FA Module 16: Equity method of accounting – homework assignment

(The attached PDF file has better formatting.)

Homework assignment: Downstream sale

On December 31, 20X0, ABC has 350 units of inventory with a cost of 4 per unit, and XYZ has no inventory. ABC buys 30% of XYZ's outstanding stock.

In 20X1, ABC sells 200 units of inventory to XYZ at a price of 7 per unit. XYZ sells 120 units to outside parties in 20X1 at a price of 10, and it sells the remaining 80 units to outside parties in 20X2 at a price of 10. Neither ABC nor XYZ have any other activities in 20X1 or 20X2.

A. What are ABC's and XYZ's net revenue in 20X1 and 20X2?
B. What are ABC's and XYZ's cost of goods sold in 20X1 and 20X2?
C. What are ABC's and XYZ's inventory at December 31, 20X1 and 20X2?
D. What are ABC's and XYZ's net income in 20X1 and 20X2?

Check your solutions with the practice problems on the discussion forum. The figures differ, but the formulas are the same.