Balance sheet explained.

Your balance sheet sets out your company's assets, liabilities and shareholder equity at a specific point in time and is an important financial statement used to conduct fundamental analysis by comparing the figures with those of previous periods.

There are many ratios and KPIs that can be derived from the balance sheet to assess performance. Below we have considered a few areas to look out for that may raise a warning flag for declining performance. Accounting is filled with nuance and there may be good reason for some of these flags to exist but keep an eye out and make sure you understand why.

Balance sheet component	Be aware if...
ASSETS	
CASH & CASH EQUIVALENTS	the figure is less than total debt
ACCOUNTS RECIEVABLE	the figure is rising faster than revenue
INVENTORY	the figure is rising faster than profits
GOODWILL	the figure is more than 50% of total assets
INTANGIBLE ASSETS	the figure is more than 50% of total assets
LIABILITIES	
SHORT-TERM DEBT & LONG-TERM DEBT	the figure(s) are more than cash
PREFERRED STOCK	there is any on the balance sheet
RETAINED EARNINGS	the figure is a negative

wilson partners.

01628 770 770 | info@wilson-partners.co.uk | wilson-partners.co.uk