Twitter Thread by Brian Feroldi



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Accounting is the language of business.

If you buy stocks, you MUST learn how to read a balance sheet.

Here's everything you need to know:

The balance sheet is one of the 3 major financial statements.

It shows company's:

■■Assets: What it owns
■■Liabilities: What it owes
■■Shareholders Equity: It's net worth attributable to its owners

At a fixed point in time

That "at a point in time" part is key!

A balance sheet is a SNAPSHOT of a company's net worth.

It is usually measured at the end of a quarter/year.

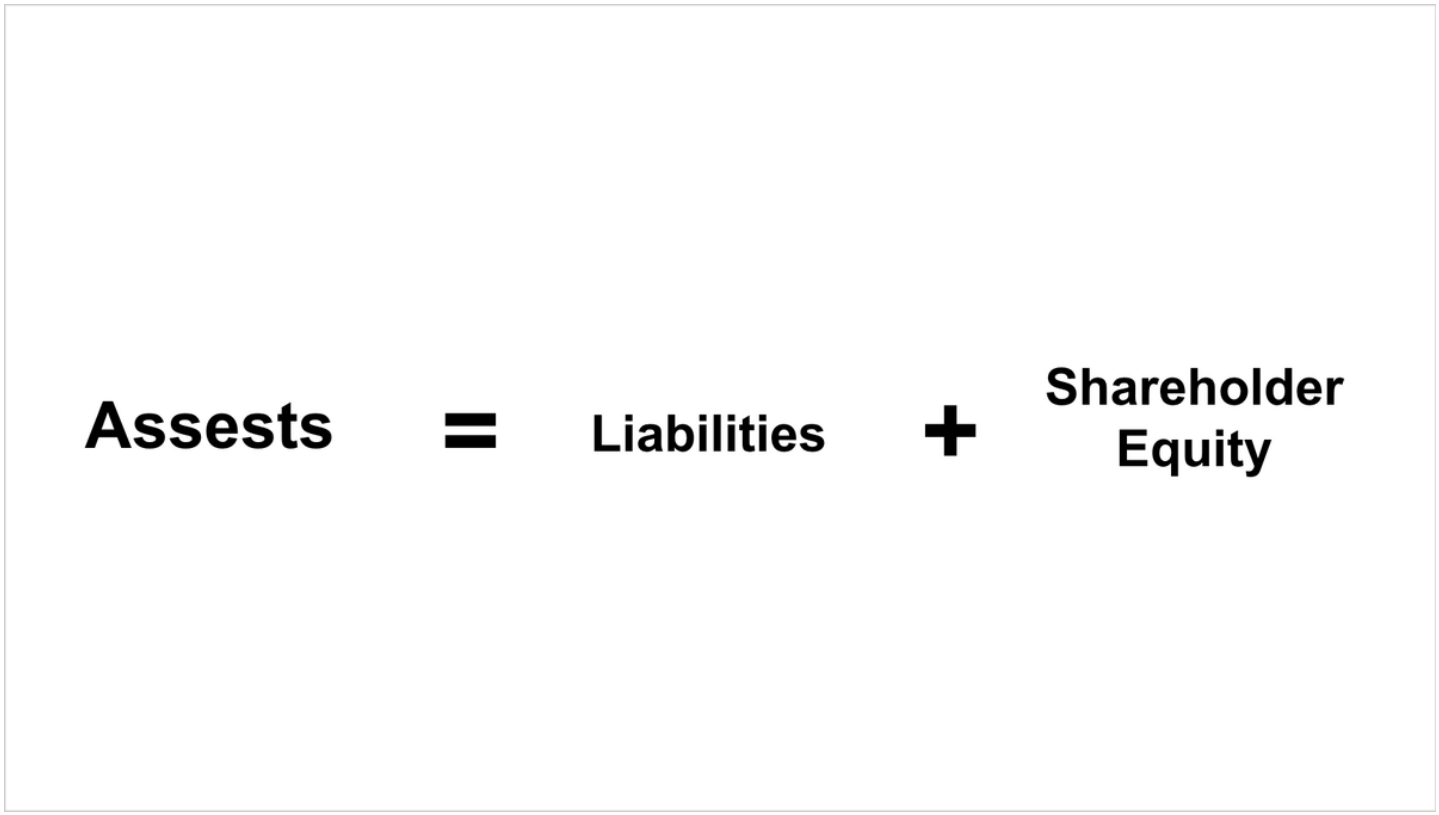
That's different from an income statement or cash flow statement, both of which are measured over periods of time

All balance sheets follow the same formula:

Assets = Liabilities + Shareholders Equity

This formula must be in balance at all times

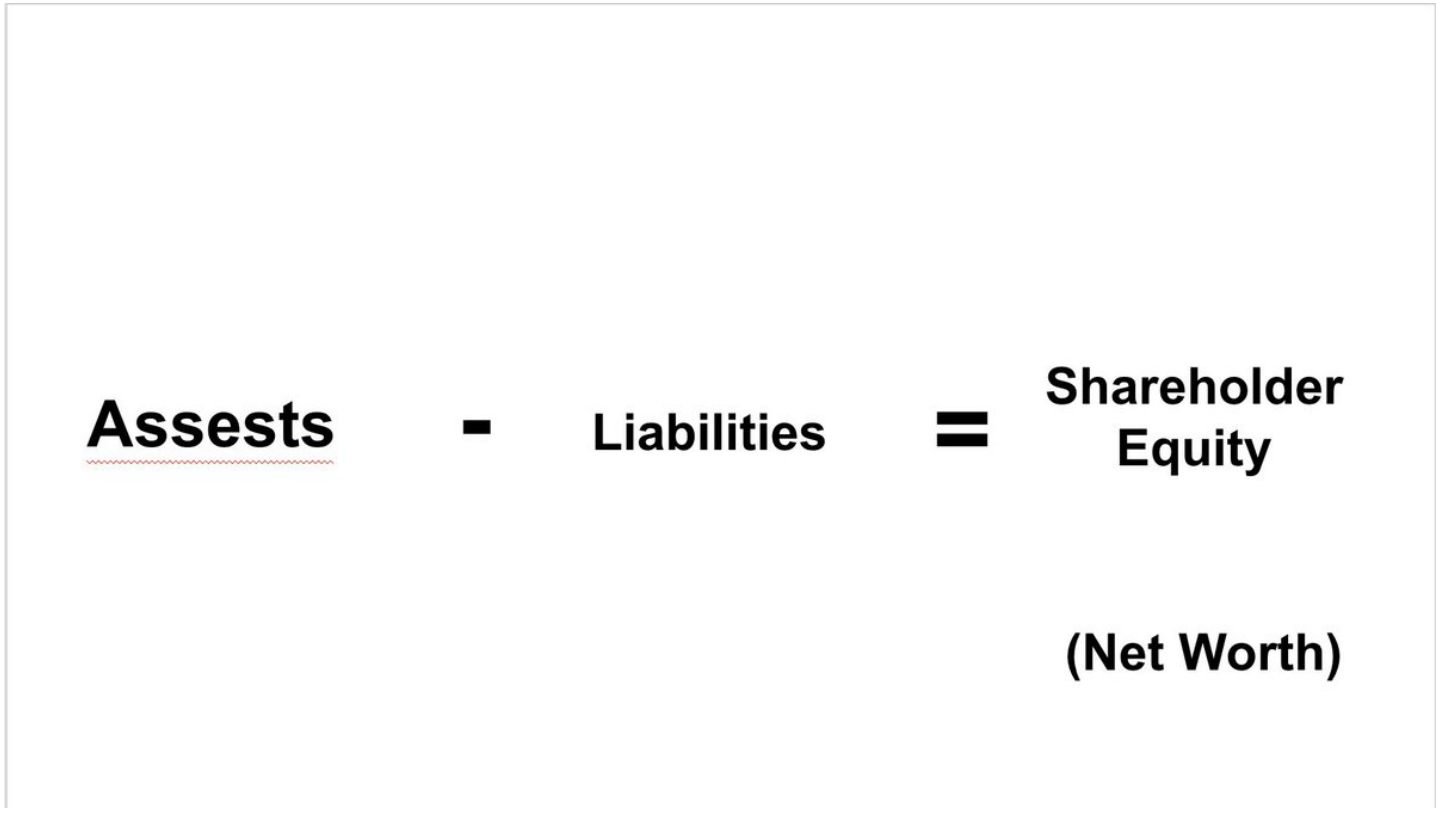
(Hence the term "balance sheet")



Side Note:

This formula can be easily re-arranged into the “net worth” formula that you are already familiar with

Assets - Liabilities = Shareholders Equity (Net worth)



Companies get soe leeway in how they categorize each item on their balance sheet

This graphic shows some of the most commonly used categories & terms

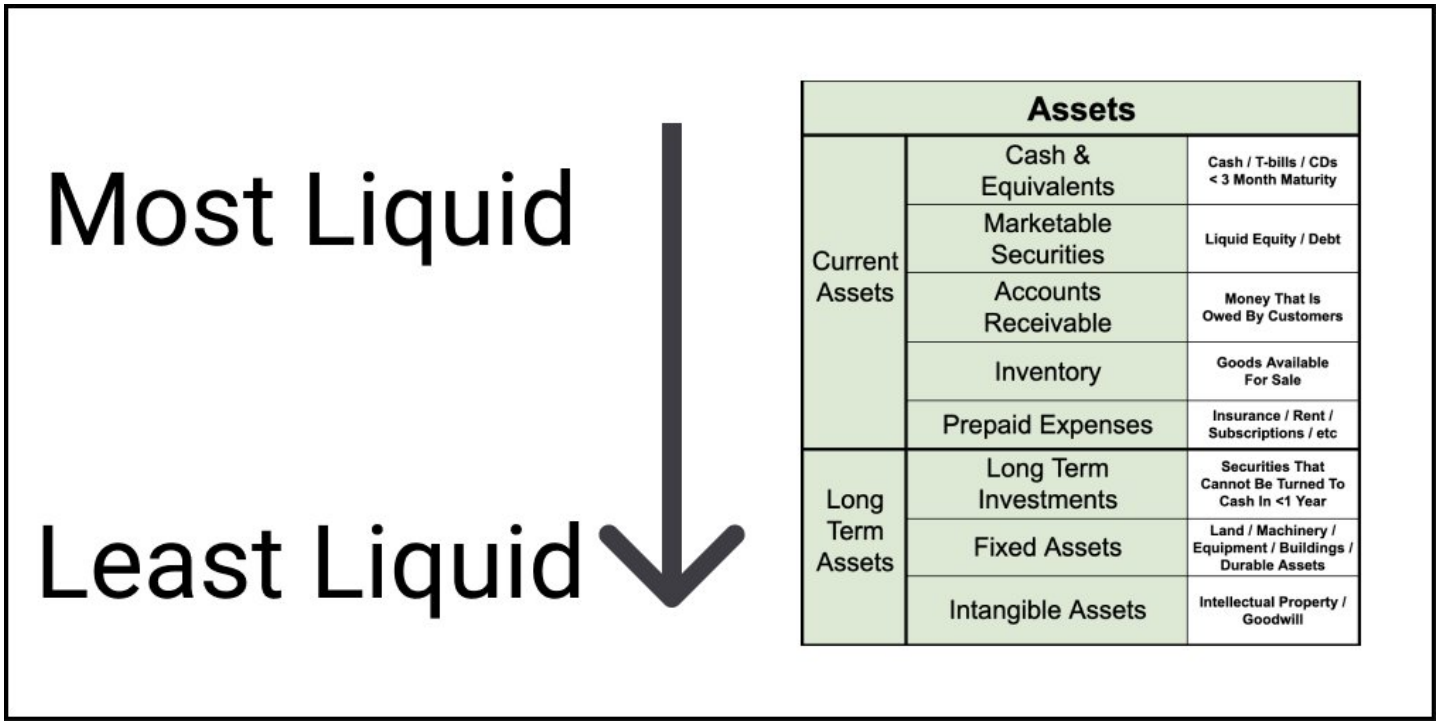
Balance Sheet					
Assets			**Liabilities**		
Current Assets	Cash & Equivalents	Cash / T-bills / CDs < 3 Month Maturity	Current liabilities	Short-Term Debt	Debt That Is Due <1 Year
	Marketable Securities	Liquid Equity / Debt		Payables	Interest / Wages / Dividends / Taxes / Accrued Liabilities
	Accounts Receivable	Money That Is Owed By Customers	Long-term liabilities	Long-Term Debt	Interest & Prinicpal On Bonds Due > 1 Year
	Inventory	Goods Available For Sale		Deferred Taxes	Taxes Due > 1 year
	Prepaid Expenses	Insurance / Rent / Subscriptions / etc		Pension Liabilities	Employee Retirement
Long Term Assets	Long Term Investments	Securities That Cannot Be Turned To Cash In <1 Year	Shareholder Equity	Retained Earnings	Profits The Business Keeps
	Fixed Assets	Land / Machinery / Equipment / Buildings / Durable Assets		Treasury Stock	Stock The Company Has Repurchased
	Intangible Assets	Intellectual Property / Goodwill		Additional Paid-In capital	Money Shareholders Have Invested Beyond Common/Preferred Stock

Let’s start with assets, which is what a company OWNS

Assets are listed in order of liquidity

(Liquidity means how quickly a security can be turned into cash)

The most liquid assets are at the top, the least liquid on the bottom



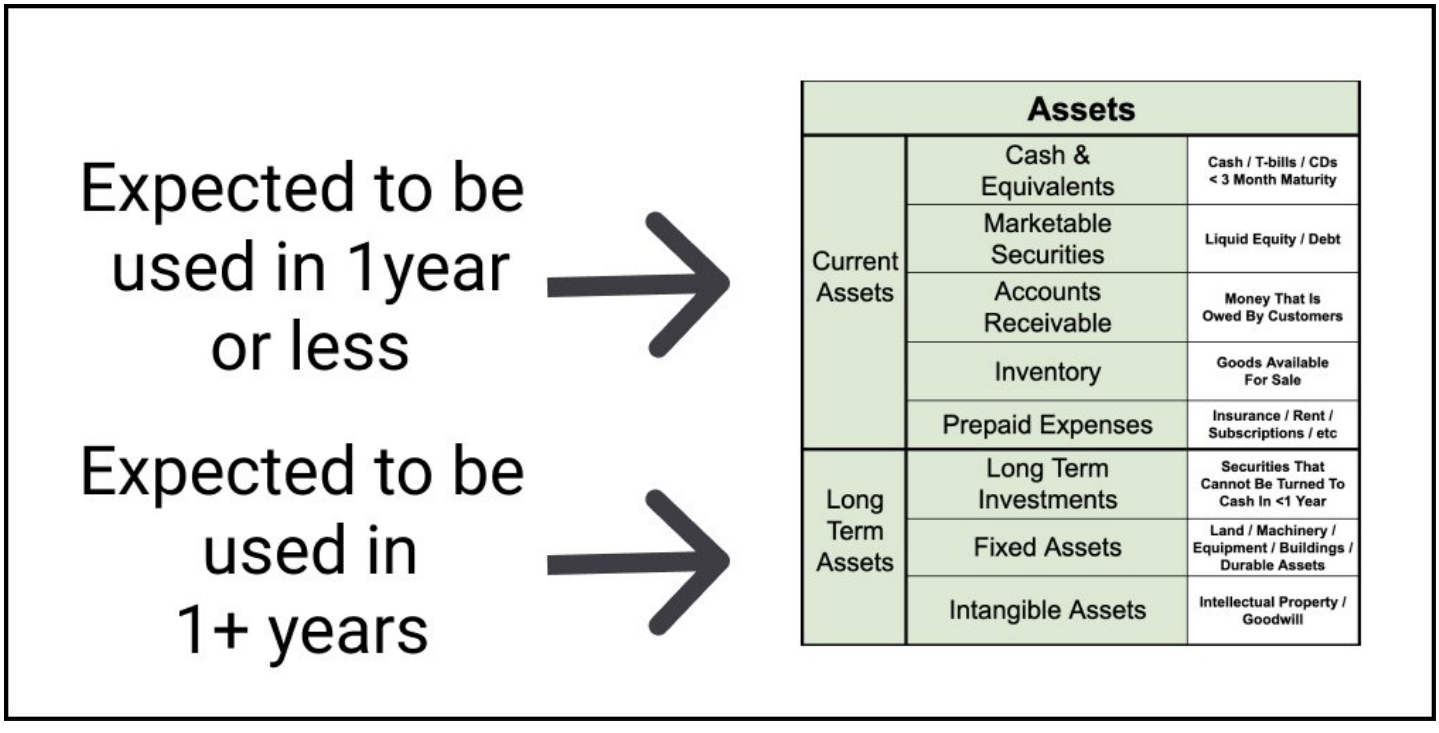
There are two categories of assets:

Current assets:

■■Assets that are expected to be used in <1 year

Long-term assets:

■■Assets that a company will benefit from for >1 year



Common current assets:

■■Cash: Checking account, t-bills, CDs w/ <3 maturity

■■Marketable Securities: Stocks, bonds...etc that can easily become cash

■■Accounts Receivable: Money it is owed by its customers

■■Inventory: Unsold goods
■■Prepaid expenses: Insurance, rent, etc…

Long-term assets come in 2 forms:

1: Tangible Assets
■■Buildings
■■Equipment
■■Property
■■Stores

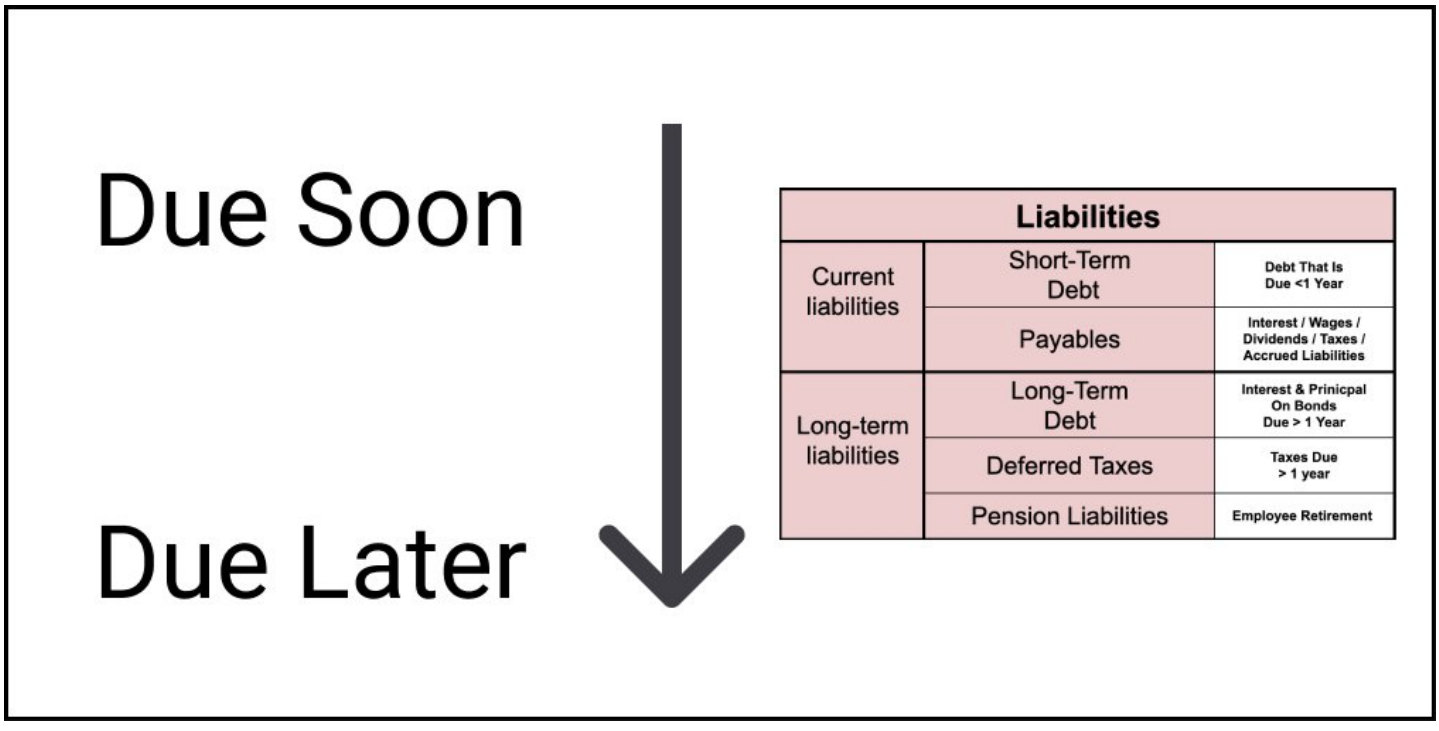
2: Intangible Assets
■■Trademarks
■■Goodwill (premiums paid to make an acquisition)
■■Patents
■■Stocks/Bonds held >1 Year

Now for Liabilities, which are what a company OWES

There are 2 categories of liabilities:

1: Current liabilities:
■■Bills that will be paid in <1 year

2: Long-term liabilities:
■■Bills that are due in >1 year



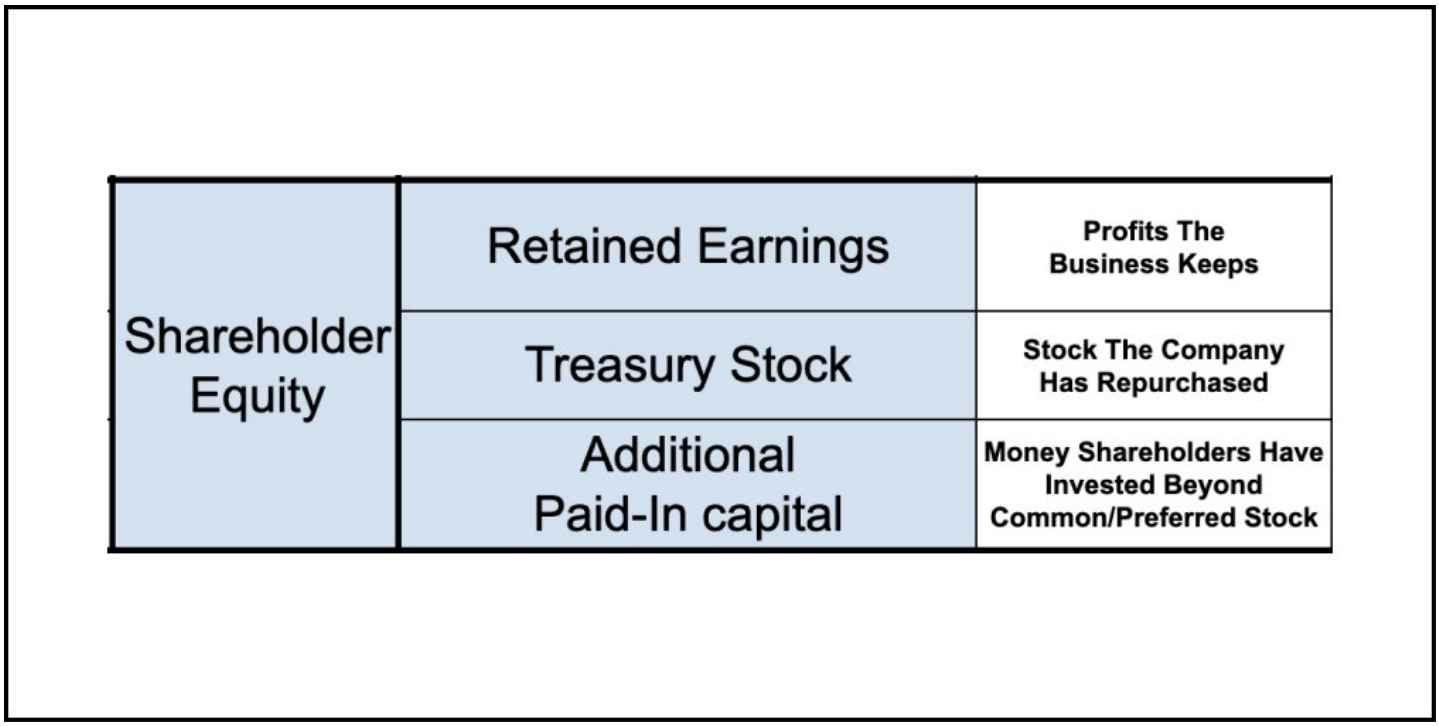
Common current liabilities (due <1 year):
■■Short-term debt

■■Accounts payable (money owed to suppliers)
■■Interest
■■Unpaid Wages
■■Dividends
■■Taxes

Common long-term liabilities (due >1 year):
■■Long-term debt (also called "Notes")
■■Customer pre-payment
■■Taxes
■■Pension

Finally, is shareholders equity

This is money attributable to the business owners (shareholders)



Common categories:

■■Retained Earnings: Net profits a company reinvests in the business
■■Treasury Stock: Money used to buy back stock
■■Additional Paid-In Capital: Amount shareholders have invested beyond common/preferred stock

This thread is just a broad overview of the balance sheet

Want specifics & and a helpful example?

We did a deep dive into the balance sheet on my YouTube channel using $AAPL's recent numbers as an example

https://t.co/BTWrUomWe8

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I tweet about money, personal finance, & investing

Want to learn more about the income statement?

I have a thread on that too:

https://t.co/75PRb0EenB

> Accounting is the language of business.
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> If you buy stocks, you MUST learn how to read an income statement
>
> Here\u2019s everything you need to know:
>
> — Brian Feroldi (@BrianFeroldi) July 28, 2021

Want to learn more about financial statements?

These three books are excellent resources:

