What are the 11 Basic Accounting Formulas?

There are several accounting formulas used to report the financial health of a person or business. These formulas are used to produce the Balance Sheet and Income Statement. Also known as Profit & Loss Statement.

**Formula 1: The Accounting Equation**
The accounting equation is a vital formula. For it is the root of accounting.

\[
Worth = Assets - Liabilities
\]

The accounting formulas needed to produce the Accounting Balance Sheet (The accounting Balance Sheet is one of the main financial statements of a business. The other financial statements are the Income Statement and Cash Flow Statement. The worth of an entity is reported in the balance sheet. The balance sheet is a rearrangement of the accounting equation. http://www.entrepreneur-starter-kit.com/accounting-balance-sheet.html) are:

**Formula 2: Current Assets**
Current assets are the sum of assets that will convert into cash in less than 12 months.

\[
Current Assets = Cash + Accounts Receivable + Inventory + Prepaid Expenses
\]

**Formula 3: Net Fixed Assets**
Net fixed assets are the book value of fixed assets.

\[
Net Fixed Assets = Fixed Assets @ cost - Accumulated Depreciation
\]

**Formula 4: Total Assets**
The sum of all assets

\[
Total Assets = Current Assets + Other Assets + Net Fixed Assets
\]

**Formula 5: Current Liabilities**
Bills due within 12 months of the Balance Sheet date.

\[
Current Liabilities = Accounts Payable + Accrued Expenses + Current Portion of Debt + Income Taxes Payable
\]

**Formula 6: Shareholder’s Equity**
Shareholder’s equity is the value of the company to its owners. Also called net worth.

\[
Shareholder’s Equity = Capital Stock + Retained Earnings
\]
Formula 7: Total Liabilities & Equity
This is the total obligation plus worth of the entity.

\[ \text{Total Liabilities & Equity} = \text{Current Liabilities} + \text{Long-Term Debt} + \text{Shareholders’ Equity} \]

The next accounting formulas are needed to produce the Income Statement. Also called the Profit & Loss Statement.

Formula 8: Gross Margin
The left over amount after cost of goods sold are taken away from net sales.

\[ \text{Gross Margin} = \text{Net Sales} - \text{Cost of Goods Sold} \]

Formula 9: Operating Expenses
The sum of expenses paid for developing and selling the product or service.

\[ \text{Operating Expenses} = \text{Sales & Marketing} + \text{Research & Development} + \text{General & Administrative} \]

Formula 10: Income From Operations
Net profit from the product or services sold.

\[ \text{Income From Operations} = \text{Gross Margin} - \text{Operating Expenses} \]

Formula 11: Net Income
Net income is all income minus total expenses and costs.

\[ \text{Net Income} = \text{Income From Operations} + \text{Interest Income} - \text{Income Taxes} \]

In summary, the above accounting formulas are all a person will need to generate the two main financial statements. However, to fully explore the financial health of person or business knowledge of accounting ratios are required.