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5 Days Remaining

Financial Glossary

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Retained Earnings

The net income that remains after paying dividends. It is reported on the balance sheet as the cumulative sum of each year's retained earnings over the life of the business. Retained earnings can be used to pay debt and future dividends, or can be reinvested into business activities.

The "retained" refers to the earnings after paying out dividends. Companies with increasing retained earnings is good, because it means the company is staying consistently profitable. If a company has a yearly loss, this number is subtracted from retained earnings.

If a company's annual net income was 5 million, paid out 3 million in dividends, and had a retained earnings of 9 million, retained earnings at the end of 2012 would be 11 million (5-3+9). Similarly if next year the company paid no dividends but had a yearly net income loss of 5 million, retained earnings would be 6 million (11-5).

Formula

Retained Earnings = Beginning Retained Earnings + Net Income - Dividends

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