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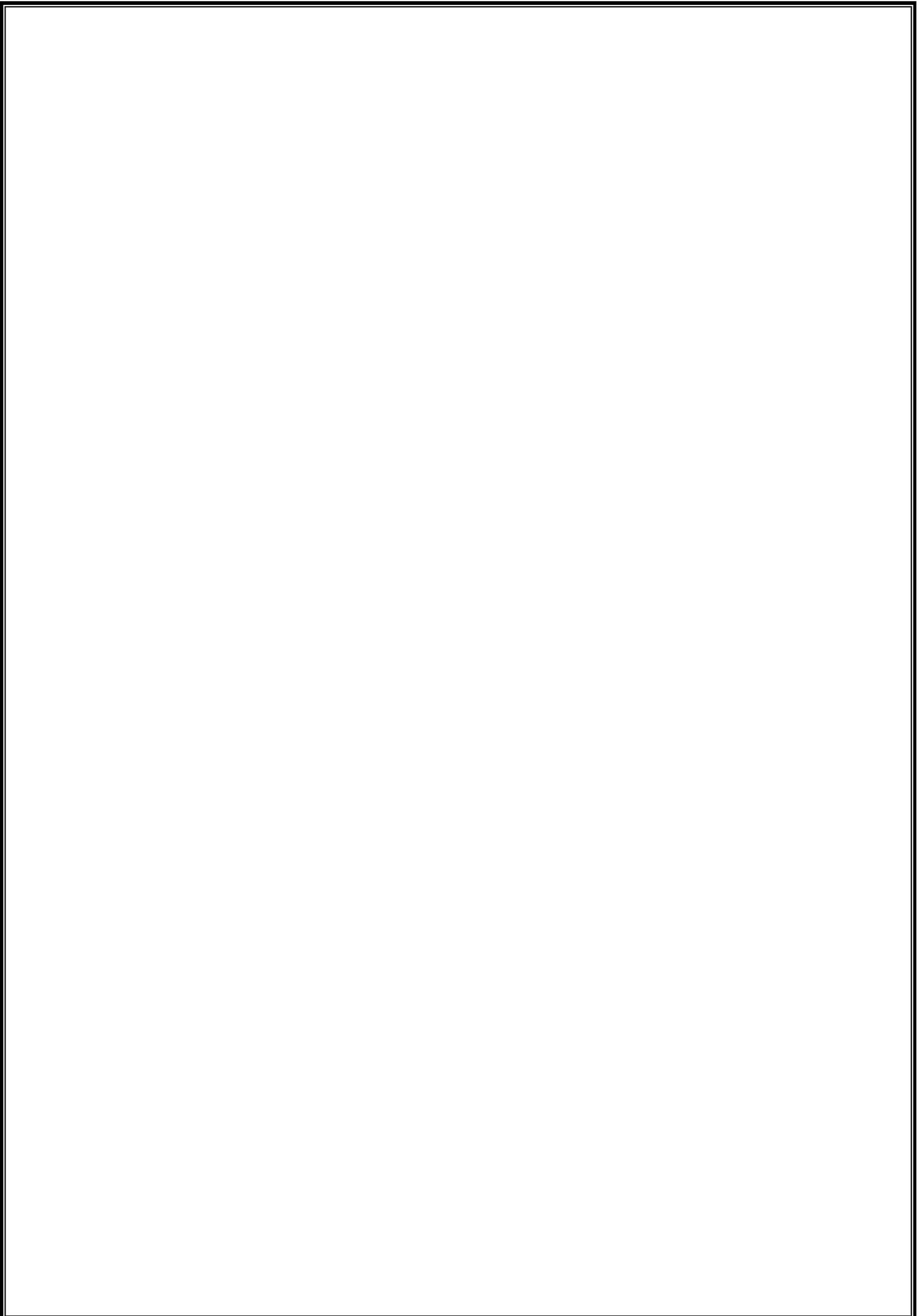
**FINANCIAL ACCOUNTING (A/C-I)**  
**T.Y.B.COM. (SEM.-V)**

**INVESTMENT ACCOUNTING (AS 13)**

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**[Department of Accountancy]**



# 1. INVESTMENT ACCOUNTING (AS-13)

## FIXED INCOME BEARING SECURITIES

(Debentures, Bonds, Government Securities etc.)

### PROB. 1

On 1st April, 2022, **Miss Prachiti** had 1000, 9% Debentures of ₹ 100 each at ₹ 108 (in K. K. Limited) held as investments. K K. Limited pays interest on 30th June and 31st December every year. Prachiti had following transactions during the year: -

1st June, 2022 - Purchased 800, 9% Debentures at ₹ 98 ex-interest.

1st December, 2022 - Sold 900, 9% Debentures at ₹ 105 ex-interest.

Prepare Investments in 9% Debentures Account for the year ending 31st March, 2023. (AS-13)

### PROB. 2

On 1st April, 2022; 2,000 6% Debentures of ₹ 100 each of **Sigma Ltd.** were held as investment by Mr. Ajay at a cost of ₹1,82,000. Interest is payable on 31st March every year.

On 1st July, 2022; ₹ 40,000 of such debentures were purchased by Ajay @ ₹ 98 cum-interest.

On 1st December, 2022; ₹ 60,000 of such debentures were sold at ₹ 96 ex-interest.

On 1st March, 2022; ₹ 80,000 of such debentures were sold at ₹ 99 cum-interest.

Prepare Investment Account for 6% debentures of Sigma Ltd. in the books of Mr. Ajay for the year ending 31st March, 2023. (AS-13)

### PROB. 3

**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 areas under:

Date	No. of Debentures	Terms
01-04-2022	800	Opening Balance at a cost of ₹ 76,000
01-06-2022	300	Sold at ₹ 105 each cum – interest
01-09-2022	700	Purchased at ₹ 98 each Ex – Interest
01-12-2022	400	Purchased at ₹ 108 each Cum – Interest
01-02-2023	900	Sold at ₹ 97 each Ex - Interest

Prepare Investment Account of 12 % Debentures in the books of **Miss. Bhagawati** for the year ended 31st March, 2023. The market value on 31st March, 2023 was ₹ 67,500 of the said investment. Apply AS -13.

### PROB. 4

**Mr. Mandar** holds as on 1st, April 2022 ₹ 75,000 (Cost price ₹ 78,000) 6% Government Securities as investment on which interest is payable half yearly on 30th June and 31st December every year. The following transactions took place during the accounting year ended 31st March, 2023.

**Purchases:** (I) On 1-5-2022 Face Value ₹ 30,000 @ 98 Cum-Interest.

(II) On 1-11-2022 Face Value ₹ 45,000 @ 101 Ex-Interest.

**Sales:** (I) On 1-8-2022 Face Value ₹ 36,000 @ 97 Cum-Interest.

(II) On 1-2-2023 Face Value ₹ 24,000 @ 102 Ex-Interest. Market price of investment at 1% discount on 31st March, 2023.

Write up Investment Account closing it on 31st March, 2023 in the books of **Mr. Mandar** Investments are to be valued at cost or at Market Value whichever is less. (Apply AS 13)

**PROB. 5**

On 1-5-2022, **M/s. File Investment service** purchased 9% Debentures of ₹ 100 each of M/s. Alpha Oil Limited having Face Value of ₹ 16,000 @ 95% (Cum-Interest). On 1-7-2022 they sold debentures having face value of ₹ 6,000 @ 92% (ex-interest). On 1-11-2022 they again sold debentures having face value of ₹ 4,000 @ 101% (cum-interest). Brokerage is paid @ ¼ % on purchase and sale of investment. The interest on debentures is payable on September 30 and March 31 every year but received on 15th October and 15th April (next month). On 31-03-2023 the Debentures on hand was valued @ Market Price of 104%. Prepare 9% Debentures Account in the books of M/s. File Investment Service for the period ended 31-3-2023.

**PROB. 6**

**M/s. Amol Investment Co. Ltd.** submit the following details regarding one of their investments for the year 2008.

Opening Balance on 1.4.2022: Face Value ₹ 80,000. Cost price ₹ 82,400.

**Purchases :**

- i) 1.08.2022                      Face Value ₹ 40,000. Cum interest at 3% discount.
- ii) 1.02.2023                     Face Value ₹ 36,000. Ex-Interest at 2% discount.

**Sales :**

- i) 1.11.2008                      Face value ₹ 42,000. Ex-Interest at 2% premium.
- ii) 1.03.2008                     Face Value ₹ 30,000. Cum-Interest at 3% premium.

Brokerage is paid 25 paise on ₹ 100 on buying and selling of investments. Market Price of investments at 3% premium on 31st March, 2023.

Investments carry at 5% p.a. payable on every 1st April and 1st October. Prepare Investment Account closing it on 31st March, 2023.

**PROB. 7**

On 15th March, 2003 **Mr. Bipin** purchased ₹ 1,00,000 – 9% Government Stock (interest payable on 1st April, 1st July, 1st October, 1st January) at ₹ 88.50 cum interest (face value ₹ 100 each.)

On 1st August - ₹ 20,000 stock is sold at ₹ 89 cum-interest and on 1st September ₹ 30,000 stock is sold at ₹ 89.25 ex-interest. On 31st December, the date of the Balance Sheet, The market price was ₹ 90. Show the Ledger A/c of the investment of the year ignoring income tax, brokerage etc.

**PROB. 8**

On 1st April, 2022, **Mr. Pranav** held 1000, 9% Debentures in Gama Limited of ₹ 100 each at a cost of ₹ 98,000. Interest is payable on 30th June and 31st December every year.

On 1st May, 2022, he purchased 9% debentures of Gama Ltd. of face value of ₹ 20,000 at ₹ 103, ex-interest. On 1st June, 2022 he sold 9% Debentures of Gama Ltd. of face value of ₹ 30,000 at ₹ 104 cum-interest. On 30th September, 2022 he purchased 9% debentures Gama Ltd. of Face value of ₹ 60,000 at ₹ 110 cum-interest. On 1st March, 2023 he sold 9% Debentures of Gama Ltd. of face value of ₹ 25,000 at ₹ 110 ex-interest.

Prepare 9% Debentures Account in the books of Mr. Pranav for the year ending 31st March, 2023 as per AS-13. Market value of 9% Debentures as on 31-03-2023 was ₹ 105 per debenture.

**PROB.9**

On 1/4/2022 **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 1/9/2022 Mrs. Minal sold ₹ 90,000 of 12% Debentures at ₹ 95 cum-interest.

These 12% Debentures were quoted at ₹ 96 per debenture at the stock of exchange on 31/3/2023. Draw up 12% Debentures account in the books of Mrs. Minal for the year ended 31/3/2023.

**PROB.10**

**Mr. Rohit** held on 1-4-2022, ₹ 9,00,000 of 10% debentures of ₹ 100 each at ₹ 8,00,000; in Ankit Ltd. On 1-8-2022 he purchased a further of ₹ 6,00,000 of the 10% debentures of Ankit Ltd. at ₹ 95 ex-interest. On 31-8-2022, ₹ 3,00,000 of the 10% debentures of Ankit Ltd. was sold at ₹ 98 ex-interest. On 1-12-2022, ₹ 3,60,000 of the 10% debentures of Ankit Ltd. was purchased at par cum-interest. On 1-2-2023, ₹ 2,70,000 of the 10% debentures of Ankit Ltd. was sold at ₹ 99 cum-interest. Interest on debentures was paid each year on 30th June & 31st December. Rohit closes his books on 31st March every year. The market value of 10% debentures as on 31-3-2023 was ₹ 130 each. Draw up 10% Debenture Investment Account in the books of Rohit.



## VARIABLE INCOME BEARING SECURITIES (Equity Shares.)

**PROB. 11**

On 1-4-2022 **Mr. Ajay** had 30,000 equity shares in Vipro Ltd. face value of the share was ₹ 10 each but his purchase price was ₹ 14 per share. On 1-7-2022, Ajay purchased 6,000 additional equity shares of the same company for a price of ₹ 16 per share. On 31-7-2007 the directors of the company announced a bonus and rights issue. Bonus was declared at the rate of one equity share for every six shares held.

Bonus shares were received on 5-8-2022. Right issue was as per the following terms:

- (a) Right shares to be issued to the existing holders on 17/08/2022.
- (b) Rights offered were at the rate of one share for every three shares held at ₹ 15 per share. Full amount was payable by 30/09/2022.
- (c) Existing shareholders may to the extent of their entitlement, either wholly or in part, transfer their rights to outsiders.
- (d) Ajay exercised his option and subscribed for 60% of his entitlement and the balance of rights, he sold to Vikas for a consideration of ₹ 1.50 per share.
- (e) Dividend for the year ended 31/03/2022 at the rate of 14% was declared by the company and received by Ajay on 22/10/2022.
- (f) On 01/11/2022 he sold 25,000 shares at ₹ 15 per share.

Prepare investment account of equity shares in Vipro Ltd. for the year ended 31/03/2023 in the books of Mr. Ajay. Apply AS - 13. The market price of an equity share was ₹ 14 as on 31/03/2023.

**PROB. 12**

On 1-4-2022 **Mr. Abhishek** had 10,000 equity shares (of ₹ 10 each) in Raj Entertainment Ltd. at the cost of ₹ 1,60,000. On 1-7-2022 he acquired 4,000 more shares in the same Company for ₹ 80,000. On 31-7-2022 he further acquired 6,000 more shares at ₹ 22 per Share.

On 10-8-2022 Rai Entertainment Ltd. announced bonus shares to the then equity shareholders in the ratio of 1 bonus share for every 4 shares held as on 5-8-2006. Abhishek received the bonus shares on 22-8-2022. The directors of Rai Entertainment Ltd. issued right shares to the equity shareholders on the following terms:

- (a) Right shares to be issued to the existing shareholders as on 31-8-2022
- (b) Right offered was at the rate of ₹ 15 per share in the ratio 1 share for every 5 shares held. Full amount was payable on or before 15-10-2022.
- (c) Shareholders would be entitled to renounce their entitlement either wholly or in part to the outsiders.
- (d) Abhishek exercised his right of option under the issue for 3,000 shares and sold the balance to Mr. Raj @ ₹ 4 per share. On 20-10-2022 Rai Entertainment Ltd. declared the dividend @ ₹ 4 per share for the year ending 31-3-2022, Abhishek received the dividend on 31-10-2022.
- (e) On 10-1-2023 Abhishek sold 7,000 shares @ ₹ 40 per share.

Prepare investments A/c. in the books of Mr. Abhishek for the year ended 31-3-2023.

**PROB. 13**

**Mr. Arvind** entered into following transactions of purchase and sale of Equity Shares of Aspi Ltd. The shares have paid up value of ₹ 10 per share.

Date	No. of Shares	Terms
01-01-2022	600	Buy @ ₹ 20 per share
15-03-2022	900	Buy @ ₹ 25 per share
20-05-2022	1,000	Buy @ ₹ 23 per share
25-07-2022	2,500	Bonus shares received
20-12-2022	1,500	Sale @ ₹ 22 per share
01-02-2023	1,000	Sale @ ₹ 24 per share

**Additional information:**

- (1) On 15th September 2022, dividend @ ₹ 3 per share was received for the year ended 31st March

2022.

- (2) On 12th November 2022, the company made a rights issue of equity shares in the ratio of one share for five shares held on payment of ₹ 20 per share. He subscribed to 60% of the shares and renounced the remaining shares on receipt of premium of ₹ 3 per share.
- (3) Shares are to be valued on weighted average cost basis.

You are required to prepare Investment Account for the years ended 31-3-2022 and 31-3-2023.



## THEORY QUESTIONS

**Q.1. Distinguish between EX-interest and Cum-interest transactions in investments. OR**

**Write a short note on - Ex-interest and Cum-interest Price**

Ans:-

Sr. No.	EX-interest	Cum-interest
1.	It means the interest will not included in the price quoted.	It means the interest included in the pricequoted.
2.	Ex –interest Price on purchases isequal to the cost of investment.	Cum-interest price on purchase is equal to the total payments by the purchaser
3.	<b>Formula :-</b> Cost of investment = Ex- interest price	<b>Formula :-</b> Cost of investment = Cum-interest price lessAccrued interest.
4.	Accrued Interest belongs to theseller.	Accrued Interest belongs to the buyer.

**Q.2. What are the recommendations of Accounting Standard 13 regarding “Carrying Amount of Investment”?**

Ans:- “Carrying Amount” as explained in Accounting Standard 13 means the amount at which the investment is valued at the year end and shown in the balance sheet.

**1. Current Investments: -**

The carrying amount of investment is the lower of cost and market value. At the year end, cost of each investment on hand is ascertained on Average Cost Basis. This cost is compared with market value. If market value of investment held as current assets is less than cost, loss on valuation is debited to Profit and Loss A/c.

**2. Long-term Investment: -**

Long –term investments are usually carried at cost at the year-end as per AS – 13.

**3. The carrying amount of investments sold, should be ascertained either on :**

- a. F.I.F.O. basis or
- b. Weighted Average basis or
- c. Specific item basis, if the data is available.

However, AS-13 prescribes Weighted Average method.

Profit or loss on sale of Investment is to be calculated by Weighted Average method (AS-13).

**Q.3. Explain Pre-acquisition and Post-acquisition Dividend in Personal Investment Accounting.**

Ans:- The word "dividend" comes from the Latin word "dividendum" ("thing to be divided"). A dividend is a payment made by a corporation to its shareholders, usually as a distribution of profits. The dividend is, Therefore, Uncertain. Investments purchased are always cum-dividend. There are two types of dividend:- Pre-acquisition dividend and Post-acquisition dividend.

❖ **Pre-acquisition dividend:-**

1. Pre-acquisition dividend means dividend relating to the period before acquisition.
2. Pre-acquisition dividend is treated as capital receipts and credited to Investment Account.

**For Example:-**

If XYZ Ltd. Pays a dividend on 30-9-2013 for the year ended on 31-3-2013, dividend on share held as on 31-3-2013 will be treated as Revenue receipt; and on shares acquired between 01-04- 2013 and 30-09-2013 will be treated as Capital receipt (Pre-acquisition dividend).

❖ **Post-acquisition dividend:-**

1. Post-acquisition dividend means dividend relating to the period after acquisition. Post-acquisition period dividend is a revenue receipt and credited

**Q.4. Write a short note on – Shares Investment Account.****Ans:- 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.).
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.).
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).

**Q.5. Explain in brief accounting treatment of Sale of Rights. OR****Accounting treatment of Bonus Shares.****Ans:-**❖ **Accounting treatment of sale of rights:-**

1. These are the shares which are issued to the existing shareholders as a matter of right.
2. When the rights are sold (without subscribing)
  - a) No entry is made in the Investments Account.
  - b) Sale proceeds are credited to the Profit & Loss A/c (As recommended by AS 13)

❖ **Accounting treatment of Bonus Shares:-**

1. A bonus share is a free share given to current shareholders in a company, based upon the number of shares that the shareholder already owns.
2. It is conversion of reserves into share capital.
3. When bonus share are received:-
  - a) The nominal value (NV) of such shares is entered in NV Column (Dr.)
  - b) No amount is entered in the cost column (Dr.)