

**Module 6**  
**Mark to Market /Fair Value Problem**  
**Solution**  
**As of July 1, 2016**

	<u>Cost</u>	<u>Market</u>
Investment A	\$100,000	\$105,000
Investment B	50,000	43,000
Investment C	<u>200,000</u>	<u>210,000</u>
Total	\$350,000	\$358,000

Investments		Fair Value Adjustment		AOCI	
\$350,000		(a) \$8,000			(b) \$8,000

Unrealized Gain	
	(a) \$8,000
(b) \$8,000	

(a) Fair Value Adjustment	\$8,000	
Unrealized Gain		\$8,000
Fair Value Adjustment account adjusts total cost of Investment to its Market Value		
(b) Unrealized Gain	\$8,000	
Accumulated Other Comprehensive Income		\$8,000
Closes unrealized gain to AOCI		

**Financial Statements for 2015:****Comprehensive Income Statement:**

Unrealized Gain	\$8,000
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**Balance Sheet:**

Investments	\$350,000	
Add: Fair Value Adjustment	<u>8,000</u>	\$358,000

Stockholders' Equity

Common Stock

Retained Earnings

Accumulated Comprehensive Income \$8,000

**Entries for 2016****May 1, 2016: Sold Investment B for \$47,000**

(c) Cash	\$47,000	
Loss	3,000	
Investment B		\$50,000

Sale of Investment B with original cost used as basis for gain. Note that Fair Value Adjustment accounting is not affected.

### 12/31/16 Portfolio at Cost and Market

	Cost	Market
Investment A	\$100,000	\$104,000
Investment C	<u>200,000</u>	<u>202,000</u>
<b>Total</b>	<b>\$300,000</b>	<b>\$306,000</b>

### Balance Sheet Accounts:

Investments		Fair Value Adjustment		AOCI	
\$350,000		(a) \$8,000		(e) \$2,000	(b) \$8,000
	\$50,000		(d) \$2,000		
\$300,000		\$6,000			\$6,000

### Comprehensive Income Statement Accounts:

Unrealized Gain		Unrealized Loss	
	(a) \$8,000	(d) \$2,000	
(b) \$8,000			(e) \$2,000

### Income Statement Account:

Loss	
(c) \$3,000	
	(f) \$3,000

### December 31, 2016 Entries and Financial Statements

#### Steps for Adjusting to market value of portfolio

#1 What balance is needed in Fair Value Adjustment Account? \$6,000 debit

#2 What is the balance in the Fair Value Adjustment Account? \$8,000 debit

#3 Adjust Fair Value Adjustment Accounting to desired balance.

**Entries for 12/31/16:**

(d) Unrealized Loss	\$2,000	
Fair Value Adjustment		\$2,000

Changes Fair Value Adjustment account to a balance that when added to total cost results in market value of the portfolio of investment.

(e) AOCI	\$2,000	
Unrealized Loss		\$2,000
Closes unrealized loss to AOCI		

(f) Retained Earnings	\$3,000	
Loss		\$3,000
Loss from sale of Investment B is closed to Retained Earnings		

**Financial Statements for 2016:****Income Statement:**

Loss on Sale of Investment	\$3,000
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**Comprehensive Income Statement:**

Unrealized Loss	\$2,000
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**Balance Sheet:**

Investments	\$300,000	
Add: Fair Value Adjustment	<u>6,000</u>	\$306,000

**Stockholders' Equity**

Common Stock	
Retained Earnings	<3,000>
Accumulated Other Comprehensive Income	\$6,000

# M6 - MARK TO MARKET SOLUTION

## Entries for 2017

October 1, 2017: Sold Investment A for \$114,000 and Investment B for 195,000

(g) Cash	\$114,000		
Investment A		\$100,000	
Gain		14,000	
(h) Cash	\$195,000		
Loss	5,000		
Investment C		\$200,000	

## 12/31/2017 Portfolio at Cost and Market

<u>Cost</u>	<u>Market</u>
0	0

### Balance Sheet Accounts:

Investments		Fair Value Adjustment		AOCI	
\$350,000		(a) \$8,000			(b) \$8,000
	\$50,000		(c) \$2,000	(d) \$2,000	
\$300,000		\$6,000			\$6,000
	(g) \$100,000		(i) \$6,000	(j) \$6,000	
	(h) \$200,000				
	0		0		0

### Comprehensive Income Statement Accounts:

Unrealized Gain		Unrealized Loss	
	(a) \$8,000	(c) \$2,000	
(b) \$8,000			(d) \$2,000
		(i) \$6,000	
			(j) \$6,000
			0

### Income Statement Accounts:

Loss		Gain	
\$3,000			(g) \$14,000
	(d) \$3,000	(k) \$14,000	
(h) \$5,000	(k) \$5,000		0
0			

**December 31, 2017 entries and Financial Statements****Steps for Adjusting to market value of portfolio****#1 What balance is needed in Fair Value Adjustment Account? \$0****#2 What is the balance in the Fair Value Adjustment Account? \$6,000 debit****#3 Adjust Fair Value Adjustment Accounting to desired balance.****Entries for 12/31/17:**

(i) Unrealized Loss	\$6,000	
Fair Value Adjustment		\$6,000
Adjusts total cost to market value with adjunct account		
(j) AOCI	\$6,000	
Unrealized Loss		\$6,000
Closes unrealized loss to AOCI		
(k) Gain	\$14,000	
Loss		\$5,000
Retained Earnings		\$9,000
Loss and gain from sale of Investments A&C closed to Retained Earnings		

**Financial Statements for 2017:****Income Statement**

Loss on Sale of Investment	\$5,000
Gain on Sale of Investment	\$14,000

**Comprehensive Income Statement**

Unrealized Loss	\$6,000
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**Balance Sheet:**

Investments	\$0
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**Stockholders' Equity**

Common Stock	
Retained Earnings	\$6,000
Accumulated Other Comprehensive Income	0

# FAIR VALUE ACCOUNTING SOLUTIONS

## 12/31/15 Portfolio at Cost and Market

	<u>Cost</u>	<u>Market</u>
Investment A	\$100,000	\$105,000
Investment B	50,000	43,000
Investment C	<u>200,000</u>	<u>210,000</u>
Total	\$350,000	\$358,000

## Balance Sheet Accounts:

Investments	Retained Earnings
\$350,000	
(a) \$8,000	(b) \$8,000
\$358,000	

## Income Statement Accounts:

Unrealized Gain
(a) \$8,000
(b) \$8,000

## December 31, 2015 Entries

(a) Investment	\$8,000	
Unrealized Gain		\$8,000

Entry adjusts the basis of each of the securities. Investment A will now be \$105,000, Investment B will be \$43,000 and Investment C will be \$210,000

(b) Unrealized Gain	\$8,000	
Retained Earnings		\$8,000
Closes unrealized gain to Retained Earnings –Note that this is not closed to AOCI		

# FAIR VALUE ACCOUNTING SOLUTIONS

## Financial Statements for 2015:

### Income Statement:

Unrealized Gain	\$8,000
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### Balance Sheet:

Investments	\$358,000
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### Stockholders' Equity

Common Stock	
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Retained Earnings	\$8,000
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## Entries for 2016

**May 1, 2016: Sold Investment B for \$47,000**

(c) Cash \$47,000

Gain	4,000
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Investment B	\$43,000
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Note that the basis of Investment B was changed from \$50,000 to \$43,000 as a result of the adjustment to its fair value on Dec 31, 2015.

## 12/31/16 Portfolio at Cost and Market

	<u>Cost</u>	<u>Market</u>
Investment A	\$105,000	\$104,000
Investment C	<u>210,000</u>	<u>202,000</u>
Total	\$315,000	\$306,000



**Balance Sheet Accounts:**

Investments	
\$350,000	
(a) \$8,000	
\$358,000	
	(c) \$43,000
	(d) \$9,000
\$306,000	

Retained Earnings	
	(b) \$8,000
	\$8,000
(e) \$9,000	
	(f) \$4,000
	\$3,000

**Income Statement Accounts:**

Unrealized Gain	
	(a) \$8,000
(b) \$8,000	

Unrealized Loss	
(d) \$9,000	
	(e) \$9,000

Gain	
	(c) \$4,000
(f) \$4,000	

**December 31, 2016 Entries and Financial Statements****Entries for 12/31/16:**

(d) Unrealized Loss	\$9,000	
Investment		\$9,000
Adjusts Investments to their Fair Value		
(e) Retained Earnings	\$9,000	
Unrealized Loss		\$9,000
Closes unrealized loss to Retained Earnings		
(f) Gain	\$4,000	
Retained Earnings		\$4,000
Gain from sale of Investment B is closed to Retained Earnings		

# FAIR VALUE ACCOUNTING SOLUTIONS

## Financial Statements for 2016:

### Income Statement:

Gain on Sale of Investment B	\$4,000
Unrealized Loss	\$9,000

### Balance Sheet:

Investments	\$306,000
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Stockholders' Equity

Common Stock

Retained Earnings <3,000>

## Entries for 2017

**October 1, 2017: Sold Investment A for \$114,000 and Investment B for 195,000**

(g) Cash	\$114,000
Investment A	\$104,000
Gain	10,000

Note that the basis for the gain was revised to \$104,000 as a result of the adjustment to Fair Value on 12/31/2016

(h) Cash	\$195,000
Loss	7,000
Investment C	\$202,000

Note that basis for loss has been revised to \$202,000 as a result of the adjustment to its Fair Value on 12/31/2016

## 12/31/2017 Portfolio at Cost and Market

<u>Cost</u>	<u>Market</u>
0	0

**Balance Sheet Accounts:**

Investments	
\$350,000	
(b) \$8,000	
\$358,000	
	(c) \$43,000
	(d) \$9,000
\$306,000	
	(g) \$104,000
	(h) \$202,000
0	

Retained Earnings	
	(b) \$8,000
(e) \$9,000	\$8,000
	(f) \$4,000
	\$3,000
	(i) \$3,000
	\$6,000

**Income Statement Accounts:**

Unrealized Gain	
	(a) \$8,000
(b) \$8,000	
	0

Unrealized Loss	
(d) \$9,000	
	(e) \$9,000
0	

Gain	
	(c) \$4,000
(f) \$4,000	
	(g) \$10,000
(i) \$10,000	
	0

Loss	
(h) \$7,000	
	(i) \$7,000
0	

**Entries for 12/31/17:**

(i) Gain	\$10,000	
Loss		\$7,000
Retained Earnings		\$3,000
Loss and gain from sale of Investments A&C closed to Retained Earnings		

**FAIR VALUE ACCOUNTING  
SOLUTIONS****Financial Statements for 2017:****Income Statement:**

Loss on Sale of Investment	\$7,000
Gain on Sale of Investment	\$10,000

**Balance Sheet:**

Investments	\$0
Stockholders' Equity	
Common Stock	
Retained Earnings	\$6,000