L22

Investments :- Assets held for earning
1. Interest
2. Rent
3. Dividend
4. Capital appreciation

not included → assets held as stock in trade.

Investment Property :- Investments in Land & Building

when Land & Building is not occupied for self use or operations of the entity.

Calculation of cost of Investments

Investment acquired against cash.
→ Purchase price
→ Incidental expenses
ex :- Brokerage
Duties, fees.

Includes cost of acquisition of shares of cooperative society for acquisition of an appt / building.

Investments acquired through exchange of other assets.
→ fair Value of asset given up
→ fair Value of investment acq
w.e. is more clearly evident.

Investments acquired through issue of securities.
→ fair Value of securities issued.

Example :-

Land acquired
Equity shares issued against land. } CASE III

Land acquired
Equity shares of RIL ~~issued~~ exchanged/given up } CASE II

Classification of Investments

Current Investment
↓
Intention to hold for a period < 12 months.
↓
Subsequent measurement (B/S Date)

Cost OR Market Value / Fair Value
w.e. lower

Long Term Investment / Non-current investment
↓
Intention to hold for a period > 12 months.

Subsequent measurement
Valued at cost.

→ Such measurement should be done on individual investment basis or category of investment basis but not on global basis.

→ " " "

If there is other than temporary diminution in value of investments, then reduce the value of investments.

Reclassification of Investments

1) Current Investment → Long Term / Non-current Investment

On the date of reclassification

COST — MV/FV

Lower value → reclassify as Long Term Investment.

2) Long Term Investment → Current Investment.

On the date of reclassification

COST — Carrying amount

LOWER → Current Investment.

Treatment of profit/loss on sale/disposal/reclassification

Profit → P&L Cr.
Loss → P&L Dr.

DISCLOSURES:-

→ Accounting policies used for calculation of carrying amount.
→ Separate classification for current and long term investments.
→ Current and Long Term investments should further be sub classified.

AS-13: ACCOUNTING FOR INVESTMENTS: SUMMARY CHART

L22

Investments :- Assets held for earning :-

i) Interest
ii) Rent
iii) Dividend
iv) Capital Appreciation

but not held as stock in Trade.

Investment Property :- Investment in Land & Building.

→ not occupied for operations.

COST OF INVESTMENT :

Acquired through cash
- → Purchase Price
- → Directly related exp OR
- → Incidental expenses
- → Duties, fees.

Eg: Co-op. society member fees/share acq cost

Acquired through exchange
- → 1st: Asset given up: FV
- if not clearly evident then, 2nd: investment acquired: FV.

Acquired through issue of securities
- → FV of security issued.

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CLASSIFICATION OF INVESTMENTS

Current Investments
- → Intention to hold for a period less than 12 months.
- → Readily realisable.

Subsequent measurement

COST   Market Value
w.e. Lower

Non-current Invest. Long Term Invest.
- → Investments that are not current.

Subsequent measurement
↓
COST
↓
If there is other than temporary reduction in value of investments, the investments will be brought down to its MV.

Purchase Price :

Debentures :-

→ cum-interest purchase price
− Interest
Ex-interest purchase price
+ Brokerage
+ Stamp Duty
Total purchase price

* Interest will compulsorily be paid on purchase of debenture. Ex-interest or cum-interest donot determine the fact that interest will be paid.
Cum-Interest = cost of deb + Interest.
Ex-interest = cost of debentures.

* Brokerage will be calculated on Transaction Value. (Please read question carefully for this point)

Equity Shares

Purchase price
+ Brokerage
+ Stamp Duty
Total cost of purchase

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Bonus shares :

Cost of bonus share = 0

Right shares :-

Purchase price of right shares
+ cost of rights
Total cost of right shares

* Cost of rights for original holder is zero.

If the rights are renounced :

JE :- Bank a/c Dr. { Proceeds from sale of rights }
To P&L

EXCEPTION :-
After right issue ;
Ex right MP < cum-right MP

Proceeds from sale of rights will be credited to investments to bring down the investments to its ex-right Market Price.

* This will apply only when the investments were acquired on cum-right basis.

* maximum extent of reduction in cost = proceeds from sale of rights

* $\underbrace{\text{cum-rights price} - \text{ex-right price}}_{\text{Scope of reduction of cost}}$

Selling Price :-

Debentures :-

→ cum-interest selling price
− Interest
Ex-interest selling price
− brokerage
Net selling Price

Equity Shares :-

→ Selling Price
− Brokerage
Net selling Price

Profit/Loss on sale

→ Net Selling Price
− Cost
Profit/Loss on sale

Cost will be calculated on weighted average basis, unless FIFO is mentioned in the question.

→ Profit/Loss is treated in P&L a/c

Accrued Interest :-

* Financial Year dates of investor & Interest dates of company are different.

Opening Entry :-
Interest Dr. { Previous FY interest }
To Accrued Interest

Closing Entry :-
Accrued Interest Dr. { Current FY interest }
To Interest

RECLASSIFICATION

CI ⟶ LTI
cost or MV w.e. lower ⟶ LTI

LTI ⟶ CI
cost or carrying amt w.e. lower ⟶ CI

Loss on reclassification is debited to P&L a/c.

DIVIDEND

Pre-acq.
↓
Period of which divd is declared
↓
Prior to acq
↓
Bank Dr.
Invest Cr.

Post-acq
↓
Period for which div is declared
↓
After acquisition
↓
Bank Dr.
P&L Cr.

* Date of declaration is irrelevant to decide pre/past dividend.

Shares eligible for div :- company POV
FV for which div is dec → FV issued cap
Treatment of div :- Investor POV