

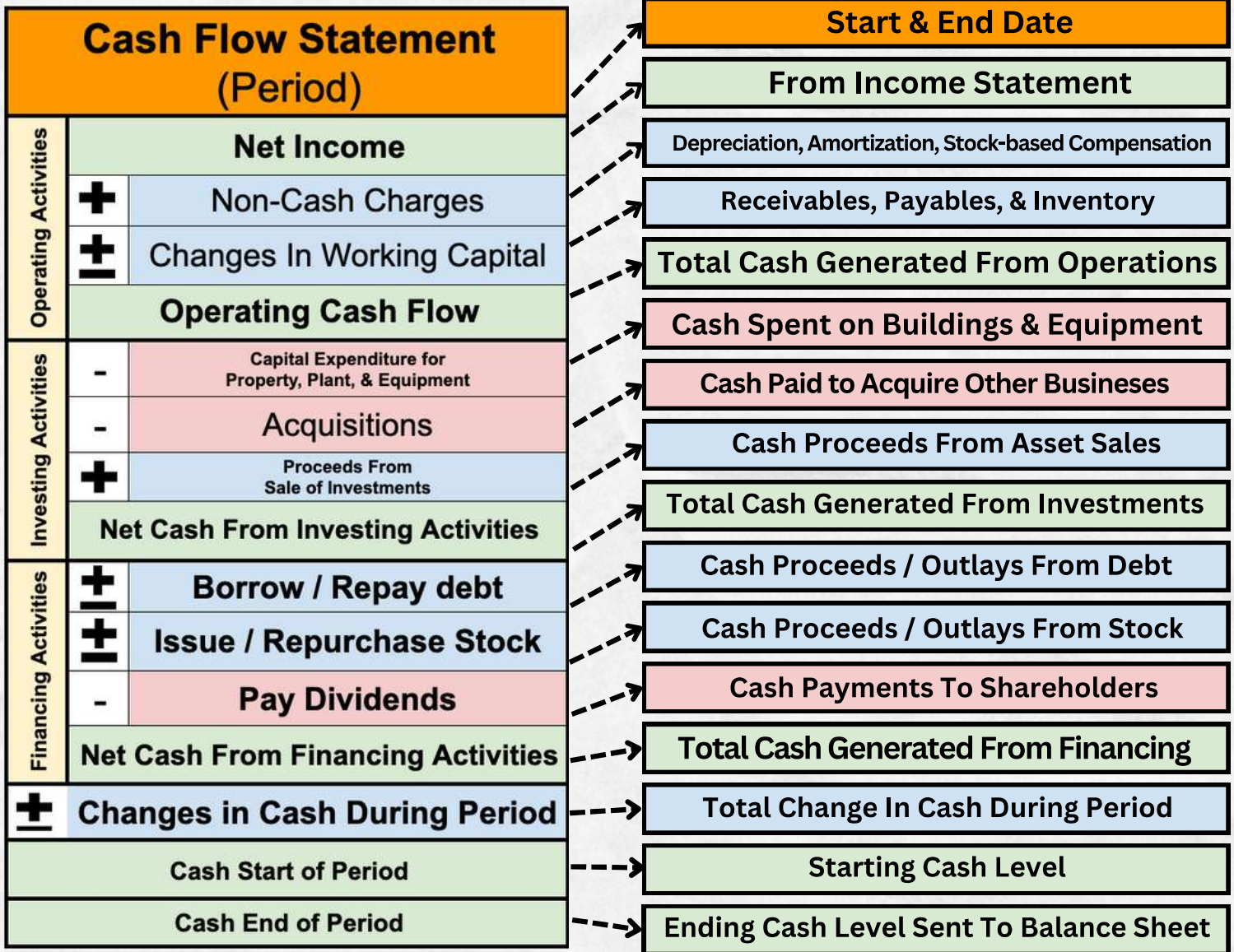
CASH FLOW STATEMENT

CASH FLOW STATEMENT

EXPLAINED SIMPLY



By Brian Feroldi



PURPOSE

Track Cash Movement



TIME

Period of Time



SIMILAR TO

Your Checking Account



ACCOUNTING

Cash Accounting



+ ADDITIONAL DETAILS

- Has a start and end date.
- Begins with Net Income from Income Statement
- Cash Flow From Operation - Capital Expenditures = Free Cash Flow.
- Ending Cash Balance goes on the Balance Sheet.



Follow Brian Feroldi on



[LongTermMindset.co](https://www.LongTermMindset.co)

CASH FLOW STATEMENT SYNONYMS



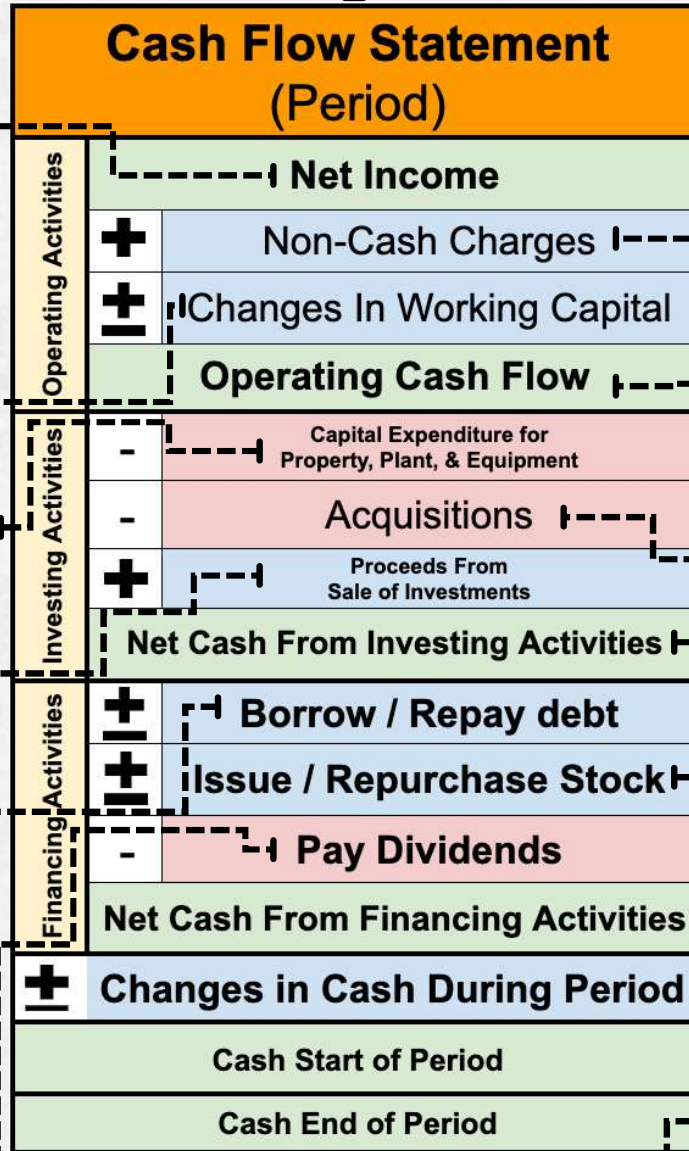
BY BRIAN FEROLDI

- Cash Statement
- Statement of Financial Flows
- Statement of Cash Flow
- Statement of Cash Operations
- Financial Flow Statement
- Operating Cash Flow Statement

- Profits
- Net Earnings
- Income
- Profit After Tax (PAT)
- Earnings
- Net Income After Taxes
- Net Profit
- Earnings After Tax (EAT)

- Depletion
- Depreciation
- Stock-based Compensation
- Unrealized Gains and Losses
- Non-Cash Interest Expense
- Non-Cash Donations
- Amortization
- Write-downs
- Deferred Taxes
- Provisions for Losses
- Impairment Charges

- Stock
- Liabilities
- Credit
- Provisions
- Accruals
- Inventories
- Payables
- Receivables
- Prepayments



- OCF
- Cash Profit
- Cash Earned
- Cash Income
- Operating Cash
- Operating Activities
- Cash from Operations
- Cash Generated from Operations
- Net Cash from Operating Activities

- Merger
- Takeover
- Purchase
- Asset Buy
- Consolidation
- Asset Acquisition
- Company Purchase
- Business Purchase
- Corporate Acquisition

- Investing Cash
- Investment Flow
- Investment Outlay
- Cash from Investing
- Investing Cash Flows
- Cash Used in Investing
- Cash Flow from Investments
- Net Cash Used in Investing

- Stock Sale
- Equity Issue
- Issuing Shares
- Equity Buyback
- Share Buyback
- Stock Issuance
- Equity Offering
- Share Issuance
- Stock Redemption
- Share Redemption
- Equity Redemption
- Equity Repurchase
- Stock Repurchase
- Share Repurchase
- Issuance of Shares
- Repurchase of Shares
- Repurchase of Stock
- Redemption of Shares
- Issuing Common Stock
- Issuance of Common Stock
- Repayment of Share Capital
- Issuance of Equity Interests
- Repurchase of Equity Interests

- Capex
- PPE Spend
- Asset Buys
- Plant Outlay
- Infrastructure Spend
- Outlay
- Property, Plant, and Property Spend
- Facilities Spend
- Equipment Spend
- Investment Spend
- Infrastructure
- Property, Plant, and Equipment

- Sale Gain
- Disposal
- Asset Sale
- Divestiture
- Sale Proceeds
- Capital Returns
- Disposal of Investments
- Proceeds from Sales of Assets
- Liquidation
- Investment Sale
- Divestment
- Proceeds
- Investment
- Liquidation
- Proceeds from Investment Disposal

- Debt Issue
- Debt Raised
- Loan Issuance
- Bond Issuance
- Debt Refinance
- Debt Retirement
- Debt Repayment
- Loan Repayment
- Bond Repayment
- Debt Issuance/Repayment
- Debt Pay-down
- New Debt Issued
- Issuance of Debt
- Issuance of Bonds
- Repayment of Debt
- Borrowing Activities
- Repayment of Loans
- Debt Financing Activities
- Payments on Borrowings
- Proceeds from Issuance of Debt

- Payouts
- Dividends
- Dividend Outlay
- Profit Distribution
- Dividend Payment
- Dividend Allocation
- Distribute Earnings
- Dividend Distribution
- Shareholder Dividends
- Payment of Dividends
- Dividend Remittance
- Dividend Disbursement
- Dividends to Shareholders
- Distribution to Shareholders
- Cash Dividend Payment
- Disbursement of Dividends
- Allocation of Dividends

- Finance Cash
- Funding Cash
- Financing Flow
- Fund Injections
- Funding Activities
- Financial Activities
- Financing Activities
- Cash from Financing
- Financing Cash Flow
- Cash Flow Financing
- Net Financing Cash Flow



Cash Flow Statement

QUESTIONS TO ASK



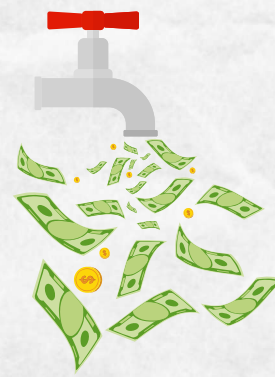
BRIAN FEROLDI

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 From Investing Activities
Financing Activities	+ Borrow / Repay debt
	+ Issue / Repurchase Stock
	- Pay Dividends
	Net Cash From Financing Activities
+ Changes in Cash During Period	
Cash Start of Period	
Cash End of Period	

- Did the company generate positive Net Income?
- Does the company have high depreciation expense?
- What are the biggest non-cash charges?
- Is stock-based compensation high or low?
- How do changes in working capital affect cash flow?
- Are capital expenditures high or low?
- Does the company generate positive free cash flow?
- Do net income and free cash flow closely match each other? If not, why?
- What is the company doing with its operating income?
- How is the company using debt?
- Is the company issuing stock or repurchasing it?
- Does the company pay a dividend?
- Is the cash balance rising or falling? Why?



7 CASH FLOW RATIOS



→ BY BRIAN FEROLDI ←

1 CASH RATIO

This ratio compares a company's **cash and cash equivalents** to its **current liabilities**. It shows the company's ability to pay off its short-term debts using only its cash on hand.

2 OPERATING CASH FLOW RATIO

Operating cash flow is compared to **current liabilities**. It shows the company's ability to pay off its current liabilities using its operating cash flow.

3 FREE CASH FLOW TO SALES RATIO

Free cash flow is compared to **trailing 12-month sales**. It shows how much cash a company generates after deducting all capital expenditures.

5 CASH FLOW RETURN ON INVESTMENT

Present value of cash flows divided by **invested capital**. It shows the return on investment generated by a company's cash flow.

4 PRICE TO CASH FLOW RATIO

A company's **stock price** is compared to its **operating cash flow per share**. It shows how much investors are willing to pay for each dollar of operating cash flow.

6 DEBT TO OPERATING CASH FLOW RATIO

Total debt is compared to **operating cash flow**. It shows how many years it would take for a company to pay off its debt using its operating cash flow.

7 CASH FLOW MARGIN

Operating cash flow compared to **revenue**. It shows how much of each dollar of revenue is converted into cash flow.



NET INCOME

VS

FREE CASH FLOW



BRIAN FEROLDI



ACCOUNTING
Accrual Accounting

ACCOUNTING
Cash Accounting

Income Statement
(Period)

Cash Flow 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

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 From Investing Activities		
Financing Activities	+	Borrow / Repay debt
	+	Issue / Repurchase Stock
	-	Pay Dividends
Net Cash From Financing Activities		
+ Changes in Cash During Period		
Cash Start of Period		
Cash End of Period		

Operating Cash Flow	
-	Capital Expenditures for Property, Plant, and Equipment
Free Cash Flow	



ACCRUAL ~~VS~~ CASH ACCOUNTING



BRIAN FEROLDI

ACCRUAL METHOD



WHAT IT FOCUSES ON:

Income Earned vs
Expenses Incurred



USED ON:

Income Statement
& Balance Sheet



PROS:

- GAAP Compliant
- Provides a smoothed-out view of expenses & profits



CONS:

- Might not accurately show the cash flow of a business
- More time-consuming to create
- Understates revenues of businesses that charge upfront



USED BY:

Large businesses
& public companies



CASH METHOD



WHAT IT FOCUSES ON:

Cash Inflow vs
Cash Outflow



USED ON:

Cash Flow Statement



PROS:

- Easy to create
- More natural accounting



CONS:

- Results can be lumpy
- Readers may not grasp the full picture of what is happening in the business
- Not compliant with GAAP accounting



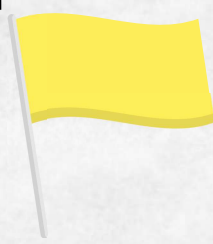
USED BY:

Small businesses



Follow **Brian Feroldi** on      LongTermMindset.co

8 CASH FLOW STATEMENT YELLOW FLAGS



BRIAN FEROLDI

1: Negative Net Income

3: Operating Cash Flow Lower Than Net Income

5: Capital Expenditures More Than 25% of Net Income

7: Excessive Stock Issuance

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 From Investing Activities
Financing Activities	+ Borrow / Repay debt
	+ Issue / Repurchase Stock
	- Pay Dividends
	Net Cash From Financing Activities
+ Changes in Cash During Period	
Cash Start of Period	
Cash End of Period	

2: Stock-Based Compensation More Than 10% of Net Income

4: Free Cash Flow Lower Than Net Income

6: Excessive Debt Issuance

8: Cash Balance Declining



9

CASH FLOW STATEMENT GREEN FLAGS



BRIAN FEROLDI

1: Net Income Positive & Growing

3: Operating Cash Flow Higher Than Net Income

5: Capital Expenditures Less Than 25% of Net Income

7: Stock Repurchase

9: Cash Balance Increases

2: Stock-Based Compensation Less Than 10% of Net Income

4: Free Cash Flow Higher Than Net Income

6: Debt Reduction

8: Dividends Paid

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 From Investing Activities	
Financing Activities	+/- Borrow / Repay debt
	+/- Issue / Repurchase Stock
	- Pay Dividends
Net Cash From Financing Activities	
+/- Changes in Cash During Period	
Cash Start of Period	
Cash End of Period	



EBITDA

VS

FCF



BY BRIAN FEROLDI

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION & AMORTIZATION

NET INCOME

- + DEPRECIATION AND AMORTIZATION
- + - NON-OPERATING INCOME AND EXPENSES
- + INTEREST
- + INCOME TAX EXPENSE



EBITDA measures a company's ability to generate profits before considering non-operating expenses such as interest, taxes, depreciation, and amortization.

PROS

- 1 **Comparability:** EBITDA allows companies with different capital structures to be compared.
- 2 **Simplicity:** EBITDA provides a quick snapshot of a company's profit performance.
- 3 **Proxy for Cash Generation:** EBITDA is often used as a fast way to measure a company's ability to generate cash from its core operations.

CONS

- 1 **Ignores Non-Operating Expenses:** EBITDA excludes important expenses such as interest, taxes, depreciation, and amortization.
- 2 **Lack of Cash Flow Information:** EBITDA does not provide accurate insights into a company's ability to generate cash.
- 3 **Susceptible to Manipulation:** EBITDA can be manipulated by adjusting accounting practices, making it less reliable.

FREE CASH FLOW

NET INCOME

- + DEPRECIATION AND AMORTIZATION
- + - NON-CASH INCOME AND EXPENSES
- + - CHANGES IN NET WORKING CAPITAL
- CAPITAL EXPENDITURES (CAPEX)



FCF measures a company's ability to generate cash from operations using cash accounting after deducting capital expenditures (CAPEX).

PROS

- 1 **Focus on Cash:** FCF directly measures the cash generated by a company's operations.
- 2 **Flexibility:** FCF is a better measure of a company's ability to pay off debt and return capital to shareholders.
- 3 **Hard To Manipulate:** FCF is much harder for a management team to manipulate than EBITDA or Net Income.

CONS

- 1 **Complexity:** There are many varieties of FCF, which can make them time-consuming to calculate.
- 2 **Volatility:** FCF can fluctuate widely from year to year due to changes in working capital needs and capital expenditure spending cycles.
- 3 **Limited Comparability:** Comparing FCF across industries is challenging due to differences in accounting practices and capital structures.





OTHER ACCOUNTING

GROSS PROFIT



GROSS MARGIN



BRIAN FEROLDI

GROSS PROFIT

WHAT

The difference between total revenue and cost of goods sold.



FORMULA

REVENUE - COST OF GOODS SOLD

RESULT

The amount of revenue remaining after all costs to produce the product or service have been subtracted.



GROSS MARGIN

WHAT

A profitability ratio that shows the percentage of sales that become gross profit.



FORMULA

$$\frac{\text{REVENUE} - \text{COST OF GOODS SOLD}}{\text{REVENUE}}$$

RESULT

The percentage of each dollar of sales that becomes gross profit.



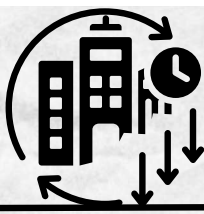
Follow **Brian Feroldi** on



LongTermMindset.co

6 Depreciation Methods

BY BRIAN FEROLDI



DEPRECIATION

Depreciation is an accounting method used to allocate the cost of tangible assets (such as buildings, machinery, and vehicles) over their useful lives. It represents the systematic reduction in the value of an asset due to wear and tear, obsolescence, or other factors.

TYPE	DESCRIPTION	FORMULA
STRAIGHT - LINE	The most common and easiest method. Simply divide the cost of an asset by its estimated useful life (in years).	$\frac{\text{Cost}}{\text{Useful Life}}$
DECLINING BALANCE	Used to calculate large depreciation expenses or assets that quickly lose value. Multiply the opening book value by the depreciation rate.	$\text{Opening book value} \times \text{Depreciation rate (\%)} \\ \left[\frac{100\%}{\text{Useful Life of asset}} \right]$
DOUBLE DECLINING BALANCE	Used when a larger depreciation value is needed in the first years of an asset's life. The method differs from regular declining balance depreciation only in the fact that depreciation rate is multiplied by 2.	$\text{Opening book value} \times \text{Depreciation rate (\%)} \\ \left[\frac{100\%}{\text{Useful Life of asset}} \times 2 \right]$
SUM - OF - THE - YEARS DIGITS	An accelerated depreciation method makes the expense higher in the early years and lower in the latter years. Multiply the cost of an asset by its useful life over the sum of the years digits.	$\text{Cost} \times \frac{\text{Useful life}}{\text{Sum of the years digits}}$
MODIFIED ACCELERATED COST RECOVERY SYSTEM (MACRS)	MACRS system puts assets into classes with specific depreciation periods and assigns specific pre-defined percentages of each year for different asset classes.	$\text{Opening Book Value} \times \text{MACRS Depreciation rate}$
SERVICE HOUR	Mainly used for transport vehicle since it takes into consideration "running time" of the asset. Divide the asset's net cost by its service life and multiply by its hours used in a year.	$\text{Hours used in a year} \times \frac{\text{Cost}}{\text{Service life}}$

DEPRECIATION HAPPENS TO TANGIBLE ASSETS (YOU CAN TOUCH THEM)



Follow Brian Feroldi on



LongTermMindset.co

Warren Buffett's

Financial Statements Rules of Thumb



→ BY BRIAN FEROLDI ←

	METRIC	EQUATION	THRESHOLD
INCOME STATEMENT	Gross Margin	$\frac{\text{Gross Profit}}{\text{Revenue}}$	>40%
	SG&A Margin	$\frac{\text{SG\&A}}{\text{Gross Profit}}$	<30%
	R&D Margin	$\frac{\text{R\&D}}{\text{Gross Profit}}$	<30%
	Depreciation Margin	$\frac{\text{Depreciation}}{\text{Gross Profit}}$	<10%
	Interest Margin	$\frac{\text{Interest}}{\text{Operating Income}}$	<15%
	Tax Margin	$\frac{\text{Taxes}}{\text{Pre-Tax Income}}$	Corporate Tax Rate
	Net Income Margin	$\frac{\text{Net Income}}{\text{Revenue}}$	>20%
	EPS Growth	$\frac{\text{Year 2 EPS}}{\text{Year 1 EPS}}$	Positive & Growing
BALANCE SHEET	Cash & Debt	Cash > Debt	Cash > Debt
	Adjusted Debt to Equity	$\frac{\text{Total Liabilities}}{\text{Shareholder Equity} + \text{Treasury Stock}}$	Below 0.80
	Preferred Stock	NONE	NONE
	Retained Earnings	$\frac{\text{Year 2 Retained Earnings}}{\text{Year 1 Retained Earnings}}$	Consistent Growth
	Treasury Stock	Treasury Stock > 1	Exists
CASH FLOW STATEMENT	Capex Margin	$\frac{\text{Capex}}{\text{Net income}}$	<25%



Follow Brian Feroldi on



[LongTermMindset.co](https://www.LongTermMindset.co)

10 KPIs EVERY INVESTOR SHOULD KNOW



BY BRIAN FEROLDI

KPI	FORMULA	DETAILS
RECURRING REVENUE SPLIT	$\frac{\text{RECURRING REVENUE}}{\text{TOTAL REVENUE}}$	<ul style="list-style-type: none"> Recurring revenue is more valuable than Non-Recurring Revenue due to its predictability and stickiness. The higher the % of recurring revenue, the higher the valuation multiple should be.
GROSS MARGIN	$\frac{\text{GROSS PROFIT}}{\text{REVENUE}}$	<ul style="list-style-type: none"> Gross Margin tells you how much revenue you get to keep after paying for the production of your product or service. The higher the Gross Margin, the more profit you keep for each dollar in sales.
NET PROFIT MARGIN	$\frac{\text{NET INCOME}}{\text{REVENUE}}$	<ul style="list-style-type: none"> Net Profit Margin shows how much profit is left after ALL costs and expenses have been deducted from revenue. The higher the NPM, the more profitable your business.
LIFETIME VALUE	$\frac{\text{GROSS PROFIT SINCE INCEPTION}}{\# \text{ OF CUSTOMERS}}$	<ul style="list-style-type: none"> Lifetime Value (LTV) measures how much gross profit each customer contributes to your bus each LTV is driven by (1) profitability per transaction and (2) number of transactions per customer. Increase both to increase LTV.
CUSTOMER ACQUISITION COST	$\frac{\text{MARKETING} + \text{SALES COSTS}}{\# \text{ OF CUSTOMERS ACQUIRED}}$	<ul style="list-style-type: none"> Customer Acquisition Cost (CAC) shows how much it costs to acquire a new customer. Compare your LTV to your CAC. Ideally you should have an LTV:CAC > 3.
DAYS SALES OUTSTANDING	$\frac{\text{ACCOUNT RECEIVABLES}}{\text{SALES}} \times 365 \text{ DAYS}$	<ul style="list-style-type: none"> Measures how quickly your customer pays their bills. If Days Sales Outstanding (DSO) is higher than your credit terms allow, you have a collection problem.
DAYS PAYABLE OUTSTANDING	$\frac{\text{ACCOUNT PAYABLES}}{\text{COGS}} \times 365 \text{ DAYS}$	<ul style="list-style-type: none"> Measures how quickly your customer pays their bills. Ideally, Days Sales Outstanding (DSO) < Days Payables Outstanding (DPO).
CASH BURN RATE	$\frac{\text{CASH} + \text{CASH EQUIVALENTS}}{\text{MONTHLY EXPENSES}}$	<ul style="list-style-type: none"> Measures how quickly you are burning through your cash reserves. Especially important in the early stages of a business or when there is a significant disruption in the market.
CURRENT RATIO	$\frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$	<ul style="list-style-type: none"> Measures whether you can meet your short-term obligations. If the Current ratio is below 1, it could indicate that your business is in financial difficulty.
GROSS REVENUE CHURN	$\frac{\text{REVENUE LOST FOR THE PERIOD}}{\text{TOTAL REVENUE AT THE START OF PERIOD}}$	<ul style="list-style-type: none"> Measures the percentage of revenue lost during a period. Significant increases are early warning signals of problems with your product or processes



Follow Brian Feroldi on



LongTermMindset.co

DUPONT ANALYSIS

← BRIAN FEROLDI →

What is DuPont Analysis?

Dupont analysis is a framework for understanding the drivers of Return On Equity (ROE). It breaks down ROE into three major components.



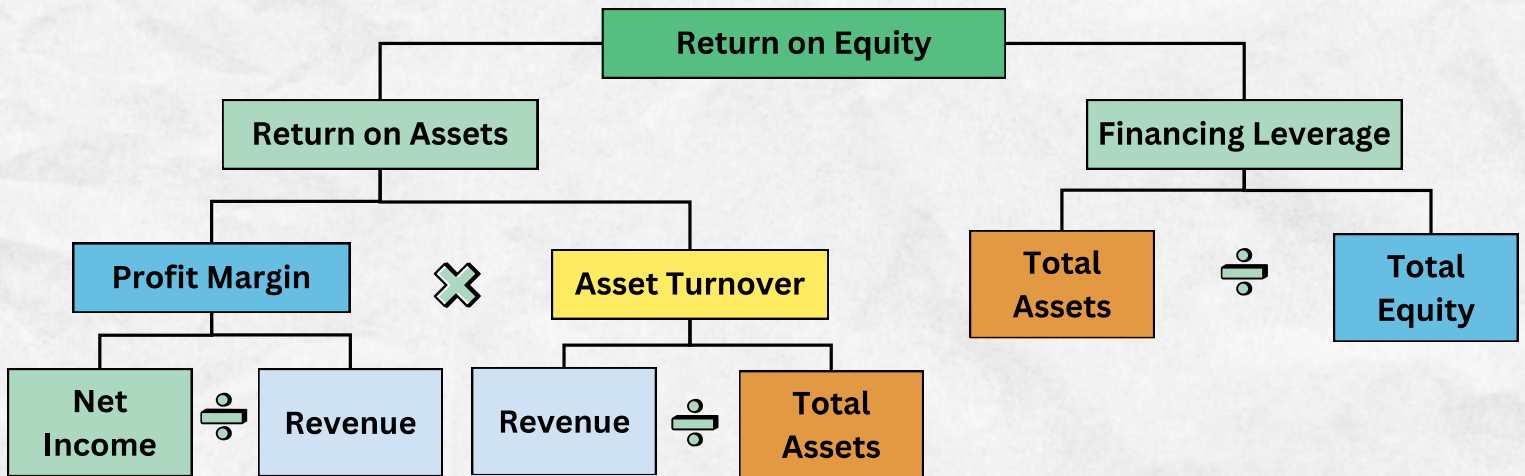
Profit Margin
(Operational Efficiency)

Total Asset Turnover
(Asset Use Efficiency)

Equity Multiplier
(Financial Leverage)

$$\text{DuPont} = \frac{\text{Net Income}}{\text{Revenues}} \times \frac{\text{Revenues}}{\text{Average Assets}} \times \frac{\text{Average Assets}}{\text{Average Equity}}$$

DuPont Analysis



ProfitCo

	Year 1	Year 2
Net Income	\$1,000	\$1,200
Revenue	\$10,000	\$10,000
Profit Margin	10%	12%
Revenue	\$10,000	\$10,000
Average Assets	\$5,000	\$4,800
Asset Turnover	2	2.08
Average Assets	\$5,000	\$4,800
Average Equity	\$2,000	\$2,000
Financial Leverage	2.5	2.4
ROE	50%	60%



14 Profit Ratios



→ BY BRIAN FEROLDI ←

	WHAT	FORMULA
GROSS MARGIN	Percentage of Revenue that becomes Gross Profit.	$\frac{\text{Gross Profit}}{\text{Sales}}$
EBITDA MARGIN	Percentage of Sales that becomes Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA).	$\frac{\text{EBITDA}}{\text{Sales}}$
OPERATING MARGIN	Percentage of Sales that becomes Operating Income.	$\frac{\text{Operating Income}}{\text{Sales}}$
EBIT MARGIN	Percentage of Sales that becomes Earnings Before Interest & Taxes (EBIT) are subtracted.	$\frac{\text{EBIT}}{\text{Sales}}$
EBT MARGIN (PRE-TAX MARGIN)	Percentage of Sales that becomes Earnings Before Taxes (EBT), also known as the Pre-Tax Profit.	$\frac{\text{EBT}}{\text{Sales}}$
NET PROFIT MARGIN	Percentage of Sales that becomes Earnings (Net Income) after all costs are subtracted.	$\frac{\text{Net Income}}{\text{Sales}}$
FREE CASH FLOW MARGIN	Percentage of Sales that becomes Free Cash Flow (Cash Flow From Operations - Capital Expenditures).	$\frac{\text{Free Cash Flow}}{\text{Sales}}$
EARNINGS PER SHARE (EPS)	How much Profit (Net Income) a company makes on a Per Share Basis.	$\frac{\text{Net Income}}{\text{Shares Outstanding}}$
RETURN ON ASSETS (ROA)	How much Profit a company generates from its Assets.	$\frac{\text{Net Income}}{\text{Total Assets}}$
RETURN ON EQUITY (ROE)	Measures how Profit a company generates in relation to its Equity (the money shareholders have invested.)	$\frac{\text{Net Income}}{\text{Equity}}$
RETURN ON INVESTED CAPITAL (ROIC)	Measure how much Net Operating Profit After Tax (NOPAT) a company generates in relation to its Invested Capital.	$\frac{\text{NOPAT}}{\text{Total Invested Capital}}$
RETURN ON CAPITAL EMPLOYED (ROCE)	Measures how much Earnings Before Interest & Taxes (EBIT) a company generates in relation to its Long Term Debt & Equity.	$\frac{\text{EBIT}}{\text{Long-Term Debt} + \text{Equity}}$
FREE CASH FLOW CONVERSION	Measures how much Net Income becomes Free Cash Flow.	$\frac{\text{Free Cash Flow}}{\text{Net Income}}$
OWNER'S EARNINGS	Measures how much cash can be taken out of the business and given to owner.	Net Income + (Depreciation & Amortization) +/- Non Cash Charges - Maintenance Capex +/- Changes in Working Capital



Follow Brian Feroldi on



LongTermMindset.co

GAAP VS NON-GAAP ACCOUNTING



BRIAN FEROLDI



	GAAP	Non-GAAP
Audited?	Yes	No
Standardized?	Yes	No
Stock-Based Compensation	Included	Usually Excluded
Non-Recurring Charges <ul style="list-style-type: none"> • Acquisition Expenses • Currency Movements • Early Debt Redemption Costs • Fines/Penalties • Litigation • Pension • Relocation Expenses • Restructuring Charges • Unusual Taxes 	Included	Usually Excluded
Paper Gains/Losses On Investments	Included	Usually Excluded
EBITDA?	No	Yes
Profits Usually Look	Worse	Better



Follow Brian Feroldi on



LongTermMindset.co

DEBT VS EQUITY



BRIAN FEROLDI

WHAT DEBT IS



Money lent by creditors who will eventually be paid back with interest

WHAT EQUITY IS



Money given to the company by investors in exchange for ownership of the company

WHERE TO FIND DEBT



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	

WHERE TO FIND EQUITY



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	

COMMON TYPES OF DEBT

- Long-Term Debt
- Convertible Notes
- Line of Credit



COMMON TYPES OF EQUITY

- Common Stock
- Preferred Stock



PROS OF ISSUING DEBT



- You don't need to give up ownership
- You know how much you need to pay back

PROS OF ISSUING EQUITY



- You don't have to pay the money back
- Aligns the company's interests with investors

CONS OF ISSUING DEBT



- Can be expensive
- Debt holders are paid on a rigid schedule
- Can lead to bankruptcy

CONS OF ISSUING EQUITY





- Expensive way to raise capital if the business succeeds
- If too much equity is sold, the founders can lose control of the company

JOURNAL ENTRY





When issuing debt...

Debit: Cash 
 Credit: Debt 

JOURNAL ENTRY



When issuing equity...

Debit: Cash 
 Credit: Common Stock / Preferred Stock 



Follow Brian Feroldi on [in](#) [Instagram](#) [X](#) [@](#) [YouTube](#) LongTermMindset.co



EBITDA

EXPLAINED SIMPLY



BY BRIAN FEROLDI

WHAT IS EBITDA?

EBITDA = Earnings Before Interest, Taxes, Depreciation & Amortization



Net Income
 + Interest
 + Taxes
 + Depreciation
 + Amortization

} = **EBITDA**

- **Gross Profit** = Revenue - COGS (Cost of Goods Sold)
- **Operating Profit** = EBIT (Earnings Before Interest and Taxes)
- **Net Profit** = EAT (Earnings After Taxes)
- **Retained Earnings** = RE

→ Cost of Goods Sold (To Suppliers)

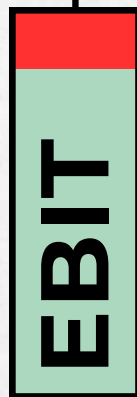
→ General Expenses (To Employees)

→ Equipment Depreciation & Intangible Amortization

→ Interest (To Creditors)

→ Taxes (To Government)

→ Dividends (To Owners)



EBITDA

A major financial indicator used for evaluating the profitability of companies with different capital structures.



Requires information from the company's **Income Statement** and **Cash Flow Statement**.



It **does not** take into account all business activities and it might **overstate** cash flow.



Follow Brian Feroldi on



[LongTermMindset.co](https://www.LongTermMindset.co)



Key Financial Ratios



BRIAN FEROLDI



CATEGORY	RATIO	FORMULA	EXPLANATION	IDEAL RANGE
Efficiency Ratios	Inventory Turnover	$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$	Measures how many times a company's inventory is sold and replaced over a period	Varies
	Asset Turnover	$\frac{\text{Sales}}{\text{Total Assets}}$	Measures a firm's efficiency at using its assets in generating sales or revenue	Varies
Liquidity Ratios	Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	Measures a company's ability to pay short-term obligations	1.5 - 2.0
	Quick Ratio	$\frac{(\text{Current Assets} - \text{Inventory})}{\text{Current}}$	Another liquidity ratio, but excludes inventory as it is less liquid	1.0 - 1.5
Coverage Ratios	Interest Coverage Ratio	$\frac{\text{EBIT}}{\text{Interest Expenses}}$	Measures how easily a company can pay interest expenses on its outstanding debt	> 1.5
Profitability Ratios	Return on Assets (ROA)	$\frac{\text{Net Income}}{\text{Total Assets}}$	Measures how efficiently a company uses its assets to generate income	> 5%
	Return on Equity (ROE)	$\frac{\text{Net Income}}{\text{Shareholder's Equity}}$	Measures how efficiently a company uses its equity to generate income	> 15%
	Gross Margin	$\frac{\text{Gross Profit}}{\text{Revenue}}$	Measures how much out of every dollar of sales a company actually keeps as gross profit	> 40%
	Net Profit Margin	$\frac{\text{Net Income}}{\text{Revenue}}$	Measures how much out of every dollar of sales a company actually keeps in earnings	> 10%
Dividend Ratios	Dividend Payout Ratio	$\frac{\text{Dividends}}{\text{Net Income}}$	Measures what proportion of earnings are paid to shareholders as dividends	30% - 70%
	Dividend Yield	$\frac{\text{Annual Dividends per Share}}{\text{Price per Share}}$	Shows how much a company returns in dividends each year relative to its share price	2% - 4%
Leverage Ratios	Debt to Equity Ratio	$\frac{\text{Total Debt}}{\text{Total Equity}}$	A leverage ratio that compares a company's total debt with its total equity	< 2.0
Market Value Ratios	Earnings Per Share (EPS)	$\frac{\text{Net Income}}{\text{Shares Outstanding}}$	Measures the profit allocated to each share of common stock	Positive Value
	Price to Earnings Ratio (P/E)	$\frac{\text{Stock Price}}{\text{Earnings Per Share}}$	Measures the price you pay for each dollar of earnings	15 - 25
	Price to Sales (P/S)	$\frac{\text{Stock Price}}{\text{Sales Per Share}}$	Compares a company's market value to its sales	< 3.0







20 MOST CONFUSING FINANCE TERMS



BY BRIAN FEROLDI







FIXED COSTS	VS	VARIABLE COSTS
Costs that do not change with production volume.		Costs that vary with production or sales volume.
		



EBITDA	VS	NET INCOME
Earnings before interest, taxes, depreciation, and amortization.		Total profit after all expenditures have been subtracted.
		



PROFIT	VS	REVENUE
Net earnings after deducting all expenses.		Total income generated from product & service sales.
		



CAPEX	VS	OPEX
Funds used by a company to acquire, upgrade, and maintain physical assets.		Day-to-day expenses to run the business.
		



ACCRUAL	VS	CASH ACCOUNTING
Recording revenues and expenses when they are incurred, regardless of when cash is exchanged.		Recording revenues and expenses only when cash is exchanged.
		

MARKET CAP	VS	ENTERPRISE VALUE
Total value of a company's outstanding shares.		Total value of a company, including debt and excluding cash.
		

ASSETS	VS	LIABILITIES
All resources owned and controlled by a company.		All obligations a company owes to others.
		

GROSS MARGIN	VS	NET MARGIN
Revenue minus cost of goods sold, divided by revenue.		Net profit divided by revenue.
		

RETURN ON INVESTMENT	VS	RETURN ON EQUITY
Measures profitability relative to total investment.		Measures profitability relative to shareholders' equity.
		

FINANCIAL LEVERAGE	VS	OPERATING LEVERAGE
The use of debt in capital structure to amplify net income.		The use of fixed vs. variable expenses to amplify operating income.
		



COSTS VS EXPENSES



BY BRIAN FEROLDI

COSTS	Income Statement (Period)	EXPENSES
DEFINITION The value of resources used to produce goods or services.	Revenue	DEFINITION The outflow of resources to generate revenue.
TIMING Incorporated in cost of goods sold.	- Cost of Goods Sold	TIMING Incorporated throughout the income statement.
NATURE Direct costs associated with production.	Gross Profit	NATURE Includes direct and indirect expenses.
VARIABILITY Can be fixed or variable.	- Operating Expenses	VARIABILITY Can be fixed or variable.
PERIODICITY Tied to production activities, occurring during manufacturing.	Operating Income	PERIODICITY Incurred over time, not necessarily tied to production.
APPLICATION Refers to the production of goods or delivery of services.	- Non-Operating Income/Expense	APPLICATION Encompasses a broad range on business expenditures.
MANAGEMENT Emphasizes optimizing production and procurement costs.	Pre-Tax Income	MANAGEMENT Focuses on managing operational expenditures.
REVENUE Linked to the production of goods or services for sale.	- Income Tax	REVENUE Often incurred to support the generation of revenue.
CLASSIFICATION Variable or Fixed costs.	Net Income	CLASSIFICATION Operating or Non-Operating
	/ Shares Outstanding	
	Earnings Per Share	

! Costs and Expenses are both business Expenditures.





CASH CONVERSION CYCLE



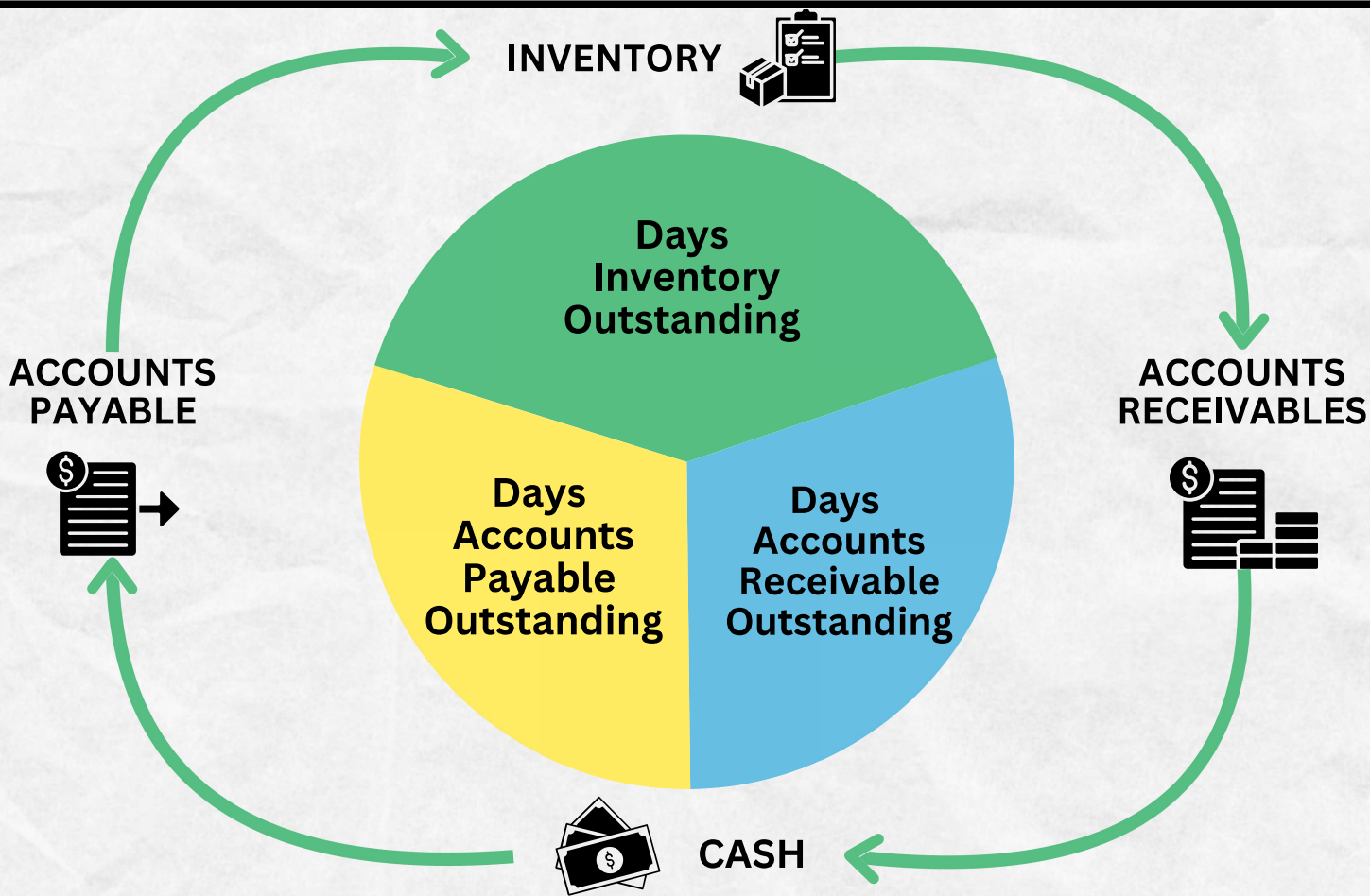
BRIAN FEROLDI

The Cash Conversion Cycle (CCC) evaluates how efficiently a company manages working capital



CCC measures how long cash is tied up in working capital

(RECEIVABLES + INVENTORY - PAYABLES)



DAYS INVENTORY OUTSTANDING (DIO)

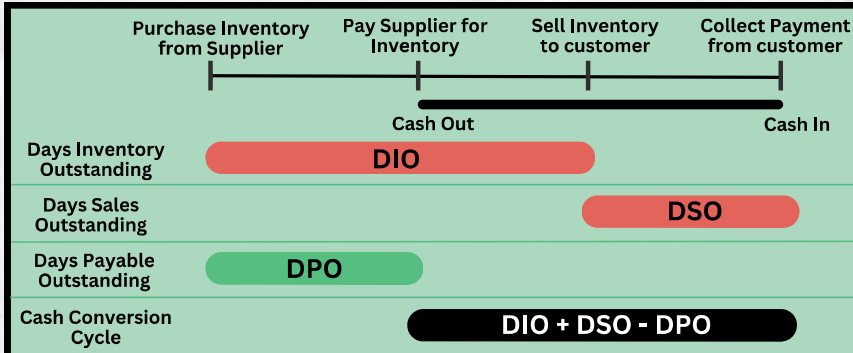
$$\left(\frac{\text{Average Inventory}}{\text{Cost of Good Sold}} \right) \times \text{Number of Days}$$

DAYS SALES OUTSTANDING (DSO)

$$\left(\frac{\text{Average Accounts Receivable}}{\text{Total Credit Sales}} \right) \times \text{Number of Days}$$

DAYS PAYABLE OUTSTANDING (DPO)

$$\left(\frac{\text{Average Accounts Payable}}{\text{Cost of Good Sold}} \right) \times \text{Number of Days}$$



Follow Brian Feroldi on



LongTermMindset.co

FINANCIAL STATEMENTS YELLOW FLAGS



BRIAN FEROLDI

BALANCE SHEET

INCOME STATEMENT

OTHERS

Goodwill
More Than
50% of Assets

Revenue
Sudden Slowdown
In Growth Rate

**Sudden Change
in Auditor**

Receivables
Rising Faster
than Sales

Gross Margin
Declining

**Negative
Auditor Opinion**

Inventory
Rising Faster
than Profits

**Frequent, Large
"Extraordinary"
Charges**

**Sudden Exits of
Top Managers**

Debt
Becoming
Excessive

Tax Rate
Suddenly Declines

**Reduced
Disclosures**

Cash
Less Than 25% of
Total Debt

Net Profit
Lower than Cash From
Operations

**Excessive
Management
Compensation**

**Retained Earnings
Are Negative**

**Sales & Marketing
Expenses**
Rising Faster Than Revenue

**Excessive
Dilution**



Follow **Brian Feroldi** on



[LongTermMindset.co](https://www.LongTermMindset.co)

FINANCIAL STATEMENTS GREEN FLAGS



BRIAN FEROLDI

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

- Accelerating Revenue Growth
- Gross Margin Expansion
- Operating Expenses Growing Slower Than Revenue
- Operating Margin Expands
- Interest Income Exceeds Interest Expense
- Pre-Tax Margin Expands
- Income Tax Rate Near 21%
- Net Income Grows Faster Than Revenue
- Shares Outstanding Declines
- Earnings Per Share Consistently Grows

BALANCE SHEET

Balance Sheet (Specific Date)			
Assets		Liabilities	
Current Assets (<1 Year)	Cash & Cash Equivalents	Current Liabilities (<1 Year)	Payables & Accrued Expenses
	Marketable Securities		Short-Term Debt
	Accounts Receivable		Other Current Liabilities
	Inventory	Long-Term Liabilities (>1 Year)	Long-Term Debt
	Other Current Assets		Other Long-Term Liabilities
Long-Term Assets (>1 Year)	Long-Term Investments	Shareholder Equity	Preferred Stock
	Fixed Assets		Common Stock & Additional Paid-In Capital
	Goodwill		Retained Earnings
	Other Long-Term Assets		Treasury Stock

- More Cash Than Debt
- No Accounts Receivables
- No Inventory
- Goodwill Less Than 10% of Total Assets
- Current Liabilities Less Than Cash
- No Short-Term or Long Term Debt
- Deferred Revenue
- No Preferred Stock
- Retained Earnings Positive & Growing
- Treasury Stock

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 From Investing Activities
Financing Activities	+ Borrow / Repay debt
	+ Issue / Repurchase Stock
	- Pay Dividends
	Net Cash From Financing Activities
	+ Changes in Cash During Period
	Cash Start of Period
	Cash End of Period

- Net Income Positive & Growing
- Stock-Based Compensation Less Than 10% of Net Income
- Operating Cash Flow Higher Than Net Income
- Capital Expenditures Less Than 10% of Net Income
- Free Cash Flow Higher Than Net Income
- Stock Repurchase
- Dividends Paid
- Cash Balance Increase



Follow Brian Feroldi on



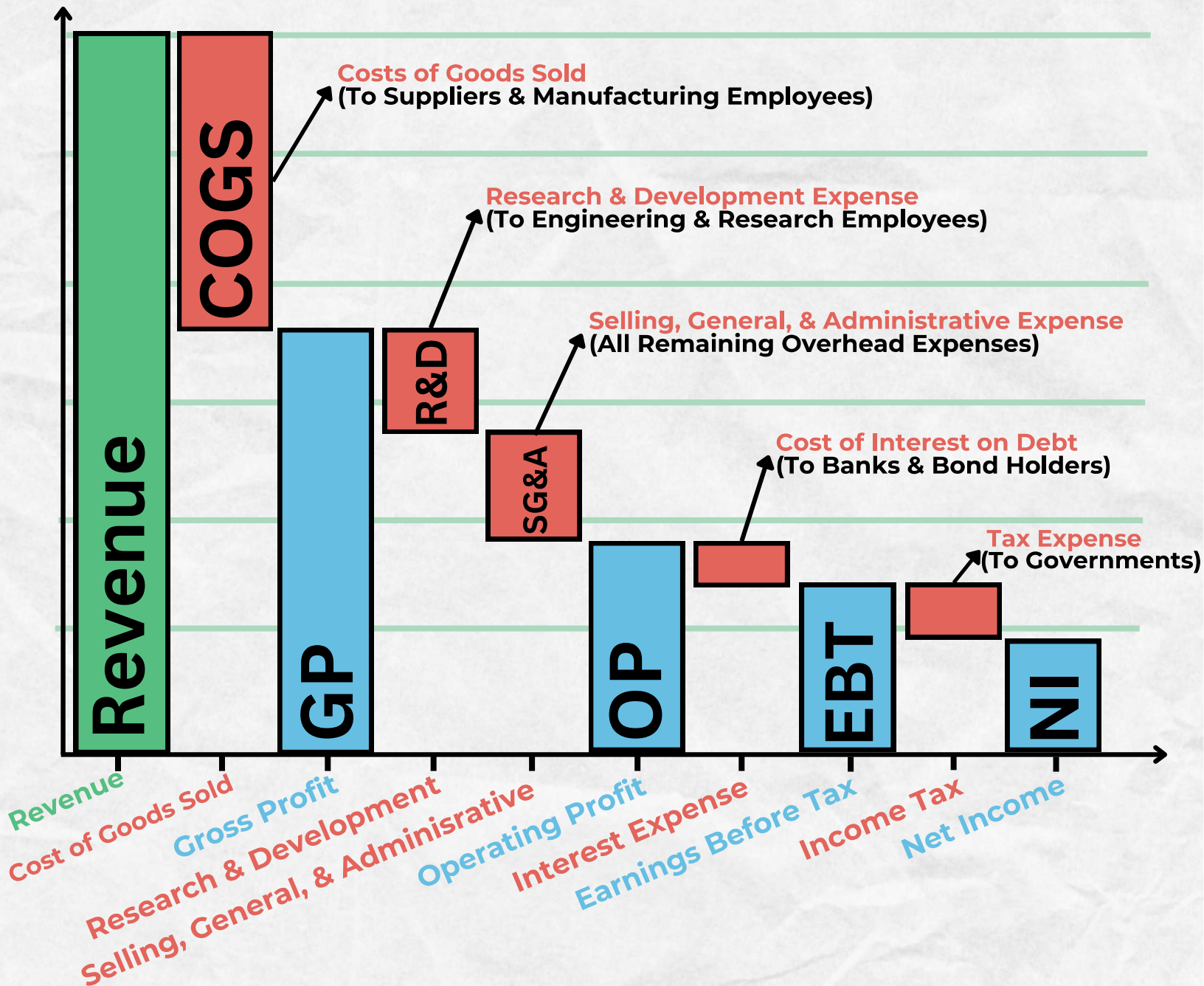
LongTermMindset.co

P&L STATEMENT VISUALIZED



BY BRIAN FEROLDI

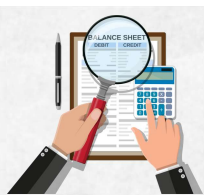
PROFIT AND LOSS STATEMENT



Follow Brian Feroldi on



[LongTermMindset.co](https://www.LongTermMindset.co)



IFRS



GAAP



BRIAN FEROLDI

DATA SOURCE:



IFRS

GAAP

FINANCIAL STATEMENTS PRESENTATION

INCOME STATEMENT	2 years allowed	3 years required
BALANCE SHEET	Increasing order of liquidity. Current before non-current	Decreasing order of liquidity. Non-Current before current.
CASH FLOW STATEMENT	Flexibility with location of interest expense, interest income and dividends	Interest expense, interest income and dividends received in Cash from Operations; bank overdrafts are classified as financing activities
INTERIM REPORTS	Each interim period is an integral part of fiscal year	Each interim period is an integral part of fiscal year
ACCOUNTING POLICIES	The accounting policies for subsidiaries need to be uniform	The accounting policies for subsidiaries do not need to be uniform. However variations in accounting policies should be disclosed in consolidated financial statements.

RECOGNITION AND CLASSIFICATION

RESEARCH & DEVELOPMENT COST	Development is capitalized when specific conditions are met. Research is always expensed.	All R&D is expensed, exceptions include software for external use and movies
INCOME TAXES	Deferred Tax Assets are only recognized as assets when probable (>50%), so there is no need for valuation allowances	All deferred tax assets (DAs) are recognized and netted out/offset with a valuation allowance when it is more likely than not (>50%) that the company will not be able to use the DTA
INVESTMENT PROPERTY	A separate category	Not separate from Property, Plane, & Equipment
BIOLOGICAL ASSETS	Measured at fair value, separate from Inventory, included in fixed assets	Included in Inventory
LEASES	Single category on balance sheet (e.g. Rights of use)	Categories for operating and finance leases on balance sheet
CONTINGENT LIABILITY	Recognized when > 50% likely, measurement methods differ	Recognized when > 75% likely, measurement methods differ
CONSOLIDATION	Push-down accounting is not allowable; there is an option to record Non Controlling interest at its proportionate interest in the net assets or at fair market value	Push-down accounting is required in certain circumstances for public companies and is optional for private companies; non-controlling interest (NCI) to be recorded at fair market value

MEASUREMENT

INVENTORIES	LIFO not allowed, Same method required with Inventory of similar nature; write-backs of previously recognised write downs to net realisable value. Same measurement formula is required to the all inventories of same nature	LIFO allowed with other methods, Method can vary across Inventory groups. This cost method is used primarily for oil and gas companies to minimise taxable income. No permit write-backs of previously recognised write-downs to net realisable value. Not required that an entity use the same formula for all inventories.
FIXED ASSETS	IRS allows companies to elect fair value treatment of fixed assets, meaning their reported value can increase or decrease as their fair value changes. In addition, IRS requires separate depreciation processes for separable components of PP&E	Fixed assets are measured at their initial cost; their value can decrease via depreciation or impairments, but it cannot increase
INTANGIBLES	Fair value allowed	Historical cost
REVENUES	IRS 15, effective 2018 - Converged standard focusing on a conceptual framework using a 5-step process for recognizing revenue. Minor differences in implementation and updates. Revenue for similar licenses under IRS 15 may be recognized at a point in time if the reporting entity undertakes no activities that significantly affect the ability of the customer to obtain benefit from the intellectual property	ASC 606, effective 2018 - US GAAP allows an entity to make a policy election to account for shipping and handling activities that occur after the customer has obtained control of a good as an activity to fulfill the promise to transfer the good rather than as an additional promised service; revenue for all licenses to symbolic intellectual property is recognised over time under US GAAP

SIMILARITIES IN RECENT CHANGES

LEASES	IRS 16 effective 2019. Leases over 12 months recognized as Right of Use Assets on Balance Sheet with corresponding Lease Liabilities. No Finance/Operating Lease categories.	ASC 842 effective 2019. Leases over 12 months recognized as Right of Use Assets on Balance Sheet with corresponding Lease Liabilities. Distinguishes between Operating and Finance Leases.
DEBT ISSUANCE COSTS	No change. Debt issuance costs are netted against the outstanding debt	ASU 2015-03 Debt issuance costs are now netted against the outstanding debt



Follow Brian Feroldi on



LongTermMindset.co



WORKING CAPITAL



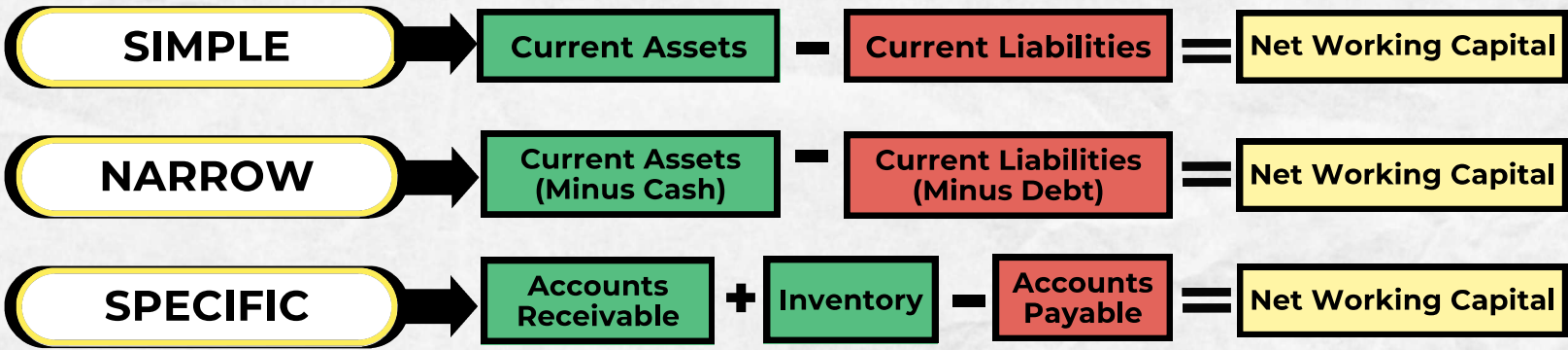
BRIAN FEROLDI

Working Capital measures the difference between a company's **Current Assets** and **Current Liabilities**.

Balance Sheet (Specific Date)			
Assets		Liabilities	
Current Assets (<1 Year)	Cash & Cash Equivalents	Current Liabilities (<1 Year)	Payables & Accrued Expenses
	Marketable Securities		Short-Term Debt
	Accounts Receivable		Other Current Liabilities
	Inventory	Long-Term Liabilities (>1 Year)	Long-Term Debt
	Other Current Assets		Other Long-Term Liabilities
Long-Term Assets (>1 Year)	Long-Term Investments	Shareholder Equity	Preferred Stock
	Fixed Assets		Common Stock & Additional Paid-In Capital
	Goodwill		Retained Earnings
	Other Long-Term Assets		Treasury Stock

Working Capital (also called **Net Working Capital**), measures a company's liquidity and short-term financial health.

3 WAYS TO CALCULATE NET WORKING CAPITAL



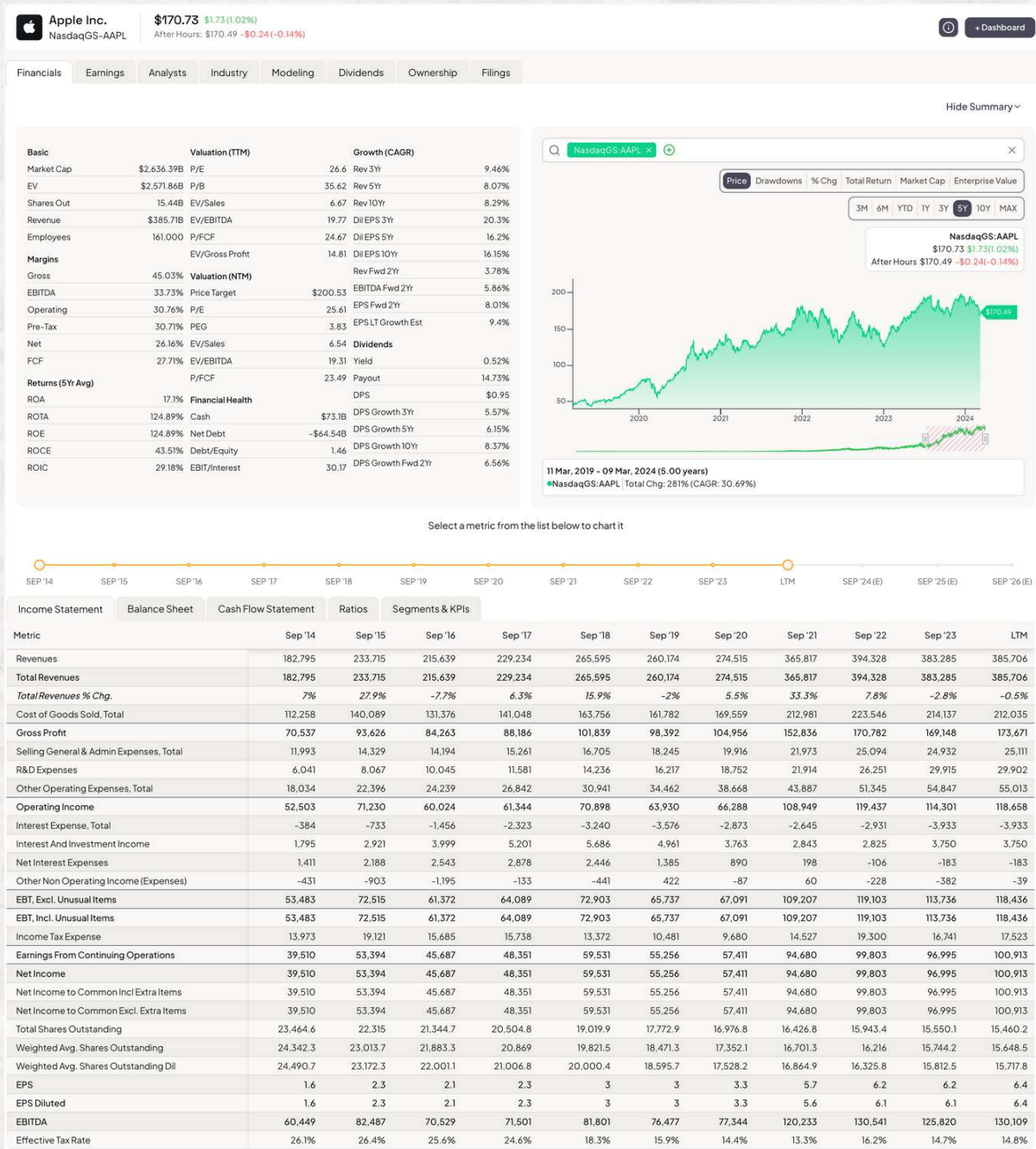
Follow **Brian Feroldi** on



[LongTermMindset.co](https://www.LongTermMindset.co)

Thanks for reading!

I highly recommend using [Finchat.io](https://finchat.io) to analyze financial statements.



[Click here to try it](https://finchat.io)

Here's a link to a FREE course on how to use Finchat.io.

MASTER FinChat

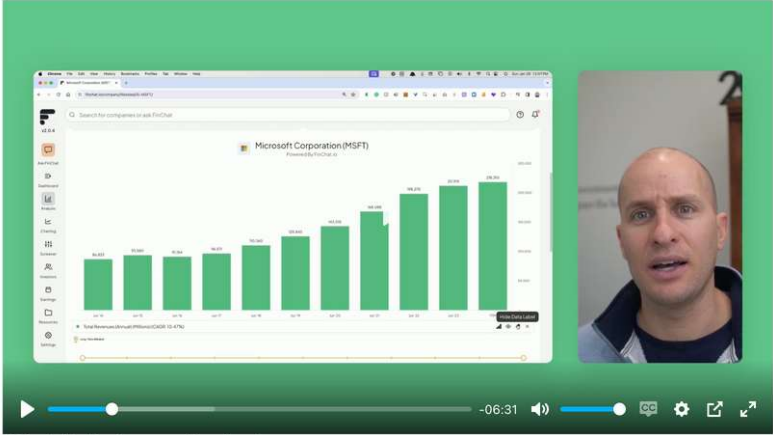
THE STEP-BY-STEP GUIDE TO RESEARCH STOCKS



← Master Finchat 🗨️ 📄 📌 **Lessons** ×

Lesson 6 of 19 ← →

Financial Statements - Income Statement, Balance Sheet, Cash Flow Statement



[Complete lesson →](#)

- ✓ **Welcome To Finchat - Quick Start Guide**
 - Getting Started - What is Finchat? Fre
 - Quick Start Guide - How To Research
- ✓ **Portfolio Tools**
 - Portfolio Dashboard, Watchlist, & Cor
 - Stock Screens
 - How To Find Company Earnings Repor
- ✓ **Stock Research**
 - Financial Statements - Income Stater
 - Advanced Metrics - Margins, Capital E
 - Capital Return - Dividends, Stock Buy
 - Valuation - Metrics & Discounted Casl
 - Analyst Estimates (Pro)
 - KPIs - Key Performance Indicators (F
 - Charting & Comparing Company Metri
 - Industry Comparisons
 - How to find Earnings Call Transcripts
 - How to find Insider Ownership & Stoc
 - Formulas & How Metrics Are Calculat

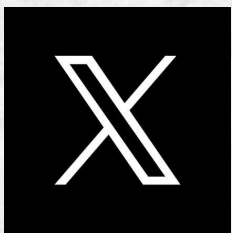
Click Here To Enroll For Free

Thanks for reading!

Connect with me below!



Brian Feroldi



(Click The Icons To Connect)