

Chapter : Investment accounting

Chapter plan

1 meaning of investment

2 types of Investments

3 accounting of fixed income securities theory

4 practice of fixed income securities sums

5 accounting of variable income securities theory

6 practice of variable income securities sums

7 assignments

8 test

1) Meaning of investment

Investments are assets held by an enterprise for earning income by way of dividend interest and rentals or for capital appreciation or for other benefits to the investing enterprise. [AS 13]

2) Types of Investments

A) for accounting purpose

- 1 **fixed income bearing securities** example debentures, bonds preference shares etc
- 2 **variable income bearing securities** examples equity shares mutual fund etc

B) for valuation purpose

- 1 **current investment**-these Investments are intended to be held for up to 12 months from the date of acquisition
- 2 **long term investment**-these Investments are held for more than 12 months

3) Accounting of fixed income bearing securities

a) Purchase of investment

- Investment account Dr [EIP]
- Interest account Dr [INT]
- To Cash/bank account [CIP]

b) Sale of investment

- Cash/bank account Dr
- To investment
- To interest

e) Valuation at year end

- 1 current investment cost price or market price which is lower
- 2 long term investment is at cost price only unless permanent decline

• 4) Practice of fixed income securities sums

5) Accounting of variable income bearing securities

a) Purchase of investment

- Investment account Dr
 To Cash/bank account

b) Sale of investment

- Cash/bank account Dr
 To investment

c) Treatment of profit and loss on sale

Sale price [EIP]
Less : Cost price [FIFO/WT.AVG.]
Profit or loss XXXXX

IF PROFIT

Investment account Dr

To profit and loss account

IF LOSS

Profit and loss account Dr

To Investment account

d) Receipt of dividend on due date

- 1 Pre-acquisition dividend adjust to cost (Investment A/C - Cr. Side-Amt Column).
- 2 Post-acquisition dividend record in (Investment A/C - Cr. Side-Dividend Column).

- e) Special Transactions

- 1) Bonus issue

- a) Record bonus share on **Dr. side** of investment A/C.
- b) Write amount in **Face value column only** & in Amt column – Nil (as cost of bonus share is Nil.)

- 2) Right issue

- a) If subscribed- Then treat it just like purchase of investment.
- b) If renounced- Then ignore it as renouncement price will be recorded in P/L account & not in Investment A/C.

f) Valuation at year end

- 1 current investment cost price or market price which is lower
- 2 long term investment is at cost price only unless permanent decline

6) Practice of variable income securities sums

7) Assignments

8) Test

End of Chapter

Thank you