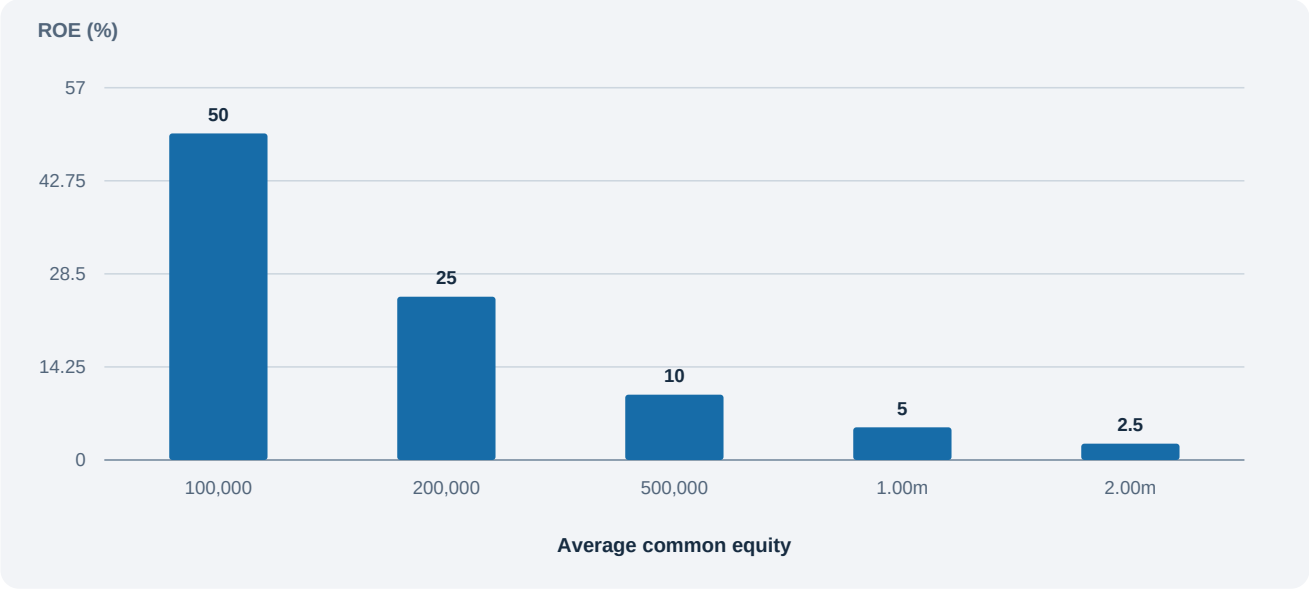
Return on average equity

Fundamental ratios | Original synthetic example | Edition 2026-11-26

Return on equity compares period net income attributable to common shareholders with average common equity over that period. Leverage can increase the ratio while increasing financial risk.

FORMULA ROE = common net income / average common equity

SCENARIO 01: Period common net income 50000



WORKED EXAMPLE

Income 50000 on average equity 500,000 gives ROE 10%. A smaller denominator can increase the ratio.

COMMON MISTAKE

Using a shrinking equity denominator to infer an improving business without examining leverage can mislead.

BEFORE YOU USE THE CALCULATION

1. Use an appropriate average equity base.
2. Align income and equity periods.
3. Investigate negative or unusually small equity.

COMPARE TWO MORE INPUT SETS

Scenario 05: Period common net income 90000. Income 90000 on average equity 500,000 gives ROE 18%. A smaller denominator can increase the ratio.

Scenario 10: Period common net income 140000. Income 140000 on average equity 500,000 gives ROE 28%. A smaller denominator can increase the ratio.

Synthetic values are not historical market data. Educational material; trading can result in substantial losses.