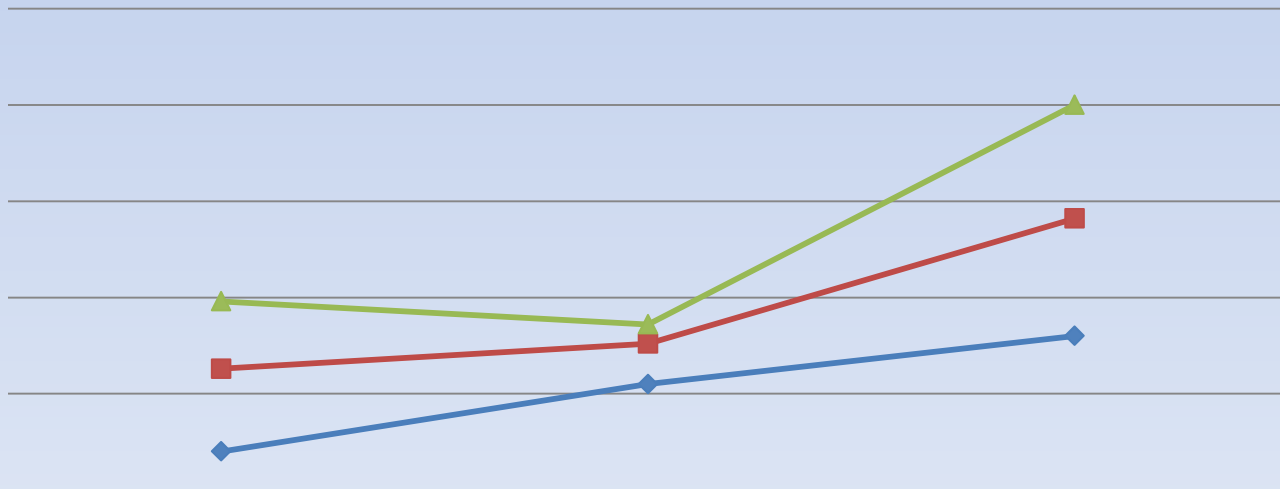


AS 13-Accounting for Investments

Shares

Bonds

Debentures



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1. Meaning of Important Terms
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1. Meanings of Important Terms

1. Investment- Asset held for earning Income by way of Rent, Interest or Dividend or Capital Appreciation... but not used in one's own Business i.e. not used as Stock –in-Trade.
 - a) Current Investment- Asset held with the INTENTION for not more than ONE Year for earning Income.
 - b) Long-Term Investment- Asset not a Current Investment.
2. Investment Property- Asset which can even acquire the nature of Fixed Asset i.e. it can even be used in one's own Business but primarily it is an Investment. Currently it is held as Investment rather than using in Business. Eg. Building, Machine.
3. Cum-right- It means that still Rights are available on these shares. They(Rights) have neither yet been sold nor yet exercised.
4. Cum-Dividend- It means that still Dividend is available on these Shares. Always shares purchased from the secondary market are Cum-Dividend i.e. cost has been paid for the pre- acquisition dividend. So on receiving dividend for that year the costs get reduced.

2. Cost Consideration

General Cost= Purchase Price+ Acquisition Charges – Rebates directly connected

1. Investment acquired by Issue of other shares or securities- FV* of securities given up.
Reason: Cost of anything is to recorded at the price paid for it. So it's cost supposed to be the FV of Securities issued.
2. Investment acquired in exchange of another Asset- FV of asset given up or FV of asset received whichever is more clearly evident.

Reason: Securities can even be marked to market but FAs aren't so marked, so consider FV in the beginning itself. One possible reason is that AS 10 will still play a role. So to record Incoming Asset at COST UPTO INSTALLATION it becomes necessary to even consider FV of it, if more clearly evident. (RED letters indicate an imperfect approach.)

3. Shares acquired – The full acquisition cost including the cost paid towards the pre-acquisition dividend.
Reason: Difficult to separate the costs towards Dividend and towards Shares.
4. Debentures acquired- Specific Interest Rate is available. So separate the costs towards Debentures and towards Pre- acquisition Interest.
Reason: Full, appropriate and sufficient disclosure.

*FV=Fair Value

3. Carrying Amount

1. Current Investment- Lower of Cost or NRV.

Reason: Prudence and Intention to hold for shorter term.

2. Long- term Investment- Cost unless the change represents substantiality.

Reason: Long term holding as pure Investments.

Change is to considered w.r.t market conditions, investee's expectations, restrictions and terms of the Investment.

3. Investment Property- Carried at Cost and not marked to market.

a) If held for generating Income from Sale then Depreciation isn't applicable.

b) If held for earning Rental Income then Depreciation is applicable.

As the Asset mentioned in part (b) is a "Depreciable Asset" as per AS 6.

4. Disposal and Re-classification

1. Disposal of Investments-

- a. Prepare separate Investment A/c s for Debentures, shares and other types.
- b. Consider WEIGHTED AVERAGE METHOD for each of these A/c s. If better Identification is possible for them , then follow it.
- c. Transfer the difference to P&L A/c. If any fund is created, then adjust accordingly.

2. Re-classification of Investments-

- a. Current to Long-term – Lower of cost or FV as on that date.
Reason: Prudence and Conservatism principle.
- b. Long-term to Current- Lower of Cost or FV as on that date.
Reason: Policy of destination type to be adopted.

5. Disclosures

1. Policies followed for Valuation of Investment.
2. Classification as Current and Long-term Investment.
3. Aggregate amount of quoted and un-quoted Investments.
4. Any significant restriction on these investments such as minimum holding period for sale/disposal, utilization of sale proceeds or non-remittance of sale proceeds for investments held outside India.

Let us consider an example.

A had 2000 shares of Rs.30,000 face value being Rs.10 each. He purchased another 5000 shares on 1/8/12 for Rs.14 each (Cum-dividend). On 1/5/13 the company declared dividend @ of 10%. A received the same on 30/6/13.

A had 2000 debentures of Rs.40,000 with Face value (FV) of Rs.10 each. He purchased another 2500 debentures on 1/7/12 for Rs.25 each. On 1/5/13 he received Interest @ 8% p.a. for the year 2012-13.

Prepare Investment A/c for year 2012-13 as per AS 13.

Investment A/c for Shares

Date	Particulars	Amount	Date	Particulars	Amount
1/4/12	To Balance b/f (2000 no)	30,000	31/3/13	By balance c/f	1,00,000
1/8/12	To Bank (5000 no)	70,000			
1/4/13	To balance b/f (7000 no)	1,00,000	30/6/13	By Bank (5000 shares * Rs.10)* 0.1	5,000

- The dividend received towards 2,000 shares will be considered as income and thus credited to P&L A/c.
- Shares received as Bonus and Rights are generally void of Dividend i.e. Ex-dividend.

Investment A/c for Debentures

Date	Particulars	Amount	Date	Particulars	Amount
1/4/12	To balance b/f (2000 no)	40,000	31/3/13	By balance c/f	1,02,000
1/8/12	To Bank (2500 no)	62,000*			
1/4/13	To balance b/f	1,02,000			

* 2500 Debentures x Rs.25 = Rs.62,500

Pre-acquisition Interest = $2500 \times \text{Rs.}10(\text{FV}) \times 0.08 \times 3/12$
= Rs.500

So, cost of debentures = Rs 62,500- Rs.500 =Rs.62,000.

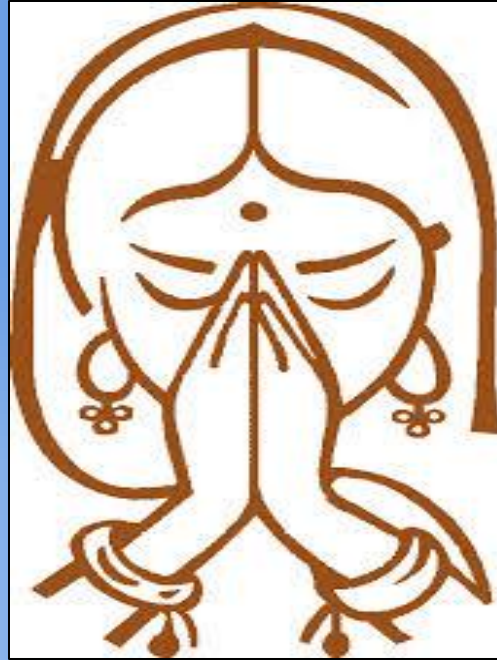
Interest on Debentures A/c

Date	Particulars	Amount	Date	Particulars	Amount
1/8/12	To Bank A/c	500	31/3/13	By Interest Receivable	2,000
31/3/13	To Profit and Loss A/c	1,500			

As per AS 9, Interest should be recorded on TIME BASIS whereas Dividend is said to be accrued only when IT IS ACTUALLY DECLARED.

2,000

Thank You.



Guys, For more improvement of this presentation, please without any hesitation do give me suggestions.

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