

Twitter Thread by Brian Feroldi (■,■)



Brian Feroldi (■,■)

@BrianFeroldi



How to analyze a:

■■ Balance Sheet

■■ Income Statement

■■ Cash Flow Statement

In less than 5 minutes:

Balance Sheet Specific Date		
Assets		Liabilities
Current Assets 1	Cash & Cash Equivalents	Accounts Payable
	Marketable Securities	Accrued Expense
	Accounts Receivable	2 Short-Term Debt
	Inventory	Long-Term Debt
	Prepaid Expenses	Other Long-Term Liabilities
Long Term Assets 3	Long Term Investments	Shareholder Equity
	Fixed Assets	Preferred Stock
	Goodwill	Common Stock
	Intangible Assets	Additional Paid-In Capital
	Other Long-Term Assets	4 Retained Earnings
		Treasury Stock

Cash Flow Statement Period		
		Net Income
3 →	Operating Activities	+
		Non-Cash Charges
		Changes In Working Capital
1 →		Operating Cash Flow
2 →		Capital Expenditure for Property, Plant, Equipment
	Investing Activities	-
		Acquisitions
		Proceeds from Sale of Investments
		Net Cash Used in Investing Activities
5 →		Borrow / Repay Debt
4 →	Financing Activities	+
		Issue / Repurchase Stock
		Pay Dividends
		Net Cash Used in Financing Activities

Income Statement Period 1		
1 →		Revenue
		- Cost of Goods Sold
2 →		Gross Profit
5 →		Operating Expenses
		Operating Income
		- Non-Operating Income/Expense
		Pre-Tax Income
		- Income Tax
		Net Income
4 →		/ Shares Outstanding
3 →		Earnings Per Share

Every company has 3 financial statements.

Each answers a unique question:

1. Balance Sheet: What's your net worth?

2. Income Statement: Are you profitable?

3. Cash Flow Statement: Are you generating cash?

The 3 Financial Statements

Balance Sheet

Balance Sheet Specific Date			
Assets		Liabilities	
Current Assets	Cash & Cash Equivalents	Current Liabilities	Accounts Payable
	Marketable Securities		Accrued Expense
	Accounts Receivable		Short-Term Debt
	Inventory	Long-Term Liabilities	Long-Term Debt
	Prepaid Expenses		Other Long-Term Liabilities
Long Term Assets	Long Term Investments	Shareholder Equity	Preferred Stock
	Fixed Assets		Common Stock
	Goodwill		Additional Paid-In Capital
	Intangible Assets		Retained Earnings
	Other Long-Term Assets		Treasury Stock

Income Statement

Income Statement Period	
Revenue	
-	Cost of Goods Sold
Gross Profit	
-	Operating Expenses
Operating Income	
-	Non-Operating Income/Expense
Pre-Tax Income	
-	Income Tax
Net Income	
/	Shares Outstanding
Earnings Per Share	

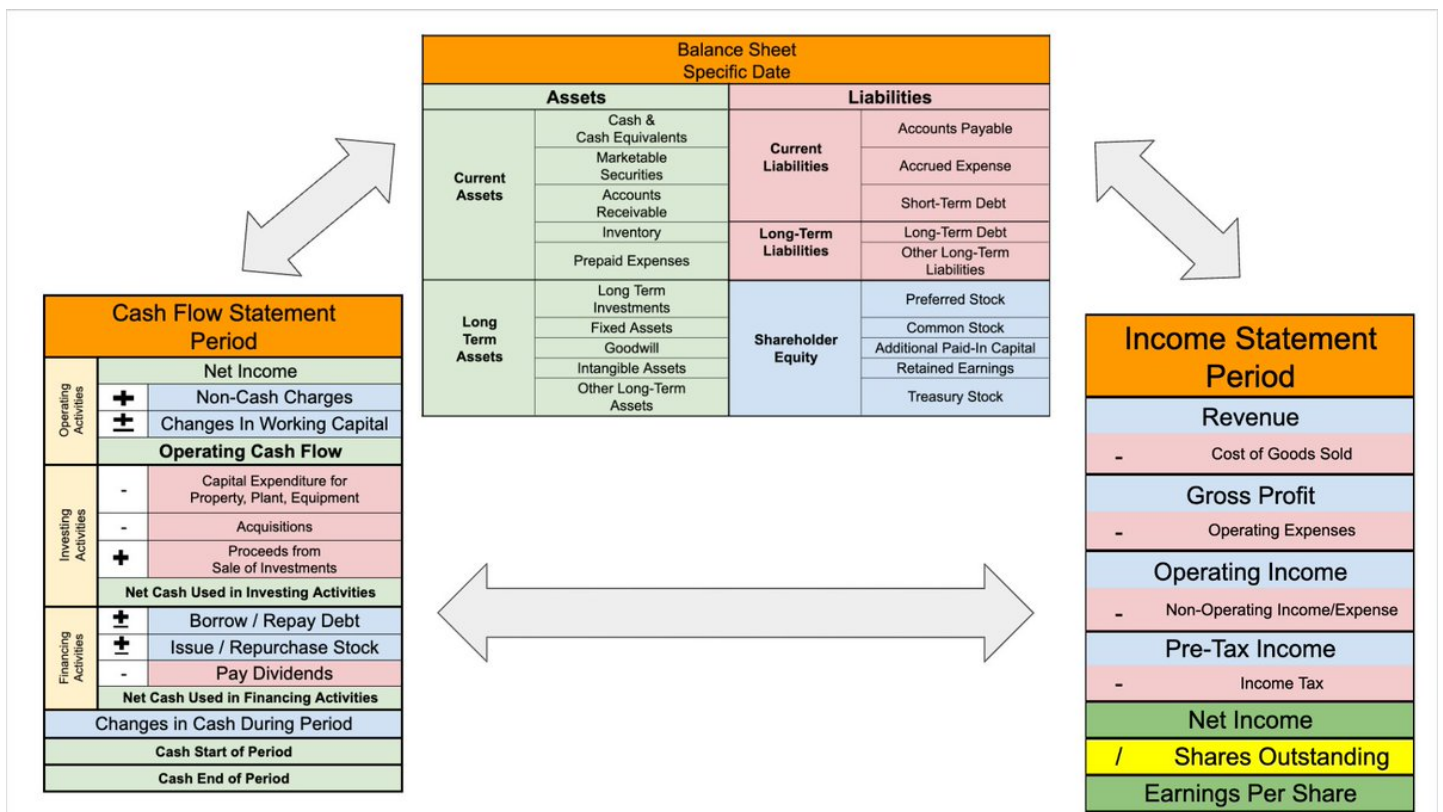
Cash Flow Statement

Cash Flow Statement Period		
Operating Activities		Net Income
	+	Non-Cash Charges
	±	Changes In Working Capital
	Operating Cash Flow	
Investing Activities	-	Capital Expenditure for Property, Plant, Equipment
	-	Acquisitions
	+	Proceeds from Sale of Investments
	Net Cash Used in Investing Activities	
	Financing Activities	±
±		Issue / Repurchase Stock
-		Pay Dividends
Net Cash Used in Financing Activities		
Changes in Cash During Period		
Cash Start of Period		
Cash End of Period		

The financial statements are interrelated.

Each views a company's financials from a different angle.

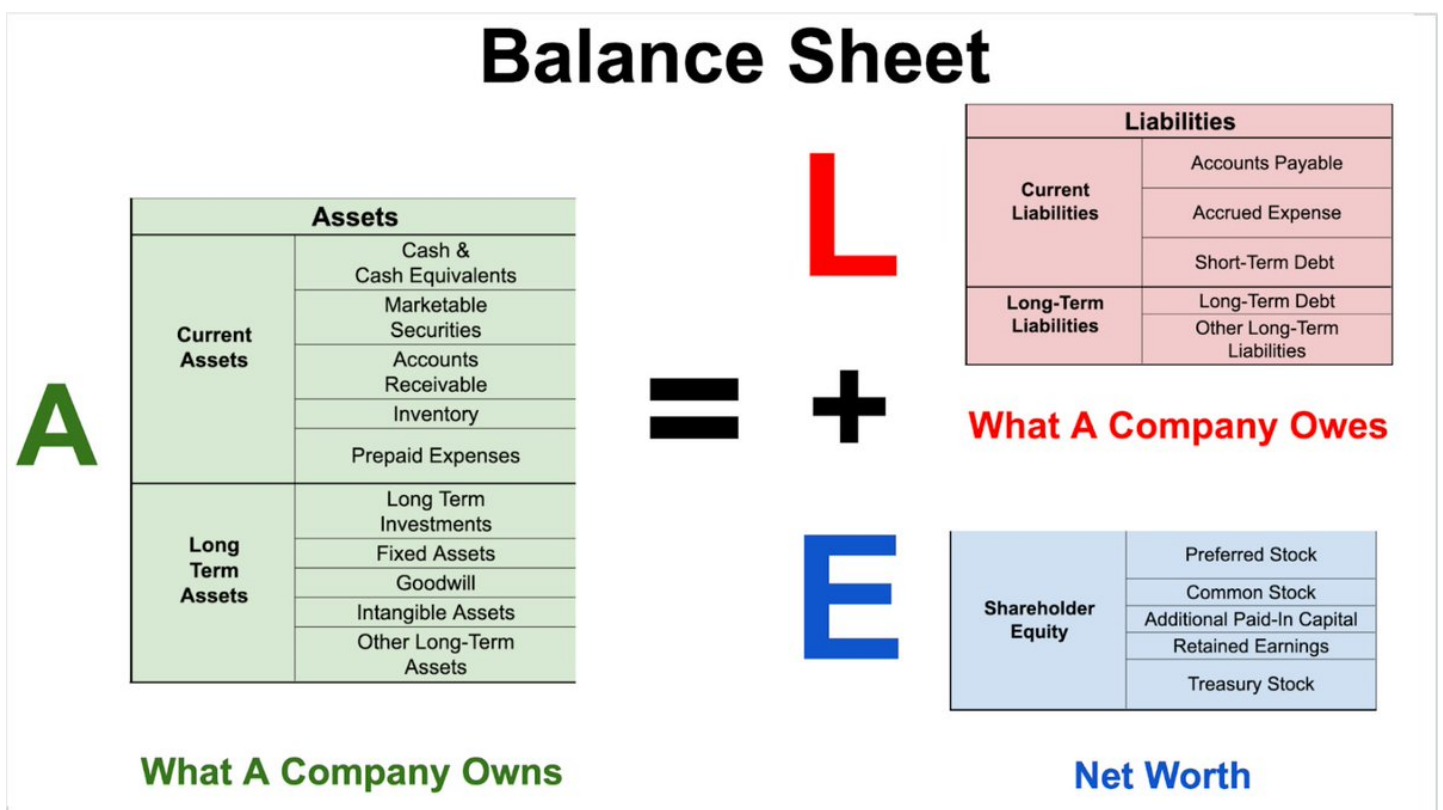
When combined, they provide a more complete view of a company's true financial position.



1A: Balance Sheet

This tells you a company's net worth at a specific point in time.

Layout:



1B: What I focus on first:

- 1■ Cash & Equivalents: How much?
- 2■ Debt: How much vs. cash?
- 3■ Goodwill: How much?
- 4■ Retained Earnings (+ T.S.): Positive?
- 5■ Receivables & Inventory: How much?

Balance Sheet Specific Date			
Assets		Liabilities	
Current Assets 1	Cash & Cash Equivalents	Current Liabilities	Accounts Payable
	Marketable Securities		Accrued Expense
	5 Accounts Receivable		2 Short-Term Debt
	Inventory	Long-Term Liabilities	Long-Term Debt
	Prepaid Expenses		Other Long-Term Liabilities
Long Term Assets	Long Term Investments	Shareholder Equity	Preferred Stock
	Fixed Assets		Common Stock
	3 Goodwill		Additional Paid-In Capital
	Intangible Assets		4 Retained Earnings
	Other Long-Term Assets		Treasury Stock

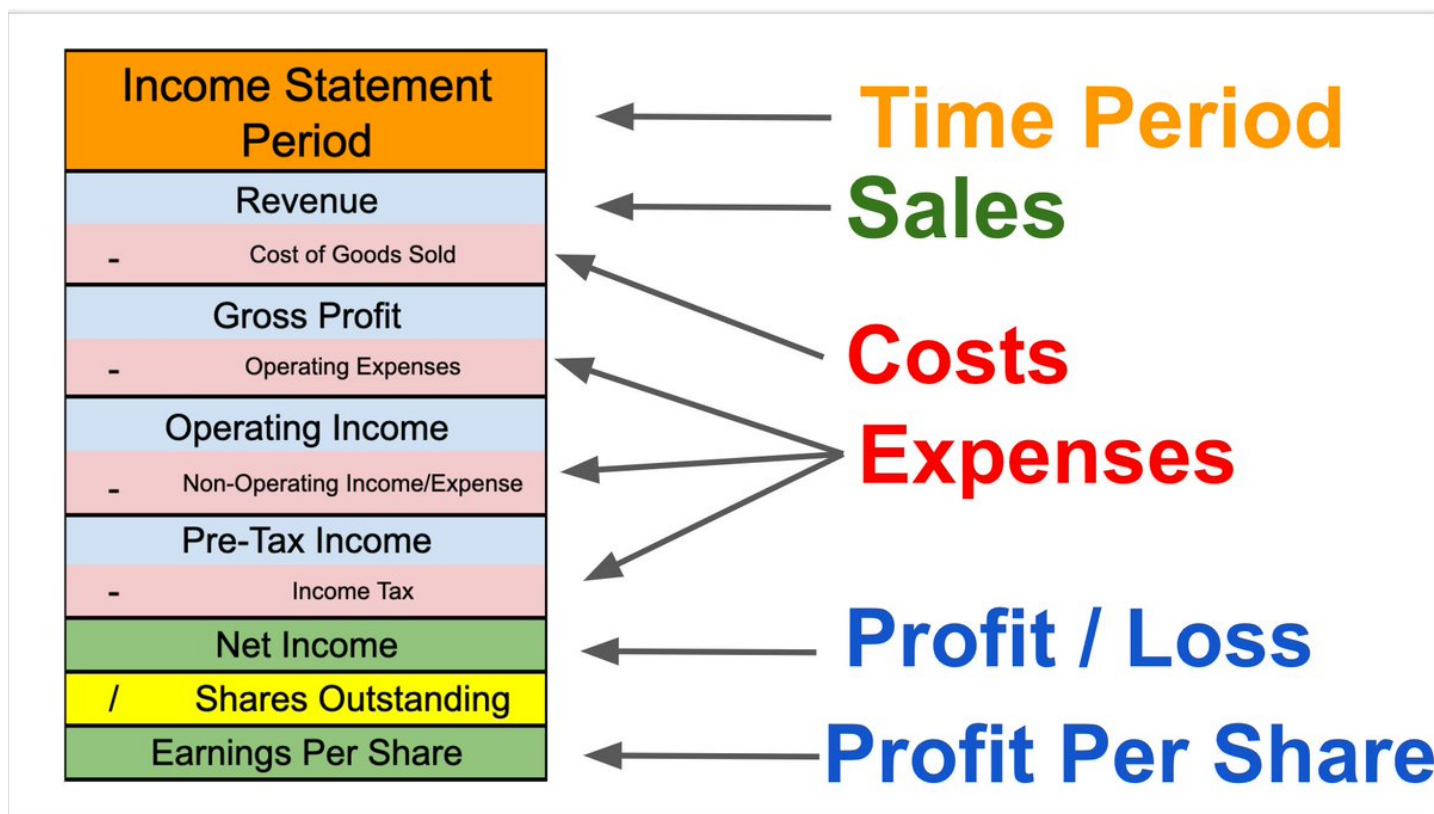
1C: Best Possible Answers

- 1■Cash & Equivalents: More than debt
- 2■Short & Long-Debt: None
- 3■Goodwill: Zero
- 4■Retained Earnings (+ T.S.): Positive
- 5■ Receivables & Inventory: None

2A: The Income Statement

This tells you if a company is “profitable” or not during a period of time

Layout:



2B: I look at 2 income statements with comparable periods.

What I focus on first:

1■Revenue: Up or down?

2■Gross Profit: Up or down?

3■EPS (Diluted): Positive or negative?

4■Shares Outstanding: Up or down?

5■Operating Expenses: Up or down?

		Income Statement Period 1		Income Statement Period 2
1 →		Revenue		Revenue
		- Cost of Goods Sold		- Cost of Goods Sold
2 →		Gross Profit		Gross Profit
5 →		- Operating Expenses		- Operating Expenses
		Operating Income		Operating Income
		- Non-Operating Income/Expense		- Non-Operating Income/Expense
		Pre-Tax Income		Pre-Tax Income
		- Income Tax		- Income Tax
		Net Income		Net Income
4 →		/ Shares Outstanding		/ Shares Outstanding
3 →		Earnings Per Share		Earnings Per Share

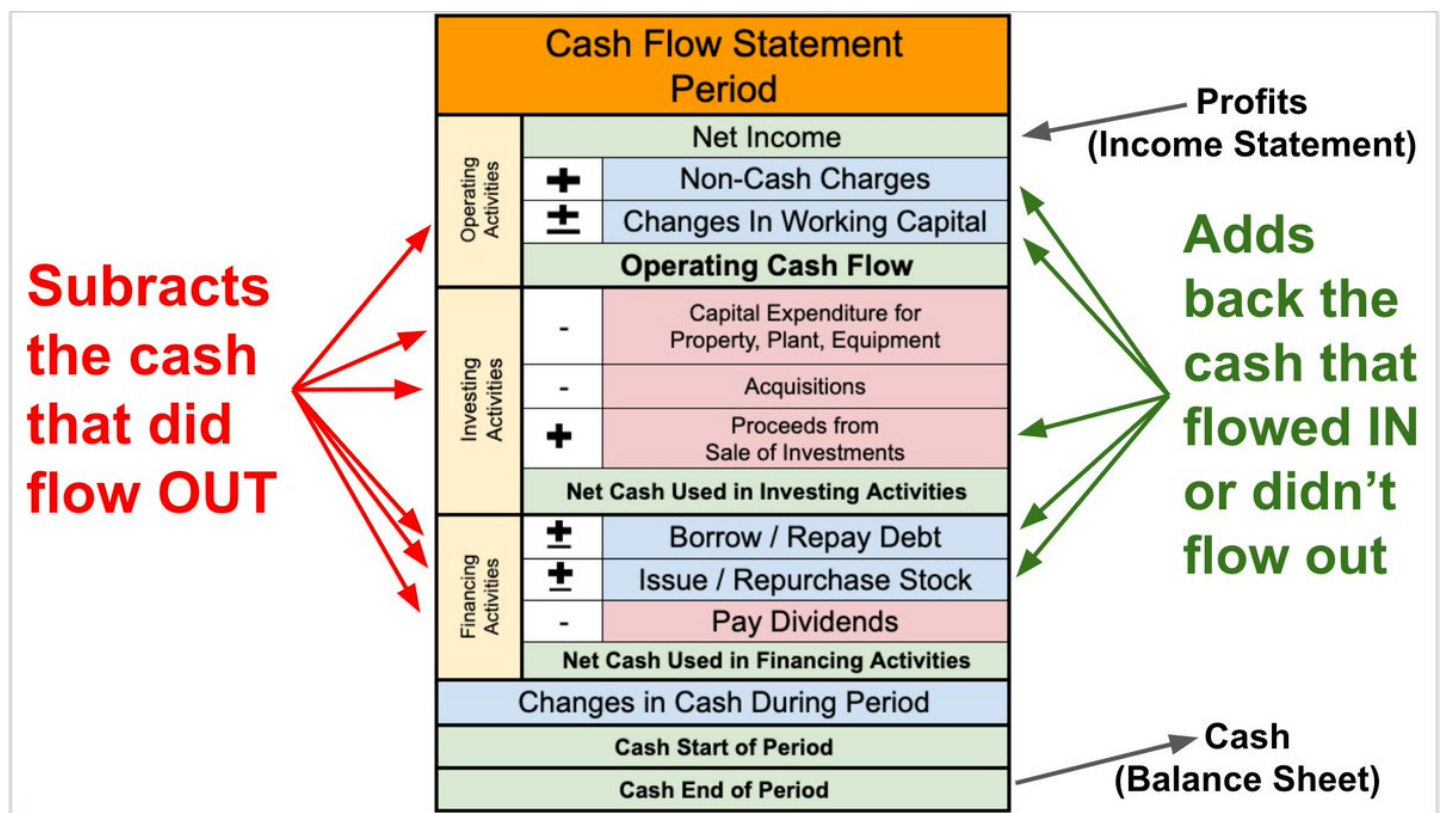
2C: Best Possible Answers

- 1■Revenue: Up 30%+
- 2■Gross Profit: Up 30%+
- 3■EPS: Up 30%+
- 4■Shares Outstanding: Down 4%+
- 5■Operating Expenses: Stable

3A: The Cash Flow Statement

This tells you how cash moves in and out of a business over a period of time.

Layout:



3B: What I focus on first:

- 1■OCF: Positive or negative?
- 2■CapEx: More or less than OCF?
- 3■NCC: Any big numbers? S.B.C.?
- 4■Stock: Issuance or buybacks?
- 5■Debt: Borrow or repay?

Cash Flow Statement Period			
			Net Income
3 →	Operating Activities	+	Non-Cash Charges
		±	Changes In Working Capital
1 →			Operating Cash Flow
2 →	Investing Activities	-	Capital Expenditure for Property, Plant, Equipment
		-	Acquisitions
		+	Proceeds from Sale of Investments
			Net Cash Used in Investing Activities
5 →	Financing Activities	±	Borrow / Repay Debt
4 →		+	Issue / Repurchase Stock
		-	Pay Dividends
			Net Cash Used in Financing Activities

3C: Best possible answers

1■ OCF: Positive (+ Growing)

2■ CapEx: Much less than OCF

3■ NCC: Nothing noteworthy + Low SBC

4■ Stock: Buybacks ■

5■ Debt: Repayment■

I'd never make an investment decision without MUCH more analysis than this.

Accounting (and investing) is FILLED with nuance

Still, with <1 minute of analysis per financial statement, you can quickly identify a company's strengths + weaknesses

If you invest, you MUST learn accounting

That's why @Brian_Stoffel and I created a course that teaches accounting in plain English

Registration closes TONIGHT (9/18) at 11:59 PM EDT!

Interested? DM me for a special coupon code.

<https://t.co/988Hizpz84>

Prefer to keep learning for free?

Read this thread I wrote about the cash flow statement next:

<https://t.co/0yJu58rX4n>

If you pick stocks, you MUST learn how to read a Cash Flow Statement.

Here's everything you need to know:

— Brian Feroldi (\U0001f9e0,\U0001f4c8) (@BrianFeroldi) [September 11, 2022](#)