STUDENT NOTES

Securities

- **Equity Shares** → Variable Income bearing securities.
- **Debentures / Bonds** → Fixed Income bearing securities

Fixed Income Bearing Securities

CONEPT 1: Interest

-- Purchase of Debentures: Compulsory Interest Payment : For the period accrued

-- Sale of Debentures : Compulsory receipt of Interest: For the period accrued

CONCEPT 2: Cum-Interest / Ex Interest

-- Cum Interest : The Cost / Selling price quoted for debentures is inclusive of interest.

-- Ex- Interest : The Cost / Selling price quoted for debentures is inclusive of interest.

Example: Mr. X invested in RIL Debentures.
10% Interest is paid on the Debentures semi annually.

6m

1-4-21	31-5-21	30-9-21	31-12-21	31-3-22
2m	Purchase	Interest	Sold	Interest

Purchase ↓
10000 Debentures
@ 101/Deb
(Cost + Interest)
CUM-INT = INLCUSIVE

Sold ↓
10000 Debentures
@103/Deb
(Cost+ Interest)
CUM – INT = INCLUSIVE

CONCEPT 3: Calculation of Cost of Debenture: Cum-Interest Purchase

1. Cum Interest Price	=10000*101	=10,10,000
2. Less: Interest		=(16,667)
3. Ex-Interest Price : Cost		=993,333

STUDENT NOTES

Journal Entry: Purchase : Cum-Interest

Debenture (Ex) Dr.	(10,000*cost)	9,93,333
Interest on Debenture Dr.	(10,000*100*10%*2/12)	16,667
To Bank	(10000*101)	10,10,000

If, however the Purchase was made Ex- Interest;

Journal Entry: Purchase :Ex-Interest

Debenture (Ex) Dr.	**(10,000*101)**	**10,10,000**
Interest on Debenture Dr.	**(10,000*100*10%*2/12)**	**16,667**
To Bank		**10,26,667**

CONCEPT 4: Profit/Loss on sale of Debentures

Cum-Interest Sale

1. Cum Interest Selling Price	=10000*103	=1030,000
2. Less: Interest	=10000*100*10%* 3/12	=(25,000)
3. Ex-Interest Selling Price		=1005,000
4. Less: Ex-Interest cost of debentures		=993,333
5. Profit on Sale of Debentures		=11,667

Note:- Cum-interest or Ex-Interest has no connection with the fact that interest will be or will not be paid. If Debentures are purchased, interest will compulsorily be paid and if debenture are sold, interest will compulsorily be received.

Journal Entry: Sale : Cum Interest

Bank Dr.	1030,000
To Interest on Debenture	25,000
To Debentures	993,333
To P&L	11,667

STUDENT NOTES

If supposed however the selling price is ex-interest;

1. Ex Interest Selling Price	=10000*103	=1030,000
2. Less: Ex-Interest Cost		=993,333
3. Profit on sale of debentures		=36,667

Journal Entry: Sale : Ex-Interest

Bank Dr.	1030,000 + 25,000
To Debentures	993,333
To P&L	36,667
To Interest on Debenture	25,000

STUDENT NOTES

CONCEPT 5: Investment held as Current Assets:- Value at cost of Market Price w.e.lower

Debentures : Closing Balance : 500 Deb @101 : Cost = 50,500
MP =102 MP = 51000
} Cost = 50,500

No effect needed in Investment a/c,
Because debenture are already valued at cost.

Debentures : Closing Balance : 500 Deb @101 : Cost = 50,500
MP =100 MP = 50000
} MP = 50,000

Investment : Closing Bal = 50,000
P&L a/c Dr. 500
To, Investment Cr. 500
(Loss = 500)

CONCEPT 6: BROKERAGE

- ***It always charged on transaction value and not on face value of debentures.***
- ***Transaction value is always considered to be ex-interest amount.***

- ***Cost of Debentures***

1. Cum Interest Price	10000*103	=1030,000
2. Less: Interest	10000*100*10%*2/12	=(16,667)
3. Ex-Interest Price : Cost		=1013,333
4. add: Brokerage	10,13,333*2%	=20,267
Cost of debenture		=1033,600

STUDENT NOTES

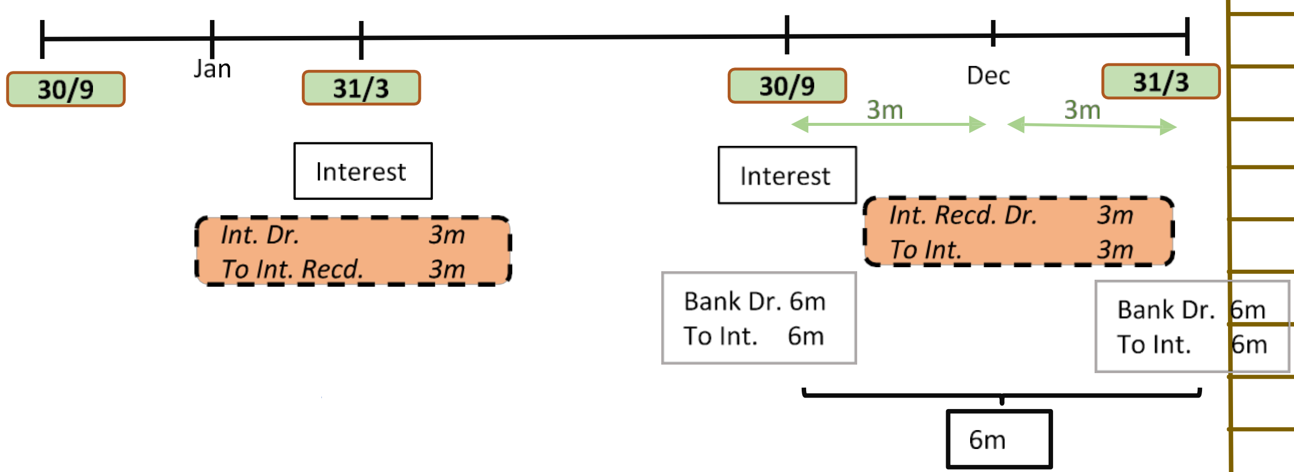
➢ Selling price of debentures

1. Cum Interest selling price	10000*103	=1030,000
2. Less: Interest	10000*100*10%*2/12	=(16,667)
3. Ex-Interest selling price		=1013,333
4. less: Brokerage	10,13,333*2%	=(20,267)
Net selling price		=993,067

CONCEPT 7: Calculation of Cost of Debentures/ Bonds:

As per AS-13: Accounting for Investments, when debentures or Bonds are sold, the cost of the debentures sold should be calculated using weighted average basis and not using FIFO basis.
FIFO basis should be used only when expressly mentioned in the question.

CONCEPT 8: When the date of interest payment and date of financial year closing are different



Financial year closing:- Interest Recd /Accrued Dr. 3m
To Interest on Debentures 3m
→ Current FY figures

Financial year opening:- Interest on Debentures Dr. 3m
To Interest Receivable/Accrued 3m
→ Previous FY figures

STUDENT NOTES

VARIABLE INCOME BEARING SECURITIES

CONCEPT 1: COST	
Purchase :	Quoted price
Add:- Brokerage :	Transaction value
Total Cost	
CONCEPT 2: ***Profit/Loss on Sale***	
Selling price	
Less: Brokerage :	Transaction value
Net Selling Price	
Less: Cost	

Weighted Average(Default)
(Total amount/Total ES)

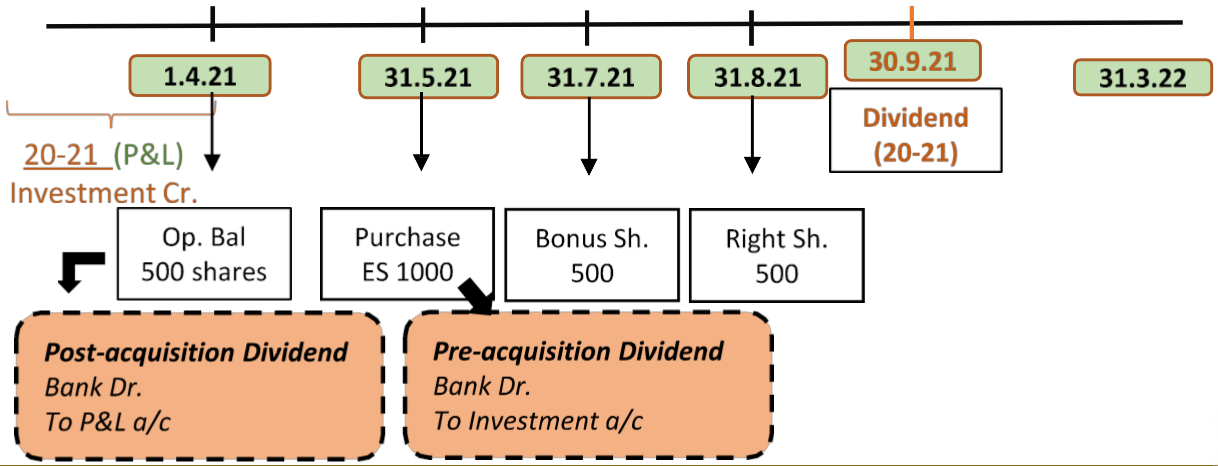
FIFO
Only if mentioned in the question.

CONCEPT 3: Treatment of Dividend

Example:
Opening Balance of Shares: 500 Shares.
Purchased = 1000 shares on 31.5.21
Dividend received on 30.9.21 for the FY20-21.
Bonus Issue= 500 shares on 31.7.21
Right Issue= 500 shares on 31.8.21

Solution:
Here 2 questions need to be answered:

1. ***Shares on which dividend will be received(think from the point of view of the company paying the dividend.***
2. ***Treatment of such dividend.(think from the Investors point of view.***



STUDENT NOTES

1. Company will pay dividend for the year 20-21 on the capital of the year 20-21. The Opening Balance of shares with the investor and the shares purchased by the investor are a part of the share capital of the year 20-21, hence dividend will be paid on them by the company.

No dividend will be paid by the company on Right Shares & Bonus Shares as these shares were not part of the share capital for the FY 20-21.

2. The dividend received by the investor on the 1000 shares shares held as Opening balance will be treated as Post Acquisition Dividend because these shares were held by the Investor even in 20-21 and dividend is paid for the same year.

The 500 shares purchased by the investor on 31.5.21 were acquired by him in the year 21-22 and the dividend on the same was received for the year 20-21. Hence this dividend is treated as Pre-Acquisition Dividend.

<u>Note</u>: To determine whether dividend is pre-acquisition or post acquisition, the investor will focus on the period for which dividend is declared and not the date on which the dividend is declared.

Student Notes

Question 1 **Category:-**

In 2011, 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, 2012, 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, 2013 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, 2012 to 1st March, 2013.

Question 2 **Category:-**

The following information is presented by Mr. Z, relating to his holding in 9% Central Government Bonds.

Opening balance (face value) ₹ 1,20,000, Cost ₹ 1,18,000 (Face value of each unit is ₹ 100).

1.3.2008	*Purchased 200 units, ex-interest at ₹ 98.*
1.7.2008	*Sold 500 units, ex-interest out of original holding at ₹ 100.*
1.10.2008	*Purchased 150 units at ₹ 98, cum interest.*
1.11.2008	*Sold 300 units, ex-interest at ₹ 99 out of original holdings.*

- ***Interest dates are 30th September and 31st March.***
- ***Mr. Z closes his books every 31st December.***

Show the investment account as it would appear in his books. Mr. Z follows FIFO method.

Question 3 **Category:-**

Mr. Purohit furnishes the following details relating to his holding in 8% Debentures (₹ 100 each) of P Ltd., held as Current assets:

1/4/2014	Opening balance 4,000 debentures costing ₹ 98 each
1/6/2014	Purchased 2,000 debentures @ ₹ 120 cum interest
1/9/2014	Sold 3,000 debentures @ ₹ 110 cum interest
1/12/2014	Sold 2,000 debentures @ ₹ 105 ex interest
31-1-2015	Purchased 3,000 debentures @ ₹ 100 ex interest
31-3-2015	Market value of the investments ₹ 105 each

Interest due dates are 30th June and 31st December.
Mr. Chatur closes his books on 31-3-2015.
He incurred 2% brokerage for all his transactions. Show investment account in the books of Mr. Chatur assuming FIFO method is followed.

Student Notes

Question 5 **Category:-**

Hindukush purchased on 1st March, 5% Debentures in Kabini Ltd of a Face Value of ₹ 2,40,000 at ₹ 90 cum-interest.
Hindukush operates the calendar year for accounting purposes while Kabini Ltd has the financial year for its accounting and pays interest on 31st March and 30th September every year.
Stamp and Expenses on Purchase were ₹ 200. Brokerage was 2% on cost. Further transactions during the year were -

1st September	₹ 1,00,000 Debentures were sold at ₹ 92 ex-interest, less Brokerage at 2%.
30th September	₹ 80,000 Debentures were purchased at ₹ 91 ex-interest, Brokerage 2%, Expenses ₹ 100
1st December	₹ 60,000 Debentures were sold at ₹ 94 cum-interest, less Brokerage at 2%

Market Value of the Debentures at the end of the calendar year was ₹ 91.

Prepare the Investment Account, using Average Cost Method of Valuation for recognizing Profit / (Loss) on Sale of Investments

Question 6 **Category:-**

On 1st April 2017, Easwar had 25,000 Equity Shares of Milky Ocean Ltd, at a Book Value of ₹ 15 per Share (Face Value ₹ 10). On 20th June 2017, he purchased another 5,000 Shares of the Company at ₹ 16 per Share.

The Directors of Milky Ocean Ltd announced a Bonus and Rights Issue. No Dividend was payable on their issues. The terms of the issue are as follows:

Bonus Basis 1: 6 (Date: 16th August 2017)

Rights Basis 3:7 (Date: 31s* August 2017) Price ₹ 15 per Share. Due date for payment 30th September 2017.

Shareholders can transfer their rights in full or in part. Accordingly, Easwar sold 1/3rd of his entitlement to Madhav for a consideration of ₹ 2 per Share.

Dividends: Dividends for the year ended 31st March 2017 at the rate of 20% were declared by Milky Ocean Ltd and received by Easwar on 31st October 2017.

Dividends for Shares acquired by him on 20th June 2017 are to be adjusted against cost of purchase. On 15th November 2017, Easwar sold 25,000 Equity Shares at a Premium of ₹ 5 per Share.

Prepare - (1) Investment Account, and (2) Profit & Loss Account in the books of Easwar. Assume that the books are closed on 31st December 2017, and Shares are valued at Average Cost.

Student Notes

Question 7 **Category:-**

On 1st April, 2009, XY Ltd. has 15,000 equity shares of ABC Ltd. at a book value of ₹ 15 per share (face value ₹ 10 per share).

- On 1st June, 2009, XY Ltd. acquired 5,000 equity shares of ABC Ltd. for ₹ 1,00,000. ABC Ltd. announced a bonus and right issue.
- Bonus was declared, at the rate of one equity share for every five shares held, on 1 st July 2009.
- Right shares are to be issued to the existing shareholders on 1 st September 2009. The company will issue one right share for every 6 shares at 20% premium. No dividend was payable on these shares.
- Dividend for the year ended 31.3.2009 were declared by ABC Ltd. @ 20%, which was received by XY Ltd. on 31st October 2009.

XY Ltd.

(i) Took up half the right issue.

(ii) Sold the remaining rights for ₹ 8 per share.

(iii) Sold half of its shareholdings on 1st January 2010 at ₹ 16.50 per share. Brokerage being 1%.

You are required to prepare Investment account of XY Ltd. for the year ended 31 st March 2010 assuming the shares are being valued at average cost.

Question 8 **Category:-**

On 1st April, 2011, Rajat has 50,000 equity shares of P Ltd. at a book value of ₹ 15 per share (face value ₹ 10 each). He provides you the further information:

(1) On 20th June, 2011 he purchased another 10,000 shares of P Ltd. at ₹ 16 per share.

(2) On 1stAugust, 2011, P Ltd. issued one equity bonus share for every six shares held by the shareholders.

(3) On 31st October, 2011, the directors of P Ltd. announced a right issue which entitle s 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, 2011.

You are required to prepare Investment A/c in the books of Rajat for the year ending 31st March, 2012.

Question 9 **Category:-**

On 01-04-2011, 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 paisa per ₹ 100 as cost of shares transfer stamps.
- On 31-01-2012 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.

Student Notes

- On 31-03-2012, 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.

Question 10 **Category:-**

A Limited purchased 5,000 equity shares (face value ₹ 100 each) of Allianz Limited for ₹ 105 each on 1st April, 2014. The shares were quoted cum dividend.

- On 15th May, 2014, Allianz Limited declared & paid dividend of 2% for year ended 31 st March, 2014.
- On 30th June, 2014 Allianz Limited issued bonus shares in ratio of 1:5. On 1st October, 2014 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, 2014.
- Right shares were not entitled to dividend.
- The company sold 3,000 shares on 31st December, 2014 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.

Question 11 **Category:-**

Mr. Brown has made following transactions during the financial year 2011-12

01.05.2011	Purchased 24,000 12% Bonds of ₹ 100 each at ₹ 84 cum-interest. Interest is payable on 30th September and 31st March every year.
15.06.2011	Purchased 1,50,000 equity shares of ₹ 10 each in Alpha Limited for ₹ 25 each through a broker, who charged brokerage @ 2%.
10.07.2011	Purchased 60,000 equity shares of ₹ 10 each in Beta Limited for ₹ 44 each through a broker, who charged brokerage @2%.
14.10.2011	Alpha Limited made a bonus issue of two shares for every three shares held.
31.10.2011	Sold 80,000 shares in Alpha Limited for ₹ 22 each.
01.01.2012	Received 15% interim dividend on equity shares of Alpha Limited.
15.01.2012	Beta 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.
01.03.2012	Sold 15,000 12% Bonds at ₹ 90 ex-interest.
15.03.2012	Received 18% interim dividend on equity shares of Beta Limited.

Student Notes

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 Beta Limited in the books of Mr. Brown for the year ended on 31st March, 2012.

Question 12 **Category:-**

A Ltd purchased on 1st April, 8% Convertible Debentures in C Ltd, of Face Value of ₹ 2,00,000 @ ₹ 108.

- *On 1st July, A Ltd purchased another ₹ 1,00,000 Debentures @ ₹ 112 Cum Interest.*
- *On 1st October, ₹ 80,000 Debenture was sold @ ₹ 105.*
- *On 1st December, C Ltd give option for conversion of 8% Convertible Debentures into Equity Shares of ₹ 10 each.*
- *A Ltd receive 5000 Equity Share in C Ltd in conversion of 25% Debentures held on that date.*
- *The Market Price of Debentures and Equity Shares in C Ltd at the end of year is ₹ 110 & ₹ 15 respectively.*
- *Interest is payable each year on 31st March & 30th September. Accounting Year of A Ltd is Calendar Year.*

Prepare Investment Account in the Books of A Ltd, on Average Cost basis.

Question 13 **Category:-**

Himavan purchased on 1st May, 13.5% Convertible Debentures in Jyothirmayi Ltd of a face value of ₹ 5,00,000 at ₹ 105. Himavan adopts the calendar year for accounting purposes but Jyothirmayi Ltd pays interest on 31st March and 30th September every year.
Himavan also had the following transactions during the year -

1-Aug	Purchase of ₹ 2,50,000 Debentures at ₹ 107, cum-interest.
1-Oct	Sale of ₹ 2,00,000 Debentures at ₹ 103 (ex-interest)
31-Dec	Receipt of 10,000 Equity Shares of ₹ 10 each in Jyothirmayi Ltd, converting 20% of the Debentures held on that date.

Market Value of the Equity Shares and Debentures at the end of the calendar year was ₹ 15 and ₹ 106 respectively. Prepare the Investment Account in Himavan's books. Assume Average Cost Basis.