# What are the 11 Basic Accounting Formulas?

(http://www.entrepreneur-starter-kit.com/accounting-formulas.html)

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 <u>Accounting Balance Sheet</u> (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.

*Total Liabilities & Equity* = Current Liabilities + Long-Term Debt + 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.

*Gross Margin* = Net Sales – Cost of Goods Sold

## Formula 9: Operating Expenses

The sum of expenses paid for developing and selling the product or service.

*Operating Expenses* = Sales & Marketing + Research & Development + General & Administrative

## Formula 10: Income From Operations

Net profit from the product or services sold.

*Income From Operations* = Gross Margin – Operating Expenses

#### Formula 11: Net Income

Net income is all income minus total expenses and costs.

## *Net Income* = Income From Operations + Interest Income – 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 <u>accounting ratios</u> are required.