

AS-13 ACCOUNTING FOR INVESTMENTS

Meaning	Investments are assets held by an enterprise for: <ul style="list-style-type: none"> ✓ Earning income by way of dividends, interest, and rentals, ✓ Capital appreciation, or ✓ Other benefits to the investing enterprise. Note: Assets held as stock-in-trade are not 'investments'.	
Non Applicability	This Standard does not deal with: <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 	
Forms of Investments	<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>	
Investment Properties	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>	
Classification of Investments	Current Investment	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.
	Long Term Investment	It is an investment other than a current investment.
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: (a) FMV of the shares /securities to be considered and not the Book value (b) Such value is to be seen on the date of transaction	
CARRYING AMOUNT OF INVESTMENTS		
Current Investments (Para 31)	Lower of Cost and Fair value.	
Long Term Investments (Para 32)	Usually Carried at cost. 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 profit and loss statement. 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.	

Valuation of Investments

Example:

	Cost	Market/ Fair value	Lower
<u>Inv. in Equity Shares</u>			
A1	50	60	50
A2	90	75	75
	140	135	125
<u>Inv. in Mutual Funds</u>			
MF1	30	25	25
MF2	40	48	40
	70	73	65
TOTAL	210	208	

A) Individual/Strip wise

Equity Shares = 125
Mutual Funds = 65
190

B) Category wise

Equity Shares = 135
Mutual Funds = 70
205

C) Global Basis

Value = 208

RECLASSIFICATION OF INVESTMENTS

Reclassified from Long Term to Current (Para 23)	Reclassified from Current to Long Term (Para 24)
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

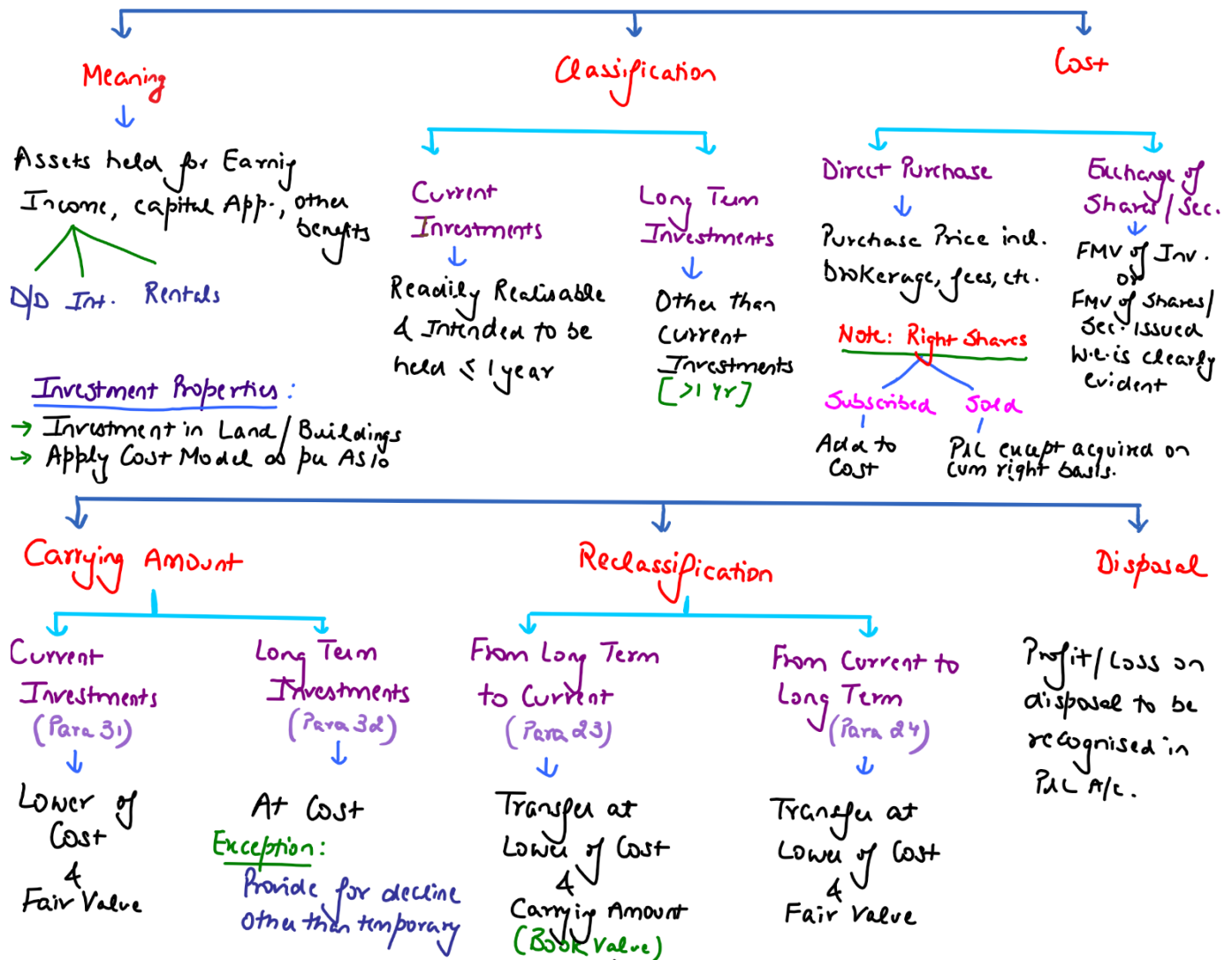
On disposal of an investment, the difference between the carrying amount and the disposal proceeds, net of expenses, is recognised in the profit and loss statement.

DISCLOSURE REQUIREMENTS

The 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, realisability 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 the relevant statute governing the enterprise.

ACCOUNTING FOR INVESTMENTS (AS-13)



Question 1

M/s Active Builders Ltd. invested in the shares of another company on 31st October, 2019 at a cost of Rs. 4,50,000. It also earlier purchased Gold of Rs. 5,00,000 & Silver of Rs. 2,25,000 on 31st March, 2019. Market values as on 31st March, 2020 of the above investments are as follows: Shares Rs. 3,75,000; Gold Rs. 7,50,000 and Silver Rs. 4,35,000. How will the above investments be shown in the books of account of M/s Active Builders Ltd. for the year ending 31st March, 2020 as per the provision of AS-13?

Solution

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. If equity shares are acquired with an intention to hold for long term period 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, if other than temporary, in the value of the investments. In the given case, shares purchased on 31st October, 2019, will be valued at Rs. 3,75,000 as on 31st March, 2020.

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, 2019) shall continue to be shown at cost as on 31st March, 2020 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, 2020 as per provisions of AS 13.

Question 2

X Ltd. had made an investment of Rs. 500 lakhs in the equity shares of Y Ltd. on 10.01.2020. The realisable value of such investment on 31.03.2020 became Rs. 200 lakhs as Y Ltd. lost a case of patent rights. Rose Ltd. follows financial year as accounting year. How will you recognize this reduction in financial statements for the year 2019–20.

Solution

Recognition of reduction in value of investment would depend upon the nature of investment and nature of decline as per Accounting Standard 13 “Accounting for Investments”.

As per provisions of the standard, if the investments were acquired for long term and decline is temporary in nature, reduction in value will not be recognized and investments would be carried at cost. If the decline is of permanent nature, it will be charged to profit and loss account.

If the investments are current investments, then the reduction should be recognized and charged to Profit and Loss Account as the current investments are carried at cost or fair value, whichever is less.

Question 3

An unquoted long-term investment is carried in the books at cost of Rs. 2 lacs. The published accounts of unlisted company showed that the company has incurred cash losses with decline market share and the long-term investment may not fetch more than Rs. 20,000. How you will deal with it in the financial statement of investing company for the year ended 31.3.2020?

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 Rs. 20,000 in the financial statements for the year ended 31st March, 2020.

Question 4

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 portion of Current Investments purchased for Rs. 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 Rs. 25 lakhs.
- Another portion of current investments purchased for Rs. 15 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of balance sheet was Rs. 6.5 lakhs
- Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was Rs.18 lakhs but had been written down to Rs. 12 lakhs to recognize permanent 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.

- In the first case, the market value of the investment is Rs. 25 lakhs, which is higher than its cost i.e. Rs. 20 lakhs. Therefore, the transfer to long term investments should be carried at cost i.e. Rs. 20 lakhs.

- b) In the second case, the market value of the investment is Rs. 6.5 lakhs, which is lower than its cost i.e. Rs. 15 lakhs. Therefore, the transfer to long term investments should be carried in the books at the market value i.e. Rs. 6.5 lakhs. The loss of Rs. 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 Rs. 12 lakhs, which is lower than its cost i.e. Rs. 18 lakhs. Here, the transfer should be at carrying amount and hence this reclassified current investment should be carried at Rs. 12 lakhs.

Question 5

On 15th June, 2020, Y limited wants to re-classify its investments in accordance with AS 13 (revised). Decide and state the amount of transfer, based on the following information:

- 1) A portion of long term investments purchased on 1st March, 2019 are to be reclassified as current investments. The original cost of these investments was Rs. 14 lakhs but had been written down by Rs. 2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15th June, 2020 was Rs. 11 lakhs.
- 2) Another portion of long term investments purchased on 15th January, 2019 are to be re-classified as current investments. The original cost of these investments was Rs. 7 lakhs but had been written down to Rs. 5 lakhs (to recognize 'other than temporary' decline in value). The fair value of these investments on 15th June, 2020 was Rs. 4.5 lakhs.
- 3) A portion of current investments purchased on 15th March, 2020 for Rs. 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, 2020 was Rs. 6 lakhs and fair value on 15th June 2020 was Rs. 8.5 lakhs,
- 4) Another portion of current investments purchased on 7th December, 2019 for Rs. 4 lakhs are to be re-classified as long term investments. The market value of these investments was:
on 31st March, 2020 Rs. 3.5 lakhs
on 15th June, 2020 Rs. 3.8 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:

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