6-8 marks

AS 13 - Accounting for Investments

1) Meaning of Investments :-

Investments are Assets Held by Entity :-

- To earn Income by way of Interest, Rent Dividend ; and/or
- For Capital appreciation.

2) Classification of Investments (Types)

a) **Current Investments** :- Any Investments which are readily realisable and are Intended to be held for not more than One year.

Note :- Here 12 months Shall be Checked from date of purchase of Investment.

b) **Long Term Investments** :- Any Investment Other than Current Investments.

3) Cost of Investments :-

	Purchase Cost (Amt. Paid/Payable)	xxxx
(+)	Brokerage & Legal Charges	xxx
		xxxx

Non-Cash Consideration :-

If Investments purchased in Kind or partly in cash then Cost of Investment will be :-

Cash paid (+) Fair value of Assets given

* If FV of Asset given is not available then Cost will be fair value of Investments acquired.

V. Imp.

4) Measurement of Investments :- (at B/S date)

a) Current Investments :-

Lower of :-
Cost OR
Market value

Any reduction from Cost to Market Value is transfer to P&L a/c.

If Fair value increases Subsequently, the Increase in Value upto the Original Cost Shall be recorded as Gain in P&L.

b) Long Term Investment :-

Long Term Investments are Usually Carried at COST.

However, When there is a decline Other than Temporary in the value of LT Investments, then Carrying amount shall be reduced & Loss shall be recorded in P&L. (Deferred & Amortised → Not allowed)

The above reduction (due to Other than Temporary decline) shall be reversed if Market Value Increases. Reversal shall be upto Original Cost.

Examples of Other than Temporary Decline :-

☞ Company in which Investment is made "is making Cash Operating Losses" which has resulted in reduction of its Net worth. (Q102)

- New regulations which has negative impact in the Working of the Investee
- Significant reduction in Listed price of the Shares.

5) Investment in Shares

(Important Rules to Solve the Question)

Rule 1 :- When shares are purchased multiple times on different dates at different price then we shall Calculate Average Cost per Share to determine the Gain/Loss on Sale of Shares.

(Note:- Average Cost shall be Used if FIFO is not required)

Example 1 :- Avika purchased 300 shares on 1/4/x1 at 130/-. She again purchased 500 shares of Same Company on 1/6/x1 at 142/- each.

On 1st Aug, She sold 400 shares at 150/- each
Calculate Gain/Loss on Sale.

Solution :-

$$\text{Avg. Cost Per share} = \frac{(300 \times 130) + (500 \times 142)}{800 \text{ no.}} = 137.5/-$$

$$\text{Gain on Sale of 400 shares} = 400 \times (150 - 137.5) = 5000/-$$

Rule 2 :- When Investor gets Bonus Shares on its Existing holding then :-

a) Quantity will be Increased (in No.s)

b) Total Amt. (Cost OF Investment) will not be Increased (Bonus = free shares)

c) But Avg. Cost per Share after getting Bonus Shall be reduced.

Example 2 :-

Date	Particulars	No.	Rate
1/4/X1	Purchased	500 no.	45/-
1/6/X1	Purchased	300 no.	52/-
1/8/X1	Bonus issue	N 2 : O 5 320	Free
1/9/X1	Sold	450 no.	50/-

Calculate Gain/Loss on Sale.

Solution :-

$$\text{Avg. Cost per Share} = \frac{(500 \times 45) + (300 \times 52) + (320 \times 0)}{1120}$$

$$= 34.02/- \text{ per Share}$$

Sale OF 450 Shares @ 50/-	=	22500/-
(–) Avg. Cost 450 shares @ 34.02	=	15309/-
Gain	=	7191/-

Rule 3 :- Right Issue (R.I.) :-

Case 1 :- Investor Subscribed the Right issue
It is just like purchase OF Share.
Apply Rule 1

Existing Holding 3000 no.

original cost 52/- Cum Right basis

R.I = 1:3

1000 no.

Sale of Right at 10/-

after R.I 50

Bank a/c Dr. 10000
To Investm. 6000
To P&L 4000

Case 2 :- Investor has not subscribed the Right issue and transfer the Right to Someone.

General Rule
Sale proceeds as transfer shall be Credited to P&L a/c

Refer Q201

2000/-

Exception
Sale proceeds from sale of Right entitlement shall be deducted from Investment Cost.
Bank Dr.
To Investment

IF, Original Shares (before R.I) have been purchased at "Cum Right Basis" and Market price per share after R.I. have been reduced below such Cum Right Price (i.e Org. Cost of Shares)
→ Lower of Reduction in Value (OR) Sale Proceeds will be deducted from Investment Cost.

Example 3:- On 1/4/X1, Purchased 1000 no. of shares @ 80/- each. On 1/5/X1, purchased 800 no. @ 95/- each.
On 1/7/X1, Bonus Shares received @ 1:2

On 1/8/X1, Right issue announced @ 1:5 @ 90/- each.
Investor has transferred 25% of Right to other party @ 15/- each. Remaining rights subscribed.

On 1/11/X1, 1200 no. of shares sold at 101/- each.

Prepare Investment A/c.

Assume these Investment are Current Investments & Market value on 31/3/X2 is 60/- per share

1/9 Dividend 12% Interim

Investment A/c

Date	Particulars	No.	Amt.	Date	Particulars	No.	Amt.
1/4/X1	To Bank	1000	80,000	1/11/X1	By Bank (Sale)	1200	121200
1/5/X1	To Bank	800	76,000				
1/7/X1	To Bonus	900	–				
				31/3	By P&L (Loss)	–	3,774
1/8/X1	To Bank	405	36450	31/3	By Bal c/d	1905	114300
1/11/X1	To Gain	–	46824				
		3105	239,274			3105	239274

1) Right issue :- Existing Shares = 2700 no.

Right issue entitlement = 540 no.
1:5

Transfer 25% 135 no. × 15/-
P&L = 2025/-

Subscribed 405 @ 90/-

2) Avg. Cost per share :-

$$\frac{80000 + 76000 + 36450}{1000 + 800 + 900 + 405}$$

= 61.98/-

3) Gain on Sale :-

Sale Value of 1200 no. @ 101 = 121200
(–) Cost of 1200 no. @ 61.98 = 74376
Gain = 46,824

4) **31/3/x2 Remeasurement as Per AS 13:-**

Lower of :-

Cost = 118074

MV = 1905 × 60 = 114300

Loss = 3774

Rule 4:- Dividend Calculation

a) If Annual Dividend is Declared and received by Investor, then it must be Calculated as Under :-

Total Shares held on the date of Dividend	xxx no.
(–) Shares held as Bonus & Right issue in Cy	(xx) no.
Remaining shares	xxx no.
(×) Dividend Rate	
(×) Face value	

b) If Interim dividend is announced (it is a Cy Dividend) then it must be Calculated on entire holding as on the date of dividend.

Example:-4 Pritam has 500 shares in the beginning of year at Cost of 125/-. On 1/6 pritam purchased 300 shares at 130/- & 2% Brokerage extra.

On 1/7, Pritam gets 400 Bonus Shares.

Face value = 10/-

On 1/8, Pritam gets 800 Right issue @ 110/-

On 1/10, Pritam gets Dividend of 15%

On 1/12, Priget gets Interim Dividend of 10%

Calculate Amt. of both Dividends Received by pritam.

Solution :-

a) Annual Dividend = 800 × 10 × 15% = 1200/-

b) Interim Dividend = 1800 × 10 × 10% = 1800/-

Rule 5 :- Treatment of Dividend Received by Investor

a) Annual Dividend Received :-

(i) Annual Dividend Received on Opening shares held by Investor is treated as post Acquisition Dividend and transfer to P&L (as Income)

Bank a/c Dr.
 To Dividend Income (P&L) a/c

(ii) Annual Dividend Received on Shares purchased in Current year is treated as pre Acquisition dividend and shall be Reduced from Investment Cost

Bank a/c Dr.
 To Investment a/c

b) Interim Dividend Received

It shall always be treated as "Post Acquisition" dividend and transfer to P&L as Income.

Example 5:- Consider Example 4 above & prepare Investment A/c in the Books of Pritam.

Investment A/c

Date	Particulars	No.	Divd.	Amt.	Date	Particulars	No.	Divd. Income	Amt.
1/4	To Bal. b/d	500	—	62,500	1/10	By Bank (annual Dividend)	—	750 Post	450 Pre
1/6	To Bank	300	—	39,780	1/12	By Bank (Interim)	—	1800	—
1/7	To Bonus	400	—	0					
1/8	To Bank	600	—	66,000					

Note:- Annual Dividend on 500 shares = 750/- (Post Acq)

Annual Dividend on 300 shares = 450/- (Pre Acq)

Rule 6 :- Impact of Pre-Acq Dividend on Avg. Cost per Share

Whenever pre Acquisition dividend is received & reduced from Cost of Investment (Credited in Investment A/c) and if Share are Sold after receiving such dividend, then Avg. Cost per Share Shall be Calculated after Considering Such pre Acq. dividend.

$$\text{Avg. Cost per Share} = \frac{62500 + 39780 + 66000 - 450}{1800 \text{ no.}}$$

(as per above Example 4 & 5)

$$= 93.24/-$$

6) Investment in Debentures / Bonds

Rule 7 –
When same debentures/bonds are purchased multiple time on different dates at difference prices then we shall calculate Avg. Cost per debenture to calculate Gain/Loss on sale.

[If Question ask to apply FIFO then Avg. Cost Calculation shall be ignored.

Example 6 :– On 1st April, 300 no. of Debentures acquired at 98/– (Face value 100/–), on 1st June, acquired 200 no. @ 101.5/–
On 30th Sep, Interest @ 12% p.a. is received for 6 months period.

On 1st Oct, sold 380 no. of Debentures @ 99.5/– each (FIFO) on 31st march next 6 months interest received.

Solution :– Investment in Debentures A/c

Date	Particulars	Face Value	Interest	Amt.	Date	Particulars	FV	Interest	Amt.
1/4	To Bank	30000	–	29400	30/9	By Bank 50000 × 12% × 6/12	–	3000	–
1/6	To Bank	20000	–	20300	1/10	By Bank	38000	–	37810
1/10	To Gain	–	–	290	31/3	By Bank	–	720	–
31/3	To P&L (transfer)	–	3720	–	31/3	By Balance	12000	–	12180

a) Sale = 380 × 99.5 = 37810
Cost :– 300 × 98
80 × 101.5 = (37520)
Gain 290

Rule 8 :- Interest Income shall always be Calculated for the whole period irrespective of date of purchase of Debentures / Bonds.

Rule 9 :- Ex Interest and Cum Interest

Ex Interest price of Debn = MP per Debn

Cum Interest price of Debn = MP per Debn (+) Interest

We shall always record the Investment in Debn/Bonds at Ex-Interest price.

→ It means if Investments are acquired at 101.5 Cum Interest price & Ex Interest price is 98 then Investment in Debn shall be recorded at 98/- & Interest of 3.5 per Debn shall be Separately recorded.

Investment Dr.	98	
Interest Exp Dr.	3.5	
To Bank		101.5

Example 7 :- Fy X1-X2 Company pays Interest 6 monthly on every 30th Sep & 31st march. Interest Rate 12%.

Mr. Khushal acquired 500 no. of Debn on 1/7/X1 at 99.5 Cum Interest Price.

At what Amt. Investment should be recorded & also Calculate Interest exp & Income till 30/Sep/X1 for Khushal.

Solution :-

Cum Interest Price	= 99.5	Per Debn
Interest	= 3	Per Debn
Ex-Interest Price	96.5	per Debn

Investment Cost = 500 × 96.5
= 48,250

Investment A/c

Date	Particulars	FV	Inter. (Exp.)	Amt (Cost)	Date	Particulars	FV	Inter. (Income)	Amt. (Cost)
1/7	To Bank	50,000	1500	48,250	30/9	By Bank (6m)	–	3000	–

Example 8 :- Fy X1-X2 Interest is Paid Six monthly on 30/9 and 31/3. Interest Rate = 9% p.a.

Ms. Medha acquired 600 Debn on 1/4/X1 at 98/-

She again acquired 400 Debn on 1/6/X1 at 101/- Cum Interest

She again acquired 250 Debn on 1/11/X1 at 99/- ex Interest

prepare Investment A/c for the year ending 31/3/X2

Solution

Investment A/c

Date	Particulars	FV	Int.	Amt.	Date	Particulars	FV	Inter.	Amt.
1/4	To Bank	60,000	–	58,800	30/9	By Bank	–	4500	–
1/6	To Bank	40,000	600	39,800					
1/11	To Bank	25,000	187.5	24,750	31/3	By Bank	–	5625	–
31/3	To P&L	–	9337.5	–	31/3	By Bal.	125000	–	123350

WN-1 Purchased on 1/6

Interest For 2 months = 400 × 1.5 = 600/-

Ex. Interest price = 400 × (101 − 1.5) = 39800/-

2) 30/9 Interest Collection

1000 × 100 × 9% × 6/12 = 4500/-

3) 31/3 Interest Collection

125000 × 9% × 6/12 = 5625/-

Rule 10 - Gain/Loss on Sale of Debentures/Bonds

In Case of Sale of Debn/Bonds, to Calculate Gain/Loss, always Compare Ex Interest purchase price with Ex-Interest Sale price after adjusting Brokerage if any.

Sale Value ⇒ No. of Debn (X) Ex. Int. SP
(−) Brokerage

Cost Value ⇒ Ex. Interest Purchase Price
(+) Brokerage

} as Per FIFO (or) W. Avg.

Example-9

FY 23-24

Company pays Interest on Six monthly Basis i.e 30th September & 31st March. On 1/4/23, Mr. Jai bought 1000 no. of Debentures at 99/- Ex. Interest Price. on 1/9/23, He again bought 1200 No. of Debentures at 98/- Ex. Interest Price. Interest Rate = 12%. p. a.

500 Debenture Sold on 1st October at 99.5/- Cum Interest.

700 Debenture Sold on 1st Jan 2024, at 102.5/- Cum Interest.

Prepare Investment A/c.

Solution

Books of Mr. Jai
Investment in 12% Debentures A/c

Date	Particulars	Nominal Value	Inter.	Amt.	Date	Particulars	Nominal Value	Int.	Amt.
1/4/23	To Bank	100000	–	99,000	30/9	By Bank	–	13,200	–
1/9/23	To Bank	120000	6000	1,17,600	1/10	By Bank	50,000	–	49750
1/10/23	To Gain	–	–	523					
1/1/24	To Gain	–	–	732	1/1	By Bank	70,000	2100	69650
					31/3	By Bank	–	6000	–
31/3	To P&L	–	15300	–	31/3	By Bal. c/d	1,00,000	–	98455

1) Avg. Cost of Deb^n sold $= \dfrac{99000 + 117600}{2200} \times 500$

$= 49{,}227/-$

2) Gain/Loss on Sale on 1/4 $= 49{,}750 - 49{,}227 = 523/-$

3) 1/Jan ⇒ Sale of 700 Deb^n @ 102.5 = 71750 (Cum Price)

(−) 3 months Interest = 2100

Sale (ex. Interest) = 69650

(−) Cost of 700 Deb^n = 68918

$\dfrac{99000 + 117600}{220000} \times 70000$

Gain 732

Rule 11 :- Date of Interest and Date of Sale are Same :- (Refer Q305)

When interest due date (or Collection date) and Sale of Debentures date is Same, then We should follow this Sequence :-

- ☞ First Sale of Debn & Collect Interest on Sold Debn from Buyer
- ☞ Then, Collect Interest from issuing Company on Remaining Debentures.

Example 10 FY ending is 31/3/26 (25-26), Interest is due on every Jan beginning and July beginning.

On 1st April, Investor holds 2000 no. of Bonds at Carrying Value of 194600

On 1st June, Purchased 3000 no. of Bonds at 102 Cum Interest price & paid 1% Brokerage on Cum Interest

On 1st July, Sold 1500 no. of Bonds at 103 Cum Inter. (Paid 1% Brokerage on Cum Interest)

On 1/Sep, Purchased 500 no. of Bonds at 101 Ex Interest (Paid 1% Brokerage on Cum Interest)

On 1/Feb, Sold 2200 no. of Bonds at 102 Ex Interest (Paid 1% Brokerage on Cum Interest)

Interest Rate = 12% Pa. (Apply FIFO)

Investment in 12% Bonds

Date	Particulars	Nominal Value	Interest	Amt.	Date	Particulars	Nominal Value	Inter.	Amt.
1/4/25	To Balan. b/d	200000	6000	194600	1/7	By Bank	150000	9000	143955
1/6/25	To Bank	300000	15000	294060	1/7	By Loss	–	–	1995
1/9/25	To Bank	50000	1000	51015	1/7	By Bank	–	21000	–
					1/1	By Bank	–	24000	–
1/Feb	To Gain	–	–	6850	1/Feb	By Bank	220000	2200	222134
					31/3	By Bal. c/d	180000	5400	178441
31/3	To P&L	–	39600	–					
		550000	61600	546525			550000	61600	546525

Working Notes:-

1) 1/4/25 ⇒ Interest receivable on 2000 no. for 3 months

$$2000 \times 100 \times 12\% \times \frac{3}{12} = 6000$$

2) 1/June/25 ⇒ Purchase 3000 no. @ 102 Cum = 306000

(+) Brokerage @ 1% = 3060

(−) Interest for 5 months = (15000)

$3000 \times 100 \times 12\% \times 5/12$

294060

3) 1/July ⇒ Sale of 1500 no @ 103 Cum Interest = 154500

(−) Brokerage 1% = (1545)

(−) Interest Collected 6 months = (9000)

1500 × 100 × 12% × 6/12

(Ex-Price) Net Sale Value = 143955

(−) Cost of 1500 no. $\frac{194600}{200\cancel{00}} \times 150\cancel{00}$ = (145950)

Loss = 1995

4) Interest Collection on 1/July

350000 × 12% × 6/12 = 21000

5) Purchased on 1/9

Purchase of 500 no. @ 101 Ex Interest = 50500

(+) Interest for 2 months (500×2) = 1000

Cum Int. 51500

(+) Brokerage @ 1% 515

52015

(−) Interest for 2 month = (1000)

51015

6) Interest Collection on 1/Jan (For 6 months)

400000 × 12% × 6/12 = 24000/-

7) 1 Feb Sale of 2200 no.

Sale of 2200 no. @ 102 ex Inter. = 224400
(+) Interest Collected for 1 month = 2200
$2200 \times 100 \times 12\% \times \frac{1}{12}$

Cum Interest Value = 226600

(−) Brokerage @ 1% on Cum Inter. = (2266)

224334

(−) Interest Collected = (2200)

Net Sale proceeds (Ex Int.) = 222134

Cost of 2200 no. of Bonds

Cost of 500 no. = $\frac{194600}{2000} \times 500$ = (48650)

Cost of 1700 no. = $\frac{294060}{3000} \times 1700$ = (166634)

Gain = 6850

8) 31/3 ⇒ Interest accrued on ₹180000 Bonds for 3 months

$180000 \times 12\% \times 3/12 = 5400$

Rule 12 :- Conversion OF Debentures / Bonds into Equity Shares (Refer Q403 & Q404)

When Convertible Debenture is Converted into Equity Shares then Investor will get New Equity Shares. Investor shall De-Recognise the Investment in Debentures to the extent of Conversion.

Cost OF Such Equity Shares (Received on Conversion) = Carrying amt. OF Debentures Converted.

Also, Interest on Such Converted Debentures Shall be Collected on the date of Conversion.

Example 11 :- On 1/4/20X1, Mr. Kalash has 5000 Debn OF 100 each (FV) at Cost 535000.
Interest is payable on every 30/Sep & 31/3

On 1/7, 20% Holding has been Converted into equity shares of 10 each. Mr. Kalash got 4000 no. of equity Shares. Debn Interest = 10% P.a.

Solution :-

$$\text{Cost OF New Equity Shares} = \frac{535000}{5000} \times 1000 = 107000$$

Interest Collected on 1/7 (on 1000 Debn Converted) = 2500/- (3 months)

7) Misc. Rules For Shares & Debentures

- Investments should always be recorded at Actual Acquisition Cost and Not at Face Value.
- Brokerage paid at the time of purchase shall be added to Cost and paid at the time of Sale shall be deducted from Sale proceeds.
- Brokerage Calculation :- if nothing is Specified, Calculate on actual Cost and not on Face value.

★ In Q306, Brokerage is 1%, but not Specified on Cum price (or) Ex price. In Such Case, Calculate Brokerage on the Value given in Transaction.

8) Reclassification Of Investments (Refer Q103)

Current Reclassified to LT	LT Reclassified to Current
If Current Investments are Re-Classified into LT, then Value should be :- Lower of :- • Cost (OR) • Market Value	If LT Investments are Re-classified into Current, then Value should be :- Lower of :- • Cost (OR) • Carrying Amt.