

UNDERSTANDING BOOK COSTS

To understand if your investments are headed in the right direction, it's important to know their growth and cost. Looking at Book Cost is key as it refers to the total amount paid to purchase an investment. It also serves as the reference point for comparing the costs of acquiring a security to its current market value.

BOOK COST INCLUDES:

- Transaction charges related to the purchase
- Adjustments for reinvested distributions
- Return of capital
- Corporate reorganizations

COMMON BOOK COST CALCULATIONS

PURCHASE

Let's say you own 1,000 units of ABC Mutual Fund with a book cost of \$22,000, resulting in a per unit book cost of \$22 (\$22,000/1,000). Later, you decide to invest another \$5,000 in the fund at the fund price of \$25/unit, giving you an additional 200 units of the fund.

<p>\$22,000 Original book cost</p> <p>+</p> <p>\$5,000 Purchase</p> <p>\$27,000 New book cost</p>	÷	<p>1,000 Original unit balance</p> <p>+</p> <p>200 Purchased units</p> <p>1,200 New unit balance</p>	=	\$22.50/unit
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DISTRIBUTION

You have 1,000 units of LMN Mutual Fund with a book value of \$24,000, resulting in a per unit book cost of \$24 (\$24,000/1,000). You receive a distribution of \$600 that, when reinvested, purchases 20 additional units of the fund at its current value of \$30/unit.

<p>\$24,000 Original book cost</p> <p>+</p> <p>\$600 Distribution</p> <p>\$24,600 New book cost</p>	÷	<p>1,000 Original unit balance</p> <p>+</p> <p>20 Purchased units</p> <p>1,020 New unit balance</p>	=	\$24.12/unit
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RETURN OF CAPITAL

For funds invested in equities, if all or some of the distribution is in the form of a return of capital, an additional adjustment is made to the book cost. Let's assume you purchase 1,000 units of XYZ Mutual Fund at a price of \$40/unit.

You then receive a \$1.00/unit distribution from the fund that is comprised of 70% income (\$0.70/unit) and 30% return of capital (\$0.30/unit). The book cost of your holdings is reduced by the return of capital amount.

<p>1,000 Unit balance</p> <p>x</p> <p>\$40/unit</p> <p>\$40,000 Original book cost</p>	-	<p>1,000 Unit balance</p> <p>x</p> <p>\$0.30/unit</p> <p>\$300 Return of capital</p>	=	\$39,700 New book cost
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This \$300 reduction in the book cost has the effect of increasing taxable capital gains by the same amount, when the units are eventually sold.