

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.

$$\text{Worth} = \text{Assets} - \text{Liabilities}$$

The accounting formulas needed to produce the [Accounting Balance Sheet](http://www.entrepreneur-starter-kit.com/accounting-balance-sheet.html) (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.

$$\text{Current Assets} = \text{Cash} + \text{Accounts Receivable} + \text{Inventory} + \text{Prepaid Expenses}$$

Formula 3: Net Fixed Assets

Net fixed assets are the book value of fixed assets.

$$\text{Net Fixed Assets} = \text{Fixed Assets @ cost} - \text{Accumulated Depreciation}$$

Formula 4: Total Assets

The sum of all assets

$$\text{Total Assets} = \text{Current Assets} + \text{Other Assets} + \text{Net Fixed Assets}$$

Formula 5: Current Liabilities

Bills due within 12 months of the Balance Sheet date.

$$\text{Current Liabilities} = \text{Accounts Payable} + \text{Accrued Expenses} + \text{Current Portion of Debt} + \text{Income Taxes Payable}$$

Formula 6: Shareholder's Equity

Shareholder's equity is the value of the company to its owners. Also called net worth.

$$\text{Shareholder's Equity} = \text{Capital Stock} + \text{Retained Earnings}$$

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.