

Exercise 15-7

Exercise 15-7 covers calculating aggregate unrealized gains (losses) on short-term available-for-sale securities and journalizing the fair value adjustment. See page 620 of your textbook for problem data.

Instructor notes are in purple.

Available-for-Sale Portfolio	Cost	Fair Value	Unrealized Gain (Loss)
Verrizano Corporation bonds payable	\$89,600	\$91,600	
Preble Corporation notes payable	\$70,600	\$62,900	
Lucerne Company common stock	\$86,500	\$83,100	
	<u>\$246,700</u>	<u>\$237,600</u>	<u>(\$9,100)</u>

Note that this portfolio experienced an unrealized loss since the current market value is less than the cost. While some securities had an individual gain (Verrizano), remember that fair value adjustments are based on the aggregate (total) change.

Journalize the Fair Value Adjustment

Dec. 31	Unrealized Loss—Equity	9,100	
	Fair Value Adjustment—AFS (ST)		9,100
	<i>To reflect unrealized loss.</i>		

Since losses must be debited, the Fair Value Adjustment account must be credited.