FINPARITY LEARN · FUNDAMENTAL ANALYSIS



Topic 2 · Part 1 | 12-minute lesson | Beginner

The three financial statements

How to read a company’s income statement, balance sheet and cash flow, no accounting degree needed

Educational content, not investment advice

WHY IT MATTERS

Look under the bonnet, not just at the paint

Buying a used car? You'd check the engine, not just the shiny paint. The share price is the paint. The financials are the engine. They answer three questions:

Is it making money?

The income statement answers this

What does it own and owe?

The balance sheet answers this

Is real cash coming in?

The cash flow statement answers this

WHERE TO FIND THEM

Every listed company must publish its numbers

What gets published

- **Annual report:** once a year, checked by independent auditors
- **Quarterly reports:** Q1, half-year and Q3 updates
- **Corporate briefings:** management explains the results

Where to look

- PSX data portal: search the ticker, open **Financial Reports**
- The company's own website, under **Investor Relations**
- On FinParity, the key numbers are summarised for you

⚠ **Standalone** = the company alone. **Consolidated** = the company plus the businesses it owns. Always compare like with like.

THE BIG THREE

Three statements, three different stories

Income statement

A **video** of the year: sales, costs and profit over a period

Balance sheet

A **photo** on one day: what the company owns and owes

Cash flow statement

A **bank statement**: where cash came from and where it went

Let’s read each one, using **Ali Foods Ltd** from Topic 1, now a listed company.

1 · INCOME STATEMENT

From sales to profit, step by step

Ali Foods Ltd, year 1	Rs million
Sales (revenue)	1,000
Cost of sales	(600)
Gross profit	400
Operating expenses	(150)
Operating profit	250
Finance cost (interest)	(50)
Profit before tax	200
Tax	(60)
Net profit	140

- Start with sales, then take away costs one layer at a time
- Numbers in brackets are costs (minus)

EARNINGS PER SHARE (EPS)

Net profit ÷ number of shares
Rs 140m ÷ 100m shares = **Rs 1.40**

1 · INCOME STATEMENT

Margins: how much of every Rs 100 the company keeps

WHERE EACH RS 100 OF ALI FOODS' SALES GOES



Cost of sales · **Rs 60** Expenses · **Rs 15** Interest · **Rs 5** Tax · **Rs 6** Net profit · **Rs 14**

40% **Gross margin**
Gross profit ÷ sales

14% **Net margin**
Net profit ÷ sales

REAL EXAMPLE

Engro Fertilizers (EFERT), year 2025

Rs 237.1 bn
Sales (down 8%)

Rs 22.6 bn
Net profit (down 20%)

Rs 16.95
EPS (2024: Rs 21.16)

Rs 15
Total dividend per share

Net margin ≈ 9.5%

Rs 22.6 bn ÷ Rs 237.1 bn. About Rs 9.50 of profit from every Rs 100 of sales.

Why did profit fall 20%?

Lower sales, thinner margins, and finance costs up 49% as total debt rose 68%.

Consolidated figures. Sources: company results via ProPakistani, Nukta (Feb 2026)

2 · BALANCE SHEET

What it owns = what it owes + what's left for owners

Assets (owns)

Cash	200
Stock of rice and spices	300
Money customers owe	250
Kitchens and shops	1,250
Total assets	**2,000**

=

Liabilities (owes)

Bank loan	500
Owed to suppliers	300
Total liabilities	**800**

Equity (shareholders)

What's left for owners	**1,200**

Ali Foods Ltd, end of year 1 · Rs million

2 · BALANCE SHEET

Short-term vs long-term

CURRENT

Within the next 12 months

Cash, stock and customer payments (assets). Supplier bills and short-term loans (liabilities).

NON-CURRENT

Longer than 12 months

Kitchens, machines and buildings (assets). Long-term bank loans (liabilities).

2.5×

Ali Foods has Rs 750m of current assets and Rs 300m of bills due this year. It can cover its short-term bills **2.5 times over**. That's healthy.

3 · CASH FLOW

Where the cash came from, and where it went

Operating	Cash from selling food, minus cash paid for costs	**+180**
Investing	Cash spent on new kitchens and branches	**(250)**
Financing	New bank loan, minus dividends paid	**+100**
Net change	Cash went up by Rs 30m this year	**+30**

WATCH OUT

Profit is not the same as cash

Ali Foods caters a big wedding for **Rs 5 million** and gives the family 60 days to pay.

- **Income statement:** the sale counts today, so profit goes up
- **Cash flow:** no cash arrives for 60 days

If customers never pay, the profit was never real.

Red flag to remember

Profit rising year after year while **operating cash flow** keeps falling. Ask why the cash isn't arriving.

PUTTING IT TOGETHER

The three statements are connected



1. Net profit from the **income statement** is added to **equity** on the balance sheet (after dividends)
2. Net profit is also the starting point of the **cash flow statement**
3. Closing cash on the **cash flow statement** = cash on the **balance sheet**

QUICK HEALTH CHECK

Green flags and red flags

Green flags

- Sales growing steadily, year after year
- Operating cash flow about as big as profit, or bigger
- Debt growing slower than sales

Red flags

- Profit up, but operating cash flow down
- Debt growing much faster than the business
- Auditor raises concerns about the accounts

RECAP

Your new vocabulary

Revenue
Total money from sales, before any costs

Net profit
What's left for shareholders after all costs and tax

EPS
Net profit ÷ number of shares

Assets
Everything the company owns

Liabilities
Everything the company owes

Equity
Assets minus liabilities: the owners' share

QUICK QUIZ

4 questions. Show what you know!

Q1. Which statement shows what a company owns and owes on one day?

A) Income statement B) Balance sheet C) Cash flow

Q2. Sales are Rs 500 and net profit is Rs 50. What's the net margin?

A) 50% B) 10% C) 5%

Q3. Assets are Rs 900 and liabilities Rs 400. What's the equity?

A) Rs 500 B) Rs 1,300 C) Rs 400

Q4. Buying a new factory appears in which cash flow section?

A) Operating B) Financing C) Investing

Answers: 1-B · 2-B · 3-A · 4-C. Flip your screen to check!

PART 1 COMPLETE

Nice work! Up next: key ratios

In Part 2: turn these statements into a handful of simple numbers that tell you if a share is cheap, expensive, healthy or risky

EPS | P/E | P/B | Dividend yield | ROE | Debt-to-equity

For education only, not investment advice. Speak to a licensed adviser before investing.