Accounting Standard (AS) 13

(revised 2016)

Accounting for Investments

Introduction

1 This Standard deals with accounting for investments in the financial statements of enterprises and related disclosure requirements. [2]

Definitions

<u>Investments</u> 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'.

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

<u>A long term investment</u> is an investment other than a current investment.

<u>An investment property</u> is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise.

<u>Fair value</u> is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. Under appropriate circumstances, market value or net realisable value provides an evidence of fair value.

<u>Market value</u> is the amount obtainable from the sale of an investment in an open market, net of expenses necessarily to be incurred on or before disposal.

Objective & Scope

The primary goal of AS 13 is to ensure that an enterprise accurately presents its financial investments, preventing businesses from masking bad or depreciated assets on their balance sheet.

It Covers:

- **Investments: Assets held for generating returns like dividends, interest, rental income, or capital appreciation.**
- **Investment Property: Land or buildings held specifically for investment rather than operational use. What it Excludes**

AS 13 does not apply to:

- **The basis for recognizing interest or dividend income (covered under AS 9: Revenue Recognition).**
- **Operating or financial leases.**
- **Investments held by retirement benefit plans or life insurance enterprises.**

- Highly regulated entities with specific statutory guidelines, such as Mutual Funds, Venture Capital Funds, Banks, and Insurance Companies.
- Classification of Investments

Investments are categorized into two structural pillars strictly determined by the intent at the time of purchase. Current Investments: Assets readily realizable and explicitly intended to be held for not more than one year (12 months) from the initial date of acquisition. *(Note: This intention is evaluated from the purchase date, not the balance sheet date).*

Long-Term Investments: Any investment that does not qualify as a current investment. These are typically held for strategic, long-term yield or are not easily marketable. [1, 2, 3]

Valuation Rules

AS 13 mandates different post-acquisition valuation rules based on how the investment is classified.

Investment Type	Initial Recognition	Subsequent Valuation	Treatment of Price Changes
Current Investments	At Cost	Lower of Cost or Fair Value	Changes/reductions are charged directly to the Profit & Loss (P&L) Account.
Long-Term Investments	At Cost	At Cost (Generally)	Temporary declines are ignored. Permanent declines trigger a value reduction charged to the P&L Account.

Defining "Cost"

The initial cost includes the purchase price plus acquisition charges like brokerages, duties, stamp taxes, and legal fees. If acquired via an exchange of shares or other assets, cost is determined by the fair value of the security or asset given up.

Permanent Decline in Long-Term Investments

If a long-term investment undergoes a "decline other than temporary" (permanent diminution), its book value must be written down. Indicators include continuous cash losses, severe drops in market share, or a legal ruling against the investee company. This must be evaluated on an individual investment basis, never as a group portfolio.

Reclassification of Investments

When an enterprise changes its operational intent, it can reclassify investments on the exact date of transfer using conservative accounting principles. [1, 2]

- Long-Term to Current: Valued at the lower of cost or carrying amount on the transfer date.
- Current to Long-Term: Valued at the lower of cost or fair value on the transfer date.

Special Accounting Treatments

1. Shares with Rights Issues

- **Subscribed Rights: If you opt to purchase the offered right shares, their acquisition cost is added directly to your original holding's carrying cost. []**
- **Renounced/Sold Rights: If you sell the rights to someone else in the open market, the sale proceeds are credited directly to the P&L Account. []**
- ***Exception*: If you bought the underlying shares on a "cum-right" basis and they immediately drop to "ex-right" post-offer, the sale proceeds of the right can be adjusted against the asset cost to reflect that market drop. [1]**

2. Bonus Shares

Bonus shares received increase the *total volume* of shares held but have an acquisition cost of zero. The overall carrying cost remains the same, which mathematically reduces the *weighted average cost per share*. [1]

3. Investment Property

Unlike operational property plant and equipment, buildings/land held solely as investments must exclusively use the cost model under AS 13. The revaluation model is strictly barred. [1]

🗒 Disclosure Requirements

Enterprises must distinctly state the following items within their audited financials: Accounting Policies: Detailed methods used to determine carrying costs and values.

- **Classification: Clear physical separation of current and long-term asset blocks.**
- **Income Quantities: Gross earnings from interest, dividends, and lease rentals (including TDS metrics).**
- **Disposal Balances: Precise profits and losses realized upon selling current or long-term investments.**
- **Quoted vs. Unquoted: The total aggregate value of unquoted options alongside the aggregate market value of all quoted investments.**
- **Ownership Restrictions: Disclosure of any restrictions on ownership, transfer realizability, or income remittances.**