Negative equity is not the same as bankruptcy

Name: Class: Date:

Some well-known companies report shareholders' equity below zero. In this lesson you will find out what that means, and what it does not mean, from their own filings.

What to do

1. Read the four company cards below with a partner.
2. In Part C of your worksheet, write each company's equity sign and the fact that explains it.
3. Sort the cards in Part D: losses or payouts?
4. The exit ticket is on page 2 of your worksheet.

Part A. Warm-up: the lemonade company (made-up numbers)

Assets $1,000; liabilities $700; equity $300. It borrows $800 and pays it all to owners who sell their shares back.

A1. Liabilities after the buyback: $_____. Assets after: $_____. Equity after: $_____

1. A2. Is the stand still open? What does the new equity number tell you, and what doesn't it?

Part B. Five words

Write each definition in your own words.

1. Assets

2. Liabilities

3. Shareholders' equity

4. Retained earnings

For learning only. Cityfort is not a registered investment adviser or broker-dealer and does not recommend buying or selling any security. Prices shown are dated and may be out of date.

5. Treasury stock

Part C. Four companies

For each company, circle the sign of equity on each date and copy one fact from the card that explains it.

McDonald's: Dec 31, 2025 above / below zero; Jun 30, 2026 above / below zero. Fact: _____

Starbucks: Sep 27, 2026 above / below zero. Fact: _____

Lowe's: Jan 30, 2026 above / below zero; Jul 31, 2026 above / below zero. Fact: _____

Home Depot: Jan 30, 2022 above / below zero; Aug 2, 2026 above / below zero. Fact: _____

C1. McDonald's, Dec 31, 2025: treasury stock $79.3 billion − retained earnings $70.3 billion = $_____ billion.

For learning only. Cityfort is not a registered investment adviser or broker-dealer and does not recommend buying or selling any security. Prices shown are dated and may be out of date.

Name: _____ Class: _____ Date: _____

Part D. Two roads below zero

Road 1: years of losses. Road 2: paying out more than the profit kept.

D1. Which road does each card show? McDonald's ____ Starbucks ____ Lowe's ____ Home Depot (2022) ____

1. D2. Home Depot's equity turned positive by Aug 2, 2026. Use the card to explain what changed.

_____

_____

_____

2. D3. All four companies kept operating while their equity was below zero. In one sentence, why is negative equity not the same as bankruptcy?

_____

_____

Advanced (optional): Starbucks and Nestlé

Starbucks's long-term deferred revenue was $5.6 billion on Sep 27, 2026, mostly from about $7 billion Nestlé paid up front in fiscal 2018. It is booked as revenue over time.

1. Why is this a liability but not debt? How does it affect Starbucks's equity?

_____

_____

_____

For learning only. Cityfort is not a registered investment adviser or broker-dealer and does not recommend buying or selling any security. Prices shown are dated and may be out of date.

Exit ticket

1. Write the formula for shareholders' equity.

   _____

2. Name two things that lower equity.

   _____

3. True or false? A company with negative equity has gone bankrupt.

   _____

4. Where in a 10-K would you look to see why a company's equity is below zero?

   _____

   _____

Word bank

Assets	What a company owns, such as cash, buildings and inventory.
Liabilities	What a company owes, such as debt, bills and leases.
Shareholders' equity	Assets minus liabilities: the owners' stake on paper.
Retained earnings	Profit a company has kept over its history instead of paying out.
Treasury stock	A company's own shares that it has bought back, at what it paid.
Bankruptcy	A legal process for a company that cannot pay what it owes.

Sentence starters

- On ____ (date), ____'s equity was ____ (above / below) zero.
- The card says ____, which explains it because ____.
- Equity went up / down because ____ (filing).

student page

Scan the code or type: **cityfort.co/class/negative-equity**

For learning only. Cityfort is not a registered investment adviser or broker-dealer and does not recommend buying or selling any security. Prices shown are dated and may be out of date.

For learning only. Cityfort is not a registered investment adviser or broker-dealer and does not recommend buying or selling any security. Prices shown are dated and may be out of date.

For learning only. Cityfort is not a registered investment adviser or broker-dealer and does not recommend buying or selling any security. Prices shown are dated and may be out of date.