Shareholder Letters: Accounting Themes

# Unrealized gains in net income

Berkshire letters: 2017, 2018, 2024, 2025

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# What the Letter Says

> *"The new rule says that the net change in unrealized investment gains and losses in stocks we hold must be included in all net income figures we report to you."*
>
> Warren E. Buffett, 2017 letter

- Key letters: 2017, 2018, 2024, 2025
- Course fit: ACC250 Ch3 · ACC531 Analytics · Difficulty: Intermediate

# Step 1: Stock Prices Rise, Nothing Sold

**EX.** Stocks held rise from $100 billion to $130 billion during the year.

| | | | |
|---|---|---|---|
| **Dec 31:** | Investments (+A) | 30B | |
| | Unrealized Gain (+Gain) | | 30B |

# Step 2: The Gain Goes into Net Income

- Since 2018 (ASU 2016-01): changes in the fair value of stocks held go into **net income**, sold or not.

| Quarter | Operating earnings | Investment gain (loss) | Net income |
|---|---|---|---|
| Q1 | $10B | $20B | $30B |
| Q2 | $11B | ($25B) | ($14B) |

Made-up numbers.

# Step 3: Separate the Two

- **Operating earnings**: profit from the businesses, without investment gains and losses.
- Net income now swings with the stock market → look at operating earnings for performance.

# Back to the Letter

- Buffett (2017, 2018): the new rule will produce “wild and capricious swings” in the bottom line.
- Abel (2025): operating earnings of **$44.5 billion**; “operating earnings remains the best measure.”

# Questions

1. Stocks Berkshire holds rose from $100 billion to $130 billion during the year, and none were sold. Under the current rule, what pre-tax gain is included in net income ($ billions)?
2. Which measure does Buffett tell shareholders to focus on instead?

   A. EBITDA

   B. Revenue

   C. Total comprehensive income

   D. Operating earnings, which exclude investment gains and losses

# Sources

- Warren E. Buffett, 2017 letter (berkshirehathaway.com/letters)
- Warren E. Buffett, 2018 letter (berkshirehathaway.com/letters)
- Warren E. Buffett, 2024 letter (berkshirehathaway.com/letters)
- Greg Abel, 2025 letter (berkshirehathaway.com/letters)
- Reading packet and question sheet for this theme

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