



# INVESTMENT ACCOUNTS

## 1. MEANING OF INVESTMENT:

Investments are **assets held by an enterprise for earning income by way of dividends, interest and rentals, for capital appreciation**, or for other benefits to the investing enterprise. The accounting for Investments is governed by the provisions of **AS-13**.

Eg.

1. Investment of Equity Shares of Companies
2. Investment in Government Bonds
3. Investment in Properties
4. Investment in Commodities (Gold, Silver)
5. Investment in Mutual Funds
6. Investment in Proprietorship / Partnership business etc.

## 2. COST OF INVESTMENT:

Investment acquired shall be initially recognised at COST.

### Cost of Investment acquired for Cash consideration:

Purchase price	xxx
(+) Expenses related to purchases like stamp duty, brokerage, STT, legal fees, etc.	xxx
<b>Cost of Investment</b>	<b>xxx</b>

### Journal

Investments A/c ...Dr. (At cost)	xx	
To Bank A/c		xx

**Cost of Investment acquired by issuing shares and securities:**

The **Cost of Investment** shall be the **fair value of shares or securities issued** (consideration given).

If the **fair value of shares issued is not available**, then **cost shall be fair value of Investments acquired**.

**Cost of Investment acquired in exchange of other assets:**

The **Cost of Investment** shall be the **fair value of the asset given up**.

If such **fair value of asset given is not available**, then **cost of investment** shall be the **fair value of Investments acquired**.

Eg.

Mr. A purchased 10,000 shares of Infosys Ltd. from Mr. B in exchange of land. Find the cost of investment in following cases:

<b>Case 1:</b>	Fair Value of land given ₹20,00,000. Book Value of land ₹18,00,000.
	Cost of Investment in 10,000 shares of Infosys = ₹20,00,000
<b>Case 2:</b>	Fair Value of land given is not available. However, Fair Value of shares of Infosys is ₹250 per share
	Cost of Investment in 10,000 shares = 10,000 shares × ₹250 = ₹25,00,000

**3. RECURRING INCOME FROM INVESTMENTS: (Interest, Dividend, etc.)**

Income shall be recognised on Accrual basis (AS-9).

Interest accrues on time basis.

Dividend accrues when it is declared by the Company.

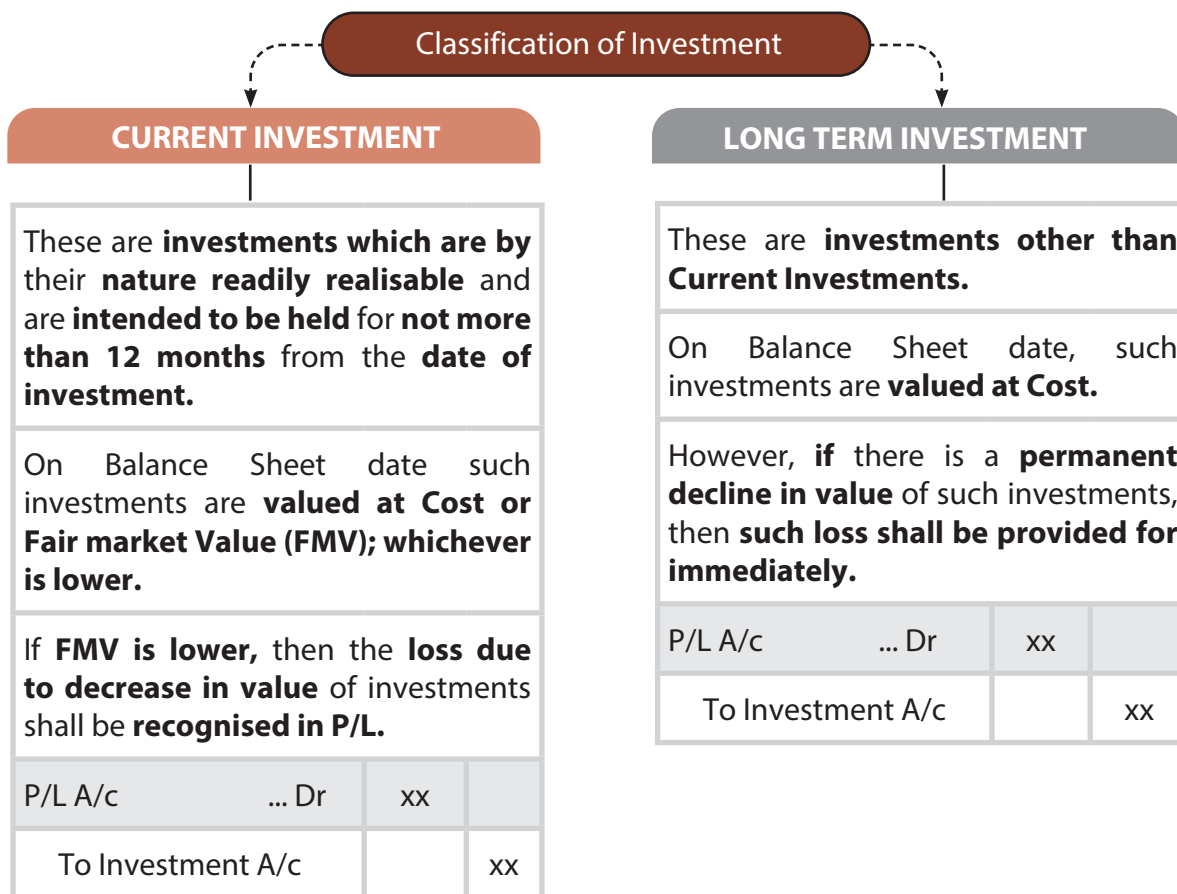
**Journal**

Bank A/c	... Dr.	xx	
To Interest/Dividend Income A/c			xx
Interest/Dividend Income A/c	...Dr.	xx	
To P/L A/c			xx



# CA Inter Chapters Summary

## 4. MEASUREMENT OF INVESTMENT IN BALANCE SHEET:



**If the value of investment increases (loss recovers), then the loss earlier recognised can be reversed but only to the extent of loss earlier recognised.**

Investment A/c	... Dr	xx	
To P/L A/c			xx

## 5. DISPOSAL OF INVESTMENT:

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.

<b>Gain or loss on sale of Investments:</b>			
Net Selling Price	=	xxx	(SP – Expenses)
(-) Carrying amount of those investments	=	(xxx)	
<b>Profit/ Loss on Sale of investments</b>	=	<b>xxx</b>	<b>(P/L A/c)</b>



If a part of investment is sold, then the carrying amount of investment sold can be determined using cost formulas like:

**FIFO**

Only if Question specifies

**Weighted average**

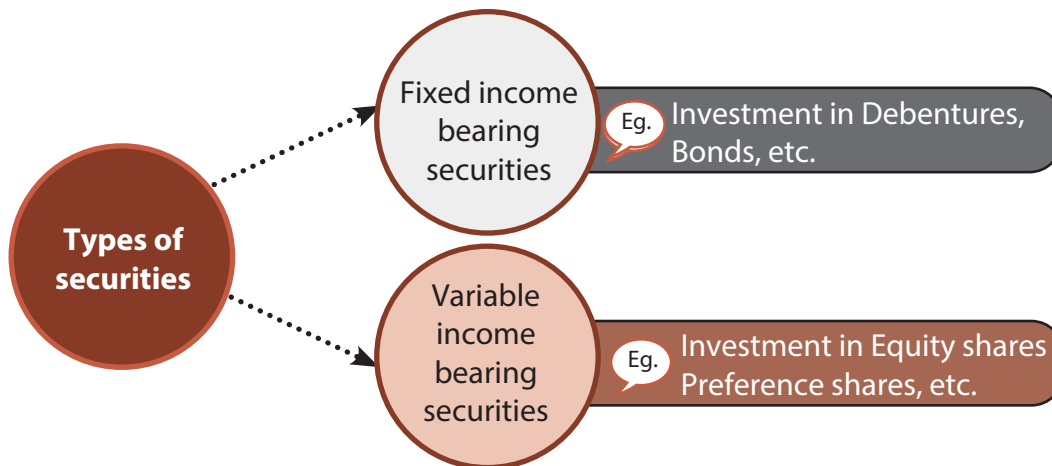
Otherwise always use Weighted Average

### Journal

Bank A/c	...Dr	xx	(Net SP)
P/L A/c	...Dr	xx	(Loss)
To Investment A/c		xx	(Carrying Amount)
To P/L A/c		xx	(Profit)

## 6. ACCOUNTING FOR INVESTMENT IN SECURITIES:

A separate Investment Account should be made for each scrip purchased.





# CA Inter Chapters Summary

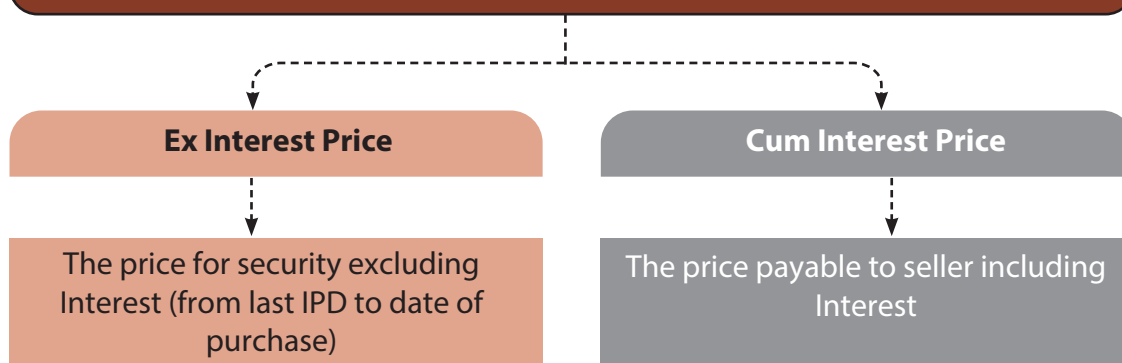
## 7. INVESTMENT A/c - FIXED INCOME BEARING SECURITIES:

a. **Format:**

Dr.					Investment Account					Cr.				
Date	Particulars	No.	Cost	Interest	Date	Particulars	No.	Cost	Interest					

b. **Cost of Investment acquired:**

In case of Fixed Income bearing securities, the seller may quote the price in two ways:-



So, Cum Interest Price = Ex Interest Price (+) Interest.

- 1) Cost of Investment = Ex Interest Price
- 2) Interest paid shall be treated as an expense which will be recovered in future, i.e. on next Interest Payment Date (IPD).



**Brokerage, Stamp duty and other expenses shall be included in cost as usual. If such expenses are expressed in %, then following rule shall be applied:**

- (i) % of ex interest given = Calculate on Ex interest price
- (ii) % of cum interest given = Calculate on Cum interest price
- (iii) % base not given = Use price quotation given as base.

c. **Periodic Interest Income:**

**On every IPD**, investor will **receive interest** from the company for the period from “**last IPD to current IPD**”.

**This interest received shall be calculated as:**

$$\left\{ \text{No. of securities held} \times \text{Face value} \times \text{Interest rate} \times \frac{\text{Period}}{12} \right\}$$

**d. Interest accrued but not due:**

If the **interest payment dates and year end date does not coincide**, every year there will be a **portion of period** for which **interest will accrue** but the **payment for the same will be received in the next year**. This is known as **Interest accrued but not due**.

Eg.

IPD	=	31.5 & 30.11
Year end		31.12 [Investor]
Interest accrued but not due	=	1 month [December]

This **interest** will be **shown in Investment A/c as Closing & Opening balance of Interest column**.

**e. Sale of Investment:**

On sale of fixed income securities, the **investor will receive Cum interest price** from the buyer.

Cum int price = Ex interest selling price (+) Interest

**Interest will be recognised as an income as usual.**

We will have to **calculate P/L on sale of investment**:

Ex Interest Net Selling Price	=	xx	(Net of brokerage, stamp duty, etc)
(-) Cost of those Investments	=	(xx)	FIFO or Weighted Average
Profit/ Loss	=	<b>xx</b>	Transferred to P/L A/c.

**f. Closing balance of Investment:**

- The closing balance in Investment A/c of investments held will be determined as follows:
  - If **investments are held as Current investments = Cost or FMV; Lower**  
**\* If FMV is lower, loss shall be transferred to Profit/Loss A/c.**  
**Cost** = Balancing Fig. of Cost column  
**FMV** = Given in the Question.
  - If investments are **held as long-term investments = Cost.**
- If **IPD and year-end date are not same**, there will be a **closing balance in Interest column too** which is Interest accrued but not due.



# CA Inter Chapters Summary

## 8. INVESTMENT A/c - VARIABLE INCOME BEARING SECURITIES:

a. **Format:**

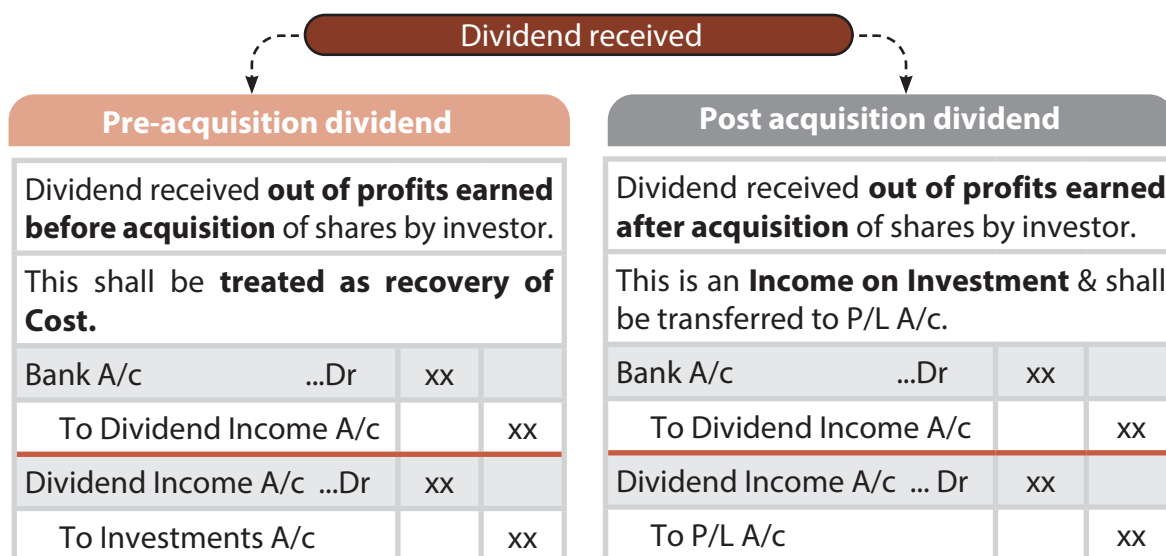
Dr.					Investment Account					Cr.				
Date	Particulars	No.	Cost	Dividend	Date	Particulars	No.	Cost	Dividend					

b. **Cost of Investment acquired:**

Such equity shares acquired shall be **recognised at cost** which is [**Purchase Price (+ Expenses incurred for purchase)**].

Investment in Equity shares of X Ltd. A/c	... Dr	xx	
To Bank A/c			xx

c. **Dividend received:**



d. **Bonus shares received on investment:**

(i)	<b>Bonus shares</b> are shares <b>issued</b> by a company to its existing equity shareholder without consideration by capitalising reserves.
(ii)	For a shareholder, <b>bonus results in increase in number of shares held without additional investment.</b>
(iii)	In Investment A/c, the <b>number of bonus shares received is shown under Nos. column on Dr. Side</b> with cost being 0.
(iv)	When such <b>bonus shares/original shares are sold</b> , the <b>cost per share</b> shall be determined using <b>weighted average method.</b>

**e. Right Shares:**

- (i) **Right shares** are **new shares offered** by a company to its existing shareholders in **a further issue of shares** at a concessional price.
- (ii) The existing shareholder who receives the right of a has **two options**:-

<b>Subscribe for the shares by paying offer price to the company</b>				<b>Renounce the right to third party against consideration</b>			
It is purchase of new/additional investment				The <b>renoucement money received</b> shall be <b>treated as income</b> & transferred to P/L A/c.			
Investment A/c	... Dr	xx		a. Bank A/c	...Dr	xx	
To Bank A/c			xx	To Renoucement money A/c			xx
				b. Renoucement Money A/c		xx	
				...Dr			
				To P/L A/c			xx



**Note: Cost of Investment for Renounee = [Amount paid to renounee (+) Amount paid to company]**

**Exception to treatment of renoucement money:**

If the following **two conditions** are satisfied, then the **treatment of renoucement money shall change**:-

- (i) **Original shares were purchased on cum right basis** (after announcement of right) and
- (ii) **Share price after becoming ex right** (price after record date) **falls** leading to a **loss** in the **value of investment**.

The **renoucement money** shall now be **treated as follows**:

- (a) **To the extent of fall in value of investment** → **renoucement money received** shall be used to write off such loss in value of investment.
- (b) Any **extra renoucement money** shall be **transferred to P/L**.

**Journal**

Renoucement money A/c...Dr	xx	
To Investment A/c		xx
To P/L A/c		xx



## CA Inter Chapters Summary

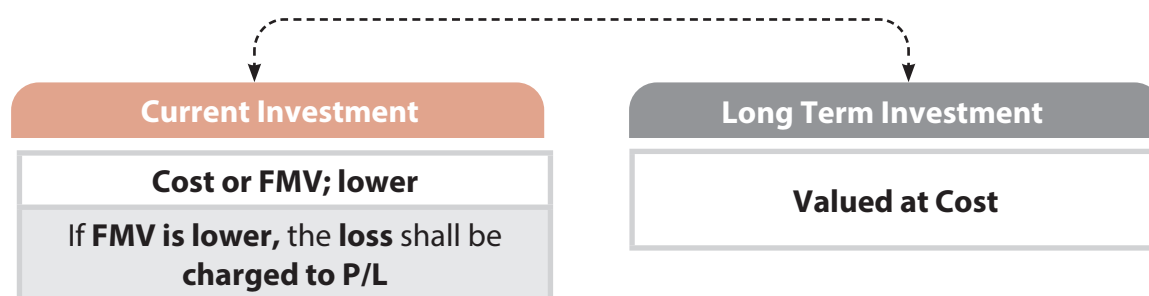
### f. **Sale of Investment:**

On sale of investment in Equity shares, the **profit or loss on sale** will be calculated and **transferred to P/L A/c.**

**Profit or loss on sale of investment = [Net SP (-) Cost]**

The cost of investment sold shall be determined using Weighted Average method (FIFO if question specifies).

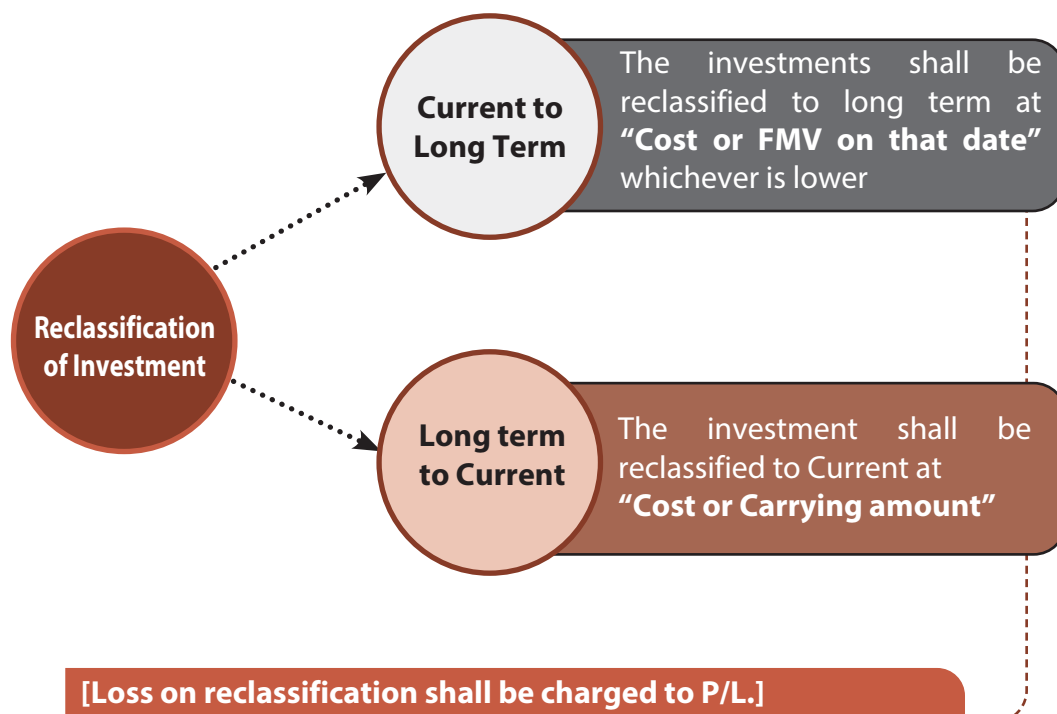
### g. **Closing balance of Investment:**



\*No concept of Dividend Accrued but not due

## 9. **RECLASSIFICATION OF INVESTMENT:**

When there is a **change in intention** of holding this investment (**PROSPECTIVE**)





Space for Self Notes

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