Look-through earnings

Berkshire letters: 1990, 1991, 1992 · Difficulty: Advanced

> *"The retained operating earnings of major investees that, under GAAP accounting, are not reflected in our profits." (1991)*

1. Berkshire owns 10% of a company that earns $500 million and pays $100 million of dividends. Berkshire records only its dividends as income. Before taxes, how much of the investee's retained earnings belongs to Berkshire but is not in its profit ($ millions)? _____

2. Look-through earnings add which item to Berkshire's reported operating earnings?

   A. Dividends received

   B. Berkshire's share of investees' retained earnings, less the tax that would be paid if distributed

   C. The market value of all stocks owned

   D. Insurance float

Source: Warren E. Buffett, Letters to Berkshire Hathaway Shareholders: 1990, 1991, 1992 (berkshirehathaway.com/letters). Quotation © Berkshire Hathaway Inc., all rights reserved; reproduced in part for non-commercial teaching. Numbers in the questions are made up unless stated.