

B. Queries

8 The querist has sought the opinion of the Expert Advisory Committee on the following issues:

- (a) Whether provision should be made for any diminution in the value of investments in the subsidiaries to recognise a decline with reference to the deteriorating performance represented by the negative net worth of the subsidiaries.
- (b) If the reply to (a) above is in the affirmative, how should the quantum of diminution be ascertained since most of the subsidiaries are unlisted companies?
- (c) How should the quantum of diminution be ascertained for investments at par during the current year under directive from the Government of India?
- (d) If it is suggested that provision in the value of investments should be made in view of the negative net worth, whether it will be prudent to ascertain net worth on the basis of historical cost as the subsidiaries have very high valuable asset base.
- (e) Whether it is possible to recognise the decline in the value of investments of those particular subsidiaries which are in the process of closing down/winding up while leaving aside the subsidiaries which are carrying on as going concerns.

C. Points considered by the Committee

9 The Committee notes from the facts of the case that the investments made by the company in its subsidiaries are long term investments. The Committee notes paragraphs 17, 18 and 32 of AS 13 which provide as below:

“17. 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.”

“18. Long-term investments are usually of individual importance to the investing enterprise. The carrying amount of long-term investments is therefore determined on an individual investment basis.”

“32. Investments classified as long term investments

should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.”

10 On the basis of the above, the Committee is of the view that in the case of long-term investments only where there is a decline, other than temporary, in the value of investments, the carrying amount is reduced to recognise the decline. The Committee is further of the view that to determine whether there is a decline other than temporary, in the value of investments, an assessment should be made keeping in view the assets of the subsidiaries, its results, the expected cash flows from the investment, etc. Such an assessment should be made on an individual investment basis. Only where it is concluded that the decline in the value is other than temporary, a reduction in the carrying amount is required. The Committee is further of the view that in determining the net worth of the subsidiaries fair value may be used instead of historical cost.

D. Opinion

11 On the basis of the above, the Committee is of the following opinion on the issues raised in paragraph 8:

- (a) Only where it is concluded that the decline in the value of long-term investments is other than temporary, the carrying amount should be reduced to recognise the decline.
- (b) If the decline is other than temporary, the quantum of diminution may be determined keeping in view the assets of the subsidiaries, its results, the expected cash flows from the investments, etc.
- (c) The quantum of diminution for investments at par during the current year under directive from the Government of India should be determined on the same basis as (b) above.
- (d) For determining the net worth, fair value may be used instead of historical cost.
- (e) Decline in the value of long-term investments is recognised, if it is other than temporary. Even if the subsidiaries are not in the process of closing down/winding up, the decline in the value of investments, has to be recognised, if it is other than temporary. The assessment as to whether the decline in the value of long-term investment is other than temporary or not, should be made on an individual investment basis, as required in paragraph 18 of AS 13. ■