

AS-13 Investments

- 1) This accounting standard is applicable to all entities.
- 2) This accounting standard is not applicable to
 - a) Recognition of interest, dividend, rentals earned on investments which are covered by AS-9
 - b) operating or finance lease
 - c) Life insurance policies
 - d) Mutual funds and other similar assets.
- 3) Meaning of investments

Investment are assets held by an enterprise for earning income by way of dividend, interest or capital gains.

Note: Assets held as stock in trade are not investment

e.g. An investment co is holding shares, bonds etc for future resale amounting to ₹ 10,00,000. on which it received dividend and interest of ₹ 40,000.
Give the treatment.

Ans: In this situation AS-13 will not be applicable as these investments are held for resale and dividend & interest income will be recognized as per AS-9 (Revenue recognition)

Note: Some investment may have physical substance (e.g. buildings) & some investments may not have physical substance & represented by documents or may be in electronic form (e.g. share certificates or shares in demat aa)

4) Classification of investment

Investments are classified in two categories

a) Current investment and

b) Long term investment (Non current investment).

5) Current investment

These investments are held with the intention to dispose off within a period of one year from the date of purchase

6) Long term investment

Is an investment other than current investment.

e.g. ABC makes an investment in debentures of A Co for ₹ 5,00,000

- Debentures are listed at stock exchange.

- Maturity of debentures is 10 years

- Intention of management is to hold till prices go up & sell within one year

Classify the investment

Ans: As intention of management is to dispose off within one year $\therefore$ it should be classified as Current investment.

- Suppose in above example intention of management is to hold the debentures till maturity.

→ In that case it should be treated as long term investment.

7) Cost of investment : It includes

- a) Purchase Price
- b) Acquisition charges such as
 - brokerage
 - Fees
 - Stamp duty etc.

e.g on 1.4.2015 Mr K purchased ¹⁰⁰⁰ equity shares of face value of ₹ 100 each in Tata Motors at ₹ 120 per share.

Brokerage charged by broker is 2% & stamp duty paid by him is ₹ 0.50 per ₹ 100 as cost of transfer.

Compute cost of investment.

Ans Statement for Computation of cost

Cost of equity shares purchased (1000 sh × ₹ 120)	₹ 1,20,000
<u>Add:</u> Brokerage (2% of 1,20,000)	2,400
<u>Add:</u> Stamp duty ($\frac{1,20,000}{100} \times 0.50$)	600
∴ Total Cost of investment	<u>1,23,000</u>

- 8) Acquisition of investment through exchange of assets
If investment is acquired in exchange of other asset the cost of acquisition will be.
- Fair value of asset given or
 - Fair value of investment acquired
- whichever is more evident.

e.g Co. A acquires 1,00,000 shares of Co B from Mr X for which Co A gives one of its machine to Mr X

- Face value of equity shares is ₹ 10
- Equity shares are listed at stock exchange & market price per share is ₹ 50
- Fair value of machine given is ₹ 55,00,000.

What should be cost of acquisition of investment in equity shares in books of Co A.

Ans In case of exchange of assets for investment cost of investment will be.

- | | |
|--|-------------|
| a) Fair value of machine given | ₹ 55,00,000 |
| b) Fair value of shares
(1,00,000 × 50) | ₹ 50,00,000 |

whichever is more evident.

As shares are listed at stock exchange then it can be argued that fair value of equity shares is more clearly evident

∴ Cost of equity shares should be recorded at ₹ 50,00,000

9) Fair value : Is the amount at which asset can be exchanged between knowledgeable and willing buyer and knowledgeable & willing seller in an arms length transaction.

10) Right shares : When Co is making further issue of equity shares then it has to offer these share to existing equity share holder first.

Notes Normally right shares are offered at a price which is lower than existing market price.

11) Cost of right shares

Situation 1 : Right shares subscribed by existing share holder

→ In this case cost of right shares will be amount payable to Co for acquiring the right shares.

Situation 2 : Right shares subscribed by the person other than existing shareholder.

→ In this case cost of right shares will be amount payable to Co plus amount payable for buying the right

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e.g. Mr X acquire 200 shares of a Co on cum right basis for ₹ 50,000. He subsequently receives an offer of right to acquire fresh shares in the Co in proportion of 1:1 at ₹ 110 each. Mr X does not subscribe but sells the right for ₹ 15,000.

The ex-right market value of 200 shares bought by X after right is ₹ 40,000.

Calculate the amount to be reduced from cost of acquisition and the amount to be taken to Profit & Loss acc

<u>Ans</u> Total sale proceeds of rights	₹ 15,000
<u>Less</u> Fair value of right alone [50,000 - 40,000]	10,000
∴ Gain to investor by selling rights (To be transferred to P & L acc)	<u>5,000</u>
Amount to be credited/deducted from Investment acc	10,000

Journal entry

Bank acc	Dr 15,000
To Investment acc	10,000
To P & L acc	5,000

e.g. Suppose Mr Y purchased the above rights from Mr X and subscribe the right shares from Co by paying ₹ 110 per sh. Compute cost of investment to Mr Y

<u>Ans</u> Amount paid to Co for subscribing shares (200 x 110)	₹ 22,000
<u>Add</u> : Amount paid to Mr X for buying rights	<u>15,000</u>
∴ Total cost of investment	<u>37,000</u>

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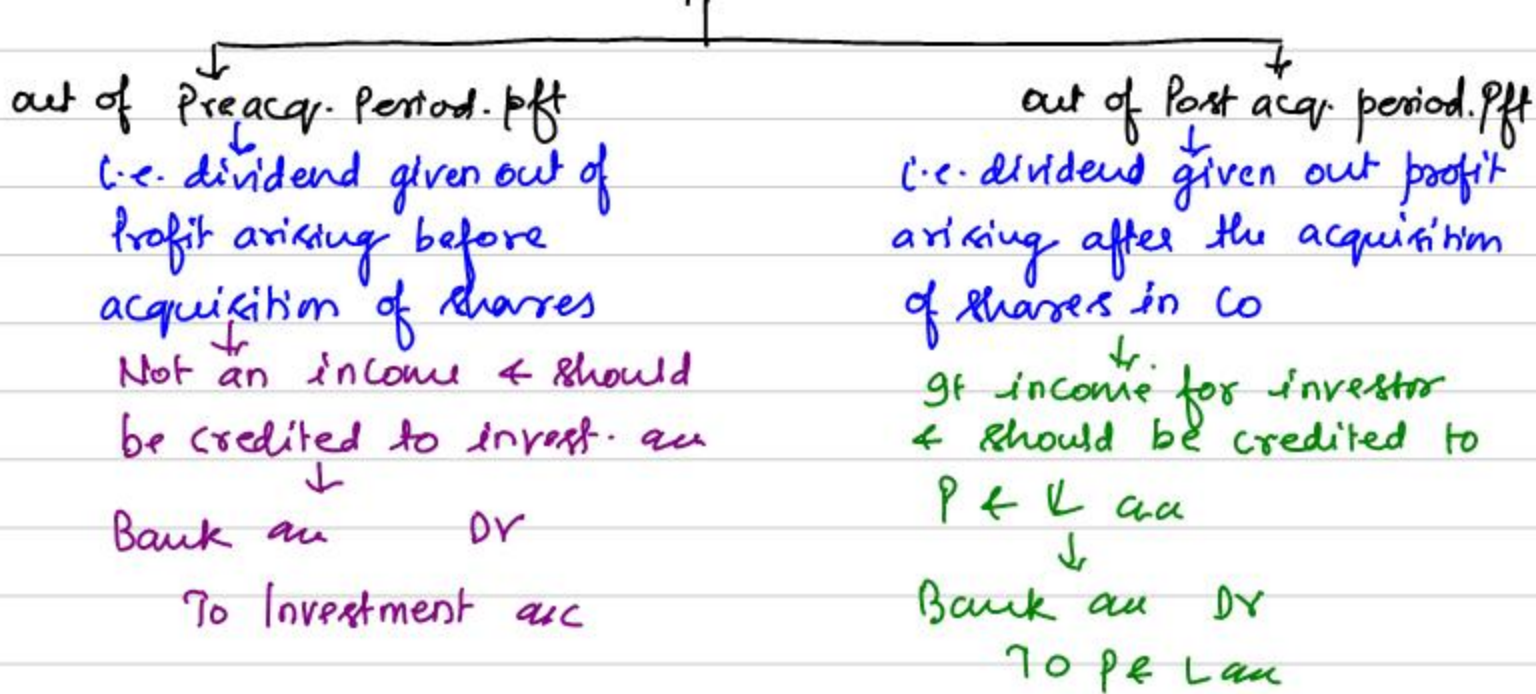
e.g. Suppose in above example Mr X doesn't sell the right and subscribes the right shares him self then what will be the treatment.

<u>Ans</u> Cost of original shares purchased	₹ 50,000
Add: Amount paid for subscribing 200 right shares (200 x 110)	₹ 22,000
	₹ 72,000
∴ Total cost of investment	₹ 72,000
Total no of shares after right (200 sh + 200)	400 sh.
∴ Value per share after right issue (₹ 72,000 ÷ 400 sh)	₹ 180

12. Income from investment

If any interest or dividend income is received / receivable on investment then it will be treated as income except where such interest / dividend relate to pre acq. period.

Dividend / Interest Income.



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e.g Mr X purchased 200 shares at ₹ 50,000, on which he received the dividend of ₹ 5000 out of which ₹ 2000 dividend was out of pre acq. Profit & balance was out of post acq. profit.

Give the treatment.

Ans Journal entries

1) Purchase of Investment

Investment ac	Dr	50,000	
To Cash/bank ac			50,000

2) Receipt of dividend

Bank ac	Dr	5,000	
To Investment ac			2,000
To P & L ac			3,000

Particulars	Amount	Particulars	Amount
To Bank ac	50,000	By Bank ac	2000
(Purchase of Invest)		(Pre acq. dividend)	
		By bal c/d	48,000
	50,000		50,000

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e.g Mr X purchased 1000, 6% government bonds of ₹ 100 each on 31 Jan 2015 @ ₹ 95 each interest is payable on 30th June & 31st December. The price quoted is cum interest. Journalize the transaction.

Ans

Purchase price (cum interest) (1000 x 95)		₹ 95,000
<u>Less:</u> Interest included therein (1.1.15 to 31.1.15)		500
$[1000 \times 100 \times 6\% \times \frac{1}{12}]$		
∴ Ex interest price		94,500

Journal entry

31.1.15	Investment a/c	Dr	94,500
	Interest a/c	Dr	500
	To Bank a/c		95,000

[Being purchase of 1000, 6% government bonds of ₹ 100 each at ₹ 95 (cum interest)]

14) Carrying amount of Current Investment

Subsequent recognition of Current Investment on reporting date will be at

Cost or Market price (Fair Value)
whichever is lower

Note: Investments may be having categories like Equity shares, pref. shares, debentures etc. It is not required to prepare account of each share (Company like Invest in RIL, Invest in ICICI etc)

Note: Valuation should not be made for individual share & should be done on global basis.

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e.g. On 1.10.2015 Co purchased 1000 equity shares (Current investment) of FV ₹ 100 each in RIL at ₹ 1120 each. for the year ended 31.3.2016 fair value of shares is as follows.

Situation 1 : ₹ 1500 per share

Situation 2 : ₹ 800 per share.

Ans Cost of investment on 1.10.2015 11,20,000
(1000 sh × ₹ 1120)

31.3.2016

Situation 1 : Market value ₹ 1500 per share.

Total market value (1000 sh × ₹ 1500) ₹ 15,00,000

Cost of investment ₹ 11,20,000

As per AS-13 investment should be shown at cost or market price whichever ever is lower i.e. it should be shown at ₹ 11,20,000.

Situation 2 : Market value per share ₹ 800

Total market value (1000 sh × ₹ 800) ₹ 8,00,000

Cost of investment ₹ 11,20,000

As per AS-13 investment will be shown at
₹ 8,00,000.

15. Carrying amount of long term investment

Long term investment should be shown at cost

Note: In case of permanent decline in value of investment a provision should be made for decline in value of investment

P & L au

Dr

To Provision for reduction in value of investment

Note: Such provision can be reversed if there is permanent rise in value of investment and management feels such provision no longer required.

e.g. on 1.4.2015 Co A purchased 1000 shares of T Ltd @ ₹ 120 per share. The Co plans to hold them for more than 12 months.

For the year ended 31.3.2016 the fair value of T Ltd shares are as follows.

Situation 1: ₹ 150

Situation 2: ₹ 110 (Assuming decline is temporary)

Situation 3: ₹ 80 per share (Assuming decline is permanent)

Ans Situation 1: Price of share on 31.3.16, ₹ 150

Cost of investment (1000 sh × ₹ 120) ₹ 1,20,000

Fair value (1000 sh × ₹ 150) ₹ 1,50,000

As fair value is more than investment should be shown at cost price of ₹ 1,20,000.

Situation 2 : Price of share on 31.3.2016, ₹ 110

Cost price	₹ 1,20,000
Fair value (1000 x 110)	₹ 1,10,000

→ Carrying amount will be ₹ 1,20,000 (at cost) as decline in value of shares is temporary.

Situation 3 : Price of share on 31.3.16, ₹ 80 (Decline in permanent)

Cost price	₹ 1,20,000
Fair value (1000 x 80)	₹ 80,000
∴ Provision required	<u>40,000</u>

Journal entry

Profit & Loss a/c	Dr 40,000
To Prov. for loss on invest.	40,000.

16) Disposal of Investment

In Case of disposal of investment difference between sale value (Net Sale Value) and carrying amount should be treated as gain/loss on investment. & should be transferred to P & L a/c

Journal entry

Bank a/c	Dr (Net Sale Value)
Profit & Loss a/c	Dr (loss on Sale)
To Investment a/c	(Carrying amount)
To P & L a/c	(Profit on Sale)

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E.g Mr X purchase shares of T Ltd @ ₹ 120 per share and he paid ₹ 1,20,000 for 1000 shares on 1.10.16 on 31.3.2016 he sold these shares for
a) for ₹ 150 per share
b) for ₹ 80 per share.

Ans (a) Journal entry

Bank ac	Dr 1,50,000	
To Investment ac		1,20,000
To P & L ac		30,000

b)	Bank ac	Dr 80,000	
	P & L ac	Dr 40,000	
	To Investment ac		1,20,000

17. Bonus Shares

Bonus Shares are issued by Co to existing share holders free of Cost by Capitalizing the Reserves of Co. on pro rata.

→ Cost of acquisition of bonus share is zero

→ No entry will be passed in books of investor and only no of equity shares will be increased in investment ac.