

# Accounting Standard 13 – “Accounting for Investments”

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## Introduction

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Investments are the assets held by an enterprise for earning income by way of dividend, interest, rental, etc for capital appreciation or for other benefits to the investing enterprise.

This standard is not applicable to –

- Bases for recognition of interest, dividends and rentals earned on investments which is covered by AS 9
- operating or finance leases
- investments of retirement benefit plans and life insurance enterprises
- mutual funds and venture capital funds and/or the related asset management companies, banks and public financial institutions

## Definition

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- ❑ **Current Investment** - A current investment is an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made.
- ❑ **Long Term Investment** - A long term investment is an investment other than a current investment
- ❑ **Investment Property** - An investment property is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise
- ❑ **Fair Value** - Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. Under appropriate circumstances, **market value or net realisable value** provides an evidence of fair value.
- ❑ **Market Value** - Market value is the amount obtainable from the sale of an investment in an open market, net of expenses necessarily to be incurred on or before disposal

## Classification of Investment

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- ❑ Investments other than current investments are classified as long term investments, even though they may be readily marketable.
- ❑ Further classification of current and long-term investments should be as specified in the statute governing the enterprise. In the absence of a statutory requirement, such further classification should disclose, where applicable, investments in:
  - Government or Trust securities
  - Shares, debentures or bonds
  - Investment properties
  - Others—specifying nature

### Issues:-

- ❑ Are shares and securities held as stock-in-trade Investments ?
- ❑ Can unquoted shares of private company be classified under stock in trade ??
- ❑ Is fixed deposits with Bank an Investment? (EAC Volume 3 Page - 31)

## Cost of Investment

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- ❑ Acquisition charges such as brokerage, fees and duties
- ❑ **Issues: -**
  - Can interest on borrowed funds for acquisition of investments form part of cost ?
  - What is treatment of premium paid for acquisition of bonds ? (EAC Volume 15 Page - 6)
  - Treatment of Cum Interest Bonds purchase ?
  - Treatment of Cum Dividend Investment ?
  - Incentive for purchase (EAC Volume 19 Page - 65)
  - Treatment of Portfolio management fees ??
- ❑ If an investment is acquired, or partly acquired, by the issue of shares or other securities, the acquisition cost is the fair value of the securities issued.
- ❑ If an investment is acquired in exchange, or part exchange, for another asset, the acquisition cost of the investment is determined by reference to the fair value of the asset given up. It may be appropriate to consider the fair value of the investment acquired if it is more clearly evident.

## Cost of Investment

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- When right shares offered are subscribed for, the cost of the right shares is added to the carrying amount of the original holding. If rights are not subscribed for but are sold in the market, the sale proceeds are taken to the profit and loss statement. However, where the investments are acquired on cum-right basis and the market value of investments immediately after their becoming ex-right is lower than the cost for which they were acquired, it may be appropriate to apply the sale proceeds of rights to reduce the carrying amount of such investments to the market value.

## Current Investment

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- ❑ **Carrying Amount** - The carrying amount for current investments is the lower of cost and fair value. In respect of investments for which an active market exists, market value generally provides the best evidence of fair value.
- ❑ **Valuation of Investment** - Valuation of current investments on overall (or global) basis is not considered appropriate. Sometimes, the concern of an enterprise may be with the value of a category of related current investments and not with each individual investment, and accordingly the investments may be carried at the lower of cost and fair value computed category-wise (i.e. equity shares, preference shares, convertible debentures, etc.). However, the more prudent and appropriate method is to carry investments individually at the lower of cost and fair value.
- ❑ **Reduction in carrying amount** - For current investments, any reduction to fair value and any reversals of such reductions are included in the profit and loss statement.

## Current Investment

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### Issues: -

- What is the treatment for Shares held as stock in trade ??
- Cost formula
- Disclosure of Sales of shares ??
- Valuation of closing stock



## Long Term Investment

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- Carrying Amount** - Long-term investments are usually carried at cost on an individual investment basis.

### Issues:-

- Can Investment be revalued ??
- Writing-off of investments ??
- Capital reduction ??

## Long Term Investment

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- ❑ **Provision for decline in Investment** - When there is a decline, other than temporary, in the value of a long term investment, the carrying amount is reduced to recognise the decline.
- ❑ **Charging of Provision** - to the profit and loss statement.
- ❑ **Indicators for decline in value of Investments (EAC Volume 22 Page - 3):**
  - Market value, Investee Assets, expected cash flows
  - Restrictions on distribution by investee, restriction on disposal by investors
  - Closure or winding up of the investee company
  - Is market price reflective of fair value? (EAC Volume 25 Page - 57)
  - Is net asset value reflective of fair value? (EAC Volume 21 Page - 51)

## Disposal of Investments

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- On disposal of an investment, the difference between the carrying amount and the disposal proceeds, net of expenses, is recognised in the profit and loss statement.
- When disposing of a part of the holding of an individual investment, the carrying amount to be allocated to that part is to be determined on the basis of the average carrying amount of the total holding of the investment.

### Issues:-

- What will be the cost formula?? - Weighted average cost (EAC Volume 23 Page - 112)
- Determination of WAC in multiple demat account scenario ?
- Determination of WAC in PMS Scenario ?
- Can profit on sale of Investment be transferred to Capital Reserve? (EAC Volume 8 Page - 39)
- Is Profit on sale of investment an Exceptional Item ??

## Re-classification of Investments

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- Where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.
- Where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer.

## Investment Properties

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- An enterprise holding investment properties should account for them as long term investments.
- The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property.

### Issues:-

- Is depreciation charged on investment properties ??
- Can a company declare dividend without charging depreciation on investment properties ?
- Is depreciation to be charged on cost of land included in Investment Property ? (EAC Volume 2 Page - 23)

## Disclosures

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- ❑ the accounting policies for the determination of carrying amount of investments
- ❑ the amounts included in profit and loss statement for:
  - interest, dividends and rentals on investments (separately for both current and long term investments)
  - profits and losses on disposal of current investments and changes in carrying amount of such investments
  - profits and losses on disposal of long term investments and changes in the carrying amount of such investments;
- ❑ significant restrictions on the right of ownership, realisability of investments or the remittance of income and proceeds of disposal
- ❑ the aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments
- ❑ other disclosures as specifically required by the relevant statute governing the enterprise.

***Thank You***