FINANCE AT A GLANCE

What is SHAREHOLDERS' EQUITY? Lesson 10

Recall from Lesson 1 that:

ASSETS = LIABILITIES + SHAREHOLDER's EQUITY

If we subtract the LIABILITIES from the ASSETS, we get the SHAREHOLDERS's EQUITY. Recall also from previous lessons that ASSETS are what a company has, and that LIABILITIES are what a company owes. If we subtract what a company owes from what it has, we get the value that the shareholders can claim for themselves, which is precisely what SHAREHOLDERS' EQUITY is.

ASSETS =		**LIABILITIES**	**+**	**SHAREHOLDER's EQUITY**
what a company owns	-	what a company owes	=	what the owners can claim for themselves

For the purposes of illustration, imagine a company whose owners decided to close down. Let us say that on its last day of operation, its Total Assets was worth $10 million, and its Total Liabilities was worth $4 million. If the company could sell all of its assets for $10 million, its owners could claim $6 million after paying $4 million to all parties that the company was indebted to.

There is no need for a company to close down just so the shareholders can appreciate the significance of Shareholder's Equity. At any given point in time, they can regard Shareholders' Equity as the portion of the Total Assets that belongs to them and not to any party to which the company is indebted to.

Until the next e-lesson,

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