

## TOPPERS INSTITUTE KANPUR ACCOUNTING FOR INVESTMENTS

### ILLUSTRATION 1

From the following information, calculate the profit or loss on sale of debentures and the value of closing balance of debentures if method of valuation is (a) FIFO (b) LIFO and (c) Weighted Average:

1.4.2018	Balance: 100, 12% Debentures of Rs. 100 each @ Rs. 95
5.4.2018	Purchased: 150, 12% Debentures of Rs. 100 each @ Rs. 90 Ex.
6.4.2018 V	Sold: 200, 12% Debentures of Rs. 100 each @ Rs. 93 Ex.

### ILLUSTRATION 2

Mr. Investor furnishes the following details relating to his holding in 16% Debentures (Rs. 100 each) of Y Ltd. held as current assets:

01.01.2018	Opening Balance—Face Value Rs. 60,000, Cost t 59,000.
01.03.2018	100 Debentures purchased ex-interest at X 98.
01.07.2018	Sold 200 Debentures ex-interest at Rs. 100.
01.10.2018	Purchased 50 Debentures at Rs. 98 cum-interest.
01.11.2018	Sold 200 Debentures ex-interest at Rs. 99.

Interest dates are 30th September and 31st March. Mr. Investor closes his books every 31st December. Brokerage @ 1% is to be paid for each transaction.

Required: Show the Investment Account as it would appear in his books. FIFO Method is to be assumed. Market Value of a 16% Debentures of Y Ltd on 31.12.2018 Rs. 99.

### ILLUSTRATION 3

Madhuri Dixit purchased on 1st March, 2018 Rs. 24,000 5% Bharat Debenture Stock @ 90 cum-interest, interest being payable on 31st March and 30th September each year. Stamp and expenses on purchase amounted to Rs. 20 and brokerage @ 2% was charged on cost; interest for the half-year was received on the due date. On 1st September Rs. 10,000 of the stock was sold @ 92 ex-interest less brokerage @ 2%. On 30th September, Rs. 8,000 stock was purchased @ 91 ex-interest plus brokerage @ 2% and charges Rs. 10. On 1st December, Rs. 6,000 stock was sold @ 94 cum interest less brokerage @ 2%. The market price of stock on 31st December was 88.5%. Show the Investment Account for the year ending on 31st December, 2018 assuming FIFO Method. Calculation should be made in the multiple of rupee. Madhuri Dixit holds the Bharat Debenture Stock as a current asset.

### ILLUSTRATION 4

X Ltd. purchased on 1 st May, 2018, 13.5% Convertible Debentures in Y Ltd. of face value of Rs. 5,00,000 @ 105 ex, Interest on the Debentures is payable each year on 31st March and 30th September. The accounting year is the calendar year. The following other transactions were entered into during 2018.

Aug. 1	Purchased Rs. , 2,50,000 Debentures @ 107 cum interest.
Oct. 1	Sale of Rs. 2,00,000 Debentures @ 103.
Dec. 31	Receipt of 10,000 Equity Shares in Y Ltd. of Rs. 10 each in conversion of 20% of the Debentures held, alongwith interest on Debentures converted.

The market price of a Debenture and an Equity shares in Y Ltd. at the end of 2018 was Rs. 106 and Rs. 15 respectively.

**Required:** Prepare the Debentures Investment Account in the books of X Ltd. on Average cost basis. (X Ltd. held the Debentures as current asset)

#### ILLUSTRATION 5

Bonanza Limited held on 1st April, 2017, Rs. 2,00,000 of 9% Government Loan (20X9) at Rs. 1,90,000., (Face Value of Loan Rs. 100 each): Three month's interest had accrued on the above data. On 31st May, the company purchased the same Government Loan of the face value of Rs. 80,000 at Rs. 95 (net) cum-interest. On 1st June, Rs. 60,000 face value of the loan was sold at Rs. 94 (net) ex-interest. Interest on the loan was paid each year on 30th June and 31st December and was credited by the bank on

the same date. On 30th November, Rs. 40,000 face value of the Loan was sold at Rs. 97 (net) cum-interest. On 1st December, the company purchased the same loan Rs. 10,000 at par ex-interest. On 1st March, the company sold Rs. 10,000 face value of the loan at Rs. 95 ex-interest. The market price of the loan on 31st March, 2018 was Rs. 96.

Required: Draw up the 9% Government Loan (20X9) Account in the books of Bonanza Limited. First in first out method shall be followed and the balance of the loan held by the company shall be valued at cost or market price whichever is lower. Calculation shall be made to the nearest rupee or multiple thereof.

#### ILLUSTRATION 5

Bonanza Limited held on 1st April, 2017, Rs. 2,00,000 of 9% Government Loan (20X9) at Rs. 1,90,000., (Face Value of Loan Rs. 100 each): Three month's interest had accrued on the above data.

On 31st May, the company purchased the same Government Loan of the face value of Rs. 80,000 at Rs. 95 (net) cum-interest. On 1st June, Rs. 60,000 face value of the loan was sold at Rs. 94 (net) ex-interest. Interest on the loan was paid each year on 30th June and 31st December and was credited by the bank on

the same date. On 30th November, Rs. 40,000 face value of the Loan was sold at Rs. 97 (net) cum-

interest. On 1st December, the company purchased the same loan Rs. 10,000 at par ex-interest. On 1st March, the company sold Rs. 10,000 face value of the loan at Rs. 95 ex-interest. The market price of the loan on 31st March, 2018 was Rs. 96.

Required: Draw up the 9% Government Loan (20X9) Account in the books of Bonanza Limited. First in first out method shall be followed and the balance of the loan held by the company shall be valued at cost or market price whichever is lower. Calculation shall be made to the nearest rupee or multiple thereof.

#### **ILLUSTRATION 7**

On 1st Jan. 2018, Singh had 20,000 equity shares in X Ltd. as current assets. Face value of the shares was Rs. 10 each but their book value was Rs. 16 per share. On 1st June 2018, Singh purchased 5,000 more equity shares in the company at a premium of Rs. 4 per share.

On 30th June, 2018, 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, 2018. The terms of the rights issue were:

- (a) Rights shares to be issued to the existing holders on 10th August, 2018. [Record Date 2.6.2018]
- (b) Rights issue would entitle the holders to subscribe for additional equity shares in the Company at the rate of one share per every three held at Rs. 15 per share—the whole sum being payable by 30th September, 2018.
- (c) Existing shareholders may, to the extent of their entitlement, either wholly in or part, transfer their rights to outsiders.
- (d) 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 Rs. 1.50 per share.
- (e) Dividends for the year ending on 31st March, 2018, at the rate of 15% were declared by the Company and received by Singh on 20th October, 2018. [Record Date 2.6.2018]
- (f) On 1st November, 2018, Singh sold 20,000 equity shares at a premium of Rs. 3 per share.

Required: Show the Investment Account as it would appear in Singh's books as on 31.12.2018 and the value of shares held on that date. (Market Price on 31.12. 2018 Rs. 13). Share are valued at average cost.