

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")

$$\text{Assests} = \text{Liabilities} + \text{Shareholder Equity}$$

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)

$$\text{Assests} - \text{Liabilities} = \text{Shareholder Equity}$$

(Net Worth)

Companies get some 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 & Principal 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

Most Liquid

Least Liquid



Assets		
Current Assets	Cash & Equivalents	Cash / T-bills / CDs < 3 Month Maturity
	Marketable Securities	Liquid Equity / Debt
	Accounts Receivable	Money That Is Owed By Customers
	Inventory	Goods Available For Sale
	Prepaid Expenses	Insurance / Rent / Subscriptions / etc
Long Term Assets	Long Term Investments	Securities That Cannot Be Turned To Cash In <1 Year
	Fixed Assets	Land / Machinery / Equipment / Buildings / Durable Assets
	Intangible Assets	Intellectual Property / Goodwill

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

Expected to be
used in 1 year
or less



Expected to be
used in
1+ years



Assets		
Current Assets	Cash & Equivalents	Cash / T-bills / CDs < 3 Month Maturity
	Marketable Securities	Liquid Equity / Debt
	Accounts Receivable	Money That Is Owed By Customers
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	Prepaid Expenses	Insurance / Rent / Subscriptions / etc
Long Term Assets	Long Term Investments	Securities That Cannot Be Turned To Cash In <1 Year
	Fixed Assets	Land / Machinery / Equipment / Buildings / Durable Assets
	Intangible Assets	Intellectual Property / Goodwill

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

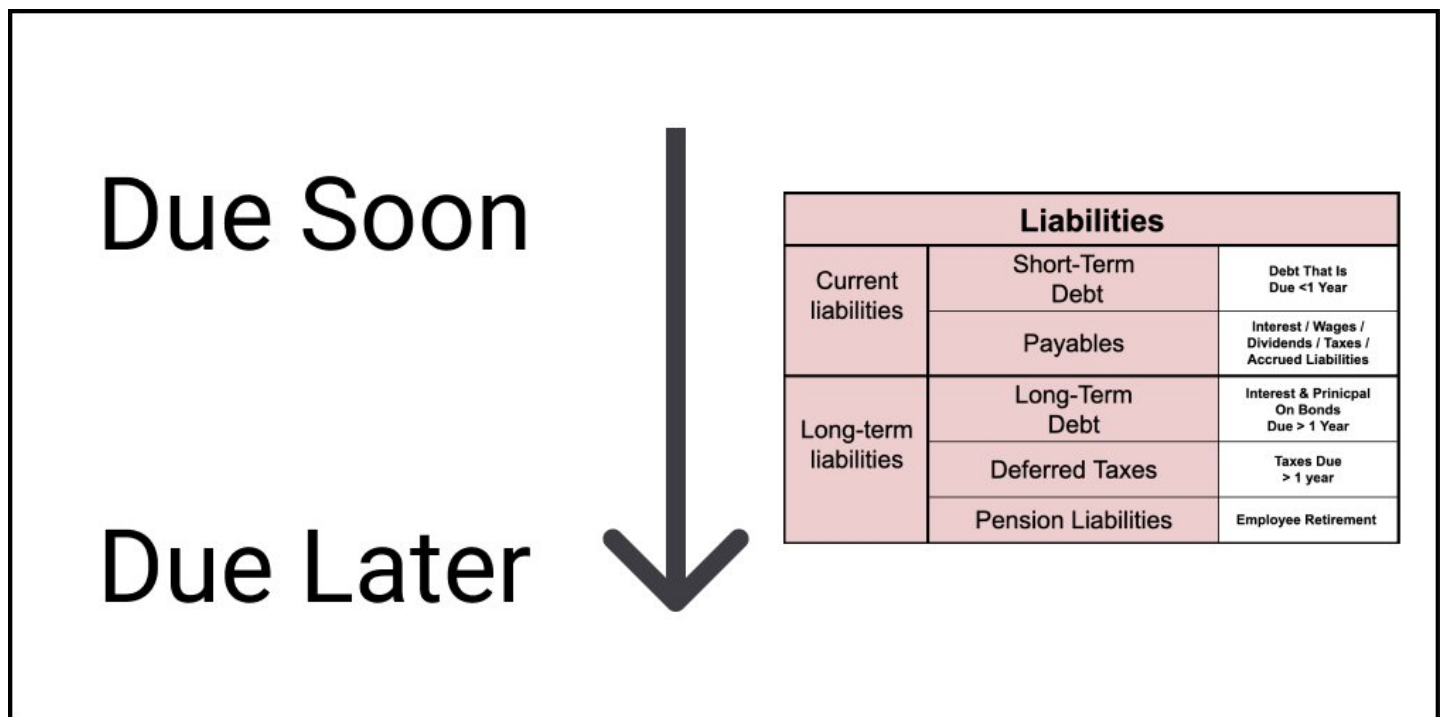
There are 2 categories of liabilities:

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)

Shareholder Equity	Retained Earnings	Profits The Business Keeps
	Treasury Stock	Stock The Company Has Repurchased
	Additional Paid-In capital	Money Shareholders Have Invested Beyond Common/Preferred Stock

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>

Enjoy this thread?

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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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Here's everything you need to know:

— Brian Feroldi (@BrianFeroldi) [July 28, 2021](#)

Want to learn more about financial statements?

These three books are excellent resources:

