

Mark to market accounting

Finance



As the overall complexity of the assets and liabilities increased, it became evident that the values of these assets and liabilities can also vary due to the changes in their market values. A substantial decline in the value of the asset can actually erode the profitability of the firm and as such if their values are not recorded properly, they may give a different picture to the investor than the actual. It is in this perspective that the role of mark to market accounting emerges wherein the values of the assets are periodically recorded at their market value and all gains or losses are subsequently adjusted in the profit and loss account of the firm. (Schuetze and Wolnizer). During a current financial crisis, mark to market accounting played a critical role because due to a reduction in the values of the assets, firms were forced to record them at lower level thus they booked substantial losses.

3) It may be prudent to relax this idea during the time of crisis because if the overall risk-return characteristics of the assets remain the same during the crisis, they should not be written down to their market values.