## Common equity common stock plus retained earnings

Share capital (also known as Shareholder Capital) is an account on the balance sheet ofBalance The balance sheet is one of the three underlying financial statements. These statements are essential for both financial modelling and accounting. The balance sheet shows the company's total assets and how these assets are financed through debt or equity. Assets = Liabilities + Equity consisting of equityShare CapitalShare capital (shareholder capital, equity, contribution capital or paid-up capital) is the amount invested by the company's shareholders for use in the business. When a company is created, if its only asset is cash invested by shareholders, then the balance sheet is balanced through share capital plus retained profits. It also represents the remaining value of assets minus liabilities. By rearranging the original accounting equation, Assets = Liabilities + Equity, can also be expressed as share capital = assets – liabilities. Share capital provides very useful information when analyzing financial statements For financial statements Three financial statements are profit and loss account, balance sheet and cash flow statement. These three fundamental statements are intricate. In the event of liquidation, equity holders are later in line from debt holders to receive any payments. This means that bondholders are paid before equity holders. Therefore, debt holders are not very interested in the value of equity above the general amount of equity to determine overall solvency. Shareholders, however, deal with both liabilities and equity accounts, as share capital can only be paid out after the bondholder has been paid out. EquityStockholders Equity shareholder components are influenced by several components:Share Capital – the amounts received by the reporting entity from transactions with its owners are called share capitalShare CapitalShare capital (shareholder capital, equity, contribution to capital or paid-up capital) is the amount invested by the company's shareholders for use in the business. When a company is created, if its only asset is cash invested by shareholders, then the balance sheet is balanced through share capital. Retained earnings – amounts earned through revenues, called retained earnings and accumulated other comprehensive income (IFRS only). For more information on retained earnings, click link above.Net Income & Dividends – Net revenue increase retains earnings while dividend payments reduce retained profits.#1 Contribution to capitalKontributed Capital (share capitalShare CapitalShare capital (shareholder capital, equity, contribution capital or paid capital) is the amount invested by the company's shareholders for use in the business. When a company is created, if it is the only is cash invested by shareholders and then the balance sheet is balanced through share capital) refers to the amounts received by the reporting company from transactions with shareholders. Companies may generally issue common shares or preferred shares. Common shares represent the remaining ownership in the company, and in the event of liquidation or payment of dividends, common shares may receive payments only after the preferred shareholders have first been paid. If the company issued 10,000 common shares for $50 each, the contribution capital would equal $500,000. The journal entry would be: DR Cash 500,000CR Common shares 500,000U in addition to the shares being sold for cash as in the previous example, it is also common to see companies selling shares based on subscription. In these situations, the buyer usually advances to buy a certain number of shares and agrees to pay the remaining amount later. For example, if XYZ sells 10,000 common shares for $10 each based on a subscription that requires the customer to pay $3 per share when signing the contract, and the remaining balance 2 months later, the journal entry will appear as follows:DR Cash 30,000DR Share Subscription Receivables 70,000CR Common Shares subscribed to 100,000Osable subscriptions on receivables accounts (A/R) account. Once the payment of the claim has been paid in full, the joint stakeholder of the registered account is closed and the shares are issued to the purchase sale. DR Cash 70,000CR Stock Subscriptions Claims 70,000DR Common Shares Subscribed 100,000CR Common Shares 100,000More Share TerminologyA several more terms are important in accounting stock transactions. The number of authorized shares is the number of shares that the corporation is allowed to issue according to the company's articles of incorporation. The number of shares issued relates to the number of shares issued by the corporation and may be owned by external investors or the corporation itself. Finally, the number of outstanding shares refers to shares owned only by external investors, while shares owned by the issuing corporation are called Treasury shares. Relationship can be visualized as follows:Shares Authorized ≥ Shares issued ≥ Shares outstandingThe difference between issued shares and outstanding shares is equal to the number of Treasury shares.#2 Retained earningsRetained Earnings (RE) is income income company IncomeNet's profit is a key line item, not only in the profit account, but in all three underlying financial Although it was reached through a profit account, net profit is used on both the balance sheet and the cash flow account. which are not distributed as dividends to shareholders (shareholders), but are allocated to invest back in the business.  Retained earnings can be used to finance working capitalNet Working CapitalNet Working Capital (NWC) is the difference between the company's current assets (net of cash) and current liabilities (net of debt) on its balance sheet. It is a measure of the liquidity of the company and its ability to meet short-term liabilities, as well as financing operations. The ideal position is, among other things, buying fixed assets or servicing debt. To calculate retained earnings, the net income or loss is added to the retained profit balance and then the dividend payment is deducted. A summary report entitled statement of retained earnings outlining changes in retained profits for a given period was also maintained. The retained earnings formula is as follows:Retained earnings = Period start retained earnings + Net income/loss – Cash dividends – Share dividendsLearn more in CFI's guide to retained earnings.#3 Dividend paymentsDividend payments by companies to shareholders (shareholders) are completely discretionary. Companies have no obligation to pay dividends until they are formally declared by the board. There are four key dates in terms of dividend payments, two of which require specific accounting treatments in terms of journal entries. There are various types of dividends that companies can recoup to their shareholders, of which cash and shares are the most prerosted. DateExplanationJournal EntryDeclaration DateDeclaration DateOnce board declares a dividend, the company records the obligation to pay, through the dividend of the paid accountDR Retained EarningsCR Dividends PayableEx-dividend Date The date on which the stock trades without the right to pay the dividend that is declared. Before the dividend payment date expires, the investor would be entitled to dividends. No Journal EntryDate of RecordDat when a company compiles a shareholder list to receive dividendsNo Journal EntryPayment Date If cash or other form of dividend is actually paid to shareholderDR Dividends PayableCR CashApplications in Personal Investing Bearing in mind the various debt and equity instruments, we may apply this knowledge to our own personal investment decisions. While many investment decisions depend on the level of risk we want to take, we cannot ignore all of the key components listed above. Bonds are contractual liabilities in which annual payments are guaranteed unless the issuers meet their obligations, while dividend payments from their own shares are discretionary and not fixed. As for payment and liquidation orders, bondholders are ahead of preferred shareholders, in return are ahead of the joint shareholders. Therefore, from an investor perspective, debt is the least risky investment, and for companies it is the cheapest source of financing because interest payments can be deducted for tax purposes and because debt generally offers a lower return to investors. However, debt is also the riskiest form of financing for companies, as the corporation must comply with the bondholders' contract in order to pay interest regularly regardless of economic times. Applications in financial modelling Shareholder equity account is an important step in financial modelingThis financial modellingFinance modelling is performed in Excel to predict the financial results of the company. An overview of what financial modeling is, how and why to build a model.. This is usually one of the last steps in forecasting balance sheet itemsProjecting Balance Line ItemsProjecting balance line items include analysis of working capital, PP&E, debt share capital and net income. This guide breaks down the calculation method. Below is an example of a screenshot of a financial model in which you can see a line of shareholder equity completed on the balance sheet. To learn more, start our financial modelling courses immediately! Find out more If you can read our guide to shareholder equity (shareholder equity), different ways of calculating, and why metrics matter in corporate finance. CFI is offered by Financial Modeling and Valuation Analyst (FMVA)®FMVA® CertificationJoin 350,600+ students working for companies such as Amazon, J.P. Morgan and Ferrari's certification program for those who want to take their careers to the next level. To continue learning and advancing your career, the following resources will be useful:How do you link 3 financial statementsHow the 3 LinkedHow financial statements are 3 financial statements linked together? We explain how to connect 3 financial statements for financial modeling and guide for analysis of financial statements Financial statements Analysis of financial statementsHow the analysis of financial statements is carried out. This guide will teach you to do an analysis of financial statements on revenue,Financial Modeling GuideFree Financial Modeling GuideThis guide to financial modeling covers Excel tips and best practices on assumptions, drivers, forecasting, linking three reports, DCF analysis, moreHow to be a great financial analyst Analyst Trifecta® GuideThe ultimate guide on how to be a financial world-class analyst. Do you want to be a world-class financial analyst?  Want to follow industry-leading best practices and stand out from the crowd? Our process, called The Analyst Trifecta® consists of analytics, presentation and soft skills