

Theoretical Questions

1. Define investments.
2. What are current investments?
3. What are long term investments?
4. How are the current investments valued?
5. How are the long term investments valued?
6. What is cost of investment?
7. Explain the impact of acquiring investments on the accounting equation.
8. Explain the impact of acquiring investments on the financial statements.
9. Explain the impact of bonus issue on the cost value of investments.
10. What is ex-interest price?
11. What is cum-interest price?
12. Distinguish between rights issue and bonus issue from the investor's point of view.
13. Explain with an example the price and amount payable when the investments are acquired at cum-interest.
14. Explain with an example the price and amount payable when the investments are acquired at ex-interest.
15. How is profit on sale of investment calculated?

Numericals

1. A Ltd started business with 50,000 and availed 10% loan of Rs. 100,000; Used the 40% of the funds for acquiring plant and 30% of the funds for acquiring 12% Bonds of XY Ltd. Show the accounting equation.
2. A Ltd started business with 50,000 and availed 10% loan of Rs. 100,000; Used the 40% of the funds for acquiring plant and 30% of the funds for acquiring 12% Bonds of XY Ltd. and the balance Show the accounting equation.
3. Following table shows information about Bonds acquired by XYZ Ltd. Interest is payable on 31st December and the books are closed on 31st March every year.

Information about 12% Bonds			
Date	No	Price	
Purchase			
1/1/2005	1000	50	cum interest
1/3/2005	2000	45	ex-interest
1/7/2005	3000	55	cum interest
Sale			
15/3/2005	1500	50	cum interest
1/10/2005	2000	52	ex-interest

Required

- Statement showing the details of investment. Make suitable assumptions
- Show the difference in the profit on the sale of bonds using FIFO and LIFO assumptions.

4. Altd had 1000, 10% debentures of Rs. 10. CV of those Debentures was 40,000. Interest is paid on 1st July and 1st January every year.

Information about 10% Debentures			
Date	No	Price	
Purchase			
1/6/2005	3000	50	cum interest
1/10/2005	1500	45	ex-interest
1/12/2005	1500	55	cum interest
Sale			
1/9/2005	1500	50	cum interest
1/11/2005	2000	52	ex-interest

Required:

- Statement of investment

5. XYZ Ltd acquired following investments

Information about 12% Bonds			
Date	No	Price	
Purchase			
1/6/2005	3000	50	cum interest
1/10/2005	1500	45	ex-interest
1/12/2005	1500	55	cum interest
Sale			
1/9/2005	1500	50	cum interest
1/11/2005	2000	52	ex-interest

On 1st October 2005 received bonds as bonus in the ratio of 1:1.

Required:

- Statement of investment

Accounting in Real life

6. Refer to the Table 13.10 and answer the following:
- Visit the web site of Bajaj Auto Ltd. and examine the composition of the investments.
 - Fixed assets of ACC Ltd as on 31st March was Rs. 3255 crores and current assets were 1316 crores. Find Investments as on that date.
 - CIPLA Ltd had Rs. 22.5 crores as Investment as on 31st March 2006. Find current assets, if the fixed asset accounting for 33% of the total assets as on 31st March 2006
7. Visit the web-site of Hero Honda (<http://www.herohonda.com/>) and answer the following
- How is the company financing the acquisition of investment?
 - What is nature of the investments made by the company?
 - What percentage of income of the company comes from its investments?
 - Explain the change in investment in the last two years.