Return on equity (ROE) indicates the efficiency with which a company uses shareholders' money to generate profit.

ROE is calculated by dividing the net income, which can be found on the income statement, by equity, which can be found on the balance sheet.

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Net income ÷ Equity = Return on Equity
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The ROE for most companies falls between 10% and 20%. It should come as no surprise that investors prefer companies that use shareholder investments efficiently. Higher ROE is preferable.

According to the income statement, Yummy Stuff, Co. had a net income of $2,557. According to the balance sheet, its total equity is $22,300.

$2,557 ÷ $22,300 = 0.1147, so Yummy Stuff, Co. has an ROE of 11%. That's typical, but investors are always looking for a higher ROE.