Accounting for Investments – AS 13

Summary of key issues

1. As per AS 13 , investment means assets held to earn income in the nature of interest,dividend,rent,capital appreciation or other benefits. Assets held as stock in trade are not considered as investments.
2. Investment includes Government & Trust securities, securities issued by local authority,bonds & debentures of companies, shares of companies, deposits with banks & companies , immovable property , investment in capital of a partnership firm, insurance policies , jewellery etc.
3. The investments can be classified based on period of holding or nature of return on investments.
4. Based on period of holding, investments are classified as Long term Investments or Current investments.
5. Current investments are those which are readily realizable and intended to be held for a period not exceeding a year. These are valued at lower of cost or fair market value on the date of balance sheet.
6. Investments other than Current investments are considered as Long term investments. These are valued at Cost for the purpose of balance sheet. If there is a permanent reduction in value , a provision for the same is made and reduced from the value of investments.

7. Based on nature of return on investments , the classification is made as Securities with fixed rate of earning and Securities with variable rate of earning. Examples of Securities with fixed rate of earning are bonds, debentures, Govt securities, fixed deposits, preference shares etc. Equity share is an example of Security with variable rate of earning.
8. Cost of investments should include purchase price plus incidental expenses like brokerage, stamp duty , other charges etc.
9. When investments are made at different points of time , Cost can be determined on FIFO basis , Weighted average basis or Specific item basis.
10. AS 13 prescribes Weighted Average Cost formula for valuation of investments.

    $$\text{Weighted average cost} = \frac{\text{No of securities sold}}{\text{Total no of securities}} \times \text{Total cost of securities}$$

11. In case of securities with fixed rate of return like interest, the dates of accrual / payment of interest are fixed. The interest is calculated on nominal value or face value. Interest is paid to the registered security holder who holds the same on due date of payment of interest.

12. Whenever the securities having fixed rate of interest are transferred, following points should be considered while accounting for interest in books of buyer and seller.

Date of sale	Treatment of interest
On due date or next day after due date of interest	Interest is received by the seller till such date. Thereafter , interest belongs to the buyer.
Few days after the due date	Interest from the last due date till date of sale belong to seller. Interest from date of sale onwards belongs to the buyer. Accordingly buyer receives full interest on due date after the date of sale. However he compensates the seller for interest from previous due date till date of sale by a payment of interest.

13. Pricing of fixed interest bearing security may be termed as Ex-interest or Cum-Interest.

14. Ex-interest price means the price is excluding interest. It is a Cost of investment for buyer and Capital receipt/sales price for the seller.

15. Cum-interest price includes interest for the period from last due date of interest till the date of sale. In this case Cost of investment for buyer and Capital receipt/sales price for the seller is calculated as "Cum-interest price less interest".
16. In case of Equity shares , dividend is based on face value if the shares are fully paid up.
17. A shareholder holding the shares on Record date is eligible to receive the same.
18. Dividend is usually accounted for as and when received.
19. Dividend for pre-acquisition period is a capital receipt and reduces the cost of investment.
20. Cost of bonus shares is considered as Nil.
21. Cost of right shares is the actual price paid to acquire the shares.
22. If Right entitlements are sold, the proceeds are credited to Profit & Loss a/c.