

TOPIC 8.

ACCOUNTING STANDARD – 13 **ACCOUNTING FOR INVESTMENTS**

Non-Applicability of AS 13

AS 13 Accounting for Investments doesn't deal with the following:

- The base for recognizing dividends, interest, and rentals which are earned on the investments that are covered by AS 9
- Finance or operating leases which are covered by AS 19
- Investments in retirement benefit plans and life insurance enterprises which is covered by AS 15
- The following which is formed under the Central or the State Government Act or declared under Companies Act, 2013
 1. Mutual Funds
 2. Venture Capital Funds and related Asset Management Companies
 3. Banks as well as public financial institutions

Classification of Investments

A. Current Investments – Current Investments are investments **which by their nature are readily realizable** and are intended to be **held for less than a year** from the date when such investment is done.

B. Long-Term Investments – Long-term investments are investments **other than the current investments**, even though they might be freely marketable.

Cost of Investments

- **Broker, duties, and fees** – The cost of investments include charges related to acquisition of brokerage, duties, and fees
- **Non-cash consideration** – In case investments are acquired, or partly acquired, by
 1. issuing shares
 2. issuing other securities
 3. any other asset,

the cost of acquisition is the fair value of securities which are issued or the assets which are given up.

The fair value might not essentially be same as the par or nominal value of securities which are issued.

It might be prudent to consider fair value of such investment acquired in case it's more evident

- **Interest, dividend or other receivables** – Dividends, interest and other receivables that are in connection with the investments are usually considered as income, is the ROI (return on the investment).

However, in certain conditions, such inflows signify a recovery of the cost and doesn't form part of the income.

In case it's difficult to do such allocations, cost of investment is usually reduced to the extent of dividends receivable only in case they represent clearly the recovery of a portion of the cost

- **Right Shares** – In case right shares offered are subsequently subscribed for, cost of such right shares is then added to carrying the amount of original holding.

In case the rights aren't subscribed for, however, are sold, sale proceeds from the sale of such rights are transferred to P/L statement. But, where an investment is acquired on a cum-right basis and market value of the investment immediately after becoming ex-right is less than the cost for which such investment was acquired, it might be prudent to apply the proceeds from the sale of rights to reduce carrying the amount of the investment to the market value

Carrying Amount of Investments

Current investments must be carried in financial statements at lower of cost and fair value which is determined either by category of investment or on an individual investment basis, however, not on the overall basis.

Long-term investments must always be carried in financial statements at their cost. But, when there's a decline, apart from temporary, in value the long-term investment, carrying amount is reduced for recognizing such decline.

Investment Property

Investment property is investments that are made in land or buildings which aren't envisioned to be used significantly for use, or in business operations of, the investing company.

Investment Treatment on Disposal

On sale or disposal of the investment, the difference between the carrying cost and proceeds from the sales net of any expenses is transferred to P&L.

Reclassification of Investments

Where a long-term investment is reclassified as a current investment, the transfer is made at carrying amount and lower of cost at the date of such transfer. Where an investment is reclassified from current investment to long-term investment, the transfer is made at the lower of its cost and the fair value of such investment at the date of such transfer.

Disclosures in the Financial Statements

The below mentioned are the disclosures in the financial statements with respect to AS 13 Accounting for Investments is applicable:

(a) Accounting policies employed for determining carrying amount of investment

(b) The amounts which are included in the profit and loss statement for:

(i) Dividends, interest, and rentals on the investments presenting the income from such long-term and current investments separately. Gross income must be stated, amount of TDS (tax deducted at source) included under the Advance Taxes Paid

(ii) Profits and losses on the disposal of current investment and the changes in carrying the amount of the investment

(iii) Profits and losses on the disposal of long-term investment and the changes in carrying the amount of the investment

(c) Substantial limitations on the right of ownership, realizability of the investments or remittance of income and proceeds of disposal

(d) The total amount of both the quoted and unquoted investments, providing the total market value of the quoted investments

(e) Other disclosures as explicitly as required by the relevant statute governing the company

Question 1

Blue-chip Equity Investments Ltd., wants to re-classify its investments in accordance with AS 13 (Revised). State the values, at which the investments have to be reclassified in the following cases:

(i) Long term investments in Company A, costing Rs 8.5 lakhs are to be re-classified as current. The company had reduced the value of these investments to Rs 6.5 lakhs to recognise 'other than temporary' decline in value. The fair value on date of transfer is Rs 6.8 lakhs.

(ii) Long term investments in Company B, costing Rs 7 lakhs are to be re-classified as current. The fair value on date of transfer is Rs 8 lakhs and book value is Rs 7 lakhs.

(iii) Current investment in Company C, costing Rs 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 Rs 12 lakhs.

Solution

As per AS 13 (Revised) '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 Rs 6.5 lakhs in the books.
- (ii) The carrying / book value of the long term investment is same as cost i.e. Rs 7 lakhs. Hence this long-term investment will be reclassified as current investment at book value of Rs 7 lakhs only.
- (iii) In this case, reclassification of current investment into long-term investments will be made at Rs 10 lakhs as cost is less than its market value of Rs 12 lakhs.

Question 2

(Nov.18 - RTP)

M/s Active Builders Ltd. invested in the shares of another company (with an intention to hold the shares for short term period) on 31st October, 2016 at a cost of Rs 4,50,000. It also earlier purchased Gold of Rs 5,00,000 and Silver of Rs 2,25,000 on 31st March, 2014.

Market values as on 31st March, 2017 of the above investments are as follows:

Shares Rs 3,75,000; Gold Rs 7,50,000 and Silver Rs 4,35,000

You are required explain how will the above investments be shown in the books of account of M/s Active Builders Ltd. for the year ending 31st March, 2017 as per the provisions of AS 13?

Suggested Answer by ICAI:

As per AS 13 'Accounting for Investments', if the shares are purchased with an intention to hold for short-term period then investment will be shown at the realizable value. In the given case, shares purchased on 31st October, 2016, will be valued at Rs 3,75,000 as on 31st March, 2017.

Gold and silver are generally purchased with an intention to hold it for long term period until and unless given otherwise. Hence, the investment in gold and silver (purchased on 31st March, 2014) shall continue to be shown at cost as on 31st March, 2017 i.e., Rs 5,00,000 and Rs 2,25,000 respectively, though their realizable values have been increased.

Thus the shares, gold and silver will be shown at Rs 3,75,000, Rs 5,00,000 and Rs 2,25,000 respectively and hence, total investment will be valued at Rs 11,00,000 in the books of account of M/s Active Builders for the year ending 31st March, 2017 as per provisions of AS 13.

Question 3

M/s Innovative Garments Manufacturing Company Limited invested in the shares of another company on 1st October, 2016 at a cost of Rs 2,50,000. It also earlier purchased Gold of Rs 4,00,000 and Silver of Rs 2,00,000 on 1st March, 2014. Market value as on 31st March, 2017 of above investments are as follows:

	Rs
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, 2017 as per the provisions of Accounting Standard 13 "Accounting for Investments"?

Solution

As per AS 13 (Revised) '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 (Rs. 2,50,000) and market value (Rs. 2,25,000) as on 31 March 2017, i.e., Rs 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, 2014) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2017, i.e., Rs 4,00,000 and Rs 2,00,000 respectively, though their market values have been increased.

Note:

Students are advised to refer Chapter 9 for Long questions from ICAI Module.

COVID-19



Student Notes:-

COVID-19

