

SHUBHAM JAIN



CA INTERMEDIATE ADVANCED ACCOUNTING

AS -13

ACCOUNTING FOR INVESTMENT

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-SHUBHAM JAIN

Hi,

I am Shubham Jain, a dedicated CA student who has successfully cleared the CA Foundation with distinction and CA Intermediate Group 1. With a strong grasp of accountancy and finance, I strive to simplify complex concepts through logically structured notes and practical examples. My approach focuses on conceptual clarity, ensuring that learning becomes easy, effective, and application-oriented.

"There might be typing errors in this book. If you find any, please let me know, and I will try to correct them in the upcoming edition."

TTR : *TIPS TO REMEMBER

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 Telegram

INVESTMENT



CURRENT Investment

Intend to hold NOT more than a year.

Valued At :
LOWER of
1. COST
2. FAIR VALUE ↓

LONG TERM Investment

other than current Inv.

Valued At :
COST

Investment Acquired by issue Securities
Cost of Investment = FAIR VALUE of Securities

Investment Acquired by issue Securities
Cost of Investment = FAIR VALUE of Securities

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Valuation of Current Inv. :

1. Overall / Global basis - Not appropriate.

Ex: Debenture + Eq. Shares = Cost 500 & NRV 600 (Lower is 500)
Total Investment valued at - 500

2. Category Basis - Appropriate.

Ex: 10% Debenture + 9% Debentures = Cost 700 & NRV 650 (Lower is 650)
Eq. Shares of X ltd + Eq. Shares of Y ltd = Cost 500 & NRV 600 (Lower is 500)
Total Investment valued at - 1150

3. Individually - Most Appropriate.

Ex: 10% Debenture = Cost 700 & NRV 650 (Lower is 650)
9% Debentures = Cost 900 & NRV 750 (Lower is 750)
Eq. Shares of Y ltd = Cost 850 & NRV 550 (Lower is 550)
Total Investment valued at - 1950

Note:

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 profit and loss account (and excess portion, if any, is ignored)

Ex: As on 31 march , Investment Cost = 550 & NRV = 450

Reduction debited in P&I = 100

Now , Value increased by 150

Amt. Credited to p&l a/c = 100 (upto the cost i.e 550)

Valuation of Long Term Inv. :

Carry Amt. Determined on Individual basis .

Note:

Where there is a decline, other than temporary (Permanent) , in the carrying amounts of long term valued 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.

* I will be providing one concept - one related question, accompanied by my own solution. Each unique adjustment will be specifically highlighted to aid in effective exam revision.

FIXED INTEREST BEARING SECURITIES
EX: DEBENTURES , BONDS ETC.

TTR:

Interest are always calculated on FACE VALUE .

CASE 1 : EXCLUDING INTREST (EX-INTEREST) - means the the price given on sale / prurchase of investment are excluding of inetrest .

CASE 2 : INCLUDING INTREST (CUM-INETREST) - means the the price given on sale / pruchase of investment are including of interest .

lets , understand the format of Investment accounts

Dr.

Cr.

particulars	Nominal value	interest	Amt.	particulars	Nominal value	interest	Amt.
increase of Investment	face value	interest expense	Actual cost	decrease of Investment	face value	interest income	Actual cost

Example : SHU Ltd. made an investment in the 12% debentures of X Ltd . are as :
 Note : interest paid by X Ltd . as on 30 sept and 31 march and F.V is 100 .



Dr.

Cr.

particulars	Nominal value	interest	Amt.	particulars	Nominal value	interest	Amt.
To Bank A/c (purchase)	50000 (500 × 100)	1000 (Note 1)	52500 (Note 2)	By Interest receive A/c (30 - sept)		3000 (Note 3)	
To Profit on sales of Inv. A/c			900 (Note 5)	By Bank A/c (Sales)	30000 (300 × 100)	1200 (Note 4)	32400 (300 × 108)
To P & L A/c (Transfer Int.)		4400 (Bal . Fig)		By Interest Receive A/c (31 - March)		1200 (Note 6)	
				By Bal. C/d	20000		21000 (b/f)

Note 1 : $50000 \times 12\% \times 2 \text{ months} = 1000$

Note 2 : $500 \times 105 = 52500$ (Here , 52500 is excluding the Interest i.e 52500 does not include 1000 .)

If , It is case of Cum - Interest then , 52500 include 1000 of Interest.

Cum Interest Amt = 52500
 (-) Interest Amt = (1000)

51500 - This will be Shown in Amt . column

Note 3 : $50000 (30 \text{ sept holding}) \times 12\% \times 6 \text{ months} = 3000$

Note 4 : $30000 \times 12\% \times 4 \text{ months} = 1200$

Note 5 : cost of investment sold : $\frac{52500}{50000} \times 30000 = 31500$

sales value : (32400)

Profit : 900

Note 6 : $20000 (31 \text{ march holding}) \times 12\% \times 6 \text{ months} = 1200$

TTR : whenever sales took place always calculate Profit and Loss on Sale of Investment .

LOGIC BEHIND THE CONCEPT :

Interest shall be paid by company to the person who actually hold debentures as on Interest payment date of 6 months , despite of the person hold securities 1 months , 2 days or 4 months .

Here, Shu ltd hold 500 debentures only for 4 months (1 june to 30 sept) but Received 6 months interest (1 april to 30 sept) from X ltd becz shu ltd was the holder of that securities as on 30 sept and Mr . B who hold same debentures for 2 months , but he did not receive any Interest from X ltd. Therefore , This 2 months interest will be paid by Shu ltd to Mr B . It become expense for Shu ltd , shown on Dr side .

Here , Shu ltd hold 300 debentures only for 4 months (1 Oct to 31 Jan) .Mr .C Received 6 months interest (1 oct to 31 march) from X ltd becz Mr .C was the holder of that securities as on 31 jan but originally He hold debentures for 2 months, and Shu ltd didn't receive any Interest from X ltd For 300 Deb. Therefore , This 2 months interest will be paid by Mr C to Shu ltd . It become Income for Shu ltd , shown on Cr side .

Don't worry I have Trick to solve Questions :

TTR : whenever purchase or sale took place , Calculate Interest From LAST INTEREST PAYMENT DATE To TRANSATION DATE .

On FACE VALUE OF SALES / PURCHASE & Shown in there respective INT. Column

Here , In this question Last Int. payment date is 30 sept and sales took place 31 jan .
 $300 \text{ Deb} \times 100 \text{ rs} \times 12 \% \times 4 \text{ months} = 1200 \text{ (Cr . side)}$

LOGIC

VS

ACCOUNTING Format

Shu Ltd

Holds 200 deb. for 10 months

and 300. for 8 months

So , Interest would be -

$$200 \times 100 \times 12\% \times 10 \text{ months} = 2000$$

$$300 \times 100 \times 12\% \times 8 \text{ months} = 2400$$

4400

Interest Transfer to
P&I A/c is also 4400 .

(Logic is important for understanding but for fast calculation in Exam always follow Tricks and Formats.)

TTR : Current Investment shall be Valued at Lower of : Cost or NRV .

(If , Question does not say about Nature of Investment & Market value of Investment is Given , then consider as Current Inv.)

TTR : Treatment of Brokerage paid :

In case of Purchase : ADD in Cost

In case of sale : Less From Cost

Cum Int Amt : 1000
(-) Interest : (200)

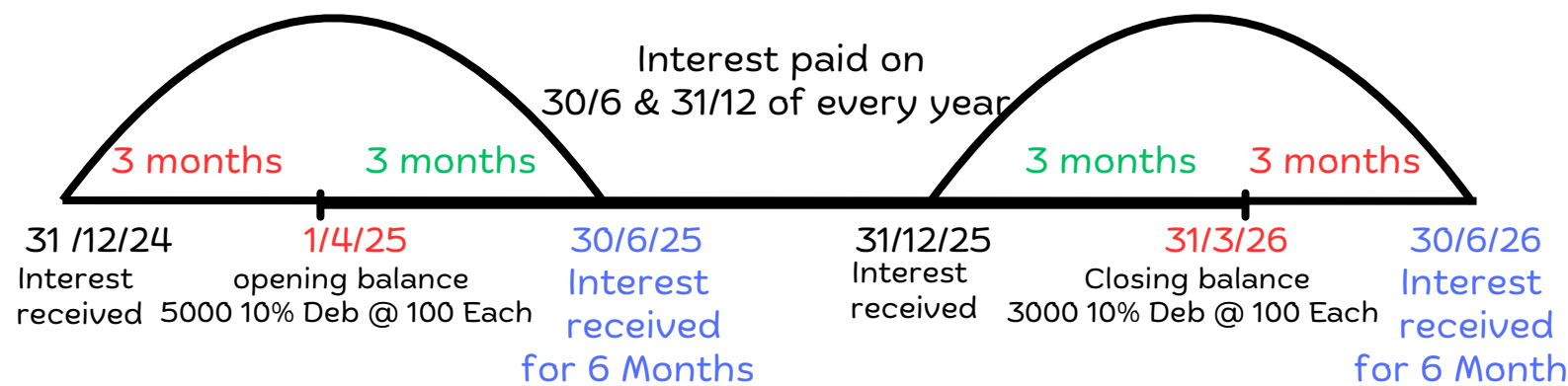
EX - Int Amt : 800
(+) Brokerage @ 1%: 10

810

TTR : Stamp duty calculate on Ex-Interest price

(TTR : Calculate 1 % on Cum-Int Amt i.e 1000 = 10)
Unless , otherwise provided

When Interest payment Dates and F.Y Dates are different



Interest received as on 30/6/25 of 6 months , in which 3 months interest belongs to previous year .

Interest received as on 30/6/26 of 6 months , in which 3 months interest belongs to Current year .

ACCOUNTING TREATMENT

Dr. F.Y 2024-25				Cr.			
particulars	Nominal value	interest	Amt.	particulars	Nominal value	interest	Amt.
				By Bal. C/d	500000	12500 3 months	xxx

Interest received In F.Y 25-26 , In which 3 months belong to F.Y 24-25

Dr. F.Y 2025-26				Cr.			
particulars	Nominal value	interest	Amt.	particulars	Nominal value	interest	Amt.
To Bal. B/d	500000	12500 3 months	xxx	By Interest Receive A/c (30-6-25)		25000 6 Months	
				By Bal. C/d	300000	7500 3 months	xxx

The NET effect of Int. receive of Current year is $25000 - 12500 = 12500$

Interest received In F.Y 26-27 , In which 3 months belong to F.Y 25-26

Dr. F.Y 2026-27				Cr.			
particulars	Nominal value	interest	Amt.	particulars	Nominal value	interest	Amt.
To Bal. B/d	300000 3 months	7500		By Interest Receive A/c (30-6-26)		15000 6 Months	

The NET effect of Int. receive of Current year is $15000 - 7500 = 7500$

Don't worry I have Trick to solve Questions :

TTR : For Opening Interest Balance :

Calculate From LAST INTEREST PAYMENT DATE To OPENING DATE OF F.Y.
On FACE VALUE Of Opening bal. & Shown in there respective INT. Column

TTR : For Closing Interest Balance :

Calculate From LAST INTEREST PAYMENT DATE To CLOSING DATE OF F.Y.
On FACE VALUE Of Closing bal. & Shown in there respective INT. Column

Ex - Opening : $500000 \times 10\% \times 3 \text{ months (31/12/24 to 1/4/25)} = 12500$

Closing : $300000 \times 10\% \times 3 \text{ months (31/12/25 to 31/3/26)} = 7500$

TTR : For calculation of Cost of Investment sold and there are multiple purchase, In such case apply FIFO or weighted Avg . for determination of Cost . If , Question is silent about method , then apply weighted Avg . method by giving assumption .

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EX: SHARES ETC.

particulars	No. of shares	dividend	Amt	particulars	Nominal value	interest	Amt.
increse of Investment	No.	expense	Actual cost	decrease of Investment	No.	income	Actual cost

TTR : If Right and Bonus are issued on same date , In such case the Share calculated on holding before Right and Bonus Received .

Holding as on 1 march : 4000
bonus as on 1 march in 1:4
right issue as on 1 march in 1:8

Sol: Bonus = $4000 \times 1/4 = 1000$

Right issue = $4000 \times 1/8 = 500$

UNLESS , QUESTION SAYS TO TAKE ANY SPECIFIC DATE HOLDING.

DEVIDEND

VVV IMP concept , Understand with the LOGIC only .

FINAL

INTERIM

1/4/24 31/3/25 10/9/25

Declare During the Year

Declare For FY 24-25

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There is Same logic as we understand in Debentures .
i.e dividend pr jiska hak hai usko hi milega

1.Final Dividend:

1.In case of Opening Bal. :

Dividend shall be paid by company to the person who actually hold shares as on Declaration date . On 10/9/25 we received dividend For F.Y 24:25 .Since there is opening balance of share , It means we hold that share in F.Y 24:25 .
Toh dividend pr hak hamara hai . Therefore , this will be record as Dividend received .

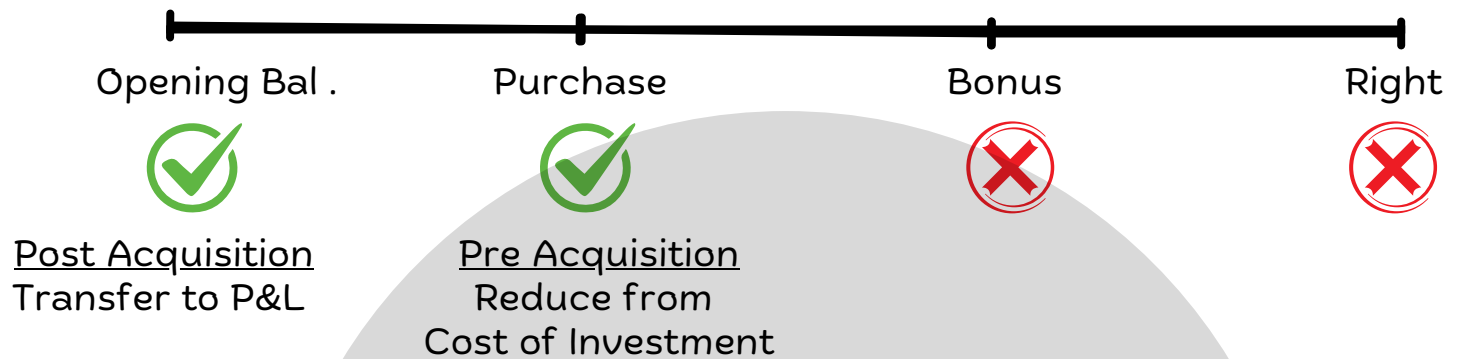
2.In case of Purchase : (yeh previous year me market existence me the)

Dividend shall be paid by company to the person who actually hold shares as on Declaration date . On 10/9/25 we received dividend For F.Y 24:25 .Since these was purchase by us in Current F.Y 25:26 , It means we didn't hold that share in F.Y 24:25 .
Toh dividend pr hak hamara nhi hai , uska hai jisse hamne buy kiye .
We will assume that he has sold that shares to us by adding extra cost (becz he know that we will also get dividend from company) , So the cost of our investment would have been increased , Therefore , we will reduce this dividend from the Cost of investment .

3. In case of Bonus / Right :

In case of Opening / purchase , It is clear that shares were in existence in Previous F.Y. So, these share are entitle to receive dividend .
but in Case of Bonus / Right issue , These share come into the existence in Current F.Y. So , how can these share are entitled to receive dividend of Previous F.Y. .
Therefore , Right / Bonus issue not Entitled for Final Dividend .

Summarize : Final Dividend



2. Interim Dividend:

Interim dividend is declared for current period . Therefore , All share whether bonus or right are eligible for dividend .

TTR: some time question specifically says that Bonus or Right share are not eligible for Interim dividend . In such we will not calculated dividend on Bonus or Right shares.

Convert debentures into Equity shares

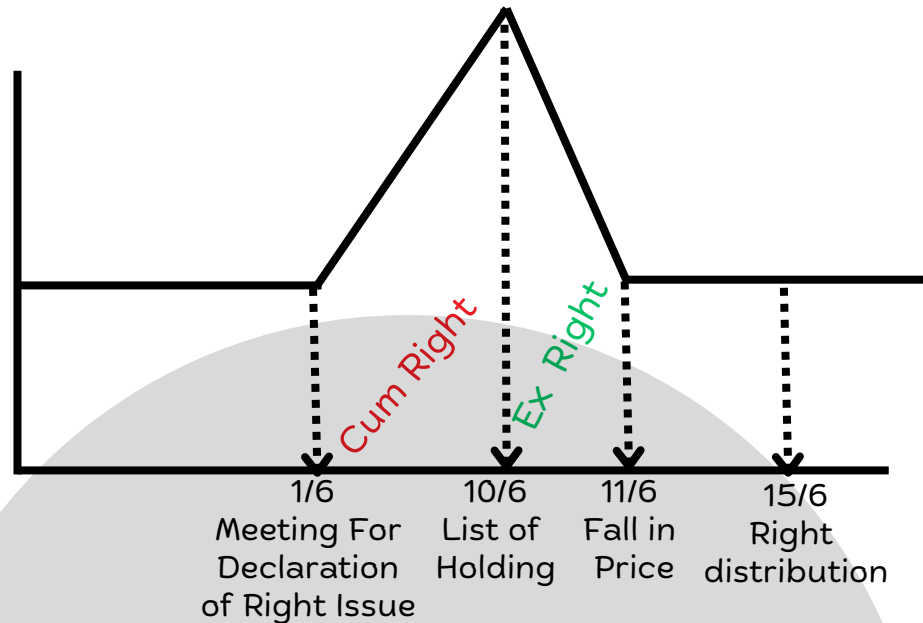
Ex: 500 debentures of Rs 100 each convert into 5000 Eq . Shares . The Cost of 500 debentures are 55000 .

Sol: The value of 5000 Shares = 55000
i.e $\frac{55000}{5000}$ = Rs 11 per share

TTR: Considered this transaction like Sales and calculate Interest From Last Int. payment Date to Transaction date are shown in respective Interest Column .

CUM RIGHT Purchase (Exception of Para 13 of As 13)

VVV IMP concept.



- On 1-6 Company declare in meeting that we are going to issue Right share in 1:4 , on the basis of 10/6 holding.
- After declaration , Demand of share get increased and price of share also increase till 10/6
- On 11/6 The price of share suddenly decreased but to reduction in demand .

As per AS 13 , If we will sell the right on such shares which purchased on cum basis to other person in such case the profit from such sale shall not be transfer to P&L A/c (as per para 13).

1. Transfer such profit upto the difference Amt b/w Cum & ex price to Cr. side of Investment A/c for reduce Investment .
2. Remaining profit (If, Any) Transfer to P&L (As per Para 13)

Ex: Cum price of share = 120

Right price of share = 100

Mr. shu purchase 100 shares on cum right basis .
he purchased shares by paying Rs 2000 extra . (100x (120-100))

Case 1 : Right sale to Mr B for 3000

1. Upto 2000 reduce investment (Transfer to Cr side)
2. remaining 1000 tranfer to p&l (para13)

Case 2 : Right sale to Mr B for 1500

1. reduce investment by 1500 (tranfer to Cr side)

Logic , hamne shares 2000 costly buy kiye due to such high demand , so agar hum in shares ke right ko sell krte hai toh profit me se upto 2000 se investment reduce kr denge becz 2000 se investment mehanga buy kiya tha.

Reclassification of investment

Current Inv. To Long Term Inv.

Long Term Inv. To Current Inv.

LOWER :

COST
FAIR VALUE
(as on Date of Transfer)

***Record Loss**

LOWER :

COST
BOOK VALUE
(as on Date of Transfer)

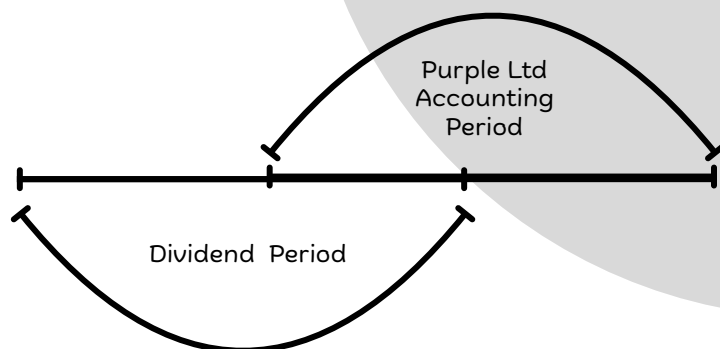
***No Loss Record**

Adjustment : There is an PYQ in which both companies follow different accounting period :

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

Date	Particulars
1st April, 2020	Purchased ₹ 4,00,000, 10% Govt. loan (interest payable on 30th April and 31st October) at ₹ 70 cum interest.
1st April, 2020	Purchased 6,000 Equity shares of ₹ 5 each in XY Ltd. for ₹ 1,26,000.
1st October, 2020	Sold ₹ 80,000, 10% Govt. loan at ₹ 75 ex-interest.
15th January, 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.
1st March, 2021	Received dividend @ 22% on shares in XY Ltd. for the year ended 31st December, 2020.

Prepare Investment accounts in the books of Purple Ltd. (PYP 10 Marks, Dec '21)



Consider :

1/1 to 31/3 = Pre - acquisition dividend.

1/4 to 31/12 = Post- acquisition dividend.

TTR : Stamp Duty paid by the person who made purchase .

So, Stamp duty only be paid in purchase transaction .

TTR: In case Gold/ Silver : Generally purchase with a intention to hold for long term period , unless otherwise provided.

TTR: If Transaction Date And Interest Payment Date are same :

In such case , you can take any possibility by giving assumption :

1st Record Transaction

2nd Record Interest

1st Record Interest

2nd Record Transaction

(Refer this for easy calculation)

Thank You



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