

## CONCEPT: RETAINED EARNINGS

- **Retained Earnings** – net income from \_\_\_\_\_ that has not been distributed as dividends
  - It is important to note that Retained Earnings is not equal to Cash
    - The retained earnings could have been invested in other assets, such as Fixed Assets
    - A company can have positive retained earnings, but not enough cash to pay a dividend
  - The BASE formula (or T-Account) is the best way to work with the Retained Earnings account:
    - Beginning Balance: accumulation of net income held by company from previous periods
    - Additions: this year's \_\_\_\_\_
    - Subtractions: declaration of \_\_\_\_\_ to stockholders
    - (Subtractions: this year's \_\_\_\_\_ )
    - Ending Balance: accumulation of net income still held by company after dividends paid
  - A **retained deficit** occurs if a company has accumulated net losses, or paid more in dividends than income

During the current year, ABC Company had net income of \$530,000 and paid dividends of \$2 per share. The ending balance in retained earnings was \$1,240,000. If the company had 100,000 shares of common stock issued and outstanding, what was the beginning balance in retained earnings?

**PRACTICE:** On January 1, 2018, XYZ Company had a balance of retained earnings of \$420,000. During 2018, the company earned net income of \$205,000 and also paid dividends. If the balance of retained earnings on December 31, 2018 was \$340,000, how much was paid in dividends?

- a) \$80,000
- b) \$125,000
- c) \$205,000
- d) \$285,000