

AS 13: ACCOUNTING FOR INVESTMENTS

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"If People are not Laughing at your Goals, your Goals are too Small."

-Azim Premji

<p>Meaning</p>	<p>Investments are assets held by an enterprise for:</p> <ul style="list-style-type: none"> ✓ Earning income by way of dividends, interest, and rentals, ✓ Capital appreciation, or ✓ Other benefits <p>to the investing enterprise. Note: Assets held as stock-in-trade are not 'investments'.</p>	
<p>Non Applicability</p>	<p>This Standard does not deal with:</p> <ul style="list-style-type: none"> ❖ Bases for recognition of interest, dividends and rentals earned on investments which are covered by AS:9 on Revenue Recognition ❖ 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 	
<p>Forms of Investments</p>	<p>→ Some investments have no physical existence and are represented merely by certificates or similar documents (e.g., shares) while others exist in a physical form (e.g., buildings).</p> <p>→ For some investments, an active market exists from which a market value can be established. For such investments, market value generally provides the best evidence of fair value. For other investments, an active market does not exist and other means are used to determine fair value.</p>	
<p>Investment Properties</p>	<p>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. <i>An enterprise holding investment properties should account for them in accordance with cost model as prescribed in AS 10,</i></p>	
<p>Meaning of Fair Value</p>	<p>It is the amount for which an asset could be exchanged between a knowledgeable, willing buyer & a knowledgeable, willing seller in an arm's length transaction. Under appropriate circumstances, market value or net realisable value provides evidence of fair value.</p>	
<p>Meaning of Market Value</p>	<p>It 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.</p>	
<p>Classification of Investments</p>	<p>Current Investment</p>	<p>It 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.</p>
	<p>Long Term Investment</p>	<p>It is an investment other than a current investment.</p>

COST OF INVESTMENTS	
Direct Purchase	The cost of an investment includes acquisition charges such as brokerage, fees and duties.
In exchange for share /Other Securities	Cost of Investment is <ul style="list-style-type: none"> ➤ Fair Market Value (FMV) of Securities issued or ➤ Fair Market Value (FMV) of the Investment acquired whichever is more clearly evident.
Note PARA 13	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.
CARRYING AMOUNT OF INVESTMENTS	
Current Investments	<p>Lower of Cost and Fair value. Lower can be on Individual basis or category wise (i.e. equity shares, debentures, preference shares etc.) but not on global/overall basis. However, the more prudent and appropriate method is to carry investments individually at the lower of cost and fair value.</p> <p>Any reduction to fair value is debited to profit and loss account, however, if fair value of investment is increased subsequently, the increase in value of current investment up to the cost of investment is credited to the P&L A/c (and excess portion, if any, is ignored).</p>
Long Term Investments	<p>Usually Carried at cost. Valuation determined on Individual investment basis. Where there is a decline, other than temporary, in the carrying amounts of long term investments, the resultant reduction in the carrying amount is charged to the P&L A/c. The reduction in carrying amount is reversed when there is a rise in the value of the investment, or if the reasons for the reduction no longer exist.</p> <p>Indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.</p>
RECLASSIFICATION OF INVESTMENTS	
Reclassified from Long Term to Current	Reclassified from Current to Long Term
Transfers are made at the lower of cost and carrying amount at the date of transfer	Transfers are made at the lower of cost and fair value at the date of transfer.
DISPOSAL OF INVESTMENTS	
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.	

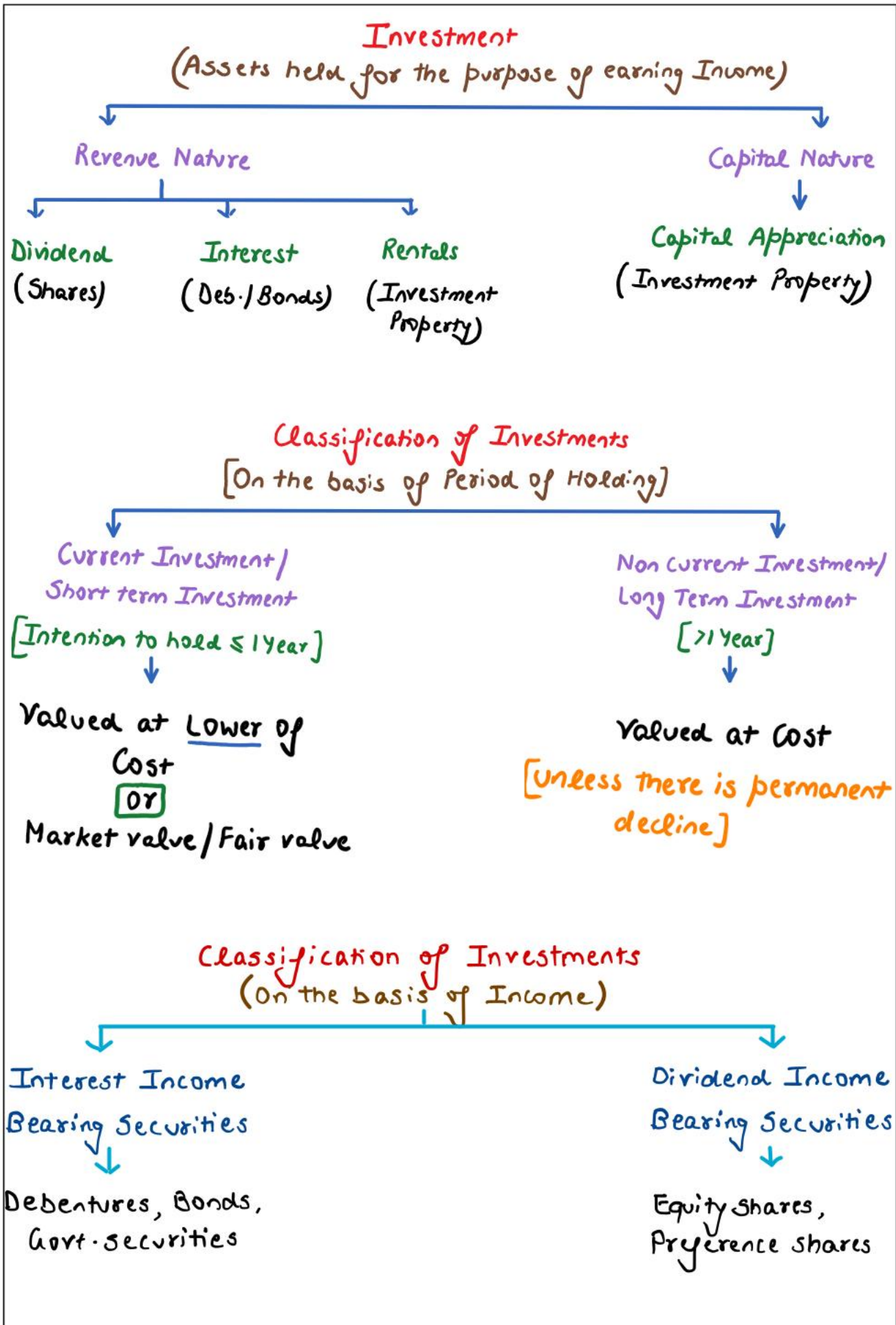
DISCLOSURE REQUIREMENTS

Following disclosures in financial statements in relation to investments are appropriate: -

- (i) The accounting policies for the determination of carrying amount of investments.
- (ii) The amounts included in profit and loss statement for:
 - a. Interest, dividends (showing separately dividends from subsidiary companies), and rentals on investments showing separately such income from long term and current investments. Gross income should be stated, the amount of income tax deducted at source being included under Advance Taxes Paid.
 - b. Profits and losses on disposal of current investments and changes in carrying amount of such investments.
 - c. Profits and losses on disposal of long term investments and changes in the carrying amount of such investments.
- (iii) Significant restrictions on the right of ownership, realizability of investments or the remittance of income and proceeds of disposal.
- (iv) The aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments.
- (v) Other disclosures as specifically required by relevant statute governing the enterprise.

Valuation of Investments

	Cost	Market/ Fair value
<u>Inv. in Equity shares</u>		
A ₁	40	45
A ₂	50	48
A ₃	60	54
<u>Inv. in Mutual Funds</u>		
MF ₁	30	25
MF ₂	40	50



Interest Income Bearing Securities

- | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>1) Purchase of Investment</p> <p style="padding-left: 20px;">Investment A/c - Dr.</p> <p style="padding-left: 20px;">* Interest on Inv. A/c - Dr.</p> <p style="padding-left: 40px;">To Bank A/c</p> | <p>2) Receipt of Interest</p> <p style="padding-left: 20px;">Bank A/c - Dr.</p> <p style="padding-left: 40px;">To Interest on Inv.</p> <p style="padding-left: 20px;">(Calculated on Holding on Date of Int)</p> |
| <p>3) Sale of Investment</p> <p style="padding-left: 20px;">Bank A/c - Dr.</p> <p style="padding-left: 40px;">To Investment A/c</p> <p style="padding-left: 40px;">To Interest on Inv. A/c *</p> | <p>4) Profit/Loss on Sale</p> <p style="padding-left: 20px;">Profit: Investment A/c - Dr.</p> <p style="padding-left: 40px;">To P&L A/c</p> <p style="padding-left: 20px;">Loss: P&L A/c - Dr.</p> <p style="padding-left: 40px;">To Investment</p> |
- * (Calculated from Last Interest date till Transaction date)

Notes:

- 1) Interest is always calculated on Face value
- 2) Transaction can be Ex-Interest or Cum-Interest

Ex-Interest	: Excluding Interest	[If silent, assume]
Cum-Interest	: Including Interest	
- 3) Cost of Investment

Purchase cost	xx
+ Brokerage / Commission	xx
+ Stamp Duty	xx
	xx
- 4) Incidental Expenses like brokerage, commission, etc.

Purchase: +	Sale: -
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- 5) Brokerage / Commission as a % calculated on transaction price
- 6) In case of Cum-Interest : Interest to be deducted while calculating Purchase cost & Sale proceeds.
- 7) **Accrued Interest:**
Only when Interest Payment date & Year End date do not match
- 8) **Transaction & Interest Payment on same day:**
Consider Transaction first & then Interest.
- 9) **If Ques. is silent about FIFO or Weighted Average:**
Assume any method → Prefer FIFO

Dividend Income Bearing Securities

1) Original shares



No. of shares 100000
 Face value 10
 Issue Price 20

(A)

Inv. in Equity Shares of X Ltd. A/c - Dr 1L X 20
 To Bank A/c 1L X 20

(X Ltd.)

Bank A/c - Dr 1L X 20
 To Equity Share Cap. A/c 1L X 10
 To Securities Premium A/c 1L X 10

2) Bonus shares : Shares issued free of cost

Original shares 100000

Bonus scheme 1 for every 2

Bonus Shares = $1L \times \frac{1}{2} = 50000$ shares

(A)

No Entry for Bonus Issue. Only no. of Shares
 will increase which reduces cost/share

(X Ltd.)

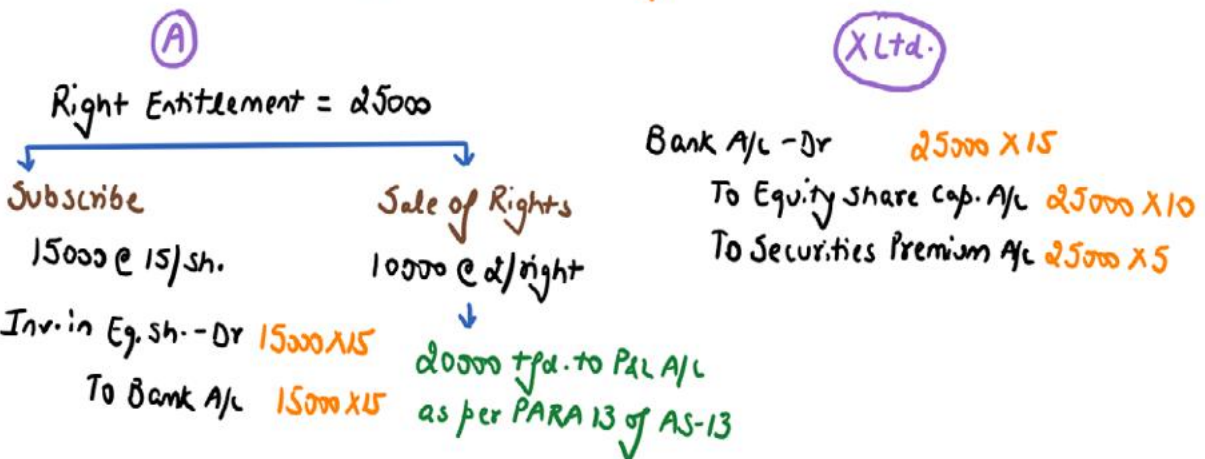
Reserves & Surplus A/c - Dr 50000 X 10
 To Equity Share Cap. A/c 50000 X 10

3) Right Shares : Offer given to existing shareholders to purchase shares at concessional rate. Shareholders can subscribe shares or they can sell their rights to outsiders.

Original shares = 100000

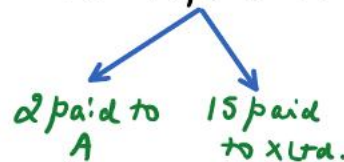
Right Issue = 1 for every 4 @ 15/share

Right shares = $1L \times \frac{1}{4} = 25000$ shares



Note: Person (B) purchasing right from A

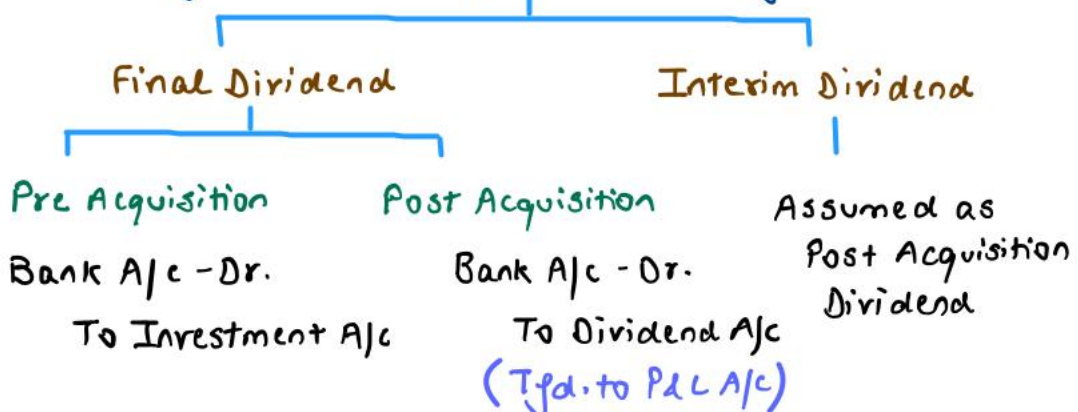
Total Cost of Investment to B = 17 per share



Inv. in Equity shares of X Ltd. A/c - Dr 10000 x 17
To Bank A/c 10000 x 17

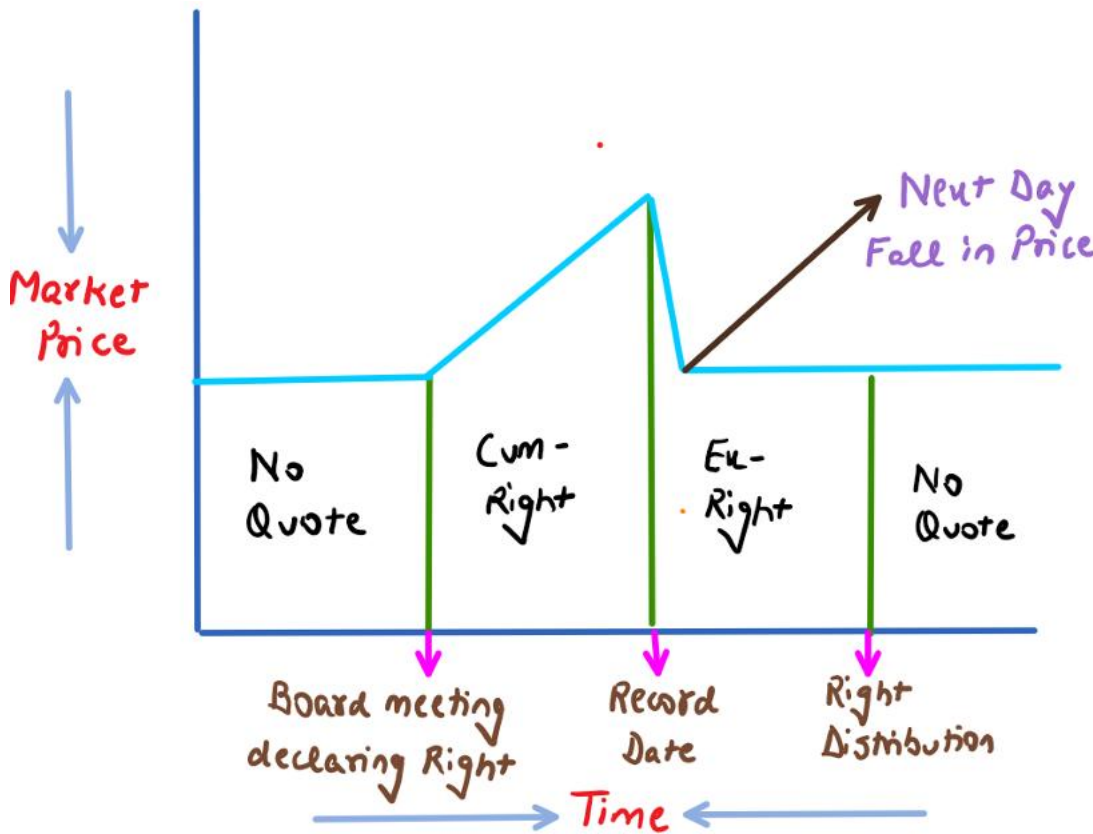
Dividend

(No. of shares x Paid up value x Rate of Dividend)



CUM RIGHT PURCHASE: (Exception to Para 13 of AS 13)

PARA 13 of AS 13: 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.



Example:

Cum Right Price of share = 12000

Ex-Right Price of share = 10000

So sale of right upto maximum of 2000 will be credited to Investment A/c. (Cost of Investment will reduce)

Any excess will be profit on sale of right. (trfd. to P&L A/c)

Case 1: Right sale = 3000 → 2000 credited to Investment A/c
 → 1000 credited / trfd. to P&L A/c

Case 2: Right sale = 1500 → 1500 credited to Investment A/c

ASSIGNMENT QUESTIONS

TOPIC 1: INTEREST INCOME BEARING SECURITIES

Question 1 _____ Pg no. _____

Mr. Tushil purchased 1,000 nos. 10% debentures of ₹ 100 each on 1st April, 2021 at ₹ 96 cum-interest, the previous interest date being 31st December, 2020. Compute cost of investment & pass journal entry.

Question 2 *(ICAI Study Material)* _____ Pg no. _____

Mr. Purohit furnishes the following details relating to his holding in 8% Debentures (₹ 100 each) of P Ltd., held as Current assets:

1.4.2021	Opening balance – Face value ₹ 1,20,000, Cost ₹ 1,18,000
1.7.2021	100 Debentures purchased ex-interest at ₹ 98
1.10.2021	Sold 200 Debentures ex-interest at ₹ 100
1.1.2022	Purchased 50 Debentures at ₹ 98 ex-interest
1.2.2022	Sold 200 Debentures ex-interest at ₹ 99

Due dates of interest are 30th September and 31st March.

Mr. Purohit closes his books on 31.3.2022. Brokerage at 1% is to be paid for each transaction (at ex-interest price). Show Investment account as it would appear in his books. Assume FIFO method. Market value of 8% Debentures of P Limited on 31.3.2022 is ₹ 99.

Question 3 *(RTP Nov 2020) (Similar) / ICAI Study Material* _____ Pg no. _____

In 2020, M/s. Wye Ltd. issued 12% fully paid debentures of ₹ 100 each, interest being payable half yearly on 30th September and 31st March of every accounting year.

On 1st December, 2021, M/s. Bull & Bear purchased 10,000 of these debentures at ₹ 101 ex-interest price, also paying brokerage @ 1% of ex-interest amount of the purchase. On 1st March, 2022 firm sold all of these debentures at ₹ 103 ex-interest price, again paying brokerage @ 1% of ex-interest amount. Prepare Investment Account in books of M/s. Bull & Bear for the period 1st Dec, 2021 to 1st Mar, 2022.

Question 4 *(ICAI Study Material)* _____ Pg no. _____

The following information is presented by Mr. Z (stock broker), relating to his holding in 9% Central Government Bonds.

Opening balance (nominal value) ₹ 1,20,000, Cost ₹ 1,18,000 (Nominal value of each unit is ₹ 100).

1.3.2021	Purchased 200 units, ex-interest at ₹ 98.
1.7.2021	Sold 500 units, ex-interest out of original holding at ₹ 100.
1.10.2021	Purchased 150 units at ₹ 98, cum interest.
1.11.2021	Sold 300 units, ex-interest at ₹ 99 out of original holdings.

Interest dates are 30th September & 31st March. Mr. Z closes his books every 31st December. Show the investment account as it would appear in his books. Mr. Z follows FIFO method.

Question 5 _____ Pg no. _____

Prepare Investment A/c in the above question assuming weighted average method is being followed.

Question 6 - *(RTP May 2023)* _____ Pg no. _____

Remo Ltd. held on 1st April, 2021, 1000 9% Government Securities at ₹ 90,000 (Face Value of Security ₹ 100 each). Three month's interest had accrued on the above date. On 1st May, the company purchased the same Government Securities of the face value of ₹ 80,000 at ₹ 95 cum-interest. On 1st June, ₹ 60,000 face value of the security was sold at ₹ 94 cum-interest. Interest on the security was paid each year on 30th June and 31st December and was credited by the bank on the same date. On 30th September, ₹ 40,000 face value of the Govt. securities were sold at ₹ 97 cum-interest. On 1st December, the company purchased the same security ₹ 10,000 at par ex-interest. On 1st March, the company sold ₹ 10,000 face value of the government securities at ₹ 95 ex-interest.

You are required to draw up the 9% Government Security Account in the books of Remo Limited. FIFO method shall be followed.

Calculation shall be made to the nearest rupee or multiple thereof.

TOPIC 2: DIVIDEND INCOME BEARING SECURITIES**Question 7** *(ICAI Study Material)* _____ Pg no. _____

Mr. X purchased 500 equity shares of ₹100 each in Omega Company Limited for ₹ 62,500 inclusive of brokerage and stamp duty. Some years later the company decided to capitalise its profits and to issue to the holders of equity shares one equity share as Bonus for every equity share held by them. Prior to capitalization, the shares of Omega Company Limited were quoted at ₹ 175 per share. After the capitalization, the shares were quoted at ₹ 92.50 per share. Mr. X sold the Bonus shares and received ₹90 per share. Prepare Investment A/c in X's books on average cost basis.

Question 8 *(ICAI Study Material)* _____ Pg no. _____

On 1.4.2021, Mr. Krishna Murty purchased 1,000 equity shares of ₹ 100 each in TELCO Ltd. @ ₹ 120 each from a Broker, who charged 2% brokerage. He incurred 50 paise per ₹ 100 as cost of shares transfer stamps. On 31.1.2022 Bonus was declared in the ratio of 1:2. Before and after the record date of bonus shares, the shares were quoted at ₹ 175 per share & ₹ 90 per share respectively. On 31.3.2022 Mr. Krishna Murty sold bonus shares to a Broker, who charged 2% brokerage.

Prepare Investment Account in the books of Mr. Krishna Murty, who held shares as Current assets & closing value shall be made at Cost or Market value whichever is lower.

Question 9 *(ICAI Study Material) / (RTP Nov 2023) (Similar)* _____ Pg no. _____

On 1st April, 2021, Rajat has 50,000 equity shares of P Ltd. at a book value of ₹ 15 per share (nominal value ₹ 10 each).

He provides you the further information:

On 20th June, 2021 he purchased another 10,000 shares of P Ltd. at ₹ 16 per share.

On 1st August, 2021, P Ltd. issued one equity bonus share for every six shares held by the shareholders.

On 31st October, 2021, the directors of P Ltd. announced a right issue which entitles the holders to subscribe three shares for every seven shares at ₹ 15 per share. Shareholders can transfer their rights in full or in part. Rajat sold 1/3rd of entitlement to Umang for a consideration of ₹ 2 per share and subscribed the rest on 5th November, 2021.

You are required to prepare Investment A/c in the books of Rajat for the year ending 31st March, 2022.

Question 10

Pg no. _____

On 1st January 2021, Singh had 20,000 equity shares in X Ltd. Face value of the shares was ₹ 10 each but their book value was ₹ 16 per share. On 1st June 2021, Singh purchased 5,000 more equity shares in the company at a premium of ₹ 4 per share.

On 30th June, 2021, the directors of X Ltd. announced a bonus and rights issue. Bonus was declared at the rate of one equity share for every five shares held and these shares were received on 2nd August, 2021. The terms of the rights issue were:

- Rights shares to be issued to the existing holders on 10th August, 2021.
- Rights issue would entitle the holders to subscribe to additional equity shares in the Company at the rate of one share per every three held at ₹ 15 per share-the whole sum being payable by 30th September, 2021.
- Existing shareholders may, to the extent of their entitlement, either wholly in part, transfer their rights to outsiders.
- Singh exercised his option under the issue for 50% of his entitlements and the balance of rights he sold to Ananth for a consideration of ₹ 1.50 per share.
- Dividends for the year ended 31st March, 2021, at the rate of 15% were declared by the Company and received by Singh on 20th October, 2021.
- On 1st November, 2021, Singh sold 20,000 equity shares at a premium of ₹ 3 per share. The market price of share on 31-12-2021 was ₹ 13. Show the Investment Account as it would appear in Singh's books on 31-12-2021 and the value of shares held on that date.

Question 11 *(RTP May 2020)*

Pg no. _____

Meera carried out the following transactions in the shares of Kumar Ltd.:

- On 1st April, 2021 she purchased 40,000 equity shares of ₹ 1 each fully paid up for ₹ 60,000.
- On 15th May 2021, Meera sold 8,000 shares for ₹ 15,200.
- At a meeting on 15th June 2021, the company decided:
 - To make bonus issue of 1 fully paidup share for every 4 shares held on 1st June 2021 &
 - To give its members the right to apply for one share for every five shares held on 1st June 2021 at a price of ₹ 1.50 per share of which 75 paise is payable on or before 15th July 2021 and the balance, 75 paise per share, on or before 15th September, 2021.

The shares issued under (i) and (ii) were not to rank for dividend for the year ending 31st December 2021.

- Meera received his bonus shares and took up 4000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paise per share; the proceeds were received on 30th September 2021.
- On 15th March 2022, he received a dividend from Kumar Ltd. of 15 per cent in respect of the year ended 31st Dec 2021.
- On 30th March he received ₹ 28,000 from the sale of 20,000 shares

You are required to record these transactions in the Investment Account in Meera's books for the year ended 31st March 2022 transferring any profits or losses on these transactions to Profit and Loss account. Apply average cost basis. Expenses and tax to be ignored.

Question 12 *(Inter May 2018) (10 Marks)*

Pg no. _____

Mr. Vijay entered into the following transactions of purchase and sale of equity shares of JP Power Ltd. The shares have paid up value of ₹ 10 per share.

Date	No. of Shares	Terms
01.01.2021	600	Buy @ ₹ 20 per share
15.03.2021	900	Buy @ ₹ 25 per share
20.05.2021	1000	Buy @ ₹ 23 per share

25.07.2021	2500	Bonus Shares received
20.12.2021	1500	Sale @ ₹ 22 per share
01.02.2022	1000	Sale @ ₹ 24 per share

Addition information:

- 1) On 15.09.2021 dividend @ ₹ 3 per share was received for the year ended 31.03.2021.
 - 2) On 12.11.2021 company made a right issue of equity shares in the ratio of one share for five shares held on payment of ₹ 20 per share. He subscribed to 60% of the shares and renounced the remaining shares on receipt of the premium of ₹ 3 per share.
 - 3) Shares are to be valued on weighted average cost basis.
- You are required to prepare Investment Account for the year ended 31.03.2021 and 31.03.2022.

Question 13

Pg no. _____

A Limited purchased 5,000 equity shares (face value ₹ 100 each) of Allianz Limited for ₹ 105 each on 1st April, 2021. The shares were quoted cum dividend. On 15th May, 2021, Allianz Limited declared & paid dividend of 2% for year ended 31st March, 2021.

On 30th June, 2021 Allianz Limited issued bonus shares in ratio of 1:5. On 1st October, 2021 Allianz Limited issued rights share in the ratio of 1:12 @ 45 per share.

A limited subscribed to half of the rights issue and the balance was sold at ₹ 5 per right entitlement. The company declared interim dividend of 1% on 30th November, 2021.

Right shares were not entitled to dividend.

The company sold 3,000 shares on 31st December, 2021 at ₹ 95 per share. The company A Ltd. incurred 2% as brokerage while buying and selling shares.

Prepare Investment Account in books of A Ltd. for the year ended 31st March, 2022.

TOPIC 3: INVESTMENT IN INTEREST & DIVIDEND BEARING SECURITIES**Question 14**

Pg no. _____

The following transactions of Nidhi took place during the year ended 31st March 2022:

Apr 1	Purchased ₹ 12,00,000, 8% bonds at ₹ 80.50 cum-interest. Interest is payable on 1 st November and 1 st May.
Apr 12	Purchased 1,00,000 equity shares of ₹ 10 each in X Ltd. for ₹ 40,00,000
May 1	Received half-year's interest on 8% bonds.
May 15	X Ltd. made a bonus issue of three equity shares for every two held. Nidhi sold 1,25,000 bonus shares for ₹ 20 each
Oct 1	Sold ₹ 3,00,000, 8% bonds at ₹ 81 ex- interest
Nov 1	Received half-year's bond interest.
Dec 1	Received 18% interim dividend on equity shares (including bonus shares) in X Ltd.

Prepare relevant investment account in the books of Nidhi for the year ended 31st March, 2022.

Question 15 (Inter July 2021) (20 Marks)

Pg no. _____

Mr. Z has made following transactions during the financial year 2020-21:

Investment 1: 8% Corporate Bonds having face value ₹ 100.

Date	Particulars
1.06.2020	Purchased 36,000 Bonds at ₹ 86 cum-interest. Interest is payable on 30th September and 31st March every year
15.02.2021	Sold 24,000 Bonds at ₹ 92 ex-interest

Interest on the bonds is received on 30th September and 31st March.

Investment 2: Equity Shares of G Ltd having face value ₹ 10

Date	Particulars
01.04.2020	Opening balance 8,000 equity shares at a book value of ₹ 190 per share
01.05.2020	Purchased 7,000 equity shares @ ₹ 230 on cum right basis; Brokerage of 1% was paid in addition.
15.06.2020	The company announced a bonus issue of 2 shares for every 5 shares held
01.08.2020	The company made a rights issue of 1 share for every 7 shares held at ₹ 230 per share. The entire money was payable by 31.08.2020
25.08.2020	Rights to the extent of 30% of his entitlements was sold @ ₹ 75 per share. The remaining rights were subscribed.
15.09.2020	Dividend @ ₹ 6 per share for the year ended 31.03.2020 was received on 16.09.2020. No dividend payable on Right issue and Bonus issue.
01.12.2020	Sold 7,000 shares @ 260 per share. Brokerage of 1% was incurred extra.
25.01.2021	Received interim dividend @ ₹ 3 per share for the year 2020-21.
31.03.2021	The shares were quoted in the stock exchange @ ₹ 260.

Both investments have been classified as Current investment in the books of Mr. Z. On 15th May 2021, Mr. Z decides to reclassify investment in equity shares of G Ltd. as Long term Investment. On 15th May 2021, shares were quoted in the stock exchange @ ₹ 180.

You are required to:

- Prepare Investment Accounts in the books of Mr. Z for the year 2020-21, assuming that the average cost method is followed.
- Profit and loss Account for the year 2020-21, based on the above information.
- Suggest values at which investment in equity shares should be reclassified in accordance with AS 13.

Question 16 (RTP May 2019)

Pg no. _____

A Ltd. purchased on 1st April, 2021 8% convertible debenture in C Ltd. of face value of ₹ 2,00,000 @ ₹ 108. On 1st July, 2021 A Ltd. purchased another ₹ 1,00,000 debenture @ ₹ 112 cum interest.

On 1st October, 2021 ₹ 80,000 debenture was sold @ ₹ 105. On 1st December, 2021, C Ltd. give option for conversion of 8% convertible debentures into equity share of ₹ 10 each. A Ltd. receive 5,000 equity shares in C Ltd. in conversion of 25% debenture held on that date. The market price of debenture and equity share in C Ltd. at the end of year 2021 is ₹ 110 and ₹ 15 respectively.

Interest on debenture is payable each year on 31st March, and 30th September. The accounting year of A Ltd. is calendar year. Prepare investment account in the books of A Ltd. on average cost basis.

TOPIC 4: CUM RIGHT PURCHASE**Question 17 (RTP Nov 2020)**

Pg no. _____

Mr. X acquires 200 shares of a company on cum right basis for ₹ 60,000. He subsequently receives an offer of right to acquire fresh shares in the company in the proportion of 1:1 at ₹ 105 each. He does not subscribe but sells all the rights for ₹ 15,000. The market value of the shares after their becoming ex-rights has also gone down to ₹ 50,000. What should be the accounting treatment in this case?

Solution

As per AS 13, 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. In this case, the amount of the ex-right market value of 200 shares bought by X immediately after the declaration of rights falls to ₹ 50,000.

In this case out of sale proceeds of ₹ 15,000, ₹ 10,000 may be applied to reduce the carrying amount to bring it to market value ₹ 50,000 and ₹ 5,000 would be credited to the Profit & Loss account.

Question 18 *(RTP May 2021)*

Pg no. _____

On 1st April, 2021 Mr. Shyam had an opening balance of 1000 equity shares of X Ltd ₹ 1,20,000 (face value ₹100 each). On 5.04.2021 he further purchased 200 cum-right shares for ₹ 135 each. On 8.04.2021 the director of X Ltd announced right issue in the ratio of 1:6.

Mr. Shyam waived off 100% of his entitlement of right issue in the favour of Mr. Rahul at the rate of ₹ 20 each. All the shares held by Shyam had been acquired on cum right basis and the total market price (ex-right) of all these shares after the declaration of rights got reduced by ₹ 3,400.

On 10.10.2021 Shyam sold 350 shares for ₹ 140 each.

On 31.03.2022, the market price of each share is ₹ 125 each.

You are required to prepare the Investment account in the books of Mr. Shyam for the year ended 31.03.2022 assuming that the shares are being valued at average cost.

PRACTICE QUESTIONS

TOPIC 1: INTEREST INCOME BEARING SECURITIES

Question 1 *(Inter Nov 2023) (10 Marks)* _____ Pg no. _____

Following information is given by Mr. Happy (stock broker) relating to his holding in 10% Government Bonds:

- a) Opening Balance as 1st April, 2022 was 5,000 units (Nominal value ₹ 100 each), Cost ₹ 4,85,000
- b) On 1st June, 2022, Purchased 600 units, cum-interest @ ₹ 99
- c) On 1st August, 2022, Purchased 2400 units, ex-interest @ ₹ 97.50
- d) On 1st October, 2022, Sold 2,500 units @ ₹ 98.50, ex-interest
- e) On 1st January, 2023, Sold 3,000 units @ ₹ 99 cum interest

Interest is received on 30th June and 31st December each year. Mr. Happy closes his books on 31st March each year.

Prepare Investment Account in the books of Mr. Happy assuming that FIFO method of valuation is followed by Mr. Happy.

Question 2 *(RTP May 2022)* _____ Pg no. _____

Mr. Wise had 12% Debentures of Face Value ₹ 100 of M/s. Alpha Ltd. as current investments. He provides the following details relating to the investments.

Date	Particulars
1-4-2021	Opening balance 4000 debentures costing ₹ 98 each
1-6-2021	Purchased 2000 debentures @ ₹ 120 cum interest
1-9-2021	Sold 3000 debentures @ ₹ 110 cum interest
1-12-2021	Sold 2000 debentures @ ₹ 105 ex interest
31-1-2022	Purchased 3000 debentures @ ₹ 100 ex interest
31-3-2022	Market value of the investments ₹ 105 each

Interest due dates are 30th June and 31st December.

Mr. Wise closes his books on 31-3-2022. He incurred 2% brokerage for all his transactions.

Show investment account in the books of Mr. Wise assuming FIFO method is followed.

Question 3 *(Inter Nov 2019) (10 Marks)* _____ Pg no. _____

Mr. Harsh provides the following details relating to his holding in 10% debentures (face value of ₹ 100 each) of Exe Ltd., held as current assets:

1.4.2021	Opening balance - 12,500 debentures, cost ₹ 12,25,000
1.6.2021	Purchased 9,000 debentures @ ₹ 98 each ex-interest
1.11.2021	Purchased 12,000 debentures @ ₹ 115 each cum-interest
31.1.2022	Sold 13,500 debentures @ ₹ 110 each cum-interest
31.3.2022	Market value of debentures @ ₹ 115 each

Due dates of interest are 30th June and 31st December. Brokerage at 1% is to be paid for each transaction. Mr. Harsh closes his books on 31.3.2022. Show investment account as it would appear in his books assuming FIFO method is followed.

Question 4 *(RTP May 2018) / (RTP Nov 2022)* _____ Pg no. _____

Muskaan purchased 5,000, 13.5% Debentures of Face Value of ₹ 100 each of Shorya Ltd. on 1st May 2021 @ ₹ 105 on cum interest basis. The interest on these instruments is payable on 31st

& 30th of March & September respectively. On August 1st 2021 she again purchased 2,500 of such debentures @ ₹ 102.50 each on cum interest basis. On October 1st, 2021 she sold 2,000 Debentures @ ₹ 103 each. The market value of the debentures as at the close of the year was ₹ 106.

Prepare the Debenture Investment Account in the books of Muskaan for the year ended 31st Dec. 2021 on Average Cost Basis.

Question 5 *(RTP May 2024)* Pg no. _____

ABC Ltd. holds 2,000, 15% Debentures of ₹ 100 each in XYZ Ltd. as on April 1, 2022 at a cost of ₹ 2,50,000.

Interest is payable on June, 30 and December, 31 each year.

Following are the details of 15% Debentures purchased and sold during the year 2022-23.

Date	Particulars
On May 1, 2022	1,000 debentures are purchased cum-interest at ₹ 1,05,000
On November 1, 2022	1200 debentures are sold ex-interest at ₹ 1,28,200
On November 30, 2022	500 debentures are purchased ex-interest at ₹ 54,500
On December 31, 2022	900 debentures are sold cum-interest for ₹ 1,18,000

You are required to prepare the investment Account showing value of holdings on 31st March 2023 at cost, using FIFO Method.

TOPIC 2: DIVIDEND INCOME BEARING SECURITIES

Question 6 *(Inter Sep 2024) (4 Marks)* Pg no. _____

On 01.04.2023, Mr. Day has 25,000 shares of Squares Ltd. at a book value of ₹ 25 per share (nominal value of ₹ 10 each). Further information is as under:

- On 31st July 2023, the Directors of Squares Ltd. issued one equity bonus share for every five shares held by the shareholders.
- On 30th September 2023, the Directors of Squares Ltd. announced a right issue which entitled the holders to subscribe three shares for every two shares at ₹ 20 per share. Shareholders can transfer their rights in full or in part.

Mr. Day sold 1/4th of entitlement to Dhvani for a consideration of ₹ 5 per share and subscribed the rest on 5th October, 2023.

You are required to prepare Investment A/c in the books of Mr. Day for the year ending 31.03.2024.

Question 7 *(ICAI Study Material)* Pg no. _____

On 1st April, 2021, Mr. Vijay had 30,000 Equity shares in X Ltd. at a book value of ₹ 4,50,000 (Face Value ₹ 10 per share). On 22nd June, 2021, he purchased another 5000 shares of the same company for ₹ 80,000

The Directors of X Ltd. announced a bonus of equity shares in the ratio of one share for seven shares held on 10th August, 2021.

On 31st August, 2021 the Company made a right issue in the ratio of three shares for every eight shares held, on payment of ₹ 15 per share. Due date for the payment was 30th September, 2021, Mr. Vijay subscribed to 2/3rd of the right shares and sold the remaining of his entitlement to Viru for a consideration of ₹ 2 per share.

On 31st October, 2021, Vijay received dividends from X Ltd. @ 20% for the year ended 31st March, 2021. Dividend for the shares acquired by him on 22nd June, 2021 to be adjusted against the cost of purchase.

On 15th November, 2021 Vijay sold 20,000 Equity shares at a premium of ₹ 5 per share.

You are required to prepare Investment Account in the books of Mr. Vijay for the year ended 31st March, 2022 assuming the shares are being valued at average cost.

Question 8 *(Inter Nov 2020) (10 Marks)*

Pg no. _____

On 1st April, 2021 Mr. H had 30,000 equity shares of ABC Ltd. at a book value of ₹ 18 per share (Nominal value 10 per share). On 10th June, 2021, H purchased another 10,000 equity shares of the ABC Ltd. at ₹ 16 per share through a broker who charged 1.5% brokerage.

The directors of ABC Ltd. announced a bonus and a right issue. The terms of the issues were as follows:

- (i) Bonus shares were declared at the rate of one equity share for every four shares held on 15th July, 2021.
- (ii) Right shares were to be issued to the existing equity shareholders on 31st August, 2021. The company decides to issue one right share for every five equity share held at 20% premium and the due date for payment will be 30th September, 2021. Shareholders were entitled to transfer their rights in full or in part.
- (iii) No dividend was payable on these issues.

Mr. H subscribed 60% of the rights entitlements and sold the remaining rights for consideration of ₹ 5 per share.

Dividends for the year ending 31st March, 2021 was declared by ABC Ltd. at the rate of 20% and received by Mr. H on 31st October, 2021. On 15th January, 2022 Mr. H sold half of his shareholdings at ₹ 17.50 per share and brokerage was charged @1%.

You are required to prepare Investment account in the books of Mr. H for the year ending 31st March, 2022, assuming the shares are valued at average cost.

Question 9 *(Inter Jan 2021) (10 Marks)*

Pg no. _____

P Ltd. had 8,000 equity shares of K Ltd., at a book value of ₹ 15 per share (face value of ₹ 10 each) on 1st April, 2021. On 1st September, 2021, P Ltd. acquired another 2,000 equity shares of K Ltd. at a premium of ₹ 4 per share. K Ltd. announced a bonus and right issue for existing shareholders.

The term of bonus and right issue were:

- (i) Bonus was declared at the rate of two equity shares for every five shares held on 30th September, 2021.
- (ii) Right shares are to be issued to the existing shareholders on 1st December, 2021. The Company had issued two right shares for every seven shares held at 25% premium on face value. No dividend was payable on these shares. The whole sum being payable by 31st December, 2021.
- (iii) Existing shareholders were entitled to transfer their rights to outsiders either wholly or in part.
- (iv) P Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for ₹ 8 per share.
- (v) Dividend for the year ended 31st March, 2021 at the rate of 20% was declared by K Ltd. and received by P Ltd. on 20th January, 2022.
- (vi) On 1st February, 2022, P Ltd. sold half of its shareholdings at a premium of ₹ 4 per share.
- (vii) The market price of share on 31st March, 2022 was ₹ 13 per share.

You are required to prepare the Investment account of P Ltd. for the year ended 31st March, 2022 and determine the value of shares held on that date, assuming the investment as current investment. Consider average cost basis for ascertainment of cost for equity share sold.

Question 10 (ICAI Study Material) Pg no. _____

On 1.4.2021 Sundar had 25,000 equity shares of X Ltd. at a book value of ₹15 per share (Nominal value ₹10). On 20.6.2021, he purchased another 5,000 shares of the company at ₹ 16 per share. The directors of X Ltd. announced a bonus and rights issue. No dividend was payable on these issues. The terms of issue were as follows:

Bonus-basis 1:6 (16.8.2021)

Rights-basis 3:7 (31.8.2021) price ₹15 per share

Due date for payment - 30.9.2021

Rights are transferable in full or in part. Accordingly, Sundar sold 33.33% of his entitlement to Sekhar for a consideration of ₹2 per share. Dividend for the year ending 31.3.2021 at the rate of 20% was declared by X Ltd & received by Sundar on 31.10.2021. Dividends for the share acquired by him on 20.6.2021 are to be adjusted against the cost of purchase.

On 15.11.2021 Sundar sold 25,000 equity shares at premium of ₹5 per share.

You are required to prepare in the books of Sundar:

- 1) Investment A/c
- 2) Profit & Loss Account

Assume that the books are closed on 31.03.2022 and shares are valued at average cost.

Question 11 (ICAI Study Material) Pg no. _____

On 1st April, 2021 XY Ltd. has 15,000 equity shares of ABC Ltd. at a book value of ₹ 15 per share (nominal value ₹ 10 per share). On 1st June, 2021, XY Ltd. acquired 5,000 equity shares of ABC Ltd. for ₹ 1,00,000. ABC Ltd. announced a bonus and right issue.

- (1) Bonus was declared, at the rate of 1 equity share for every 5 shares held, on 1st July 2021.
- (2) Right shares are to be issued to the existing shareholders on 1st September 2021. The company will issue one right share for every 6 shares at 20% premium.
- (3) No dividend was payable on these shares. Dividend for the year ended 31.3.2021 were declared by ABC Ltd. @ 20%, which was received by XY Ltd. on 31st October 2021.

XY Ltd.

- Took up half the right issue
- Sold the remaining rights for ₹ 8 per share
- Sold half of its shareholding on 1st Jan, 2022 at ₹ 16.50 per share. Brokerage being 1%.

You are required to prepare Investment account of XY Ltd. for the year ended 31st March 2022 assuming the shares are being valued at average cost.

Question 12 (Inter May 2022) (5 Marks) Pg no. _____

On 1st April 2021 Ms. Jayshree has 5,000 equity shares of Rama Limited (a listed company) of face value of ₹ 10 each. Ms. Jayshree has purchased the above shares at ₹ 15 per share and paid a brokerage of 2% and stamp duty of 1%.

On 15th May, 2021 Ms. Jayshree purchased another 5,000 shares of Rama Limited at ₹ 18 including brokerage and stamp duty.

On 26th August, 2021 Rama Limited issued one bonus equity share for every 1 equity share held by the shareholders.

On 23rd October, 2021 Rama Limited announced a Right Issue which entitles the holders to subscribe 1 equity share for every 2 equity shares held at ₹ 20 per share. Shareholders can exercise their rights in full or in part. Ms. Jayshree sold 1/4th of entitlement to Mr. Mike for a consideration of ₹ 10 per share and subscribed the rest on 1st November 2021.

Ms. Jayshree also sold 10,000 shares at ₹ 25 per share on 1st November, 2021. The shares of Rama Limited were quoted at ₹ 11 per share on 31st March, 2022.

You are required to prepare Investment account for Ms. Jayshree for the year ended 31st March 2022.

Question 13 *(Inter Nov 2022) (10 Marks)* Pg no. _____

Mr. Saurabh held 10,000 equity shares of BT Limited on 1st April, 2021. Nominal value of the shares is ₹ 2 each and their book value is ₹ 7 per share.

- On 4th July, 2021 he purchased another 7,500 shares at ₹ 10 each.
- On 31st July 2021 the company announced a Bonus and Right issue.
- Bonus was declared of one share for every five shares held and was received on 5th August, 2021.
- Right issue to be issued on 12th September, 2021, which entitled the holders to subscribe to additional 2 shares for every 7 shares held at ₹ 2 per share. Shareholders were entitled to transfer their rights in full or part. Mr. Saurabh sold whole of his entitlements to Mr. Nihal at ₹ 1.50 per share.
- Dividend was declared for the year ended 31st March, 2021 @ 25% and received by Mr. Saurabh on 19th September 2021.
- On 11th December 2021 Mr. Saurabh sold 7,500 shares at ₹ 8 per share.
- The market price of the shares on 31st March, 2022 was ₹ 7 per share.

You are required to prepare the Investment Account of Mr. Saurabh on 31st March, 2022 considering the above mentioned points, also state the value of shares held on that date. (Assume investment as current investment)

TOPIC 3: INVESTMENT IN INTEREST & DIVIDEND BEARING SECURITIES**Question 14** *(Inter Nov 2018) (10 Marks) / (RTP Nov 2021) (Similar)* Pg no. _____

Following transactions of Nisha took place during the financial year 2021-22

1st April, 2021	Purchased 9,000 8% bonds of ₹ 100 each at ₹ 80.50 cum interest. Interest is payable on 1st November and 1st May.
1st May, 2021	Received half year's interest on 8% bonds.
10 July, 2021	Purchased 12,000 equity shares of ₹ 10 each in Moon Limited for ₹ 44 each through a broker, who charged brokerage @ 2%.
1st Oct 2021	Sold 2,250 8% bonds at ₹ 81 Ex-interest.
1st Nov, 2021	Received half year's interest on 8% bonds.
15th Jan, 2022	Moon Limited made a rights issue of 1 equity share for every 4 Equity shares held at ₹ 5 per share. Nisha exercised the option for 40% of her entitlements and sold the balance rights in the market at ₹ 2.25 per share.
15th Mar, 2022	Received 18% interim dividend on equity shares of Moon Limited.

Prepare separate investment account for 8% bonds and equity shares of Moon Limited in the books of Nisha for the year ended on 31st March, 2022. Assume that the average cost method is followed.

Question 15 *(Inter Dec 2021) (10 Marks)* Pg no. _____

During the year ended 31st March 2021, Purple Ltd. entered into the following transactions:

1 st April, 2020	Purchased ₹ 4,00,000, 10% Govt. Loan (Interest payable on 30 th April and 31 st October) at ₹70 cum interest.
1 st April, 2020	Purchased 6,000 Equity Shares of ₹ 5 each in XY Ltd. for ₹1,26,000.
1 st Oct, 2020	Sold 80,000 10%, Govt. Loan at 75 ex-interest
15 th Jan, 2021	XY Ltd. made a bonus issue of four equity shares for every three shares held. Purple Ltd. sold all of the bonus shares for ₹10 each.
1 st Mar, 2021	Received Dividend @ 22% on shares in XY Ltd. for the year ended 31 st December, 2020.

Prepare Investment Accounts in the books of Purple Ltd.

Question 16 *(RTP Nov 2019)* Pg no. _____

A Pvt. Ltd. follows the calendar year for accounting purposes. The company purchased 5,000 nos. of 13.5% Convertible Debentures of Face Value of ₹ 100 each of P Ltd. on 1st May 2021 @ ₹ 105 on cum interest basis. The interest on these instruments is payable on 31st March & 30th September respectively. On August 1st 2021 the company again purchased 2,500 of such debentures @ ₹ 102.50 each on cum interest basis. On October 1st, 2021 the company sold 2,000 Debentures @ ₹ 103 each. On 31st December, 2021 the company received 10,000 equity shares of ₹ 10 each in P Ltd. on conversion of 20% of its holdings. The market value of the debentures and equity shares as at the close of the year were ₹ 106 and ₹ 9 respectively. Prepare the Debenture Investment Account & Equity Shares Investment Account in the books of A Pvt. Ltd. for the year 2021 on Average Cost Basis.

Question 17 *(Inter May 2023) (10 Marks)* Pg no. _____

The following information is given for Mr. Atwood for the year ended 31.03.2023:

01.04.2022	Mr. Atwood has 3,000 equity shares in Sun Limited at a book value of ₹ 3,30,000 (nominal value ₹ 100 each).
01.07.2022	Purchased 1,500 equity shares in Sun Limited for ₹ 1,38,600.
01.08.2022	Purchased 5,000, 9% Bonds at ₹ 97 cum-interest (face value ₹ 100). The due dates of interest are 1 st September and 1 st March.
02.10.2022	Dividend declared on equity shares and paid by Sun Limited for the year 2021-2022 @ 10%
15.10.2022	Sun Limited made a bonus issue of two equity shares for every five shares held.
01.01.2023	1,000 equity shares in Sun Limited sold @ ₹ 115 per share
31.03.2023	Sold 4,000, 9% Bonds @ ₹ 99 ex-interest

- The market price of Equity Shares of Sun Limited is ₹ 125 each and Bonds ₹ 98 each on 31st March 2023.
- Interest on bonds was received on due dates.

You are required to prepare Investment Account in the books of Mr. Atwood for the year ended 31st March 2023, assuming that the investments are valued at the average cost or market value, whichever is lower. (Round off to nearest Rupee)

TOPIC 4 CUM RIGHT PURCHASE**Question 18** *(ICAI Study Material)* Pg no. _____

Mr. X acquires 200 shares of a company on cum right basis for ₹ 70,000. He subsequently receives an offer of right to acquire fresh shares in the company in the proportion of 1:1 at ₹ 107 each. He does not subscribe but sells all the rights for ₹ 12,000. The market value of the shares after their becoming ex-rights has also gone down to ₹ 60,000. What should be the accounting treatment in this case?

AS 13: CASE Study- ASSIGNMENT QUESTIONS

Question 1 *(ICAI Study Material)*

M/s Innovative Garments Manufacturing Company Limited invested in the shares of another company on 1st October, 2021 at a cost of ₹ 2,50,000. It also earlier purchased Gold of ₹ 4,00,000 and Silver of ₹ 2,00,000 on 1st March, 2019.

Market value as on 31st March, 2022 of above investments are as follows:

Shares 2,25,000 Gold 6,00,000 Silver 3,50,000

How above investments will be shown in the books of accounts of M/s Innovative Garments Manufacturing Company Limited for the year ending 31st March, 2022 as per the provisions of Accounting Standard 13 "Accounting for Investments"?

Solution

As per AS 13 'Accounting for Investments', **For investment in shares** –

If the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value, i.e., in case of shares, at lower of cost (₹ 2,50,000) and market value (₹ 2,25,000) as on 31 March 2022, i.e., ₹ 2,25,000.

If equity shares are acquired with an intention to hold for long term period (more than one year), then should be considered as long-term investment to be shown at cost in the Balance Sheet of the company. However, provision for diminution should be made to recognise a decline, if other than temporary, in the value of the investments.

Gold and silver are generally purchased with an intention to hold it for long term period (more than one year) until and unless given otherwise. Hence, the investment in Gold and Silver (purchased on 1st March, 2019) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2022, i.e., ₹ 4,00,000 and ₹ 2,00,000 respectively, though their market values have been increased.

Question 2

Albert Ltd. has made the following investments:

(a) Purchased the following equity shares from stock exchange on 1st June, 2021:

	Cost
Scrip X	1,80,000
Scrip Y	50,000
Scrip Z	1,70,000
	4,00,000

(b) Purchased government securities at a cost of ₹ 5,00,000 on 1st April, 2021. How will you treat these investments as per applicable AS in the books of the company for the year ended on 31st March, 2022, if the values of these investments are as follows

Shares	₹	₹
Scrip X	1,90,000	
Scrip Y	40,000	
Scrip Z	70,000	3,00,000
Government securities		7,00,000

Solution

As per AS 13 'Accounting for Investments', current investments should be carried at lower of cost and fair value determined either on an individual investment basis or by category of investment, but not on an overall (or global) basis.

Longterm investments are carried at cost except when there is decline, other than temporary, in the value of long term investment, the carrying amount is reduced to recognise the decline.

- a) If the investment in shares is intended to be held as **current investment** then
 Scrip X should be valued at cost i.e. ₹1,80,000 (lower of cost and fair value),
 Scrip Y should be valued at fair value i.e. ₹ 40,000 (lower of cost and fair value) and
 Scrip Z should be valued at fair value i.e. ₹ 70,000 (lower of cost and fair value).
 The total loss of ₹ 1,10,000 on scrip's purchased on 1st June, 2021 is to be charged to profit and loss account for the year ended 31st March, 2022.

If investment is intended to be held as **long term investment**, then it will continue to be shown at cost in the balance sheet of the company. However, provision for diminution shall be made to recognize a decline, other than temporary, in the value of investments, such reduction being determined and made for each investment individually.

- b) Value of government securities (purchased on 1st April, 2021) is to be shown at cost of ₹ 5,00,000 in the balance sheet as on 31.3.2022

Question 3

The Investment portfolio of XYZ Ltd. as on 31.03.2022 consisted of the following:

		(₹ In Lacs)	
Current Investments		Cost	Fair Value as on 31.03.2022
1	1000 Equity Shares of A Ltd.	5	7
2	500 Equity Shares of B Ltd.	10	15
3	1000 Equity Shares of C Ltd.	15	12
		30	34

Give your comments on below:

- (i) The company wants to value the above portfolio at ₹ 30 lakhs being lower of cost or fair market value.
 (ii) Company wants to transfer 1000 Equity Shares of C Ltd. from current investments to long term investments on 31.03.2022 at cost of ₹ 15 lakhs.

Solution

As per AS 13 "Accounting for Investments", 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.

- (i) Hence the company has to value the current investment at ₹ 27 Lacs (A Ltd. shares at ₹ 5 lacs; B Ltd. shares at ₹ 10 lacs and C Ltd. shares at ₹ 12 lacs). The company's decision to value the portfolio at ₹ 30 lacs is not appropriate.
 (ii) Moreover, 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. Hence, the company has to make transfer of 1,000 equity shares of C Ltd. at ₹ 12 lacs (fair value) and not ₹ 15 lacs (cost) as the fair value is less than cost.

Question 4 *(ICAI Study Material)*

ABC Ltd. wants to re-classify its investments in accordance with AS-13. Decide and state on the amount of transfer, based on the following information:

- a) A portion of Current Investments purchased for ₹ 20 lakhs, to be reclassified as Long Term investment, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹ 25 lakhs.
- b) Another portion of current investments purchased for ₹ 15 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of balance sheet was ₹ 6.5 lakhs
- c) Certain long-term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was ₹18 lakhs but had been written down to ₹ 12 lakhs to recognize other than temporary decline as per AS 13.

Solution

As per AS 13, 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.

- a) In the first case, the market value of the investment is ₹ 25 lakhs, which is higher than its cost i.e. ₹ 20 lakhs. Therefore, the transfer to long term investments should be carried at cost i.e. ₹ 20 lakhs.
- b) In the second case, the market value of the investment is ₹ 6.5 lakhs, which is lower than its cost i.e. ₹ 15 lakhs. Therefore, the transfer to long term investments should be carried in the books at the market value i.e. ₹ 6.5 lakhs. The loss of ₹ 8.5 lakhs should be charged to profit and loss account.

As per AS 13, where long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

- c) In the third case, the book value of the investment is ₹ 12 lakhs, which is lower than its cost i.e. ₹ 18 lakhs. Here, the transfer should be at carrying amount and hence this reclassified current investment should be carried at ₹ 12 lakhs.

Question 5 *(RTP May 2020) (Similar) / (ICAI Study Material)*

Bluechip Equity Investments Ltd, wants to reclassify its investments in accordance with AS13. State the values, at which the investments have to be reclassified in the following cases.

- a) Long term investments in Company A, costing ₹ 8.5 lakhs are to be re-classified as current. The company had reduced the value of these investments to ₹ 6.5 lakhs to recognize a 'other than temporary' decline in value. The fair value on date of transfer is ₹ 6.8 lakhs.
- b) Long term investments in Company B, costing ₹ 7 lakhs are to be re-classified as current. The fair value on date of transfer is ₹ 8 lakhs and book value is ₹ 7 lakhs.
- c) Current investment in Company C, costing ₹ 10 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is ₹ 12 lakhs.

Solution

As per AS 13 'Accounting for Investments', 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 lower of cost and fair value on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

- a) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 6.5 lakhs in the books
- b) The carrying / book value of the long term investment is same as cost i.e. ₹ 7 lakhs. Hence this long term investment will be reclassified as current investment at book value of ₹ 7 lakhs only.
- c) In this case, reclassification of current investment into long-term investments will be made at ₹ 10 lakhs as cost is less than its market value of ₹ 12 lakhs.

Question 6 – *(Inter May 2019) (5 Marks)*

On 15th June, 2021, Y limited wants to re-classify its investments in accordance with AS 13. Decide and state the amount of transfer, based on the following information:

- 1) A portion of long term investments purchased on 1st March, 2020 are to be reclassified as current investments. The original cost of these investments was ₹ 14 lakhs but had been written down by ₹ 2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15th June, 2021 was ₹ 11 lakhs.
- 2) Another portion of long term investments purchased on 15th January, 2020 are to be re-classified as current investments. The original cost of these investments was ₹ 7 lakhs but had been written down to ₹ 5 lakhs (to recognize 'other than temporary' decline in value). The fair value of these investments on 15th June, 2021 was ₹ 4.5 lakhs.
- 3) A portion of current investments purchased on 15th March, 2021 for ₹ 7 lakhs are to be re-classified as long term investments, as the company has decided to retain them. The market value of these investments on 31st March, 2021 was ₹ 6 lakhs and fair value on 15th June 2021 was ₹ 8.5 lakhs,
- 4) Another portion of current investments purchased on 7th December, 2020 for ₹ 4 lakhs are to be re-classified as long term investments. The market value of these investments was: on 31st March, 2021 ₹ 3.5 lakhs on 15th June, 2021 ₹ 3.8 lakhs

Solution

As per AS 13 'Accounting for Investments', 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; and where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer. Accordingly, the re-classification will be done on the following basis:

- 1) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 12 lakhs in the books.
- 2) In this case also, carrying amount of investment on the date of transfer is less than cost; hence this re-classified current investment should be carried at ₹ 5 lakhs in the books.
- 3) In this case, reclassification of current investment into long-term investments will be made at ₹ 7 lakhs as cost is less than its fair value of ₹ 8.5 lakhs on the date of transfer.
- 4) In this case, market value (considered as fair value) is ₹ 3.8 lakhs on the date of transfer which is lower than the cost of ₹ 4 lakhs. The reclassification of current investment into long-term investments will be made at ₹ 3.8 lakhs.

Question 7 *(RTP Nov 2020) / (ICAI Study Material)*

X Ltd. on 1-1-2022 had made an investment of ₹ 600 lakhs in the equity shares of Y Ltd. of which 50% is made in the long term category and the rest as temporary investment. The realizable value of all such investment on 31-3-2022 became ₹ 200 lakhs as Y Ltd. lost a case of copyright. From the given market conditions, it is apparent that the reduction in the value is not temporary in nature.

How will you recognize the reduction in financial statements for the year ended on 31-3-2022?

Solution

X Ltd. invested ₹ 600 lakhs in the equity shares of Y Ltd. Out of the same, the company intends to hold 50% shares for long term period i.e. ₹ 300 lakhs and remaining as temporary (current) investment i.e. ₹ 300 lakhs.

In the given situation, the realizable value of all such investments on 31.3.2022 became ₹ 200 lakhs i.e. ₹ 100 lakhs in respect of current investment and ₹ 100 lakhs in respect of long term investment.

As per AS 13, 'Accounting for Investment', the carrying amount for current investments is the lower of cost and fair value. Accordingly, the carrying value of investment held as temporary investment should be shown at realizable value i.e. at ₹ 100 lakhs. The reduction of ₹ 200 lakhs in carrying value of current investment will be charged to the profit and loss account. The Standard further states that long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of long term investment, the carrying amount is reduced to recognise the decline.

Here, Y Ltd. lost a case of copyright which drastically reduced the realisable value of its shares to one third which is quite a substantial figure. Losing the case of copyright may affect the business and the performance of the company in long run. Accordingly, it will be appropriate to reduce the carrying amount of long term investment by ₹ 200 lakhs and show the investments at ₹ 100 lakhs, since the downfall in the value of shares is other than temporary. The reduction of ₹ 200 lakhs in the carrying value of long term investment will be charged to the Statement of profit and loss.

Question 8 *(ICAI Study Material)*

An unquoted long-term investment is carried in the books at cost of ₹ 2 lacs. The published accounts of unlisted company received in May, 2021 showed that the company has incurred cash losses with decline market share and the long-term investment may not fetch more than ₹ 20,000. How you will deal with it in preparing the financial statements of investing enterprise for the year ended 31.3.2021?

Solution

Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.

AS 13 'Accounting for Investments' states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. On these bases, the facts of the given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of long term investment to ₹ 20,000 in the financial statements for the year ended 31st March, 2021.

The answer has been given on the assumption that the financial statements are yet to be completed and approved by the Board of Directors. Also, the fall in value of investments has been considered on account of conditions existing on the balance sheet date.

Question 9 - *(RTP Nov 2019) / (RTP Nov 2021)*

Sabka Bank has classified its total investment on 31-3-2022 into three categories (a) held to maturity (b) available for sale (c) held for trading as per the RBI guidelines.

'Held to maturity' investments are carried at acquisition cost less amortised amount. 'Available for sale' investments are carried at marked to market. 'Held for trading' investments are valued at weekly intervals at market rates. Net depreciation, if any, is charged to revenue and net appreciation, if any, is ignored.

Comment whether the policy of the bank is in accordance with AS 13?

Solution

As per AS 13 'Accounting for Investments', the accounting standard is not applicable to Bank, Insurance Company, Mutual Funds. In this case Sabka Bank is a bank, therefore, AS 13 does not apply to it. For banks, the RBI has issued guidelines for classification and valuation of its investment and Sabka Bank should comply with those RBI Guidelines/Norms. Therefore, though Sabka Bank has not followed the provisions of AS 13, yet it would not be said as non-compliance since, it is complying with the norms stipulated by the RBI.

Question 10 (RTP Sep 2024)

A company is engaged in the business of refining, transportation and marketing of petroleum products. During the financial year ended 31st March, 2024, the company acquired controlling interest from Government of India in another public sector undertaking @ ₹ 1,551 per share as against the book value of ₹ 192.58 per share and market value of ₹ 876 per share as on 18th February, 2024. Thus, the strategic premium of ₹ 675 per share has been paid considering various tangible and intangible factors.

The above investment in the shares of the acquired company has been considered as long-term strategic investment and, therefore, has been accounted for at cost, i.e. at ₹ 1,551 per share in the financial statements. No provision for diminution in value has been made in the books of account.

As per the requirement of Schedule III to the Companies Act, 2013, the aggregate market value of the quoted shares has been properly reflected in the financial statements.

On 28th March, 2024, the acquired shares were quoted at ₹ 880 per share on BSE and the current market price as on 18th July was around ₹ 300.

Considering the tangible and intangible benefits the Management is of the view that there is no permanent diminution in the value of the strategic investment in the acquired company, as the same has been considered as a long-term investment. Therefore, there is no need for provision for diminution in the value of the shares of the acquired company.

Required:

- (i) Whether the accounting treatment 'at cost' under the head 'Long Term Investments' without providing for any diminution in value is correct and in accordance with the provisions of AS 13.
- (ii) If any provision for diminution in the value is to be made, whether such provision should be charged to the profit and loss account or whether same can be considered as deferred expenditure and amortised over a period of 5 years. Whether it is open for the company to charge off such diminution in the value in the books of account instead of creating provision.
- (iii) Whether the premium paid for strategic benefits for investment described in facts of the case, can be accounted for separately in the books of account keeping in view that AS 13 specifies that long term investments should be recorded at cost and there is no specific provision in the standard in respect of accounting for premium paid for strategic benefits.

Solution

- (i) The accounting treatment 'at cost' under the head 'Long Term Investment' in the separate financial statements of the company without providing for any diminution in value is correct and is in accordance with the provisions of AS 13 provided that there is no decline, other than temporary, in the value of investment.
- (ii) The provision for diminution in the value of investment should be a charge to the profit and loss statement. As per the requirements of AS 13, the diminution in the value of investment can neither be accounted for as deferred revenue expenditure nor it can be written off in the statement of profit and loss.
- (iii) The long-term investments should be carried at cost as per the requirements of AS 13. The amount paid over and above the market price should be treated as cost and cannot be accounted for separately.

AS 13: CASE Study- PRACTICE QUESTIONS

Question 1 *(Inter May 2019) (1 Marks)*

State whether the following statement is 'True' or 'False'. Also give reason for your answer. As per the provisions of AS-13, a current investment is an investment, that by its nature, is readily realisable and is intended to be held for not more than six months from the date on which such investment is made.

Solution

False: A current investment is an investment that is by its nature readily realizable and is intended to be held for not more than 1 year from the date on which such investment is made.

Question 2 *(RTP May 2023) / (RTP Nov 2018) (Similar) / (ICAI Study Material)*

Gowtham Limited invested in shares of another company (with the intention to hold the shares for short-term period) on 30th November, 2021 at a cost of ₹ 4,25,000. It also earlier purchased Gold of ₹ 8,00,000 and Silver of ₹ 3,50,000 on 31st March, 2019.

Market values as on 31st March, 2022, of the above investments are as follows:

Shares ₹ 3,50,000 Gold ₹ 10,25,000 Silver ₹ 5,10,000

You are required to explain how will the above investments be shown (individually and in total) in the books of account of Gowtham Limited for the year ending 31st March, 2022 as per the provisions of AS 13.

Solution

As per AS 13 'Accounting for Investments', for investment in shares - if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value, i.e., in case of shares, at lower of cost (₹ 4,25,000) and market value (₹ 3,50,000) as on 31 March 2022, i.e., ₹ 3,50,000.

If equity shares are acquired with an intention to hold for long term period (more than one year), then should be considered as long-term investment to be shown at cost in the Balance Sheet of the company. However, provision for diminution should be made to recognise a decline, if other than temporary, in the value of the investments.

Gold and silver are generally purchased with an intention to hold it for long term period (more than one year) until and unless given otherwise. Hence, the investment in Gold and Silver (purchased on 31st March, 2019) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2022, i.e., ₹ 8,00,000 and ₹3,50,000 respectively, though their market values have been increased.

Thus the shares, gold and silver will be shown at ₹ 3,50,000, ₹ 8,00,000 and ₹ 3,50,000 respectively and hence, total investment will be valued at ₹ 15,00,000 for the year ending on 31st March, 2022 as per AS 13

Question 3 *(Inter Nov 2020) (5 Marks)*

A Limited invested in the shares of XYZ Ltd. on 1st December, 2021 at a cost of ₹ 50,000. Out of these shares, ₹ 25,000 shares were purchased with an intention to hold for 6 months and ₹ 25,000 shares were purchased with an intention to hold as long-term Investment.

A Limited also earlier purchased Gold of ₹ 1,00,000 and Silver of ₹ 30,00,000 on 1st April, 2021. Market value as on 31st March, 2022 of above investments are as follows:

Shares ₹ 47,500 (Decline in the value of shares is temporary.)

Gold ₹ 1,80,000

Silver ₹ 30,55,000

How above investments will be shown in the books of accounts of M/s A Limited for the year ended 31st March, 2022 as per the provisions of AS 13 ?

Solution

As per AS 13 'Accounting for Investments', for investment in shares - if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value.

In the given case ₹ 25,000 shares held as current investment will be carried in the books at ₹ 23,750 (₹ 47,500/2). If equity shares are acquired with an intention to hold for long term period (more than one year), then should be considered as long-term investment to be shown at cost in the Balance Sheet of the company. However, provision for diminution should be made to recognize a decline, if other than temporary, in the value of the investments. Hence, ₹ 25,000 shares held as long-term investment will be carried in the books at ₹ 25,000.

Gold and silver are generally purchased with an intention to hold them for long term period (more than 1 year) until & unless given otherwise. Hence, investment in Gold & Silver (purchased on 1st April, 2021) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2022. Thus Gold at ₹ 1,00,000 & Silver at ₹ 30,00,000 respectively will be shown in the books.

Question 4 (RTP Nov 2022)

Mother Mart Ltd wants to reclassify its investment in accordance with AS 13. Decide treatment to be given in each of the following cases assuming that market value has been determined in an arm's length transaction between knowledgeable and willing buyer and seller:

- (i) A portion of current investments purchased for ₹ 25 lakhs to be reclassified as long term investments, as the company has decided to retain them. The market value as on the date of balance sheet was ₹ 30 lakhs.
- (ii) Another portion of current investments purchased for ₹ 20 lakhs has to be reclassified as long-term investments. The market value of these investments as on the date of the balance sheet was ₹ 12.5 lakhs.
- (iii) One portion of long-term investments, no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was ₹ 15 lakhs, but had been written down to ₹ 11 lakhs to recognize permanent decline as per AS 13.

Solution

As per AS 13 'Accounting for Investments', 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. When long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

- (i) In the first case, the market value of the investments is ₹ 30 lakhs, which is higher than its cost i.e. ₹ 25 lakhs. Therefore, the transfer to long term investments should be made at cost i.e. ₹ 25 lakhs
- (ii) In the second case, the market value of the investment is ₹ 12.5 lakhs, which is lower than its cost i.e. ₹ 20 lakhs. Therefore, the transfer to long term investments should be made in the books at the market value i.e. ₹ 12.5 lakhs. The loss of ₹ 7.50 lakhs (20-12.5) should be charged to Profit and Loss account.
- (iii) In the third case, the book value of the investments is ₹ 11 lakhs, which is lower than its cost, i.e. ₹ 15 lakhs. As the transfer should be at carrying amount, hence this reclassified current investment should be carried at ₹ 11 lakhs.

Question 5 *(Inter Jan 2021) (5 Marks)*

Kunal Securities Ltd. wants to reclassify its investments in accordance with AS-13). State the values, at which the investments have to be reclassified in the following cases:

- (i) Long term investment in Company A, costing ₹ 10.5 lakhs is to be re-classified as current investment. The company had reduced the value of these investments to ₹ 9 lakhs to recognize a permanent decline in value. The fair value on the date of reclassification is ₹ 9.3 lakhs.
- (ii) Long term investment in Company B, costing ₹ 14 lakhs is to be re-classified as current investment. The fair value on the date of reclassification is ₹ 16 lakhs and book value is ₹ 14 lakhs.
- (iii) Current investment in Company C, costing ₹ 12 lakhs is to be re-classified as long term investment as the company wants to retain them. The market value on the date of reclassification is ₹ 13.5 lakhs.
- (iv) Current investment in Company D, costing ₹ 18 lakhs is to be re-classified as long term investment. The market value on the date of reclassification is ₹ 16.5 lakhs.

Solution

As per AS 13 'Accounting for Investments', 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. And where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

- (i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 9 lakhs in the books.
- (ii) The carrying / book value of the long-term investment is same as cost i.e., ₹ 14 lakhs. Hence this long-term investment will be reclassified as current investment at book value of ₹ 14 lakhs only.
- (iii) In this case, reclassification of current investment into long-term investments will be made at ₹ 12 lakhs as cost is less than its market value of ₹ 13.5 lakhs.
- (iv) Market value of the investment is ₹ 16.5 lakhs, which is lower than its cost i.e., ₹ 18 lakhs. Therefore, the transfer to long term investments should be done in the books at the market value i.e., ₹ 16.5 lakhs.

Question 6 *(RTP May 2018) / (RTP May 2019)*

How you will deal with following in the financial statement of the Paridhi Electronics Ltd. as on 31.3.22 with reference to AS-13?

- a) Paridhi Electronics Ltd. invested in the shares of another unlisted company on 1st May 2018 at a cost of ₹ 3,00,000 with the intention of holding more than a year. The published accounts of unlisted company received in January, 2022 reveals that the company has incurred cash losses with decline market share and investment of Paridhi Electronics Ltd. may not fetch more than ₹ 45,000.
- b) Also Paridhi Electronics Ltd. has current investment (X Ltd.'s shares) purchased for ₹5 lakhs, which the company want to reclassify as long term investment. The market value of these investments as on date of Balance Sheet was ₹ 2.5 lakhs.

Solution

- a) As per AS 13, "Accounting for investments" Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments,

such reduction being determined and made for each investment individually. The standard also states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. On this basis, the facts of the given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of shares to ₹ 45,000 in the financial statements for the year ended 31st March, 2022 and charge the difference of loss of ₹ 2,55,000 to Profit and Loss account.

- b) As per AS 13 'Accounting for Investments', where investments are reclassified from current to long-term, transfers are made at the lower of cost or fair value at the date of transfer. In the given case, the market value of the investment (X Ltd. shares) is ₹ 2.50 lakhs, which is lower than its cost i.e. ₹5 lakhs. Therefore, the transfer to long term investments should be made at cost i.e. ₹2.50 lakhs. The loss of ₹ 2.50 lakhs should be charged to profit and loss account.

Question 7 *(RTP May 2021)*

Paridhi Electronics Ltd. invested in the shares of Dhansukh Ltd. on 1st May 2021 at a cost of ₹ 10,00,000. Three fourth of these investments were current investments and the remaining investments were intended to be held for more than a year. The published accounts of Dhansukh Ltd. received in January, 2022 reveals that the company has incurred cash losses with decline in market share and investment of Paridhi Electronics Ltd. may not fetch more than 7,50,000. The reduction in value is apparent to be non-temporary. You are required to explain how you will deal with the above in the financial statements of the Paridhi Electronics Ltd. as on 31.3.22 with reference to AS 13?

Solution

As per AS 13, "Accounting for Investments", carrying amount for current investments is the lower of cost and fair value. But long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. The standard also states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.

Paridhi Ltd. made three fourth of ₹ 10,00,000 i.e. ₹7,50,000 as current investment and remaining ₹ 2,50,000 as long term. The facts of the case given in the question clearly suggest that the provision for diminution should be made to reduce the carrying amount of shares for both categories of shares to bring them to market value. Hence the carrying value of investments will be shown at amount of ₹ 7,50,000 in the financial statements for the year ended 31st March, 2022 and charge the difference of loss of ₹ 2,50,000 to profit and loss account

Question 8 *(Inter Dec 2021) (5 Marks)*

Mr. Mohan has invested some money in various Mutual funds. Following information in this regard is given:

Mutual Funds	Date of purchase	Purchase cost (₹)	Brokerage Cost (₹)	Stamp duty (₹)	Market value as on 31.03.2021 (₹)
A	01.05.2017	50,000	200	20	48,225
B	05.08.2020	25,000	150	25	24,220
C	01.01.2021	75,000	300	75	78,190
D	07.05.2020	70,000	275	50	65,880

You are required to:

- Classify his investment in accordance with AS-13.
- Value of Investment in mutual fund as on 31.03.2021

Solution

As per AS 13 "Accounting for Investments", a current investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made. The carrying amount for current investments is the lower of cost and fair value.

A long-term investment is an investment other than a current investment. Long term investments are usually carried at cost. If there is a decline, other than temporary, in the value of a long-term investment; the carrying amount is reduced to recognize the decline.

Mutual Funds	Classification	Cost (₹)	Market value (₹)	Carrying value (₹)
A	Long-term Investment	50,220	48,225*	50,220
B	Current Investment	25,175	24,220	24,220
C	Current Investment	75,375	78,190	75,375
D	Current Investment	70,325	65,880	65,880
Total				2,15,695

Note: *The reduction in value of Mutual fund A is considered to be temporary. If reduction in Market value is assumed as other than temporary in nature, then the carrying value of ₹48,225 will be considered.

Question 9 (RTP May 2022)

Pg no. _____

JVR Limited has made investment of ₹ 97.84 Crores in Equity Shares of QSR Limited in 2016-17. The investment has been made at par. QSR Limited has been in continuous losses for the last 2 years. JVR Limited is willing to re-assess the carrying amount of its investment in QSR Limited and wish to provide for diminution in value of investment for the year ended 31st March, 2021. Discuss whether the connection of JVR Limited to bring down the carrying Amount of investment in QSR Limited is in accordance with AS.

Solution

The investments are classified into two categories as per AS 13, viz., Current Investments and Long-term Investments.

A current Investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made. The carrying amount for current investments is the lower of cost and fair value. Any reduction to fair value and any reversals of such reductions are included in the statement of profit and loss.

A long - term investment is an investment other than a current investment. The investments referred in the question can be classified as long-term investments and long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long-term investment, the carrying amount is reduced to recognize the decline.

The contention of the company to bring down the value of investment may be correct if the decline in value is permanent in nature and the reduction in carrying amount may be charged to the statement of profit and loss. The reduction in carrying amount is reversed when there is a rise in the value of the investment, or if the reasons for the reduction no longer exist.

Question 10 *(Inter Nov 2022) (5 Marks)*

- a) An unquoted long term investment made in the shares of Rachel Limited is carried in the books of Ziva Limited at a cost of ₹ 1,00,000. The audited financial statements of Rachel Limited received in May, 2021 showed that the company had been incurring cash losses with declining market share and the long term investment may not fetch more than ₹ 55,000.
- b) On 1st December, 2021 Ziva Limited had made an investment of ₹ 5,00,000 in 4,000 Equity Shares of Garry Limited at a price of ₹ 125 per share with an intention to hold it for not more than six months. In the first week of March, 2022, Garry Limited suffered heavy loss due to an earthquake; the loss was not covered by an insurance policy. On 31st March, 2022, the shares of Garry Ltd. were traded at a price of ₹ 80 per share on the Stock Exchange. How would you deal with the above investments in the books of Ziva Limited for the year ended 31st March, 2022 as per the provisions of AS 13 'Accounting for Investments'?

Solution

- (a) Investments classified as long term investments should be carried in financial statements at cost. However, provision for diminution should be made to recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.

On this basis, the facts of the given case, it would be appropriate to reduce the carrying value of Long-term investments to ₹ 55,000 in the financial statements for the year ended 31st March, 2022. Thus the unquoted investment in the shares of Rachel Ltd. will be valued at ₹ 55,000. The provision for diminution amounting ₹ 45,000 should be made to reduce the carrying amount of the investments.

- (b) Equity Shares in Garry Ltd. will be considered as current investment as intended to hold for not more than six months. As per AS 13, "Accounting for Investments", carrying amount for current investments is the lower of cost and fair value. In respect of current Investments for which an active market exists, market value generally provides the best evidence of fair value.

Since on 31st March, 2022, the shares of Garry Limited were trading at a price of ₹ 80 per share on the stock exchange, the equity shares of Garry Ltd. should be carried in the financial statements at realizable value i.e. at ₹ 3,20,000 (4,000 shares @ ₹ 80 per share). The reduction of ₹ 1,80,000 in carrying value of current investment will be charged to the statement of profit and loss for the year ended 31st March, 2022.

Question 11 *(ICAI Study Material)*

Whether the accounting treatment 'at cost' under the head 'Long Term Investments' without providing for any diminution in value is correct and in accordance with the provisions of AS 13. If not, what should have been the accounting treatment in such a situation? Explain in brief.

Solution

The accounting treatment 'at cost' under the head 'Long Term Investments' in the financial statements of the company without providing for diminution in value is correct and is in accordance with the provisions of AS 13 provided that there is no decline, other than temporary in the value of investment. If the decline in the value of investment is other than temporary compared to the time when the shares were purchased, provision is required to be made.