IV
PREMIUM
EDITION

FINANCIAL REPORT READING

Shareholders' *Equity*

What belongs to owners — and how dividends, buybacks and dilution change it.

FROM FIRST PRINCIPLES TO REAL ANALYSIS
WITH CASE STUDIES: APPLE INC. & COSTCO FY2026

KECUDO

2026 EDITION
INVESTOR SERIES

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FOUNDATION

Chapter One

The owners' story

The balance sheet shows equity on one day. The **statement of shareholders' equity** explains how it got there: it walks from opening equity to closing equity, line by line.

Opening equity + Net income − Dividends − Buybacks
+ New shares & stock-based pay ± Other comprehensive income
= Closing equity

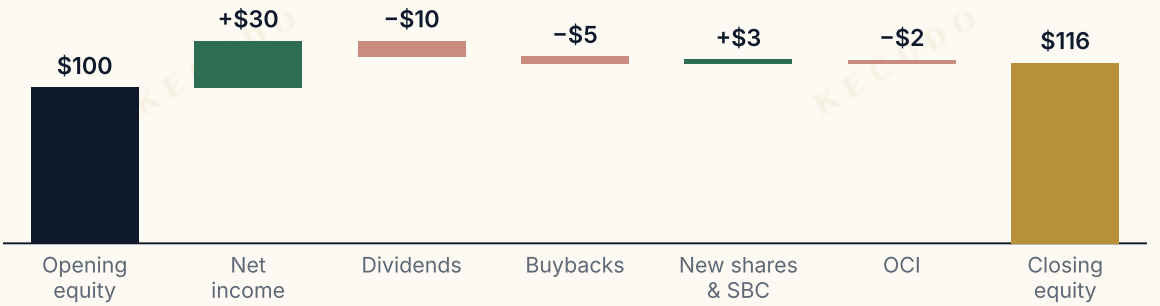


FIG 1.1 An illustrative equity bridge (USD).

WHY IT MATTERS

It shows how much of the profit stayed in the company and how much went back to you — and whether your ownership is being diluted.

FOUNDATION

Chapter Four · Worked example

Kecudo Coffee Co.

Year 2 of our café. It earned $72K and paid a $25K dividend (Class III), and a new partner invested $30K. USD thousands.

STATEMENT OF EQUITY, YEAR 2	CAPITAL	RETAINED EARNINGS	TOTAL
Opening balance (Class II)	**100**	**40**	**140**
Net income		72	72
Dividend paid		(25)	(25)
New partner invests	30		30
Closing balance	**130**	**87**	**217**

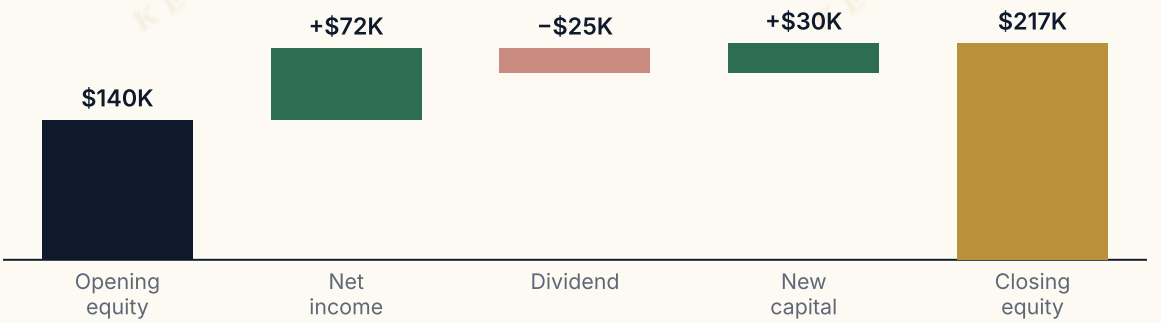


FIG 4.1 Kecudo Coffee equity bridge: $140K → $217K.

CORE

Chapter Five · Worked example

Dividends

A dividend is cash paid directly to shareholders. Three numbers tell you how generous — and how safe — it is.

$$\text{Payout ratio} = \text{Dividend per share} \div \text{EPS}$$

$$\text{Dividend yield} = \text{Dividend per share} \div \text{Share price}$$

Kecudo Retail Corp. (fictional, from Class I): EPS $1.11, dividend $0.40 per share, share price $20, 90M shares.

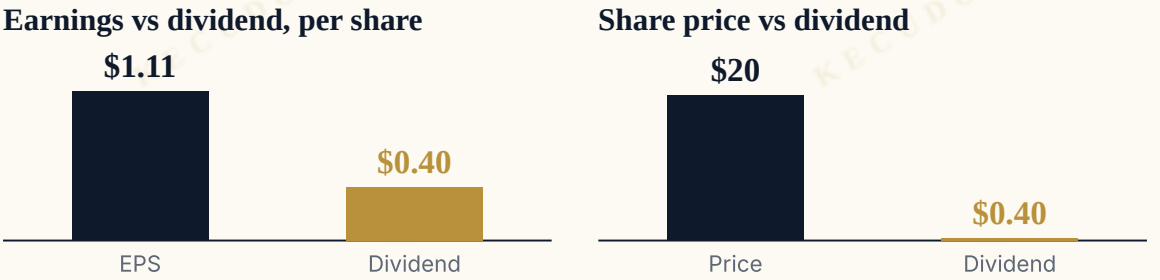


FIG 5.1 Kecudo Retail: payout ratio 36% and yield 2.0%. Total dividend: $0.40 × 90M = $36M.

RULE OF THUMB

A payout ratio well above 100% for long means the company pays out more than it earns — the dividend may be cut.

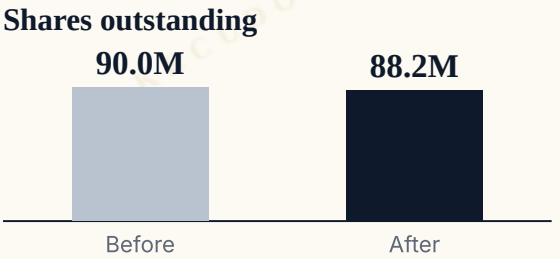
CORE

Chapter Six · Worked example

Buybacks

Instead of the $36M dividend, Kecudo Retail uses the same $36M to buy back shares at $20. Net income stays $100M.

	BEFORE	AFTER	Δ
Shares bought: $36M ÷ $20		1.8M	
Shares outstanding	90.0M	88.2M	−2.0%
Equity (treasury stock)		−$36M	
EPS ($100M ÷ shares)	**$1.111**	**$1.134**	**+2.0%**



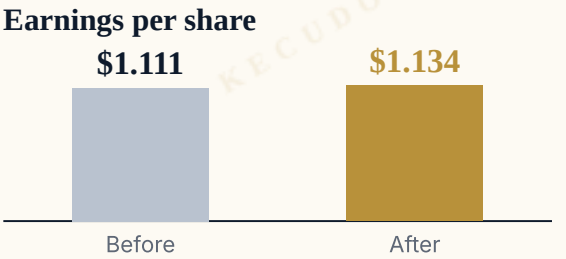


FIG 6.1 Same $36M returned two ways.

PRICE MATTERS

A buyback only creates value if shares are bought below what they're truly worth. Buying back overpriced shares wastes owners' money.

Review · Part A

Self-assessment: the basics

1 · The statement of shareholders' equity shows…

- Cash received from customers
- How equity changed during the period
- Only the share price

2 · Net income makes retained earnings…

- Go down
- Stay the same
- Go up

3 · Paying a dividend makes equity…

- Go down
- Go up
- Stay the same

4 · Bought-back shares are usually shown as…

- Treasury stock (a negative)
- Revenue
- A new asset

5 · Which item typically goes to other comprehensive income?

- Product sales
- Employee salaries
- Currency translation losses

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END OF CLASS IV · SERIES COMPLETE



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THE COMPLETE SERIES

Income Statement · Balance Sheet · Cash Flow · Shareholders' Equity

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