

## INVESTMENT ACCOUNTING (AS-13)

Investment means parking or investing the money for better returns, it is done by government, shareholders, individuals, etc...

Investment account deals with individual investment only. That is investment made by INDIVIDUAL person.

Investments are done based on RISK & RETURN.

Investments, which give, FIXED RETURN/INCOME like DEBENTURES & BONDS on which investors get income as a fixed rate of return.

There are investments on which FLUCTUATING returns are received like SHARES on which shareholders receive DIVIDEND, which is not fixed.

Interest on dividend is always calculated on FACE VALUE of the security.

### INVESTMENT

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#### FIXED INCOME

Bonds and debentures

Interest and income

Face value **Rs.100**

Low risk

#### FLUCTUATING INCOME

Shares

Dividend and income

Face value **Rs.10**

High Risk

### Concept of Ex-interest and Cum-interest

The concept of EX-INTEREST and CUM-INTEREST is applicable in care of security or investment having Rate of Return i.e. Debentures and Bonds.

This concept is based on fixed income that is interest on investments. Debentures holder get fixed interest on income, irrespective whether company earns profit or not. Because of the fixed interest whenever the debenture is purchased or sold the interest amount for the period of debenture holder can be demand from 3<sup>rd</sup> party. Generally, company pays interest half yearly and whenever debenture is, purchase

or sold in between the period of interest, investor can ask for the interest amount from the last date of interest received until the period of holding.

- When such interest amount is ask or charged separately from cost price it is called as **EX-INTEREST**
- On the other hand, interest ask or charged along with the cost price, that is; inclusive of interest amount is called as **CUM-INTEREST**.
- As per AS-13, the cost price and the interest amount has to be recorded separately.

#### ❖ **CASE STUDY:**

In this case, Mr. A will get interest for the month of June. When Mr. A sale investment on 30<sup>th</sup>Nov. to Mr. B, then Mr. A can ask for interest amount for the period of holding, that is; from 1<sup>st</sup>July to 30<sup>th</sup>Nov, when such interest is ask separately from cost price it is called “**EX-INTEREST**”, in other hand when cost price is included such interest is called as “**CUM-INTEREST**”.

In other words, MR. B will receive interest from company for 6 months of which the interest of 5 months is already paid to Mr. A.

Any profit or loss on sale of investment is calculated by **WEIGHTED AVERAGE COST** method.

At the end of the year, investment will be recorded on the cost or market value whichever is less.

As per AS-13, valuation is mandatory to record at the end of the year. Balance in interest column will be transformed to **P&L Account**.

#### **ACCOUNTING ENTRIES:**

##### ▪ **Investment purchase:**

Investment a/c	Dr.
To bank a/c	
(Being investment purchase)	

- **Investment sold:**

Bank a/c Dr.

To investment a/c

(Being investment sold) – At this point there will be Profit or Loss on sale

- **Interest received from company:**

Bank a/c Dr.

To interest a/c

(Being interest received)

### INVESTMENT IN SHARES

Share is the smallest part of the entire share capital of the company. There are different types of shares like EQUITY SHARES, PREFERENCE SHARES, SWEAT EQUITY SHARES and ESOP. Investment accounting deals with investment in EQUITY SHARES. Equity shares have a face value of generally Rs. 10 but dividends on such shares are not fixed. Equity share holders are the risk takers and they are real owners of the company. They are eligible for BONUS SHARES and RIGHT SHARES.

**BONUS SHARES:** It is also known as CAPITALISATION OF RESERVES. This is issued by the company to its equity shareholders at free of cost. The cost of bonus share is **NILL**. The company on proportionate basis issues it.

**RIGHT SHARES:** These are the shares issued by the company to its EXISTING EQUITY SHARE HOLDERS. On proportionate basis at a price which is below MARKET PRICE of the shares. Share holder have a right to renounce, that is; transfer their right shares to another equity share holder called as RIGHTS OF RENOUNCEMENT.

**Example:** Mr. A has 1000 Eq. shares

Company gives him right shares in the ratio of **2:1 @ 115**

Mr. A is eligible to get:

5000 right shares

He buys 3000 shares from  
Company @115

balance 2000 shares were  
sold to Mr. B @ Rs. 5 per  
Share (@ Rs. 120)

- Profit of Rs. 5 per share received by Mr. A will be recorded and transferred to P&L a/c.
- Dividend is paid by company during the year for last year so....
  - Dividend received on the shares held during last year will be treated as income.
  - Dividend received on the shares purchased during the year will be treated as cost and transferred to the cost column
  - Bonus and dividend shares are not eligible for dividend because they are issued during the year.

#### **LAST MINUTE REVISION (LMR):-**

1. Investment accounting is governed by **AS-13**.
2. Interest or dividend is calculated on face value.
3. Any balance of interest on year ended is transferred to P&L a/c.
4. Any profit or loss on the sale of investment is calculated by **WEIGHTED AVERAGE COST** method.
5. Short term investment costs on market value whichever is less.
6. Long term investment – Historical cost.
7. Fixed income - Securities – debentures and bonds.
8. Variable income/Fluctuating income – Shares.
9. **Bonus shares** –free of cost (capitalization of reserves).
10. **Right Shares** – to existing shares holders. Any profit on renouncement of right shares will be transferred to P&L a/c and not in investment account.
11. On 31<sup>st</sup>. march any loss on valuation is mandatory to record.
12. At the end of the year balance in dividend will be transferred to P&L a/c.