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What Is Shareholder Equity (SE) and How Is It Calculated?

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What Is Shareholder Equity (SE)?

The term shareholder equity (SE) refers to a company's [net worth](#) or the total dollar amount that would be returned to its shareholders if the company is [liquidated](#) after all debts are paid off. As such, SE is the owners' residual claim on assets after all debts are satisfied. Shareholder equity is equal to a firm's total assets minus its total liabilities. Retained earnings are part of shareholder equity as is any capital invested into the company. This metric allows analysts and investors to determine the value of company-related [financial ratios](#), providing them with the tools to make better, more well-informed investment decisions.

KEY TAKEAWAYS

- Shareholder equity is the owner's claim after subtracting total liabilities from total assets.
- You can calculate shareholder equity by adding together all assets and all liabilities from a company's balance sheet.
- Positive shareholder equity means the company has enough assets to cover its liabilities, but the company's liabilities exceed its assets if it is negative.
- Retained earnings is part of shareholder equity and is the percentage of net earnings not paid to shareholders as dividends.
- Shareholder equity gives analysts and investors a clear picture of the financial health of a company.



Shareholders' Equity

Understanding Shareholder Equity (SE)

As noted above, shareholder equity represents the total amount of [capital](#) in a company that is directly linked to its owners. That means it is the total amount of money the owners have invested in it. If the company ever needs to be liquidated, SE is the amount of money that would be returned to these owners after all other debts are satisfied.

All the information needed to compute a company's shareholder equity is available on its [balance sheet](#). You can figure out the total SE of a company using the following formula:

$$\text{Shareholder Equity} = \text{Total Assets} - \text{Total Liabilities}$$

This formula is also known as the accounting equation or balance sheet equation. The balance sheet holds the basis of the accounting equation. So, the [steps to calculate shareholder equity](#) are as follows:

1. Locate the company's total [assets](#) on the balance sheet for the period.
2. Total all [liabilities](#), which should be a separate listing on the balance sheet.
3. Locate total shareholder's equity and add the number to total liabilities.
4. Total assets will equal the sum of liabilities and total shareholder equity.

Total assets include current and [noncurrent assets](#). [Current assets](#) can be converted to cash within a year, such as cash, accounts receivable, inventory among others. Long-term assets are assets that cannot be converted to cash or consumed within a year. These assets include investments; [property, plant, and equipment](#) (PPE), and intangibles like [patents](#).

Total liabilities consist of current and [long-term liabilities](#). [Current liabilities](#) are debts typically due for repayment within one year. This includes [accounts payable](#) (AP) and any outstanding taxes. Long-term liabilities are obligations that are due for repayment in periods longer than one year. Companies may have [bonds](#) payable, leases, and pension obligations under this category.

FAST FACT
Shareholder equity is also referred to as shareholders' equity, stockholder equity, or stockholders' equity.

Positive Shareholder Equity vs. Negative Shareholder Equity

SE can be either negative or positive. Negative SE means a company's liabilities exceed its assets. If it's positive, the company has enough assets to cover its liabilities. If a company's shareholder equity remains negative, it is considered to be balance sheet [insolvency](#).

[Retained earnings](#) are part of shareholder equity and are the percentage of net earnings not paid to shareholders as dividends. Retained earnings should not be confused with cash or other [liquid assets](#). This is because years of retained earnings could be used for either expenses or any asset type to grow the business. Keep in mind that shareholder equity, though, is not the same as [liquidation](#) value. In liquidation, physical asset values are reduced and other extraordinary conditions exist.

This is why many investors view companies with negative shareholder equity as risky or unsafe investments. Shareholder equity alone is not a definitive indicator of a company's [financial health](#). If used in conjunction with other tools and [metrics](#), the investor can accurately analyze the health of an organization.

Important: Shares issued and outstanding is a more relevant measure for certain purposes, such as dividends and [earnings per share](#) (EPS) rather than shareholder equity. This measure excludes Treasury shares, which represent stock owned by the company itself.

Example of Shareholder Equity

Here's a hypothetical example to show how shareholder equity works. Let's assume that ABC Company has total assets of \$2.6 million and total liabilities of \$920,000. In this case, ABC Company's shareholder equity is \$1.68 million.

Real-World Examples

Now let's take a look at a few real-world examples, notably the world's two largest soft drink companies:

- Shareholder equity reported by PepsiCo ([PEP](#)) increased between the 2020 and 2021 [fiscal years](#) despite the economic challenges stemming from the COVID-19 pandemic. According to the company's balance sheet, equity attributable to shareholders was \$16.04 billion in 2021 compared to \$13.45 billion in 2020. This figure represents shareholder equity for [common stockholders](#).^[1]
- Coca-Cola ([KO](#)), PepsiCo's largest rival, also appears to have weathered the shock. In 2021, the company's shareholder equity was about \$23 billion. It reported about \$19.3 billion in stockholder equity for the full 2020 fiscal year.^[2]

What Can Shareholder Equity Tell You?

Shareholder equity helps determine the return being generated versus the total amount invested by equity investors. For example, ratios like [return on equity](#) (ROE), which is the result of a company's net income divided by shareholder equity, are used to measure how well a company's management is using its equity from investors to generate profit. Positive shareholder equity means the company has enough assets to cover its liabilities but if it is negative, the company's liabilities exceed its assets. This is cause for concern because it tells you the value of a business after investors and stockholders are paid out.

What Are the Components of Shareholder Equity?

Aside from stock (common, preferred, and treasury) components, the SE statement also includes sections that report retained earnings, unrealized gains and losses and contributed (additional paid up) capital. The retained earnings portion reflects the percentage of net earnings that were not paid to shareholders as dividends and should not be confused with cash or other liquid assets.

How Is Shareholder Equity Calculated?

Shareholder equity is the difference between a firm's total assets and total liabilities. This equation is known as a balance sheet equation as all the relevant information can be gleaned from the balance sheet. Take the equity at the onset of the accounting period, add or subtract any equity infusions (such as adding cash from shares issued or subtracting cash used for treasury purchases), add net income, subtract all cash dividends paid out and any net losses, and what you have left is the shareholder equity for that period.

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 Equity typically refers to shareholders' equity, which represents the residual value to shareholders after debts and liabilities have been settled. [more](#)

[What Is the Accounting Equation, and How Do You Calculate It?](#)
 The accounting equation defines a company's total assets as the sum of its liabilities and shareholders' equity. [more](#)

[Balance Sheet: Explanation, Components, and Examples](#)
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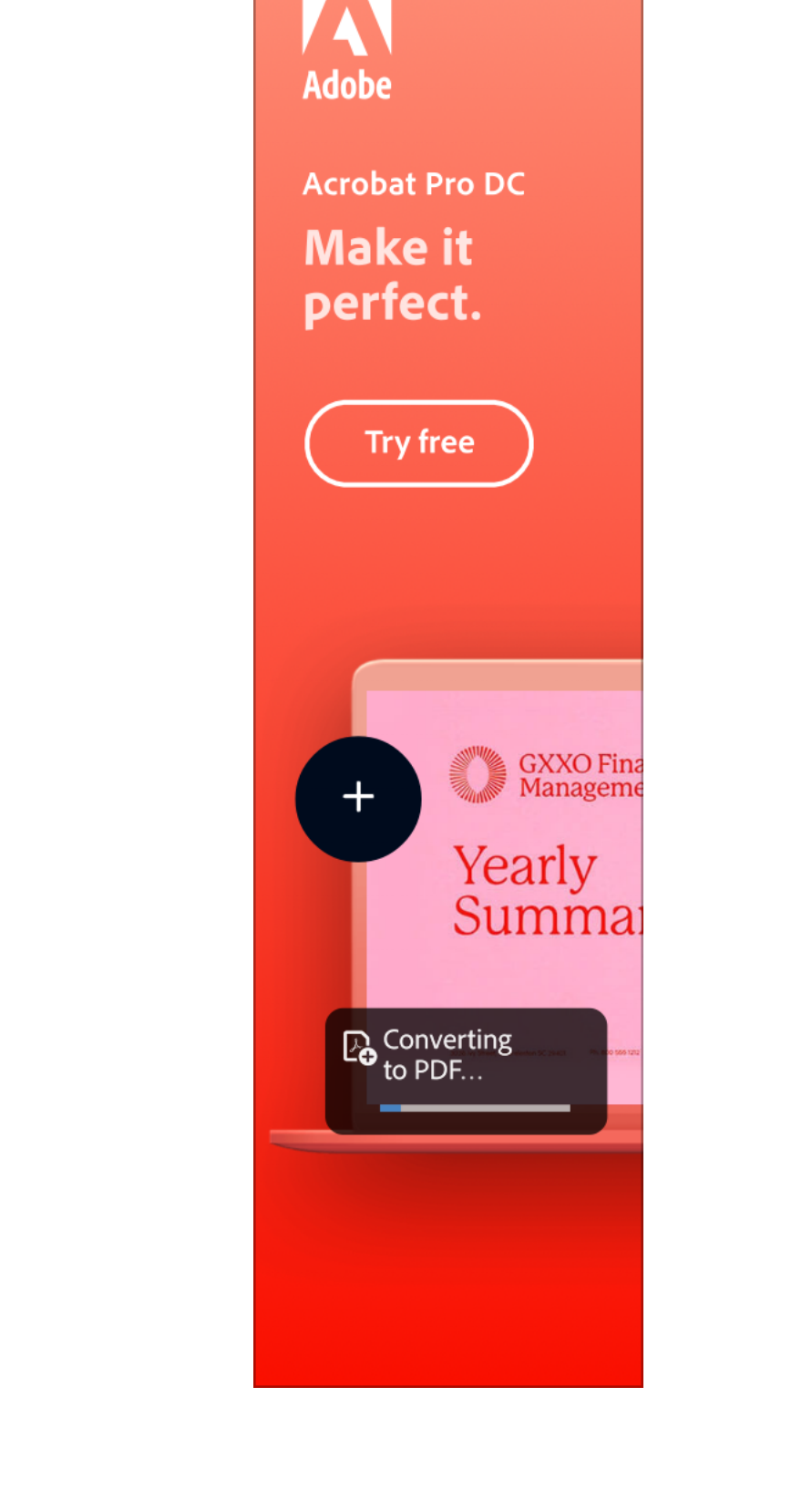
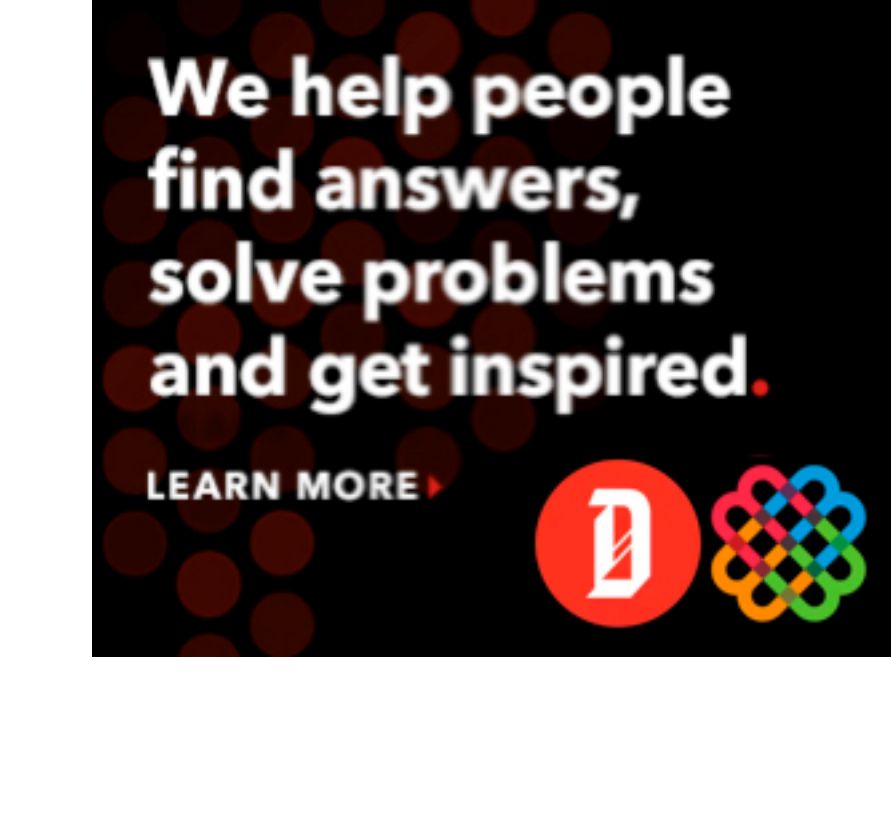
[Stockholders' Equity: What It Is, How To Calculate It, Examples](#)
 Stockholders' equity is the remaining amount of assets available to shareholders after paying liabilities. Learn how to calculate stockholders' equity. [more](#)

[Financial Statements: List of Types and How to Read Them](#)
 Financial statements are written records that convey the business activities and the financial performance of a company. [more](#)

[Net Worth: What It Is and How to Calculate It](#)
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