Kurtis Hanni
@KurtisHanni

27 Financial Statement terms in plain English:

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

17.1k Likes **5k** Retweets **233** Replies

Kurtis Hanni
@KurtisHanni

• Balance Sheet
Assets = Liabilities + Stockholder's Equity

This statement helps you understand what you own, what you owe, and what you're worth (as a company).

It answers "Are you healthy?"

It is similar to your net worth statement.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Income Statement
Revenue - Expenses = Net Income

This tells you how much revenue you have and what you spent your money on.

It answers "Are you profitable?"

It is similar to your personal budget.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Statement of Cash Flows
Beg Cash Balance + Net Increase/Decrease of cash during period = Cash at end of period

This tells you the flow of money through the company.

It answers "Where did the cash go?"

It's comparable to looking at your bank account.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Revenue

Revenue is another word for sales.

Sale Price x Units sold

Whether your financial is Cash or Accrual Accounting determines if this means money is coming in the door.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Cost of Goods Sold

These are costs directly related to revenue.

For products, this is simple: the cost of the product.

For services, employee hrs connected to revenue is COGS.

For SaaS, these are costs directly related to building of the product.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Gross Profit
Gross Profit = Revenue – Cost of Goods Sold

The dollar value generated related to revenue "sold."

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Gross Profit Margin
Gross Profit Margin = Gross Profit / Revenue

You want to see margins go up, as it shows the company is healthy.

Because COGS is your biggest expense, changes in Gross Profit Margin can squeeze your available dollars for overhead-related expenses.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Operating Expense
Gross Profit – Operating Costs

This is the bottom line structural cost of your business.

Businesses can be restructured to get rid of non-operating costs, but cannot survive very long if not generating an operating profit.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Operating Margin
Operating profit / Revenue

This speaks to the ongoing viability of the company.

We want to raise this as high as possible and watch the trends closely.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Depreciation

Depreciation is a non-cash expense that is used to allocate the cost of a physical asset (something over $2,500 and > 1 year useful life) over a fixed period of time.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Amortization

This is the same as Depreciation, but with intangible assets.

Examples:
Brand
Patents
Trademarks
Copyrights
Goodwill

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Net Profit
Revenue – Expenses

Net profit tells you the dollars "generated" by the business, though if Accrual Accounting this does NOT equal dollars coming in.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Net Profit (Income) Margin
Net Profit Margin = Net Profit / Revenue

This should be positive, which reflects that your business is "making money."

A negative margin could mean you need to generate cash from Investing or Financing Activities.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• EBITDA

This measures company performance but excludes interest, taxes, depreciation, and amortization.

These are considered financing or debt structure that could change based on an owner's decision.

That explains why EBITDA is often used to value a business for sale.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Cash & Accrual Accounting

Cash Accounting records sales when the cash is received and expenses when paid.

Accrual Accounting records sales when the sales commitment is made and expenses when incurred (committed or matched to sale).

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Cash Flow

As it sounds like, this represents the movement of cash in the business.

If cash flow is positive, that means more is coming in (via sales) than going out (expenses & capital expenditures)

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Operating Cash Flow
Cash Received from sales - cash paid for expenses related to the operation of the business

This is the cash generated from normal business operations.

It tells you if the business is generating enough cash from sales to stay in business.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Free Cash Flow
Operating Cash Flow - Capital Expenditures

This tells you what’s remaining to pay debt, interest, and as dividends to the owners.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Working Capital
Current assets - Current liabilities

This tells you the short-term position of the company.

When positive, it tells you how much of a cushion you have.

If negative, you're in a bad position.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Cash Burn Rate
(Cash Balance Beginning of Period – Cash Balance End of Period) / # of Months in Period

If making money, this can tell you how quickly you're building your cash reserve.

If unprofitable, it tells you how much cash you have to support continued operations.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Cash Runway
Total Cash Reserve / Burn Rate

Based on the burn rate, your cash runway will tell you how many weeks or months you have left in operation.

Burn Rate can temporarily be negative if you've made big purchases, so it's important to understand where that cash went.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Assets

Something a company owns. It's broken down into current & non-current.

Current:
> Cash
> Inventory
> Prepaid Expense
> Accounts Receivable

Non-current:
> Investments
> Property, plant, and equipment
> Intangible assets

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Accounts Receivable

Accounts Receivable is revenue invoiced to customers, but not yet paid.

The older an invoice is without getting paid, the less likely it is to get paid.

It’s important to watch this report closely.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Liabilities

A liability is money you’re legally obligated to pay to someone.

Whether you’ve agreed to buy a product or service.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Accounts Payable

This is money owed to others.

When struggling with cash flow, companies use this report to manage what's outstanding and prioritize who to pay.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Shareholder's Equity
Assets - Liabilities =
Shareholder's Equity

The amount of value retained in the company after all obligations are taken care of.

This can be called the book value of the company.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

Kurtis Hanni
@KurtisHanni

• Return on Equity
Net Income / Shareholder’s Equity

Return on Equity takes into account the value left in the business.

Businesses with high leverage will generally have a good return on equity.

Ideally, you should be generating 15-20% or more return on equity.

7:09 AM · Jul 19, 2022 · Tweet Hunter Pro

kurtis hanni

@KurtisHanni

Man, that was a lot!

Did you learn something?

To learn more, **subscribe to my free newsletter** where I teach money concepts each Thursday.

Link in the description.