

Investments :- Assets held for earning

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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.

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. } CASE II
exchanged/given up

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

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.

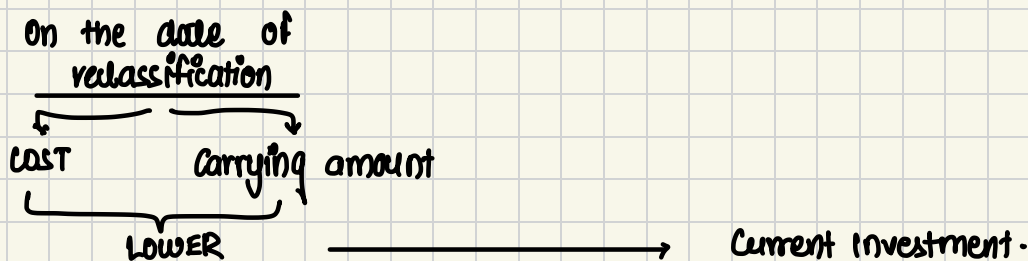
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Reclassification of Investments

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



2) Long Term Investment → 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.



Investments :- Assets held for earning :-

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

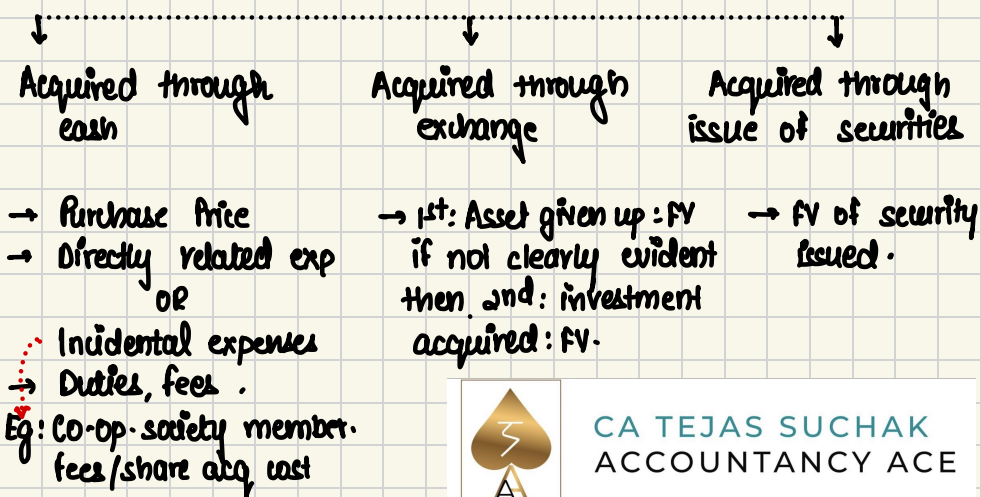
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but not held as Stock in Trade.

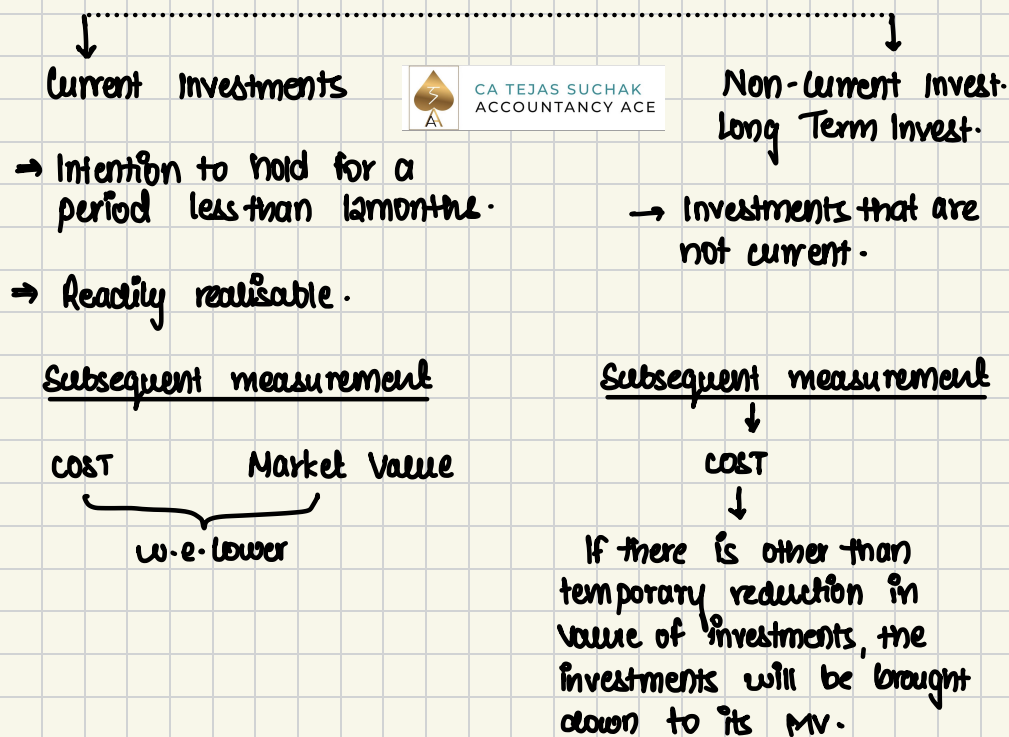
Investment Property :- Investment in Land & Building.

→ not occupied for operations.

COST OF INVESTMENT :

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CLASSIFICATION OF INVESTMENTS

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Purchase Price :

Debentures :-

→ Cum-Interest purchase price
 - Interest
 Ex-Interest purchase price
 + Brokerage
 + Stamp Duty
Total purchase price

* Interest will compulsarily be paid on purchase of debenture. Ex-Interest or cum-Interest do not 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

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Purchase price
 + Brokerage
 + Stamp Duty
Total cost of purchase

Bonus shares :

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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.

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

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

* cum-rights price - ex-right price
Scope of reduction of cost

Selling Price :-

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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

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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.

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Opening Entry :-

Interest Dr. { Previous FY Interest }
 To, Accrued Interest

Closing Entry :-

Accrued Interest Dr. { Current FY interest }
 To, Interest

RECLASSIFICATION

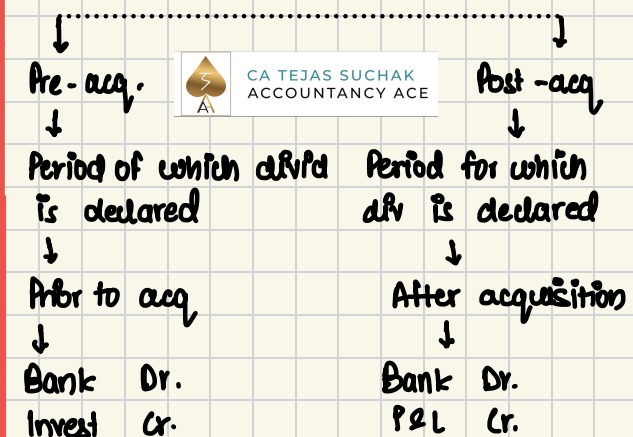
CI → LTI
 Cost or MV
 w.e. lower → LTI

LTI → CI

Cost or carrying amt
 w.e. lower → CI

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

DIVIDEND



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

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