

Accounting 402
APB Opinion No. 18
Basic Illustration of Equity Method

On January 1, 20X1, Investor Company purchased in the open market a 20% interest in Investee Company stock for \$16,000. On that date, Investee Company's balance sheet was as follows:

Assets	Liabilities & Owners Equity
Assets..... <u>\$100,000</u>	Liabilities 20,000
	Owners Equity:
	Capital Stock..... 30,000
	Retained earnings..... <u>50,000</u>
	Total Liab. & OE..... <u>\$100,000</u>

Entry on Investor's books:

Entry on Investee's books:

Assume that for 20X1, Investee Company earned \$10,000 net income.

Assume that for 20X1, Investee Company paid a \$4,000 dividends.