

FASB Interpretation No. 11

Note: This Interpretation has been completely superseded

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Changes in Market Value after the Balance Sheet Date

an interpretation of FASB Statement No. 12

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Financial Accounting Standards Board
of the Financial Accounting Foundation
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FIN 11: Changes in Market Value after the Balance Sheet Date an interpretation of FASB Statement No. 12

INTRODUCTION

1. Paragraphs 13 and 17 ¹ of *FASB Statement No. 12*, "Accounting for Certain Marketable Securities," specify in part that "an enterprise's financial statements shall not be adjusted for realized gains or losses or for changes in market prices with respect to marketable equity securities when such gains or losses or changes occur after the date of the financial statements but prior to their issuance, except for situations covered by paragraph 21." The Board has been requested to clarify the meaning of the qualification, *except for situations covered by paragraph 21*.

2. Paragraph 21 of *FASB Statement No. 12* states:

For those marketable securities for which the effect of a change in carrying amount is included in stockholders' equity rather than in net income (including marketable securities in unclassified balance sheets), a determination must be made as to whether a decline in market value below cost as of the balance sheet date of an individual security is other than temporary.... If the decline is judged to be other than temporary, the cost basis of the individual security shall be written down to a new cost basis and the amount of the write-down shall be accounted for as a realized loss. The new cost basis shall not be changed for subsequent recoveries in market value.

The Board also has been asked to elaborate on the amount of the write-down that shall be accounted for as a realized loss when the "decline in market value below cost *as of the balance sheet date* of an individual security is other than temporary." (Emphasis added.)

INTERPRETATION

3. In the case of those marketable securities for which the effect of a change in carrying amount is included in stockholders' equity rather than in net income, the phrase "except for situations covered by paragraph 21" in paragraphs 13 and 17 refers to the provisions in paragraph 21 requiring a decline in market value below cost as of the balance sheet date of an individual security that is determined to be other than temporary to be accounted for as a realized loss. In judging whether a decline in market value below cost at the balance sheet date is other than temporary, a gain or loss realized on subsequent disposition or changes in market price occurring after the date of the financial statements but prior to their issuance shall be taken into consideration along with other factors.

4. The amount of decline in market value below cost of an individual marketable equity security that is accounted for as a realized loss as of the balance sheet date because the decline is other than temporary shall not exceed the difference between market value at the balance sheet date and cost of the marketable equity security. Further declines in market value after the balance sheet date might indicate that the decline in market value below cost at the balance sheet date was other than temporary. However, those declines result from information, events, or changes in expectations occurring after the balance sheet date. Accordingly, if a decline in market value below cost as of the balance sheet date of an individual security is judged to be other than temporary, further declines in market value occurring after the date of the balance sheet shall not be included in the amount that is accounted for as a realized loss as of the balance sheet date. Recoveries in market value after the balance sheet date also result from information, events, or changes in expectations occurring after the balance sheet date, but they tend to indicate that a portion or all of the decline at the balance sheet date was in fact temporary. Accordingly, such recoveries shall be considered when estimating the amount of decline as of the balance sheet date that is judged to be other than temporary.

EFFECTIVE DATE AND TRANSITION

5. The provisions of this Interpretation shall be effective for financial statements for annual and interim periods ending after October 15, 1976. Earlier application is encouraged in financial statements for annual and interim periods ending before October 16, 1976 that have not been previously issued. This Interpretation shall not be applied retroactively for previously issued annual or interim financial statements.

This Interpretation was adopted by the unanimous vote of the six members of the Financial Accounting Standards Board following submission to the members of the Financial Accounting Standards Advisory Council.

Marshall S. Armstrong, *Chairman*

Oscar S. Gellein

Donald J. Kirk

Arthur L. Litke

Robert E. Mays

Robert T. Sprouse

Footnotes

FIN11, Footnote 1--Paragraph 13 applies to enterprises in industries not having specialized accounting practices with respect to marketable securities, and paragraph 17 applies to enterprises in industries having specialized accounting practices with respect to marketable securities.