

How to complete a Statement of Shareholders' Equity in California

Roll-forward of shareholders' equity by component (common stock, APIC, retained earnings, treasury, AOCI) with beginning/ending balances.

What this form is for

Banks require a Statement of Shareholders' Equity to see how your company's ownership accounts changed over the reporting period, tracking each major component from beginning to ending balance. This form reconciles common stock, additional paid-in capital, retained earnings, treasury stock, and accumulated other comprehensive income to demonstrate financial stability and proper accounting.

Before you start

- Audited or reviewed balance sheets for the beginning and ending dates of the reporting period
- General ledger detail for all equity transactions during the period, including stock issuances, repurchases, dividends, and net income postings
- Documentation of any stock option exercises, stock splits, or capital contributions
- Prior period Statement of Shareholders' Equity if this is a multi-year comparison
- California franchise tax filings showing authorized and issued shares to verify consistency

Step-by-step

1. Enter beginning balances for each equity component from your opening balance sheet. Create separate columns for common stock par value, additional paid-in capital, retained earnings, treasury stock, and accumulated other comprehensive income.
2. Record common stock activity by posting the par value of any new shares issued during the period to the common stock column and the excess over par to additional paid-in capital.
3. Add net income (or subtract net loss) from your income statement directly to retained earnings. This is the primary driver of equity growth for most small businesses.
4. Subtract any dividends declared and paid during the period from retained earnings, even if payment occurred after period-end.
5. Record treasury stock transactions if you repurchased any shares, showing the cost of shares bought back as a negative number in the treasury stock column.
6. Post accumulated other comprehensive income items such as unrealized gains or losses on investments, if applicable to your business.
7. Calculate ending balances for each column by adding or subtracting all transactions from beginning balances.

8. Sum all ending balances horizontally to arrive at total shareholders' equity, which must match the equity section of your ending balance sheet exactly.

What lenders look for

- Underwriters scrutinize retained earnings closely because consistent losses or heavy dividend distributions relative to profits suggest cash flow problems. California lenders are particularly cautious if distributions exceed legally available retained earnings under California Corporations Code Section 500.
- Material unexplained changes in paid-in capital or large treasury stock purchases without clear business rationale raise red flags about ownership disputes or financial engineering.
- Cross-reference your statement totals against your balance sheet equity section and cash flow statement financing activities. Mismatches indicate accounting errors that will delay approval.