Exercise 15-9

21e

Exercise 15-9 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.

Instructor notes are in purple.

Computation of Fair Value Adjustment	Cost	Fair Value	Unrealized Gain (Loss)	
Nintendo Co. common stock	$44,450	$48,900	$ 4,450	gain
Atlantic bonds payable	49,000	47,000	$ (2,000)	loss
Kellogg Company notes payable	25,000	23,200	$ (1,800)	loss
McDonald's Corp. common stock	46,300	44,800	$ (1,500)	loss
	$164,750	$163,900	($850)	

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

Journalize the Fair Value Adjustment

		Debit	Credit
Dec. 31	Unrealized Loss—Equity	850	
	Fair Value Adjustment—AFS		850
	To reflect unrealized loss.		

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