

# REFERENCES GUIDE TO BASIC ACCOUNTING FORMULAS



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These formulas are used to produce the Balance Sheet and Income Statement. Also known as Profit & Loss Statement.

## The Accounting Equation Formula

The accounting equation is a vital formula, it is the foundation of accounting.

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

## Current Assets Formula

Current assets are the sum of assets that will convert into cash in less than 12 months.

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

## Net Fixed Assets Formula

Net fixed assets are the book value of fixed assets.

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

## Total Assets Formula

The sum of all assets.

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

## Current Liabilities Formula

Bills due within 12 months of the Balance Sheet date.

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

## Shareholder's Equity Formula

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

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

## Total Liabilities & Equity Formula

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

## Gross Margin Formula

The left over amount after cost of goods sold are taken away from net sales.

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

## Operating Expenses Formula

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

$$\text{Operating Expenses} = \text{Sales and Marketing} + \text{Research and Development} + \text{General and Administrative}$$

## Income From Operations Formula

Net profit from the product or services sold.

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

## Net Income Formula

Net income is all income minus total expenses and costs.

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