***Fundamental Analysis: The Balance Sheet***

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Fuente: http://www.investopedia.com/video/play/introduction-balance-sheet/

Investors often overlook the [***balance sheet***](http://www.investopedia.com/terms/b/balancesheet.asp). ***Assets and liabilities*** aren't nearly as sexy as [revenue](http://www.investopedia.com/terms/r/revenue.asp) and [earnings](http://www.investopedia.com/terms/e/earnings.asp). While earnings are important, they don't tell the whole story.

The balance sheet highlights the financial condition of a company and is an integral part of the financial statements. (To read more on financial statement basics, see [*What You Need To Know About Financial Statements*](http://www.investopedia.com/articles/basics/06/financialreporting.asp) and [*Advanced Financial Statement Analysis*](http://www.investopedia.com/university/financialstatements/).)

**The Snapshot of Health**

The ***balance sheet***, also known as ***the statement of financial condition***, offers a snapshot of a ***company's health***. It tells you ***how much a company owns*** (***its assets***), and how much it ***owes (its liabilities)***. The difference between what it owns and what it owes is its [***equity***](http://www.investopedia.com/terms/e/equity.asp)***,*** also commonly called "***net assets***" or "***shareholders equity***".

The ***balance sheet*** tells investors a lot about a ***company's***[***fundamentals***](http://www.investopedia.com/terms/f/fundamentals.asp): how much [***debt***](http://www.investopedia.com/terms/d/debt.asp) the company has, ***how much it needs to collect from customers*** (and how fast it does so), how much cash and equivalents it possesses and what kinds of funds the company has generated over time.

To learn more, check out the **balance sheet video**.

**The Balance Sheet's Main Three**

***Assets***, ***liability*** and ***equity*** are the three ***main components*** of the balance sheet. Carefully analyzed, they can tell investors a lot about a company's fundamentals.   
  
***Assets***There are two main types of assets: [***current assets***](http://www.investopedia.com/terms/c/currentassets.asp)***and non-current assets***. Current assets are likely to be used up or converted into cash within one business cycle - usually treated as twelve months. Three very important current asset items found on the balance sheet are: [cash](http://www.investopedia.com/terms/c/cash.asp), [inventories](http://www.investopedia.com/terms/i/inventory.asp) and [accounts receivables](http://www.investopedia.com/terms/a/accountsreceivable.asp).

Investors normally are attracted to companies with plenty of cash on their balance sheets. After all, cash offers protection against tough times, and it also gives companies more options for future [growth](http://www.investopedia.com/terms/g/growthrates.asp). Growing cash reserves often signal strong company performance. Indeed, it shows that cash is accumulating so quickly that management doesn't have time to figure out how to make use of it. A dwindling cash pile could be a sign of trouble. That said, if loads of cash are more or less a permanent feature of the company's balance sheet, investors need to ask why the money is not being put to use. Cash could be there because management has run out of investment opportunities or is too short-sighted to know what to do with the money.   
  
Inventories are finished products that haven't yet sold. As an investor, you want to know if a company has too much money tied up in its inventory. Companies have limited funds available to invest in inventory. To generate the cash to pay bills and return a profit, they must sell the merchandise they have purchased from suppliers. [Inventory turnover](http://www.investopedia.com/terms/i/inventoryturnover.asp) ([cost of goods sold](http://www.investopedia.com/terms/c/cogs.asp) divided by average inventory) measures how quickly the company is moving merchandise through the warehouse to customers. If inventory grows faster than sales, it is almost always a sign of deteriorating fundamentals.

[Receivables](http://www.investopedia.com/terms/r/receivables.asp) are outstanding (uncollected bills). Analyzing the speed at which a company collects what it's owed can tell you a lot about its financial efficiency. If a company's collection period is growing longer, it could mean problems ahead. The company may be letting customers stretch their credit in order to recognize greater top-line sales and that can spell trouble later on, especially if customers face a cash crunch. Getting money right away is preferable to waiting for it - since some of what is owed may never get paid. The quicker a company gets its customers to make payments, the sooner it has cash to pay for salaries, merchandise, equipment, loans, and best of all, dividends and growth opportunities.   
  
Non-current assets are defined as anything not classified as a current asset. This includes items that are [fixed assets](http://www.investopedia.com/terms/f/fixedasset.asp), such as [property, plant and equipment](http://www.investopedia.com/terms/p/ppe.asp)(PP&E). Unless the company is in financial distress and is [liquidating](http://www.investopedia.com/terms/l/liquidate.asp) assets, investors need not pay too much attention to fixed assets. Since companies are often unable to sell their fixed assets within any reasonable amount of time they are carried on the balance sheet at cost regardless of their actual value. As a result, it's is possible for companies to grossly inflate this number, leaving investors with questionable and hard-to-compare asset figures.

***Liabilities***There are [current liabilities](http://www.investopedia.com/terms/c/currentliabilities.asp) and non-current liabilities. Current liabilities are obligations the firm must pay within a year, such as payments owing to suppliers. Non-current liabilities, meanwhile, represent what the company owes in a year or more time. Typically, non-current liabilities represent bank and bondholder debt.

You usually want to see a manageable amount of debt. When debt levels are falling, that's a good sign. Generally speaking, if a company has more assets than liabilities, then it is in decent condition. By contrast, a company with a large amount of liabilities relative to assets ought to be examined with more diligence. Having too much debt relative to cash flows required to pay for interest and debt repayments is one way a company can go [bankrupt](http://www.investopedia.com/terms/b/bankruptcy.asp).

Look at the [quick ratio](http://www.investopedia.com/terms/q/quickratio.asp). Subtract inventory from current assets and then divide by current liabilities. If the ratio is 1 or higher, it says that the company has enough cash and liquid assets to cover its short-term debt obligations.

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| **Quick Ratio =** | **Current Assets - Inventories**  **Current Liabilities** |

***Equity***Equity represents what shareholders own, so it is often called shareholder's equity. As described above, equity is equal to total assets minus total liabilities.

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| **Equity = Total Assets – Total Liabilities** |

The two important equity items are [paid-in capital](http://www.investopedia.com/terms/p/paidincapital.asp) and [retained earnings](http://www.investopedia.com/terms/r/retainedearnings.asp). Paid-in capital is the amount of money shareholders paid for their shares when the stock was [first offered](http://www.investopedia.com/terms/i/ipo.asp) to the public. It basically represents how much money the firm received when it sold its shares. In other words, retained earnings are a tally of the money the company has chosen to reinvest in the business rather than pay to shareholders. Investors should look closely at how a company puts retained capital to use and how a company generates a return on it.

Most of the information about debt can be found on the balance sheet - but some assets and debt obligations are not disclosed there. For starters, companies often possess hard-to-measure intangible assets. [Corporate intellectual property](http://www.investopedia.com/terms/i/intellectualproperty.asp) (items such as [patents](http://www.investopedia.com/terms/p/patent.asp), [trademarks](http://www.investopedia.com/terms/t/trademark.asp), copyrights and business methodologies), [goodwill](http://www.investopedia.com/terms/g/goodwill.asp) and [brand recognition](http://www.investopedia.com/terms/b/brandawareness.asp) are all common assets in today's marketplace. But they are not listed on company's balance sheets.   
  
There is also [off-balance sheet](http://www.investopedia.com/terms/o/obsf.asp) debt to be aware of. This is form of financing in which large capital expenditures are kept off of a company's balance sheet through various classification methods. Companies will often use off-balance-sheet financing to keep the debt levels low. (To continue reading about the balance sheet, see [*Reading The Balance Sheet*](http://www.investopedia.com/articles/04/031004.asp)*,* [*Testing Balance Sheet Strength*](http://www.investopedia.com/articles/basics/06/assetperformance.asp)and [*Breaking Down The Balance Sheet*](http://www.investopedia.com/articles/basics/06/balancesheet.asp).)