ACCOUNTING FOR INVESTMENTS

According to the Accounting Standard (AS-13), 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. Assets held as stock-in-trade are not ‘investments’. Table 13.1 shows investments as % of total assets of some of the well-known companies of India.

<table>
<thead>
<tr>
<th>Company</th>
<th>Investment %</th>
<th>Company</th>
<th>Investment %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance Communications Ltd.</td>
<td>78%</td>
<td>Tata Consultancy Services Ltd.</td>
<td>26%</td>
</tr>
<tr>
<td>HCL Technologies Ltd.</td>
<td>73%</td>
<td>Dr. Reddy’s Laboratories Ltd.</td>
<td>21%</td>
</tr>
<tr>
<td>Zee Entertainment Enterprises Ltd.</td>
<td>60%</td>
<td>Infosys Technologies Ltd.</td>
<td>10%</td>
</tr>
<tr>
<td>Bajaj Auto Ltd.</td>
<td>59%</td>
<td>A.C.C Ltd.</td>
<td>6%</td>
</tr>
<tr>
<td>Hero Honda Motors Ltd.</td>
<td>53%</td>
<td>Cipla Ltd.</td>
<td>1%</td>
</tr>
</tbody>
</table>

Investments can be broadly divided into two categories: Current Investments and Long Term Investments.

A current investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made.

A long term investment is an investment other than a current investment.

Investments and Accounting Equation

When company purchases investments, either cash goes down or a corresponding liability is created.

Example 13.1

Table 13.2 shows the assets and corresponding sources of ABC Ltd.

<table>
<thead>
<tr>
<th>Table 13.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting Equation before the purchase of Bonds of XY</td>
</tr>
<tr>
<td>Loan + Profit + Capital = Cash+ Stock + Plant</td>
</tr>
<tr>
<td>50,000 20,000 150,000 90,000 30,000 100,000</td>
</tr>
</tbody>
</table>

If the company uses cash to acquire 12% Bonds of XYZ Ltd. worth of Rs. 30,000, the new accounting equation will be as shown by the table 13.3.

<table>
<thead>
<tr>
<th>Table 13.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting Equation of ABC</td>
</tr>
<tr>
<td>Loan + Profit + Capital = Cash+ Stock + Plant+ 12% Bonds</td>
</tr>
<tr>
<td>50,000 20,000 150,000 60,000 30,000 100,000 30,000</td>
</tr>
</tbody>
</table>

Or Acquired for cash but takes a specific loan.
If the company takes a loan to acquire 12% Bonds of XYZ Ltd worth of Rs. 30,000, the new accounting equation is shown by table 13.4

Table 13.4

<table>
<thead>
<tr>
<th>Accounting Equation of ABC</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Loan + Loan + Profit + Capital = $</td>
</tr>
<tr>
<td>30,000 50,000 20,000 150,000</td>
</tr>
</tbody>
</table>

Table 13.5 shows the accounting equation when the company receives interest on bonds: Rs. 3000.

Table 13.5

<table>
<thead>
<tr>
<th>Accounting Equation of ABC</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Loan + Loan + Profit + Capital = $</td>
</tr>
<tr>
<td>30,000 50,000 23,000 150,000</td>
</tr>
</tbody>
</table>

Table 13.6 shows the accounting equation when the company sells the above investments at a premium of 50% for cash.

Table 13.6

<table>
<thead>
<tr>
<th>Accounting Equation after the sale of investments at a profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Loan + Loan + Profit + Capital = $</td>
</tr>
<tr>
<td>30,000 50,000 38,000 150,000</td>
</tr>
</tbody>
</table>

- Cash = 93,000 + 45,000 = 138,000
- Profit = 23,000 + 15,000 = 38,000

When the company sells the above investments for 25000, the accounting equation will be as follows:

Table 13.7

<table>
<thead>
<tr>
<th>Accounting Equation after the sale of investments at loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Loan + Loan + Profit + Capital = $</td>
</tr>
<tr>
<td>30,000 50,000 18,000 150,000</td>
</tr>
</tbody>
</table>

- Cash = 93,000 + 25,000 = 118,000
- Profit = 23,000 - 5,000 = 18,000
Investments and Financial Statements

According to the AS-13, the financial statements of a company should disclose the following:

a. the accounting policies for the determination of carrying amount of investments;

b. the amounts included in profit and loss statement for:
   i. interest, dividends (showing separately dividends from subsidiary companies), and rentals on investments showing separately such income from long term and current investments. Gross income should be stated, the amount of income tax deducted at source being included under Advance Taxes Paid;
   
ii. profits and losses on disposal of current investments and changes in carrying amount of such investments;

iii. profits and losses on disposal of long term investments and changes in the carrying amount of such investments;

iv. the aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments.

Let us take an example to understand the impact of investments on the financial statements.

Example: 13.2

On 1st April 2005, Altd started business with a capital of Rs.100,000 Immediately used the money to purchase the following:
- 2000 10% Bonds of Rs. 10 at a premium of 50%. Interest is received annually 31st March.

Table 13.8 shows the impact of above transactions relating to investments on the financial statements for the year ending on 31st March 2006.

<table>
<thead>
<tr>
<th>Cash Flow Statement</th>
<th>Income Statement</th>
<th>Balance Sheet as on 31st March 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts Capital</td>
<td>Incomes interest</td>
<td>Source 100,000</td>
</tr>
<tr>
<td>100,000</td>
<td>2,000</td>
<td>Capital 2,000</td>
</tr>
<tr>
<td>Interest 2,000</td>
<td></td>
<td>Profit 2,000</td>
</tr>
<tr>
<td>Total Receipts 102,000</td>
<td>Expenses 0</td>
<td>Assets 102,000</td>
</tr>
<tr>
<td>Payments</td>
<td></td>
<td>Source 102,000</td>
</tr>
<tr>
<td>Purchase of Bonds</td>
<td></td>
<td>Bonds 30,000</td>
</tr>
<tr>
<td>30,000</td>
<td></td>
<td>Cash 72,000</td>
</tr>
<tr>
<td>Total Payments 30,000</td>
<td></td>
<td>102,000</td>
</tr>
<tr>
<td>CIH 72,000</td>
<td>Profit 2,000</td>
<td>102,000</td>
</tr>
</tbody>
</table>

Table 13.8
Example: 13.3
On 1st April 2005, Altd started business with a capital of Rs.100,000. Used the money to purchase the following:

- On 1st January 2006, purchased 2000 10% Bonds of Rs. 10 at a premium of 50%.
  Interest is received annually on 31st December.

| Table 13.9 |
|---|---|---|
| **Cash Flow Statement** | **Income Statement** | **Balance Sheet as on 31st March 2006** |
| Receipts | Source | Capital |
| Capital | 100,000 | 100,000 |
| Interest | 0 | |
| Total Receipts | 100,000 | Profit |
| Payments | | 600 |
| Purchase of Bonds | 30,000 | Assets |
| Total Payments | 30,000 | Bonds |
| CIH | 70,000 | Accrued Interest |
| | Profit | 600 |
| | | 70,000 |
| | | 100,600 |

Classification of Investments
Investments are classified as long term investments and current investments. Current investments are in the nature of current assets, although the common practice may be to include them in investments.

Further classification of current and long-term investments should be as specified in the statute governing the enterprise. In the absence of a statutory requirement, such further classification should disclose, where applicable, investments in:

- Government or Trust securities
- Shares, debentures or bonds
- Investment properties
- Others—specifying nature.

Cost of Investments
As per the AS-13, the cost of an investment includes acquisition charges such as brokerage, fees and duties.

Example: 13.4
ABC ltd. acquires 50 shares of MindTree Consulting through ICICI Direct.com. Cost information were as follows:

- Price of share: Rs. 784
- Brokerage: 75p for every Rs .100
- Service tax; 12.5%
Table 13.10 shows the cost of these investments as per AS-13.

<table>
<thead>
<tr>
<th>Table 13.10</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost of Investment</strong></td>
</tr>
<tr>
<td>No of shares</td>
</tr>
<tr>
<td>Price</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Brokerage</td>
</tr>
<tr>
<td>Service Tax</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
</tr>
</tbody>
</table>

**Acquisition of Investments in exchange of shares**
According to AS-13, if an investment is acquired, or partly acquired, by the issue of shares or other securities, the acquisition cost is the fair value of the securities issued (which, in appropriate cases, may be indicated by the issue price as determined by statutory authorities). The fair value may not necessarily be equal to the nominal or par value of the securities issued.

**Example: 13.5**
Table 13.11 shows the assets and sources of ABC ltd as on 31st March 2006

<table>
<thead>
<tr>
<th>Table 13.11</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance Sheet of ABC ltd</strong></td>
</tr>
<tr>
<td>Capital</td>
</tr>
<tr>
<td>Reserves</td>
</tr>
<tr>
<td>Loans</td>
</tr>
<tr>
<td><strong>120,000</strong></td>
</tr>
</tbody>
</table>

ABC ltd acquires 1000 shares (of Rs. 10) of XYZ ltd by issuing 100 shares (of Rs. 10) at a market price of 150. The investment should be valued at Rs. 15,000 and the balance sheet after the acquisition of the investment will be as follows (Table 13.12):

<table>
<thead>
<tr>
<th>Table 13.12</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance Sheet of ABC ltd after acquiring the shares</strong></td>
</tr>
<tr>
<td>Capital</td>
</tr>
<tr>
<td>Share Premium</td>
</tr>
<tr>
<td>Reserves</td>
</tr>
<tr>
<td>Loans</td>
</tr>
<tr>
<td><strong>135,000</strong></td>
</tr>
<tr>
<td>Cash</td>
</tr>
<tr>
<td>Stock</td>
</tr>
<tr>
<td>Shares of XYZ</td>
</tr>
</tbody>
</table>

- Cash Flow Statement: no effect
- Income Statement: no effect

**Workings**
- Cost of the investment = 100 * 150 = 15,000
- Nominal value of shares issued = 100 * 10 = 100
- Share premium = 100 * 140 = 14,000
In exchange of other assets
Similarly, if an investment is acquired in exchange, or part exchange, for another asset, the acquisition cost of the investment is determined by reference to the fair value of the asset given up. It may be appropriate to consider the fair value of the investment acquired if it is more clearly evident.

Income from investments
Interest, dividends and rentals receivables in connection with an investment are generally regarded as income, being the return on the investment.

Example: 13.5

<table>
<thead>
<tr>
<th>Table 13.13</th>
<th>Balance Sheet of ABC ltd after acquiring the shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>101,000</td>
</tr>
<tr>
<td>Share Premium</td>
<td>14,000</td>
</tr>
<tr>
<td>Reserves</td>
<td>70,000</td>
</tr>
<tr>
<td>9% Loans</td>
<td>70,000</td>
</tr>
<tr>
<td>Shares of XYZ</td>
<td>(10)</td>
</tr>
<tr>
<td>Stock</td>
<td>100,000</td>
</tr>
<tr>
<td>12% Bonds</td>
<td>100,000</td>
</tr>
<tr>
<td>Total</td>
<td>255,000</td>
</tr>
</tbody>
</table>

Transactions during the year:
- Dividend received = 25% on the face value. Market price of the shares at the time of the purchase = 35.
- Received interest on 12% bonds
- Purchased shares of MP ltd. = 1000 shares of Rs. 5 at Rs. 20
- Interest on loan due but not paid.

<table>
<thead>
<tr>
<th>Table 13.14</th>
<th>Cash Flow Statement</th>
<th>Income Statement</th>
<th>Balance Sheet as on 31st March 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Cash</td>
<td>20,000</td>
<td></td>
<td>Capital 101,000</td>
</tr>
<tr>
<td>Dividend</td>
<td>2,500</td>
<td>Interest 12,000</td>
<td>Share Premium 14,000</td>
</tr>
<tr>
<td>Interest</td>
<td>12,000</td>
<td>Dividend 2,500</td>
<td>Reserves 78,200</td>
</tr>
<tr>
<td>Total Receipts</td>
<td>34,500</td>
<td>Less 6,300</td>
<td>Loans 70,000</td>
</tr>
<tr>
<td>Payments</td>
<td></td>
<td>Expenses 6300</td>
<td>Interest due 6,300</td>
</tr>
<tr>
<td>Shares</td>
<td>20,000</td>
<td></td>
<td>Cash 14,500</td>
</tr>
<tr>
<td>Total Payments</td>
<td>20,000</td>
<td></td>
<td>Stock 100,000</td>
</tr>
<tr>
<td>CIH</td>
<td>14,500</td>
<td>Profit 8,200</td>
<td>Shares of XYZ 35,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>12% Bonds 100,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Shares 20,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>269,500</td>
</tr>
</tbody>
</table>
**Carrying Amount of Investments**

AS-13 also provides guidelines for valuing investments, both short and long term investments.

**Current Investments**

According to the AS-13, current investments should be shown in the balance sheet at

- Cost, or
- Fair value
  
Which ever is less

According to AS-13, in respect of investments for which an active market exists, market value generally provides the best evidence of fair value. The valuation of current investments at lower of cost and fair value provides a prudent method of determining the carrying amount to be stated in the balance sheet.

For current investments, any reduction to fair value and any reversals of such reductions are included in the profit and loss statement.

**Example: 13.6**

Following balance sheet shows the assets and sources of ABC ltd. as on 1st January 2007

<table>
<thead>
<tr>
<th>Table 13.15</th>
<th>Balance Sheet of ABC ltd. As on 1st January 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>51,000</td>
</tr>
<tr>
<td>Reserves</td>
<td>34,000</td>
</tr>
<tr>
<td>12% Loans</td>
<td>100,000</td>
</tr>
<tr>
<td>18% Loans</td>
<td>185,000</td>
</tr>
<tr>
<td>Cash</td>
<td>20,000</td>
</tr>
<tr>
<td>Stock</td>
<td>100,000</td>
</tr>
<tr>
<td>Shares of Reliance Petroleum</td>
<td>65,000</td>
</tr>
<tr>
<td></td>
<td>185,000</td>
</tr>
</tbody>
</table>

- Reliance Petroleum shares were bought at Rs. 65.

During the last quarter of 2006-07, the company sold 50% of the stock for 80,000. No other expenses. Price of Reliance Petroleum touched Rs. 110 as on 31st March 2007. financial statements as at the end of the last quarter.

<table>
<thead>
<tr>
<th>Table 13.16</th>
<th>Balance Sheet of ABC ltd. As on 31st March 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>80,000</td>
</tr>
<tr>
<td>less</td>
<td></td>
</tr>
<tr>
<td>COGS</td>
<td>50,000</td>
</tr>
<tr>
<td>Interest</td>
<td>3,000</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>53,000</td>
</tr>
<tr>
<td>Profit</td>
<td>27,000</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>80,000</td>
</tr>
<tr>
<td>less</td>
<td></td>
</tr>
<tr>
<td>COGS</td>
<td>50,000</td>
</tr>
<tr>
<td>Interest</td>
<td>3,000</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>53,000</td>
</tr>
<tr>
<td>Profit</td>
<td>27,000</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening Cash</td>
<td>20,000</td>
</tr>
<tr>
<td>Receipts</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>80,000</td>
</tr>
<tr>
<td>Payments</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>3,000</td>
</tr>
<tr>
<td>Closing CIH</td>
<td>97,000</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td>51,000</td>
</tr>
<tr>
<td>Reserves (37,000+27000)</td>
<td>61,000</td>
</tr>
<tr>
<td>Loans</td>
<td>100,000</td>
</tr>
<tr>
<td>Cash</td>
<td>97,000</td>
</tr>
<tr>
<td>Stock</td>
<td>50,000</td>
</tr>
<tr>
<td>Shares of Reliance Petroleum</td>
<td>65,000</td>
</tr>
<tr>
<td></td>
<td>212,000</td>
</tr>
</tbody>
</table>

Note: Observe that though the shares of Reliance Petroleum are now Rs.110, still the balance sheet shows the shares at the cost price i.e. 65.
**Long-term Investments**

According to the AS-13, long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long term investment, the carrying amount is reduced to recognise the decline. Indicators of the value of an investment are obtained by reference to its market value, the investee’s assets and results and the expected cash flows from the investment. The type and extent of the investor’s stake in the investee are also taken into account. Restrictions on distributions by the investee or on disposal by the investor may affect the value attributed to the investment.

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

**Example: 13.7**

Table 13.17 shows the assets and sources of ABC ltd. as on 1st April 2006

<table>
<thead>
<tr>
<th>Table 13.17</th>
<th>Balance Sheet of ABC ltd as on 1st April 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>51,000</td>
</tr>
<tr>
<td>Reserves</td>
<td>34,000</td>
</tr>
<tr>
<td>Loans</td>
<td>50,000</td>
</tr>
<tr>
<td>Stock</td>
<td>100,000</td>
</tr>
<tr>
<td>Shares of XYZ</td>
<td>15,000</td>
</tr>
<tr>
<td>135,000</td>
<td>135,000</td>
</tr>
</tbody>
</table>

ABC acquired the shares for Rs. 15,000, however on 31st March 2007, the market value of the shares reduced to Rs. 13,500.

- If the investment in XYZ is treated as a short-term investment, the investment will continue to appear at the cost i.e. Rs 15,000
- If the investment in XYZ is treated as a long-term investment and the change in price is permanent in nature, then balance sheet should show the investment at 13,500 and the loss of Rs.1500 is transferred to the income statement. Table 13.18 shows the balance sheet and income statement, ignoring other incomes and expenses (including interest)

<table>
<thead>
<tr>
<th>Table 13.18</th>
<th>Balance Sheet of ABC ltd as on 31st March 2006</th>
<th>Income Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>51,000</td>
<td>Cash</td>
</tr>
<tr>
<td>Reserves</td>
<td>32,500</td>
<td>Stock</td>
</tr>
<tr>
<td>Loans</td>
<td>50,000</td>
<td>Shares of XYZ</td>
</tr>
<tr>
<td></td>
<td>133,500</td>
<td>133,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Disposal of Investments**

On disposal of an investment, the difference between the carrying amount and the disposal proceeds, net of expenses, is recognized in the profit and loss statement.

*Example: 13.8*

Table 13.19 shows the assets and the sources of ABC Ltd. as on 1st April 2006

<table>
<thead>
<tr>
<th>Table 13.19</th>
<th>Balance Sheet of ABC Ltd as on 1st April 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>51,000</td>
</tr>
<tr>
<td>Reserves</td>
<td>34,000</td>
</tr>
<tr>
<td>12% Loans</td>
<td>50,000</td>
</tr>
<tr>
<td>Shares of XYZ</td>
<td>15,000</td>
</tr>
<tr>
<td>Total</td>
<td>135,000</td>
</tr>
</tbody>
</table>

Transactions during the year

- Sold 50% of the stock at 80,000 for cash
- Interest paid
- Sold shares of XYZ for 28,000

<table>
<thead>
<tr>
<th>Table 13.20</th>
<th>Income Statement</th>
<th>Cash Flow Statement</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>80,000</td>
<td>Receipts</td>
<td>Capital</td>
</tr>
<tr>
<td>COGS</td>
<td>50,000</td>
<td>Opening Cash</td>
<td>Reserves</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>30,000</td>
<td>Sales</td>
<td>Loans</td>
</tr>
<tr>
<td>Profit on Shares</td>
<td>13,000</td>
<td>Sale of Shares</td>
<td>135,000</td>
</tr>
<tr>
<td>PBIT</td>
<td>43,000</td>
<td>Payments</td>
<td>Cash</td>
</tr>
<tr>
<td>Interest</td>
<td>6,000</td>
<td>Interest</td>
<td>Stock</td>
</tr>
<tr>
<td>Profit</td>
<td>37,000</td>
<td>Closing CIH</td>
<td>Shares of XYZ</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>135,000</td>
</tr>
</tbody>
</table>

Workings:

- Profit on sale of shares = 28,000 – 15,000 =13,000
- Profit on sale of shares has been calculated by deducting the cost of purchase from the sale proceeds of the shares.

**Impact on Bonus on the Cost of Investment**

When a company receives bonus shares on its investment, the number of shares increase and there will be a corresponding decrease in cost per share.

*Example: 13.9*

Altd acquired 500 shares of XYZ for Rs. 50,000 on 1st April 2005. On 1st January 2006, XYZ issues bonus shares in the ratio 2:1 So A Ltd will received 1000 shares.

Cost per share for ALtd. after the bonus issue will be Rs. 50,000 divided by1500 shares. Cost per share, therefore, reduces from Rs.100 to Rs. 33.33
Following table shows bonus issue by some of the well known companies of India

<table>
<thead>
<tr>
<th>Name of company</th>
<th>Ratio</th>
<th>Announcement Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tata Steel</td>
<td>1 to 2</td>
<td>6/7/2004</td>
</tr>
<tr>
<td>HLL</td>
<td>1 to 1</td>
<td>2/22/1998</td>
</tr>
<tr>
<td>Hindalco</td>
<td>1 to 1</td>
<td>5/28/2005</td>
</tr>
<tr>
<td>Greaves Cotton</td>
<td>1 to 2</td>
<td>4/30/1995</td>
</tr>
</tbody>
</table>

1 to 2: Tata Steel issued one share for every two shares held by the shareholders

**Investment in Fixed Income Bearing Investments**

Fixed income bearing securities are those which commit a fixed percentage of return to the investor. Such investments include; government bonds, bonds or debentures issued by different corporate entities. Some of the popular features of such investments are as follow:

- Interest rate of fixed
- Interest is paid on the due dates (normally half-yearly or annual)
- Redeemable after a specific period
- Interest for the period is payable, to the person whose name appears on the Register, irrespective of the period of actual holding.

Such investments can be bought at *ex-interest* or *cum-interest* price.

- Cum-interest price includes interest for the period. The total money payable will be equal to the price multiplied by the number of share. Therefore to determine the cost of the scrip one has to deduct the interest from the price
- Ex-interest price excludes interest for the period

Some of the important items required for maintaining the investment accounts by a company;

- Price: At which the securities are bought and sold.
- Money payable: Money payable is the quantity purchased or sold multiplied by the price.
- Cost value
- Nominal value
- Interest
**Example: 13.9**

Following are the transactions of ABC Ltd. during the year 2005-06

- Started business with cash 100,000.
- Purchased 1st June: 1000 12% Bonds of A Ltd of Rs. 10 at 15 ex-interest. Interest payable annually on 31st December
- 1st October: 2000 12% Bonds of Rs. 10 at 20 cum-interests. Interest payable annually on 31st December

Table 13.22 shows the investment accounting of ABC Ltd.

<table>
<thead>
<tr>
<th>Date</th>
<th>No.</th>
<th>NV</th>
<th>CV</th>
<th>Interest</th>
<th>Date</th>
<th>No.</th>
<th>NV</th>
<th>CV</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.06.05</td>
<td>Cash</td>
<td>1,000</td>
<td>10,000</td>
<td>15,000</td>
<td>31.12.05 interest received</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.10.05</td>
<td>Cash</td>
<td>2,000</td>
<td>20,000</td>
<td>38,200</td>
<td>31.03.06 Closing balance</td>
<td>3,000</td>
<td>30,000</td>
<td>53,200</td>
<td>900</td>
</tr>
<tr>
<td>31.03.06</td>
<td>To Income Statement</td>
<td></td>
<td></td>
<td>2,200</td>
<td></td>
<td>3,000</td>
<td>30,000</td>
<td>53,200</td>
<td>4,500</td>
</tr>
</tbody>
</table>

**Working notes**

a) 1st June: (Ex-interest transaction)
   - Nominal Value (NV) = 1000 *10 = 10,000
   - Price (ex interest) = 15
   - Cost Value (CV) = Price = 15*1000 = 15,000
   - Interest = for five months on the NV = 12% of 10,000 = 500
   - Money payable = Price + Interest = 15,000 + 500 = 15,500

b) 1st October (cum-interest transaction)
   - NV = 2000 *10 = 20,000
   - Price (ex interest) = 20 *2000 = 40,000
   - Interest = for nine months on the NV = 12% of 20,000 for nine months = 1800
   - CV = Price –Interest till date= 40,000 – 1800 = 38,200
   - Money payable = Price = 40,000

c) 31st December (date of interest)
   - Interest on 30,000 for 12 months
   - Interest = 12% of 30,000 = 3600

d) 31st March (date of closing the books)
   - NV = 3000 *10 = 30,000
   - Interest = for three months on the NV = 12% of 30,000 for three months = 900
   - CV = The balancing figure = 53,200
Table 13.23 shows the financial statements for the year ending March 2006

<table>
<thead>
<tr>
<th>Table 13.23</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income Statement</strong></td>
<td><strong>Cash Flow Statement</strong></td>
</tr>
<tr>
<td>Incomes</td>
<td>Receipts</td>
</tr>
<tr>
<td>Interest</td>
<td>capital</td>
</tr>
<tr>
<td>Total</td>
<td>2,200</td>
</tr>
<tr>
<td>Expenses</td>
<td>Payments</td>
</tr>
<tr>
<td>Interest</td>
<td>Bonds</td>
</tr>
<tr>
<td>Total</td>
<td>2,200</td>
</tr>
<tr>
<td>Expenses</td>
<td>Bonds</td>
</tr>
<tr>
<td>Profit</td>
<td>Interest</td>
</tr>
</tbody>
</table>
| **Example: 13.10**
Refer to example 13.9. Transactions During 2006-07
- On 1\textsuperscript{st} July sold 500 bonds at 20 ex-interest.
- No other transactions during the year

<table>
<thead>
<tr>
<th>Table 13.24</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>12% Bonds</strong></td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td>No. NV CV Interest Date</td>
</tr>
<tr>
<td>1st April</td>
<td>Balance</td>
</tr>
<tr>
<td>1st July</td>
<td>Profit of sale</td>
</tr>
<tr>
<td>31st Mar</td>
<td>To Income Statement</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Working Note**
1\textsuperscript{st} July 2006: Sale of 500 bonds at 20 ex-interest
- NV = 500 *10 = 5,000
- Price (ex interest) = 20 *500 = 10,000
- Interest = for six months on the NV = 12\% of 5,000 for six months = 300
- CV = Price =10,000
- Money payable = Price + Interest = 10,000 +300 = 10,300
- Profit on sale = CV at the time of sale – CV at the time of purchase
- CV at the time of purchase has been determined using FIFO assumption as follows:
  - Profit = Rs. 10,000 – Rs. 7500 = 2,500
31\textsuperscript{st} December (interest for 12 months on the unsold investments)
- NV = 2500 *10 = 25,000
- Interest = for 12 months on the NV = 12\% of 25,000 = 3000
31\textsuperscript{st} March (date of closing the books)
- NV = 2500 *10 = 25,000
- Interest = for three months on the NV = 12\% of 25,000 for three months = 750
- CV = The balancing figure = 45,700
Table 13.25 shows the financial statements for the year ending March 2007

<table>
<thead>
<tr>
<th>Income Statement</th>
<th>Cash Flow Statement</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incomes</td>
<td>Opening Balance</td>
<td>Capital</td>
</tr>
<tr>
<td>Interest 3,150</td>
<td>sale 10,300</td>
<td>100,000</td>
</tr>
<tr>
<td>Profit on Sale 2,500</td>
<td>Interest 3,000</td>
<td>Profit 7,850</td>
</tr>
<tr>
<td>Total 61,400</td>
<td>Payments 0</td>
<td>Bond 45,700</td>
</tr>
<tr>
<td>Profit 5,650</td>
<td>CIH 61,400</td>
<td>Accrued interest 750</td>
</tr>
</tbody>
</table>

Disclosure
The following disclosures in financial statements in relation to investments are appropriate:—
(a) the accounting policies for the determination of carrying amount of investments; the amounts included in profit and loss statement for:
   (i) interest, dividends (showing separately dividends from subsidiary companies), and rentals on investments showing separately such income from long term and current investments. Gross income should be stated, the amount of income tax deducted at source being included under Advance Taxes Paid;
   (ii) profits and losses on disposal of current investments and changes in carrying amount of such investments;
   (iii) profits and losses on disposal of long term investments and changes in the carrying amount of such investments;

Accounting policies

Infosys
Trade investments are the investments made to enhance the Company’s business interests. Investments are either classified as current or long-term based on the management’s intention at the time of purchase. Current investments are carried at the lower of cost and fair value. Cost for overseas investments comprises the Indian Rupee value of the consideration paid for the investment. Long-term investments are carried at cost and provisions recorded to recognize any decline, other than temporary, in the carrying value of each investment.

Cipla
Investments
Long term investments are stated at cost, less any provision for permanent diminution in value. Current investments are stated at lower of cost and fair value.
Dr. Reddy's Laboratories Ltd.

Long-term investments are carried at cost less any other-than-temporary diminution in value, determined separately for each individual investment. Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investment.

Bajaj Auto

a) Investments other than fixed income securities, are valued at cost of acquisition, less provision for diminution as necessary.

b) Fixed income securities are from this year, carried at cost, less amortisation and provision for diminution as considered necessary. See Note 9 (c).

c) Investments made by the Company are of a long-term nature. Hence diminutions in value of quoted investments are generally not considered to be of a permanent nature, except current investments representing fixed income securities with a maturity less than 1 year are stated at cost adjusted for amortisation and diminution as considered necessary.

d) The management has laid out guidelines for the purpose of assessing likely impairments in investments and for making provisions based on given criteria. Appropriate provisions are accordingly made which in the opinion of the management are considered adequate.

Hero Honda

Current investments are stated at lower of cost and fair value. Long term investments are stated at cost less provision for permanent diminution, if any.