

SREERAM COACHING POINT

AS – 13
Accounting for
Investments

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MEANING OF THE TERM “INVESTMENT”

Investments are

- ✓ Assets held by an enterprise
- ✓ For earning income by way of
 - Dividends or
 - Interest or
 - Rentals or
 - Capital appreciation or
 - For other benefits to the investing enterprise.

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CLASSIFICATION OF INVESTMENTS

Investments are classified into current and long term

Current Investments: Investments which are readily realisable and intended to be held for not more than one year from the date of investment

Long term Investment: Investments which are other than current investment

INVESTMENT PROPERTY

Investment in land or buildings held for earning rentals or capital appreciations are called investment properties.

Investment properties are classified as long term investments

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CLASSIFICATION OF INVESTMENTS BASED ON EARNINGS/INCOME RECOGNITION

Investments may be classified into Fixed income bearing securities (Govt. Bonds, Debentures etc.) and Variable income bearing securities (Shares)

Note:

Shares, debentures and other securities held as stock-in-trade (i.e., for sale in the ordinary course of business) are not 'investments' as defined in this Statement. Shares, debentures and other securities held as stock-in-trade should not be taken under AS 2 [Valuation of Inventories] also. However, the manner in which they are accounted for and disclosed in the financial statements is quite similar to that applicable in respect of current investments.

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RECOGNITION OF INVESTMENTS

Investments will be initially recorded at “Cost”

Cost of Investments (includes)

Acquisition charge + Brokerage + Fees + Duties

If , Investments are purchased by issue of shares or other securities, cost = Fair value of the securities issued

If Investments are purchased by exchange of another asset, cost = Fair value of the asset given up or fair value of the investment received whichever is more clearly evident

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Special Issue – 1

Variable Income Bearing Securities - Ex-Interest & Cum-Interest Transactions

Cum Interest	Ex Interest
Purchase price includes the interest accrued upto the date of purchase	It is not included
Nothing is payable for interest accrued separately since it is already included in purchase price	Interest accrued upto the date of purchase should be paid separately
Cost of investment = Purchase price – Interest accrued upto the date of purchase	Cost of Investment = Purchase price

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Special Issue – 2

Fixed Income Bearing Securities – Pre-Acquisition Dividend & Post-Acquisition Dividend

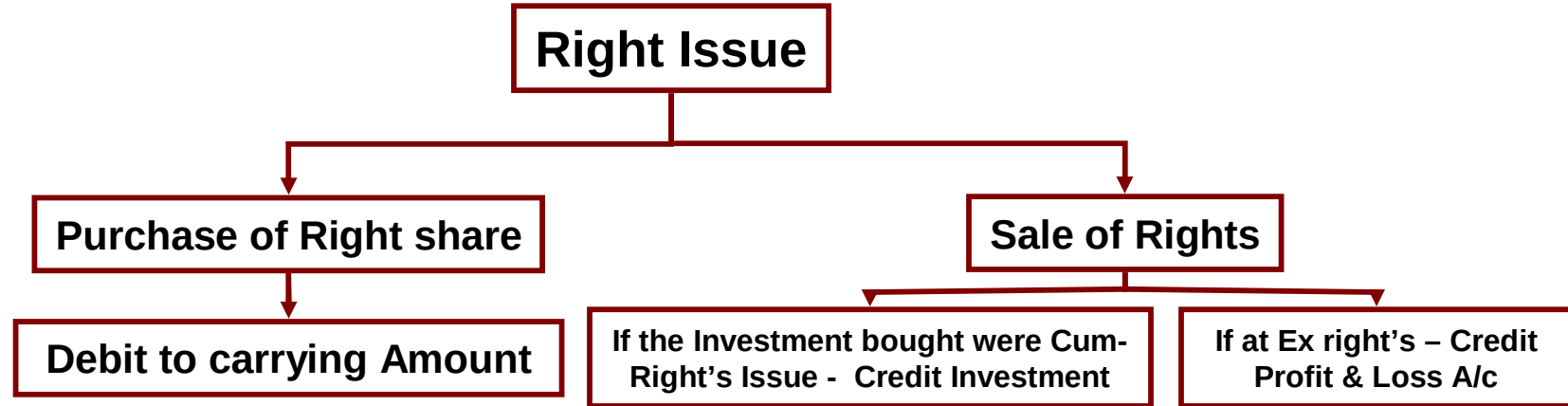
When the dividend is declared from pre-acquisition profits, and later on received by purchaser of investment, then such amount of dividend is deducted from the cost of investment

Post – Acquisition Dividend if received can be credited to Profit & Loss Account

Special Issue – 3

Treatment of Rights Issue

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Valuation of Investments

Current investment: Lower of Cost/Fair Value. Reduction in Fair Value is debited to P & L and increase in fair value subsequently is increased to the level of cost is to be credited to profit and loss a/c

Long term investment: Usually at Cost

Investment properties are classified as Long Term Investments. Long term investments are to be valued at cost. Therefore, depreciation should not be provided on Investment properties

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But, as per AS 13, “If there is a decline in the value of Long term investment, and if such decline is “Non-temporary”, then recognize the decline

Therefore, depreciation should be compulsorily provided on “Investment Properties” as depreciation is not a temporary decline

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Reclassification of Investments

Long-term Investments reclassified as Current Investments :

Transfers are made at the *lower of cost and carrying amount on the date of transfer.*

Current investments reclassified as Long Term Investments:

Transfers are made at the *lower of cost and fair value on the date of transfer.*