

## FA Module 16 Equity method basic practice exam questions

(The attached PDF file has better formatting.)

XYZ has 100 shares outstanding, with a share price on December 31, 20X1, 20X2, 20X3, and 20X4 of

- December 31, 20X1: 20.90
- December 31, 20X2: 22.40
- December 31, 20X3: 25.40
- December 31, 20X4: 26.10

XYZ's book value is 4,180 on December 31, 20X1.

In 20X2, 20X3, and 20X4, XYZ reports net income and pays shareholder dividends of

	20X2	20X3	20X4
<i>Net Income</i>	453	502	653
<i>Shareholder Dividends</i>	108	196	203

ABC buys 40% of XYZ's 200 outstanding shares on December 31, 20X1. ABC has no operations besides its investment in XYZ. The corporate tax rate on income from subsidiaries is zero.

### Question 16.1: Investment in subsidiaries

What is ABC's investment in subsidiaries on December 31, 20X1?

Answer 16.1:  $40\% \times 20.90 \times 200 = 1,672.00$

(investment in subsidiaries = shares bought  $\times$  price per share)

### Question 16.2: Net income from subsidiary

What is ABC's net income from its subsidiary in 20X2?

Answer 16.2:  $453 \times 40\% = 181.20$

(parent's net income = subsidiary's net income  $\times$  percentage owned)

### Question 16.3: Investment in subsidiaries

What is ABC's investment in subsidiaries on December 31, 20X2?

Answer 16.3:  $1,672.00 + 181.20 - 108 \times 40\% = 1,810.00$

(investment in subsidiaries = investment in subsidiaries at the beginning of the year + parent's share of subsidiary's net income – dividends received)

### Question 16.4: Net income from subsidiary

What is ABC's net income from its subsidiary in 20X3?

Answer 16.4:  $502 \times 40\% = 200.80$

(parent's net income = subsidiary's net income  $\times$  percentage owned)

Question 16.5: Investment in subsidiaries

What is ABC's investment in subsidiaries on December 31, 20X3?

Answer 16.5:  $1,810.00 + 200.80 - 196 \times 40\% = 1,932.40$

(investment in subsidiaries = investment in subsidiaries at the beginning of the year + parent's share of subsidiary's net income – dividends received)

Question 16.6: Net income from subsidiary

What is ABC's net income from its subsidiary in 20X4?

Answer 16.6:  $653 \times 40\% = 261.20$

(parent's net income = subsidiary's net income  $\times$  percentage owned)

Question 16.7: Investment in subsidiaries

What is ABC's investment in subsidiaries on December 31, 20X4?

Answer 16.7:  $1,932.40 + 261.20 - 203 \times 40\% = 2,112.40$

(investment in subsidiaries = investment in subsidiaries at the beginning of the year + parent's share of subsidiary's net income – dividends received)