding of the investment.
- In respect of shares, debentures and other securities held as stock-in-trade,

the cost of stocks disposed of may be determined by applying an appropriate cost formula (e.g., first-in, first-out (FIFO), average cost, etc.). These cost formulae are the same as those specified in AS 2, *Valuation of Inventories*.

- (i) **Fixed Income Bearing Securities:** In case the transaction is on 'Cum- interest basis,' the amount of accrued interest from the date of last payment to the date of sale is credited in the income column and only the sale proceeds, net of accrued interest (from the date of last payment to the date of sale), is credited in the capital column of investment account.

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

- (ii) **Variable Income Bearing Securities:** In case of these securities, the entire amount of sale proceeds should be credited in the capital column of investment account, unless the amount of accrued dividend can be specifically established.

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

Particulars	Value in 'capital' column of investment	
	Purchase	Sale
Transaction on ex-interest basis	Purchase price of investment, i.e., no impact of interest accrued upto the date of transaction	Entire sale proceeds from investments, i.e., no impact of accrued interest (from the date of last payment to the date of sale)
Transaction on cum-interest basis	Purchase price of investment less accrued interest upto the date of transaction	Sale proceeds, net of accrued interest (from the date of last payment to the date of sale)

Illustration 1

In 20X1, 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, 20X2, M/s. Bull & Bear purchased 10,000 of these debentures at 101 cum-interest price, also paying brokerage @ 1% of cum-interest amount of the purchase. On 1st March, 20X3 the firm sold all of these debentures at 106 cum-interest price, again paying brokerage @ 1% of cum-interest amount. Prepare Investment Account in the books of M/s. Bull & Bear for the period 1st December, 20X2 to 1st March, 20X3.

Solution

In the books of M/s Bull & Bear
Investment Account
for the period from 1st December 20X2 to 1st March, 20X3 (Scrip: 12%
Debentures of M/s. Wye Ltd.)

Date	Particulars	Nominal Value (₹)	Interest	Cost (₹)	Date	Particulars	Nominal Value (₹)	Interest	Cost (₹)
1.12.20X2	T Bank A/c (W.N.1)	10,00,000	20,000	10,00,100	1.03.20X3	By Bank A/c (W.N.2)	10,00,000	50,000	9,99,400
1.3.20X3	T Profit & loss A/c* (b.f.)		30,000		1.3.20X3	By Profit & loss A/c (b.f.)			700
		10,00,000	50,000	10,00,100			10,00,000	50,000	10,00,100

* This represents income for M/s. Bull & Bear for the period 1st December, 20X2 to 1st March, 20X3, i.e., interest for three months- 1st December, 20X2 to 28 February, 20X3).

Working Notes:

- Cost of 12% debentures purchased on 1.12.20X2

Cost Value (10,000 × 101)	=	10,10,000
Add: Brokerage (1% of 10,10,000)	=	10,100
Less: Cum Interest (10,000 × 100 × 12% × 2/12)	=	<u>(20,000)</u>
Total	=	<u>10,00,100</u>
- Sale proceeds of 12% debentures sold

Sales Price (10,000 × 106)	=	10,60,000
Less: Brokerage (1% of 10,60,000)	=	(10,600)

Less: Cum Interest (10,000 x 100 x 12% x 5/12) =
(50,000) Total =
9,99,400

Illustration 2

On 1.4.20X1, Mr. Krishna Murty purchased 1,000 equity shares of ₹ 100 each in TELCO Ltd. @ ₹ 120 each from a Broker, who charged 2% brokerage. He incurred 50 paise per ₹ 100 as cost of shares transfer stamps. On 31.1.20X2, Bonus was declared in the ratio of 1: 2. Before and after the record date of bonus shares, the shares were quoted at ₹ 175 per share and ₹ 90 per share respectively. On 31.3.20X2, Mr. Krishna Murty sold bonus shares to a Broker, who charged 2% brokerage.

Show the Investment Account in the books of Mr. Krishna Murty, who held the shares as Current assets and closing value of investments shall be made at Cost or Market value whichever is lower.

Solution

**In the books of Mr. Krishna Murty
Investment Account
for the year ended 31st March, 20X2
(Scip: Equity Shares of TELCO Ltd.)**

Date	Particulars	Nominal Value (₹)	Cost (₹)	Date	Particulars	Nominal Value (₹)	Cost (₹)
1.4.20X1	To Bank A/c (W.N.1)	1,00,000	1,23,000	31.3.20X2	By Bank A/c (W.N.2)	50,000	44,100
31.1.20X2	To Bonus shares (W.N.5)	50,000	–	31.3.20X2	By Balance c/d (W.N.4)	1,00,000	82,000
31.3.20X2	To Profit & loss A/c (W.N.3)	–	3,100				
		1,50,000	1,26,100			1,50,000	1,26,100

Working Notes:

- Cost of equity shares purchased on 1.4.20X1 = (1,000 × ₹ 120) + (2% of ₹ 1,20,000) + (½% of ₹ 1,20,000) = ₹ 1,23,000
- Sale proceeds of equity shares (bonus) sold on 31st March, 20X2 = (500 × ₹ 90) – (2% of ₹ 45,000) = ₹ 44,100.

3. Profit on sale of bonus shares on 31st March, 20X2

$$= \text{Sales proceeds} - \text{Average cost}$$

$$\text{Sales proceeds} = ₹ 44,100$$

$$\text{Average cost} = ₹ (1,23,000 / 1,50,000) \times 50,000 = ₹$$

$$41,000 \text{ Profit} = ₹ 44,100 - ₹ 41,000 = ₹ 3,100.$$

4. Valuation of equity shares on 31st March, 20X2

$$\text{Cost} = ₹ (1,23,000 / 1,50,000) \times 1,00,000 = ₹$$

$$82,000 \text{ Market Value} = 1,00,000 \text{ shares} \times ₹ 90 = ₹$$

$$90,000$$

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

5. Bonus shares do not have any cost.

Illustration 3

Mr. X purchased 500 equity shares of ₹ 100 each in Omega Co. Ltd. for ₹ 62,500 inclusive of brokerage and stamp duty. Some years later the company resolved to 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.

Solution

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

Particulars	Nominal Value	Cost	Particulars	Nominal Value	Cost
To Cash	50,000	62,500	By Cash - Sale (500 x 90)	50,000	45,000
To Bonus shares (W.N.1)	50,000	-	By Balance c/d (W.N. 3)	50,000	31,250
To P & LA/c (W.N. 2)	-	13,750			
	1,00,000	76,250		1,00,000	76,250
To Balance b/d	50,000	31,250			

Working Notes:

1. Bonus shares do not have any cost.

2. Profit on sale of bonus shares = Sales proceeds – Average cost

Sales proceeds = ₹ 45,000

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

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

3. Valuation of Closing Balance of Shares at the end of year

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

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

Market price of 500 shares = $92.50 \times 500 = ₹ 46,250$

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

Illustration 4

On 01-04-20X1, Mr. T. Shekharan purchased 5,000 equity shares of ₹ 100 each in V Ltd. @ ₹ 120 each from a broker, who charged 2% brokerage. He incurred 50 paise per ₹ 100 as cost of shares transfer stamps. On 31-01-20X2 bonus was declared in the ratio of 1: 2. Before and after the record date of bonus shares, the shares were quoted at

₹ 175 per share and ₹ 90 per share respectively. On 31-03-20X2, Mr. T. Shekharan sold bonus shares to a broker, who charged 2% brokerage.

Show the Investment Account in the books of T. Shekharan, who held the shares as Current Assets and closing value of investments shall be made at cost or market value whichever is lower.

Solution

**In the books of T. Shekharan
Investment Account
for the year ended 31st March, 20X2
(Script: Equity Shares of V Ltd.)**

Date	Particulars	Nominal Value (₹)	Cost (₹)	Date	Particulars	Nominal Value (₹)	Cost (₹)
1.4.20X1	To Bank A/c (W.N.1)	5,00,000	6,15,000	31.3.20X2	By Bank A/c	2,50,000	2,20,500

					(W.N.2)		
--	--	--	--	--	---------	--	--

31.1.20X2	To Bonus shares	2,50,000	-	31.3.20X2	By Balance c/d	5,00,000	4,10,000
31.3.20X2	To Profit and Loss A/c (W.N.3)		15,500		(W.N.4)		
		7,50,000	6,30,500			7,50,000	6,30,500

Working Notes:

- Cost of equity shares purchased on 1st April, 20X1
 = Cost + Brokerage + Cost of transfer stamps
 = $(5,000 \times ₹ 120) + (2\% \text{ of } ₹ 6,00,000) + (\frac{1}{2}\% \text{ of } ₹ 6,00,000)$
 = ₹ 6,15,000
- Sale proceeds of equity shares sold on 31st March, 20X2
 = Sale price – Brokerage
 = $(2,500 \times ₹ 90) - (2\% \text{ of } ₹ 2,25,000)$
 = ₹ 2,20,500
- Profit on sale of bonus shares
 = Sales proceeds – Average cost
 Sales proceeds = ₹ 2,20,500
 Average cost = $₹ (6,15,000 / 7,50,000) \times 2,50,000 = ₹ 2,05,000$
 Profit = ₹ 2,20,500 – ₹ 2,05,000 = ₹ 15,500.
- Valuation of equity shares on 31st March, 20X2
 Cost = $₹ [6,15,000 \times 5,00,000 / 7,50,000] = ₹ 4,10,000$, i.e., ₹ 82 per share
 Market Value = 5,000 shares $\times ₹ 90 = ₹ 4,50,000$
 Closing stock of equity shares has been valued at ₹ 4,10,000 i.e. cost being lower than the market value.

Illustration 5

On 1st April, 20X1, Rajat has 50,000 equity shares of P Ltd. at a book value of ₹ 15 per share (nominal value ₹ 10 each). He provides you the further information:

- On 20th June, 20X1 he purchased another 10,000 shares of P Ltd. at ₹ 16 per share.
- On 1st August, 20X1, P Ltd. issued one equity bonus share for every six shares

held by the shareholders.

- (3) On 31st October, 20X1, 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, 20X1.

You are required to prepare Investment A/c in the books of Rajat for the year ending 31st March, 20X2.

Solution

**In the books of Rajat
Investment Account
(Equity shares in P Ltd.)**

Date	Particulars	No. of shares	Amount (₹)	Date	Particulars	No. of shares	Amount (₹)
1.4.X1	To Balance b/d	50,000	7,50,000	31.3.X2	By Balance c/d	90,000	12,10,000
20.6.X1	To Bank A/c	10,000	1,60,000		(Bal. fig.)		
1.8.X1	To Bonus issue (W.N.1)	10,000	-				
5.11.X1	To Bank A/c (right shares) (W.N.4)	20,000	3,00,000				
		90,000	12,10,000			90,000	12,10,000

Working Notes:

$$(1) \text{ Bonus shares} = \frac{50,000 + 10,000}{6} = 10,000 \text{ shares}$$

$$(2) \text{ Right shares} = \frac{50,000 + 10,000}{7} = 30,000 \text{ shares}$$

$$+ 10,000 \times 3$$

$$(3) \text{ Sale of rights} = 30,000 \text{ shares} \times \frac{1}{3}$$

3 = 2 = 20,000 to be credited to

..

statement of profit and loss

(4) Rights subscribed = 30,000 shares $\times \frac{2}{3} \times 15 = 3,00,000$

3

Illustration 6

On 1.4.20X1, Sundar had 25,000 equity shares of 'X' Ltd. at a book value of ₹ 15 per share (Nominal value ₹ 10). On 20.6.20X1, he purchased another 5,000 shares of the company at ₹ 16 per share. The directors of 'X' Ltd. announced a bonus and rights issue. No dividend was payable on these issues. The terms of the issue are as follows:

Bonus basis 1:6 (Date 16.8.20X1).

Rights basis 3:7 (Date 31.8.20X1) Price ₹ 15 per share.

Due date for payment 30.9.20X1.

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

Dividends: Dividends for the year ended 31.3.20X1 at the rate of 20% were declared by X Ltd. and received by Sundar on 31.10.20X1. Dividends for shares acquired by him on 20.6.20X1 are to be adjusted against the cost of purchase.

On 15.11.20X1, Sundar sold 25,000 equity shares at a premium of ₹ 5 per share.

You are required to prepare in the books of Sundar.

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

For your exercise, assume that the books are closed on 31.12.20X1 and shares are valued at average cost.

Solution

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

		No.	Amount			No.	Amount
1.4.20X1	To Bal b/d	25,000	3,75,000	31.10.20X1	By Bank	—	10,000
20.6.20X1	To Bank	5,000	80,000		(dividend		
16.8.20X1	To Bonus	5,000	—		on shares		
	(W.N.1)				acquired		
30.9.20X1	To Bank	10,000	1,50,000		on		
	(Rights				20/6/20X		
	Shares)				1)		
	(W.N.3)				(W.N.4)		

15.11.20X1	To Profit (on sale of shares)		44,444	15.11.20X1	By Bank	25,000	3,75,000
				31.12.20X1	(Sale of shares)		
					By Bal. c/d (W.N.6)	20,000	2,64,444
		45,000	6,49,444			45,000	6,49,444

Profit and Loss Account (An extract)

To Balance c/d	1,04,444	By Profit transferred	44,444
		By Sale of rights (W.N.3)	10,000
	————	By Dividend (W.N.4)	<u>50,000</u>
	1,04,444		1,04,444

Working Notes:

(1) **Bonus Shares** = $\frac{(25,000+5,000)}{5} = 5,000$ shares

(2) **Right Shares** = $\frac{6}{3} \times (25,000+5,000+5,000) = 15,000$ shares

(3) **Right shares renounced** = $15,000 \times \frac{1}{3} = 5,000$ shares

Sale of right shares = $5,000 \times 2 = \text{₹} 10,000$

Right shares subscribed = $15,000 - 5,000 = 10,000$ shares

Amount paid for subscription of right shares = $10,000 \times 15 = \text{₹} 1,50,000$

(4) **Dividend received** = $25,000$ (shares as on 1st April 20X1) $\times 10 \times 20\% = \text{₹} 50,000$

Dividend on shares purchased on 20.6.20X1 = $5,000 \times 10 \times 20\% = \text{₹} 10,000$ is adjusted to Investment A/c

(5) **Profit on sale of 25,000 shares**

= Sales proceeds – Average cost

Sales proceeds = $\text{₹} 3,75,000$

Average cost = $\frac{(3,75,000+80,000+1,50,000-10,000)}{25,000} = \text{₹} 3,30,556$

$$\text{Profit} = \frac{45,000}{3,75,000 - 3,30,556} = 44,444.$$

(6) Cost of shares on 31.12.20X1

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

Illustration 7

On 1st January 20X1, Singh had 20,000 equity shares in X Ltd. Nominal value of the shares was ₹10 each but their book value was ₹16 per share. On 1st June 20X1, Singh purchased 5,000 more equity shares in the company at a premium of ₹4 per share.

On 30th June, 20X1, the directors of X Ltd. announced a bonus and rights issue. Bonus was declared at the rate of one equity share for every five shares held and these shares were received on 2nd August, 20X1.

The terms of the rights issue were:

- Rights shares to be issued to the existing holders on 10th August, 20X1.
- Rights issue would entitle the holders to subscribe to additional equity shares in the Company at the rate of one share per every three held at ₹15 per share—the whole sum being payable by 30th September, 20X1.
- Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.
- Singh exercised his option under the issue for 50% of his entitlements and the balance of rights he sold to Ananth for a consideration of ₹1.50 per share.
- Dividends for the year ended 31st March, 20X1, at the rate of 15% were declared by the Company and received by Singh on 20th October, 20X1.
- On 1st November, 20X1, Singh sold 20,000 equity shares at a premium of ₹3 per share.

The market price of share on 31-12-20X1 was ₹14. Show the Investment Account as it would appear in Singh's books on 31-12-20X1 and the value of shares held on that date.

Solution**Investment Account—Equity Shares in X Ltd.**

Date		No. of shares	Dividend	Amount	Date		No. of shares	Dividend	Amount
20X1 Jan. 1	To Bal.b/d	20,000	-	3,20,000	20X1 Oct. 20	By Bank		30,000	7,500

June 1	To Bank	5,000	-	70,000	Nov. 1	(dividend) [20,000 x 10 x 15%] [5,000 x 10 x 15%]			
Aug. 2	To Bonus Issue	5,000		-	Nov. 1	By Bank	20,000		2,60,000
Sep. 30	To Bank (Right) (W.N.1)	5,000	-	75,000	Dec. 31	By P & L A/c (W.N.2)			1,429
Nov. 1	To Profit & Loss A/c (Dividend income)		30,000			By Balance	15,000		1,96,071
		35,000	30,000	4,65,000		c/d (W.N.3)			
							35,000	30,000	4,65,000
Jan. 1, 20X2	To Balanc e b/d	15,000		1,96,071				0	

Working Notes:

1. Right shares

No. of right shares issued = $(20,000 + 5,000 + 5,000) / 3 = 10,000$ shares

No. of right shares subscribed = $10,000 \times 50\% = 5,000$ shares

Amount of right shares issued = $5,000 \times 15 = ₹ 75,000$

No. of right shares sold = $10,000 - 5,000 = 5,000$ shares

Sale of right shares = $5,000 \times 1.5 = ₹ 7,500$ to be credited to statement of profit and loss

2. Cost of shares sold – Amount paid for 35,000 shares

	₹
$(₹ 3,20,000 + ₹ 70,000 + ₹ 75,000)$	4,65,000
Less: Dividend on shares purchased on June 1 (since the dividend pertains to the year ended 31 st March, 20x1, i.e., the pre-acquisition period)	(7,500)
Cost of 35,000 shares	4,57,500

Cost of 20,000 shares (Average cost basis)	2,61,429
Sale proceeds	2,60,000
Loss on sale	1,429

3. Value of investment at the end of the year

Assuming investment as current investment, closing balance will be valued based on lower of cost or net realisable value.

Here, Net realisable value is ₹ 14 per share i.e. 15,000 shares × ₹ 13 = ₹ 2,10,000 and cost = $\frac{4,57,500}{35,000} \times 15,000 = ₹ 1,96,071$. Therefore, value of investment at the end of the year will be ₹ 1,96,071.

Illustration 8

The following transactions of Nidhi took place during the year ended 31st March 20X2:

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

Prepare the relevant investment account in the books of Nidhi for the year ended 31st March, 20X2.

Solution

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

Date	Particulars	Nominal Value (₹)	Interest (₹)	Cost (₹)	Date	Particulars	Nominal Value (₹)	Interest (₹)	Cost (₹)
1.4.20X1	To Bank A/c	12,00,000	40,000	9,26,000	1.5.20X1	By Bank A/c	-	48,000	-
				0				0	

11.10.20X1	(W.N.1) To Profit & Loss A/c (W.N 6)			11,500	11.10.20X1	(12,00,000 x 8% x 6/12) By Bank A/c (W.N 2)	3,00,000	10,000	2,43,000
31.3.20X2	To Profit & Loss A/c		84,000		11.11.20X1	By Bank A/c (W.N 3)	-	36,000	-
					31.3.20X2	By Balance c/d (W.N.4)	9,00,000	30,000	6,94,500
		12,00,000	1,24,000	9,37,500			12,00,000	1,24,000	9,37,500

Investment in Equity Shares of X Ltd. Account

Date	Particulars	No.	Dividend (₹)	Cost (₹)	Date	Particulars	No.	Dividend (₹)	Cost (₹)
12.4.20X1	To Bank A/c	1,00,000		40,00,000	15.5.20X1	By Bank A/c	1,25,000		25,00,000
15.5.20X1	To Bonus Issue	1,50,000			1.12.20X1	By Bank A/c (W.N.7)		2,25,000	
31.3.20X2	To Profit & Loss A/c (W.N 5)		2,25,000	5,00,000	31.3.20X2	By Balance c/d (W.N.8)	1,25,000		20,00,000
		2,50,000	2,25,000	45,00,000			2,50,000	2,25,000	45,00,000

Working Notes:

1. Cost of investment purchased on 1st April, 20X1

12,000, 8% bonds were purchased @ ₹ 80.50 cum-interest. Total amount paid 12,000 bonds x ₹ 80.50 = 9,66,000 which includes accrued interest for 5 months, i.e., 1st November, 20XX to 31st March, 20X1. Accrued interest will be ₹ 12,00,000 x 8/100 x 5/12 = ₹ 40,000. Therefore, cost of investment purchased = ₹ 9,66,000 - 40,000 = ₹ 9,26,000.

Note: It has been assumed that the nominal value of a bond is ₹ 100.

2. Sale of bonds on 1st October, 20X1

3,000 bonds were sold @ ₹ 81 ex-interest, i.e., Total amount received = 3,000 x 81 + accrued interest for 5 months = ₹ 2,43,000 + ₹ 10,000 (3,00,000 x 8/100 x 5/12)

3. Interest received on 1st November, 20X1

Interest will be received for 9,000 bonds @ 8% for 6 months, i.e., ₹ 9,00,000 x 8/100 x 1/2 = ₹ 36,000.

4. Cost of bonds on 31.3.20X1

Cost of bonds on 31.3.20X1 will be ₹ 9,26,000 / 12,000 x 9,000 = ₹ 6,94,500.

Interest accrued on bonds on 31.3.20X1 = $9,00,000 \times 8\% \times 5/12 = \text{₹} 30,000$

5. Profit on sale of bonus shares

Cost per share after bonus = $\text{₹} 40,00,000 / 2,50,000 = \text{₹} 16$ (average cost method being followed)

Profit per share sold ($\text{₹} 20 - \text{₹} 16$) = $\text{₹} 4$.

Therefore, total profit on sale of 1,25,000 shares = $\text{₹} 4 \times 1,25,000 = \text{₹} 5,00,000$.

6. Profit on sale of bonds

Sale value	=	2,43,000
Cost of $\text{₹} 3,00,000$ 8% bonds = $9,26,000 / 12,00,000 \times 3,00,000$	=	<u>2,31,500</u>
Profit	=	<u>11,500</u>

7. Dividend on equity shares = $1,25,000 \times 10 \times 18\% = \text{₹} 2,25,000$

8. Value of equity at end of year

Cost per share after bonus = $\text{₹} 16$

Number of shares = 1,25,000

Value of equity at end of year = $1,25,000 \times 16 = \text{₹} 20,00,000$

Illustration 9

Smart Investments made the following investments in the year

20X1-X2: 12% State Government Bonds having nominal value $\text{₹} 100$

Date	Particulars
01.04.20X1	Opening Balance (1200 bonds) book value of $\text{₹} 126,000$
02.05.20X1	Purchased 2,000 bonds @ $\text{₹} 100$ cum interest
30.09.20X1	Sold 1,500 bonds at $\text{₹} 105$ ex interest

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

Equity Shares of X Ltd.	
15.04.20X1	Purchased 5,000 equity shares @ $\text{₹} 200$ on cum right basis
	Brokerage of 1% was paid in addition (Nominal Value of shares $\text{₹} 10$)
03.06.20X1	The company announced a bonus issue of 2 shares for every 5 shares held.

16.08.20X1	The company made a rights issue of 1 share for every 7 shares held at ` 250 per share. The entire money was payable by 31.08.20X1.
22.8.20X1	Rights to the extent of 20% was sold @ ` 60. The remaining rights were subscribed.
02.09.20X1	Dividend @ 15% for the year ended 31.03.20X1 was received on 16.09.20X1
15.12.20X1	Sold 3,000 shares @ ` 300. Brokerage of 1% was incurred extra.
15.01.20X2	Received interim dividend @ 10% for the year 20X1 -X2
31.03.20X2	The shares were quoted in the stock exchange @ ` 220

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

Solution

In the books of Smart Investments

12% Govt. Bonds for the year ended 31st March, 20X2

Date	Particulars	Nos.	Interest	Amount	Date	Particulars	Nos.	Interest	Amount
1.4.X1	To Opening balance b/d (W.N.7)	1,200	3,600	1,26,000	30.6.X1	By Bank A/c (Interest) (3,200 x 100 x 12% x 6/12)	-	19,200	-
2.5.X1	To Bank A/c (W.N.8)	2,000	8,000	1,92,000	30.9.X1	By Bank A/c (W.N.1 & W.N.9)	1,500	4,500	1,57,500
30.9.X1	To P & L A/c (Profit on Sale) (W.N.1)			8,437.50	31.12.X1	By Bank A/c (Interest) (1,700 x 100 x 12% x 6/12)	-	10,200	-
31.3.X2	To P & L A/c (Interest)		27,400		31.3.X2	By Bal. c/d (W.N.2 & W.N.10)	1,700	5,100	1,68,937.50
		3,200	39,000	3,26,437.50			3,200	39,000	3,26,437.50

Investments in Equity shares of X Ltd. for year ended 31.3.20X2

Date	Particulars	Nos.	Dividend	Amount	Date	Particulars	Nos.	Dividend	Amount
15.4.X1	To Bank A/c (W.N.3)	5,000		10,10,000					
3.6.X1	To Bonus Issue	2,000	-	-	16.9.X1	By Bank (Dividend) (5,000 x 10 x 15%) (refer note 1 and 2)	-	-	7,500
31.8.X1	To Bank A/c (W.N.11)	800		2,00,000	15.12.X1	By Bank (Sale) (W.N.4)	3,000	-	8,91,000
15.12.X1	To P & LA/c (W.N.5)			4,28,500	15.1.X2	By Bank (interim dividend) (W.N.12)		4,800	
31.3.X2	To P & LA/c		4,800		31.3.X2	By Bal. c/d (W.N.6)	4,800		7,40,000
		7800	4,800	16,38,500			7800	4,800	16,38,500

Working Notes:

1. Profit on sale of bonds on 30.9.X1

$$= \text{Sales proceeds} - \text{Average cost}$$

$$\text{Sales proceeds} = ₹ 1,57,500 \text{ (i.e., } 1,500 \times 105)$$

$$\text{Average cost} = ₹ [(1,26,000 + 1,92,000) \times 1,500 / 3,200] = 1,49,062.50$$

$$\text{Profit} = ₹ 1,57,500 - ₹ 1,49,062.50 = ₹ 8,437.50$$

2. Valuation of bonds on 31st March, 20X2

$$\text{Cost} = ₹ 3,18,000 / 3,200 \times 1,700 = 1,68,937.50$$

3. Cost of equity shares purchased on 15/4/20X1

$$= \text{Cost} + \text{Brokerage}$$

$$= (5,000 \times ₹ 200) + 1\% \text{ of } (5,000 \times ₹ 200) = ₹ 10,10,000$$

4. Sale proceeds of equity shares on 15/12/20X1

$$= \text{Sale price} - \text{Brokerage}$$

$$= (3,000 \times ₹ 300) - 1\% \text{ of } (3,000 \times ₹ 300) = ₹ 8,91,000.$$

5. Profit on sale of shares on 15/12/20X1

$$\begin{aligned}
 &= \text{Sales proceeds} - \text{Average cost} \\
 \text{Sales proceeds} &= \text{₹ } 8,91,000 \\
 \text{Average cost} &= \text{₹ } [(10,10,000 + 2,00,000 - 7,500) \times 3,000 / 7,800] \\
 &= \text{₹ } [12,02,500 \times 3,000 / 7,800] = 4,62,500 \\
 \text{Profit} &= \text{₹ } 8,91,000 - \text{₹ } 4,62,500 = \text{₹ } 4,28,500.
 \end{aligned}$$

6. Valuation of equity shares on 31st March, 20X2

$$\begin{aligned}
 \text{Cost} &= \text{₹ } [12,02,500 \times 4,800 / 7,800] = \text{₹ } 7,40,000 \\
 \text{Market Value} &= 4,800 \text{ shares} \times \text{₹ } 220 = \text{₹ } 10,56,000 \\
 \text{Closing stock of equity shares has been valued at } &\text{₹ } 7,40,000 \text{ i.e. cost being} \\
 &\text{lower than the market value.}
 \end{aligned}$$

7. Interest accrued on opening balance of bonds = $1,200 \times 100 \times 12\% \times 3/12$
= ₹ 3,600

8. Interest element in bonds purchased on 02.05.20X1

$$\begin{aligned}
 &= 2,000 \times 100 \times 12\% \times 4/12 = \text{₹ } 8,000 \\
 \text{Cost of investment (amount in investment column)} \\
 &= (2,000 \times 100) - 8,000 = \text{₹ } 1,92,000
 \end{aligned}$$

9. Interest element in bonds sold on 30.09.20X1

$$= 1,500 \times 100 \times 12\% \times 3/12 = \text{₹ } 4,500$$

10. Interest accrued on closing balance of bonds

$$= 1,700 \times 100 \times 12\% \times 3/12 = \text{₹ } 5,100$$

11. Right shares

$$\begin{aligned}
 \text{No. of right shares issued} &= (5,000 + 2,000) \times 1/7 = 1,000 \text{ shares} \\
 \text{No. of right shares sold} &= 1,000 \times 20\% = 200 \text{ shares} \\
 \text{Proceeds from sale of right shares} &= 200 \times 60 = \text{₹ } \\
 &12,000 \text{ to be credited to statement of profit and loss} \\
 \text{No. of right shares subscribed} &= 1,000 - 200 = 800 \\
 \text{shares Amount of right shares subscribed} &= 800 \times 250 = \text{₹ } \\
 &2,00,000
 \end{aligned}$$

$$12. \quad \text{Amount of interim dividend} = (5,000 + 2,000 + 800 - 3,000) \times 10 \times 10\% \\ = \text{` } 4,800$$

Note:

1. It is presumed that no dividend is received on bonus shares as bonus shares are declared on 3.6.20X1 and dividend pertains to the year ended 31.03.20X1 .
2. The amount of dividend for the period, for which shares were not held by the investor, has been treated as capital receipt.

Illustration 10

Mr. Brown has made following transactions during the financial year 20X1-X2:

<i>Date</i>	<i>Particulars</i>
01.05.20X1	<i>Purchased 24,000 12% Bonds of ` 100 each at ` 84 cum-interest. Interest is payable on 30th September and 31st March every year.</i>
15.06.20X1	<i>Purchased 1,50,000 equity shares of ` 10 each in Alpha Limited for ` 25 each through a broker, who charged brokerage @ 2%.</i>
10.07.20X1	<i>Purchased 60,000 equity shares of ` 10 each in Beeta Limited for ` 44 each through a broker, who charged brokerage @2%.</i>
14.10.20X1	<i>Alpha Limited made a bonus issue of two shares for every three shares held.</i>
31.10.20X1	<i>Sold 80,000 shares in Alpha Limited for ` 22 each.</i>
01.01.20X2	<i>Received 15% interim dividend on equity shares of Alpha Limited.</i>
15.01.20X2	<i>Beeta Limited made a right issue of one equity share for every four shares held at ` 5 per share. Mr. Brown exercised his option for 40% of his entitlements and sold the balance rights in the market at ` 2.25 per share.</i>
01.03.20X2	<i>Sold 15,000 12% Bonds at ` 90 ex-interest.</i>
15.03.20X2	<i>Received 18% interim dividend on equity shares of Beeta Limited.</i>

Interest on 12% Bonds was duly received on due dates.

Prepare separate investment account for 12% Bonds, Equity Shares of Alpha Limited and Equity Shares of Beeta Limited in the books of Mr. Brown for the year ended on 31st March, 20X2.

Solution

**In the books of Mr.
Brown
12% Bonds for the
year ended 31st
March, 20X2**

Date	Particulars	No.	Income	Amount	Date	Particulars	No.	Income	Amount
20X1 May, 1	To Bank A/c (W.N.7)	24,000	24,000	19,92,000	20X1 Sept. 30	By Bank- Interest (24,000 x 100 x 12% x 6/12)	-	1,44,000	
20X2 March 1	To P & L A/c (W.N.1)	-	-	1,05,000	20X2 Mar. 1	By Bank A/c (W.N.8)	15,000	75,000	13,50,000
20X2 March 31	To P & L A/c (b.f.)		2,49,000		20X2 Mar. 31	By Bank- Interest (9,000 x 100 x 12% x 6/12) By Balance c/d (W.N.2)	9,000	54,000	7,47,000
		24,000	2,73,000	20,97,000			24,000	2,73,000	20,97,000

Investment in Equity shares of Alpha Ltd. for the year ended 31st March, 20X2

Date	Particulars	No.	Income	Amount	Date	Particulars	No.	Income	Amount
20X1 June 15	To Bank A/c ([1,50,000 x 25] + [2% x (1,50,000 x 25)])	1,50,000	--	38,25,000	20X1 Oct. 31	By Bank A/c	80,000	-	17,60,000
Oct. 14	To Bonus Issue (1,50,000/3)	1,00,000	-	-	20X2 Jan. 1	By Bank A/c -dividend (1,70,000 x		2,55,000	

20X1 Oct. 31	x2) To P & LA/c (W.N.3)			5,36,000	March 31	10 x 15%) By Balance c/d (W.N.4)	1,70,000	-	26,01,000
-----------------	-------------------------------	--	--	----------	-------------	---	----------	---	-----------

20X2 Mar. 31	To P & LA/c		2,55,000						
		2,50,000	2,55,000	43,61,000			2,50,000	2,55,000	43,61,000

Investment in Equity shares of Beta Ltd. for the year ended 31st March, 20X2

Date	Particulars	No.	Income	Amount	Date	Particulars	No.	Income	Amount
20X1 July 10	To Bank A/c [(60,000 x 44) + [2% x (60,000 x 44)]]	60,000	--	26,92,800	20X2 Mar. 15	By Bank – dividend [(60,000 + 6,000) x 10 x 18%]	-	1,18,800	
20X2 Jan. 15	To Bank A/c (W.N. 5)	6,000	-	30,000	March 31	By Balance c/d (bal. fig.)	66,000	-	27,22,800
March 31	To P & LA/c	-	1,18,800	-					
		66,000	1,18,800	27,22,800			66,000	1,18,800	27,22,800

Working Notes:

1. Profit on sale of 12% Bond

Sales price	₹ 13,50,000
Less: Cost of bond sold = $\frac{19,92,000}{15,000} \times 15,000$	(₹ 12,45,000)
	<u>₹ 1,05,000</u>

2. Closing balance as on 31.3.20X2 of 12 % Bond

$$\frac{19,92,000}{15,000} \times 9,000 = ₹ 7,47,000$$

24,000

3. Profit on sale of equity shares of Alpha Ltd.

Sales price	₹ 17,60,000
Less: Cost of bond sold = $\frac{38,25,000}{80,000} \times 80,000$	(₹ 12,24,000)

2,50,000

Profit on sale

5,36,000

4. Closing balance as on 31.3.20X2 of equity shares of Alpha Ltd.

$$\frac{38,25,000}{2,50,000} \times 1,70,000 = \text{` } 26,01,000$$

2,50,000

5. Calculation of right shares subscribed by Beeta Ltd.

$$\text{Right Shares} = \frac{60,000 \text{ shares}}{4} \times 1 = 15,000 \text{ shares}$$

Shares subscribed by Mr. Brown = 15,000 × 40% = 6,000 shares

Value of right shares subscribed = 6,000 shares @ ` 5 per share = ` 30,000

6. Calculation of sale of right entitlement by Beeta Ltd.

No. of right shares sold = 15,000 – 6,000 = 9,000 shares

Sale value of right = 9,000 shares × ` 2.25 per share = ` 20,250

Note: As per para 13 of AS 13, sale proceeds of rights is to be credited to P & L A/c.

7. Purchase of bonds on 01.05.20X1

Interest element in purchase of bonds = 24,000 × 100 × 12% × 1/12 = ` 24,000

Investment element in purchase of bonds = (24,000 × 84) – 24,000 = ` 19,92,000

8. Sale of bonds on 01.03.20X2

Interest element in purchase of bonds = 15,000 × 100 × 12% × 5/12 = ` 75,000

Investment element in purchase of bonds = 15,000 × 90 = ` 13,50,000

Illustration 11

A Limited purchased 5,000 equity shares (nominal value ` 100 each) of Allianz Limited for ` 105 each on 1st April, 20X1. The shares were quoted cum dividend. On 15th May, 20X1, Allianz Limited declared & paid dividend of 2% for year ended 31st March, 20X1. On 30th June, 20X1 Allianz Limited issued bonus shares in ratio of 1:5. On 1st October, 20X1 Allianz Limited issued rights share in the ratio of 1:12 @ 45 per share. A Limited subscribed to half of the rights issue and the balance was sold at ` 5 per right entitlement. The company declared interim dividend of 1% on 30th November, 20X1. Right shares were not entitled to dividend. The company sold 3,000 shares on 31st December, 20X1 at ` 95 per share. The company A Ltd. incurred 2% as brokerage while buying and selling shares.

You are required to prepare Investment Account in books of A Ltd for the year ended 31st March, 20X2.

Solution

In the books of A Ltd.
Investment in equity shares of Allianz Ltd. for
the year ended 31st March, 20X2

Date	Particulars	No.	Dividend	Amount	Date	Particulars	No.	Dividend	Amount
20X1					20X1				
April 1	To Bank A/c (W.N.1)	5,000	-	5,35,500	May 15	By Bank A/c (dividend) (W.N.6)	-	-	10,000
June 30	To Bonus Issue (W.N.2)	1,000	-	-					
Oct. 1	To Bank A/c (W.N.3)	250	-	11,250	Nov. 30	By Bank A/c (Interim dividend) (W.N.7)	-	6,000	-
Dec.31	To P & LA/c (W.N.5)	-	-	21,660	Dec. 31	By Bank A/c (W.N.5)	3,000	-	2,79,300
20X2					20X2				
March 31	To P & LA/c (b.f.)	-	6,000	-	March 31	By Balan ce c/d (W.N.7)	3,250	-	2,79,110
		6,250	6,000	5,68,410			6,250	6,000	5,68,410

Working Notes:

1. Calculation of cost of purchase on 1st April, 20X1

$$105 \times 5,000 \text{ shares} = \text{₹ } 5,25,000$$

$$\text{Add: Brokerage (2\%)} = \text{₹ } 10,500$$

$$\text{₹ } 5,35,500$$

2. Calculation of number of bonus shares issued

$$\text{Bonus Shares} = \frac{5,000}{1} = 5,000$$

3. Calculation of right shares subscribed

$$\text{Right Shares} = \frac{6,000}{12} = 500 \text{ shares}$$

12

$$\text{Shares subscribed} = \frac{500}{2} = 250 \text{ shares}$$

2

Value of right shares subscribed = 250 shares @ ` 45 per share = ` 11,250

4. Calculation of sale of right entitlement

$$250 \text{ shares} \times ` 5 \text{ per share} = ` 1,250$$

(Amount received from sale of rights will be credited to P&L a/c)

5. Calculation of profit on sale of shares

Total holding	=	5,000 shares	original
		1,000 shares	bonus
		<u>250 shares</u>	right shares
		<u>6,250 shares</u>	

3,000 shares were sold on 31.12.20X1

Cost of total holdings of 6,250 shares (on average basis)

$$= ` 5,35,500 + ` 11,250 - ` 10,000 = ` 5,36,750$$

Average cost of 3,000 shares would be

$$= ` 2,57,640$$

$$= \frac{5,36,750}{6,250} \times 3,000$$

Sale proceeds of 3,000 shares (3,000 x ` 95)	2,85,000
Less: 2% Brokerage	<u>(5,700)</u>
	2,79,300
Less: Cost of 3,000 shares	<u>(2,57,640)</u>
Profit on sale	<u>21,660</u>

6. Dividend received on investment held as on 15th May, 20X1

= ` 10,000 (5,000 x ` 100 x 2%) adjusted to Investment A/c

7. Dividend amounting ` 6,000 received on 30.11.20X1 will be credited to P&L A/c

8. Calculation of closing value of shares (on average basis) as on 31st March, 20X2

$$\frac{5,36,750}{6,250} \times 3,250 = ₹ 2,79,110$$

6,250