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Accounting Equations & Answers

BarCharts, Inc.® **WORLD'S EASIEST OUTLINE** **Quick Study Academic** **ACCOUNTING Equations & Answers**

Essential Information for Understanding Key Accounting Principles & Methodologies
Includes Helpful Hints, Useful Tips, Critical Points & Common Pitfalls

Balance Sheet

Assets are economic resources, whereas **liabilities** and **stockholders' equity** are sources of financing for the economic resources. Both these are assets in a business, whereas the financing provided by the owners of the corporation is stockholders' equity; assets, liabilities, and equity are reported on the balance sheet, every balance sheet of a corporation is based on the full accounting equation.

FORMULA: Assets = Liabilities + Stockholders' Equity

Understanding the balance sheet formula can help when analyzing financial statements. When analyzing how a company is using the elements of the balance sheet, it is important to understand the analysis and the practice of accounting.

Net Worth (also called the book value) is the difference of the balance sheet equation.

FORMULA: Net Worth = Assets - Liabilities

Example: If you own a car worth \$20,000 and have a liability of \$12,000, then your net worth is \$20,000 - \$12,000 = \$8,000.

⚠️ When a company's organization does not have owners, the third section of the balance sheet is known as **non-owner's interest** of assets. This is the value of the assets that are not owned by the business. This is represented by the following accounting equation.

FORMULA: Assets = Liabilities + Non-Owner's Assets

Assets are the resources owned by the business. Current assets include cash, accounts receivable, inventories, and prepaid expenses. Non-current assets include long-term investments, property, equipment, and intangible assets.

FORMULA: Assets = Current Assets + Non-current Assets

Liabilities are the obligations or claims of the business against the assets of that business. Current liabilities include accounts payable, wages payable, and current liabilities payable. Non-current liabilities include all long-term debts.

FORMULA: Liabilities = Current Liabilities + Non-current Liabilities

▶ **Non-current Liabilities** are the ownership interests in a company, part of equity in investment capital, which includes interests made by stockholders in the company's assets and residual cash, similar to retained earnings, which is the net income that has been retained in the entity since the start of its existence.

FORMULA: Non-Owner's Equity = Contributed Capital + Retained Earnings

Changes in the Retained Earnings (balance) are increases or decreases in losses, whenever a company is profitable (net income), it adds directly (net loss) or gains (non-current income) to retained earnings and dividends, which are earnings paid to stockholders, and which are also called distributions.

FORMULA: Changes in Retained Earnings = Net Income - Dividends

▶ Net income is an important concept, as it is the residual value after expenses for the owners and stockholders, non-corporate, income available to common stockholders is a more relevant calculation, as it gives a more robust, accurate picture of profitability.

FORMULA: Income Available to Common Stockholders = Net Income - Dividends + Preferred Stock in the Preferred Period

Income statement can be presented in various forms, one popular form is the **classified income statement**, which shows the income from operations and the net income for a given period of time arranged as follows:

1. Net Sales
2. Cost of Goods Sold
3. Gross Margin
4. Operating Expenses
5. Non-operating Expenses and Income
6. Net Income Before Income Taxes
7. Income Tax
8. Net Income

Income Statement & Retained Earnings

The calculation of **net income** is usually the result of several formulas, such as gross margin, net operating income, and income before taxes.

FORMULA: Gross Margin = Net Sales - Cost of Goods Sold

Net Operating Income = Gross Margin - Operating Expenses

Income Before Income Taxes = Net Operating Income + Nonoperating Revenue and/or Income - Nonoperating Expenses and/or Losses

Net Income = Income Before Income Taxes - Income Taxes

Example: If the gross sales are \$750,000 and the cost of goods sold is \$500,000, then the gross margin is \$750,000 - \$500,000 = \$250,000. Next, if the operating expenses are \$100,000, then the net operating income is \$250,000 minus operating expenses.

gross margin is also called gross profit

Income statement can also be presented as the **contribution format**, which is used to manage for decision-making purposes.

FORMULA: Net Income = Revenue - Variable Expenses - Contribution Margin - Fixed Expenses

▶ The contribution margin format can also be used to calculate margin income statement.

FORMULA: Margin Income = Net Sales - Segment Variable Expenses - Contribution Margin - Segment Variable Fixed Expenses - Segment Margin

⚠️ **Variable** **Cost** expenses are those expenses that are variable in nature, the cost is associated with the production with a high degree of accuracy.

▶ A segment can be a division, product, customer, or territory - that is, any part of a business for which management wants to track profitability.

▶ **Income Statement** is prepared to provide managers with more current financial results. It covers a statement of activities (income) of the income statement based by a profit center, which shows the ending balance of net assets.

FORMULA: Ending Net Assets = Revenue - Expenses - Beginning Net Assets

Profit Margin

▶ Profit margin is the margin of income statement, representing gross profit from revenue earned from manufacturing, selling, and distributing products.

Expenses - Revenue represents, which are the expenses directly assigned to the products in existing on its production and supporting services expenses, including management, general, and distribution expenses.

▶ **Segment and departmental expenses** provide a form of accounting that is also different from GAAP, whereas the segment expenses are the costs of specific products or the budget in the financial report for a segment and departmental expenses.

Margin per Share (EPS) is the margin of income statement per share that can be calculated with a single class of stockholders' common stock, or equity with a single capital structure (only common stock outstanding) less book value per share (BEPS).

1. Income Available to Common Stockholders
2. Weighted-Average Number of Common Shares Outstanding

FORMULA: EPS = Income Available to Common Stockholders / Weighted-Average Number of Common Shares Outstanding



Synopsis

Whether you are a business or accounting student looking to ace the next test or a veteran of the business world who could use a refresher, the Accounting Equations & Answers QuickStudy® guide is here to help! This three-panel guide outlines commonly used and difficult-to-remember accounting equations for tracking assets, liabilities, equity, income, and more, as well as handy hints, common pitfalls, and other points to make sure you don't let anything slip through the cracks. Examples are included for easy comprehension.

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Customer Reviews

This is especially helpful for us non-account types. This Quick Study guide, in conjunction with the Accounting 1Quick Study guide, the Accounting 2 Quick Study guide, and William G. Droms' book, "Finance and Accounting for Nonfinancial Managers" go a long way to filling in the blanks for those of us whose focus is necessarily elsewhere

Has almost everything you need for basic accounting quick notes

product came as expected. cheaper than buying it from the school bookstore.

Good reference

This item is very helpful to have equations at your fingertips!Excellent reference guide! I am very impressed with my laminated quick reference guides! Great to be able to have the formula readily

available. These quick reference guides are especially easy to use! I am very pleased to have received my shipment quickly. I was very amazed to have received my package on Sunday, not to mention week before Christmas. Thank you!

nice

Gotta learn. this helps

Fast easy ref. for accounting. All info is avail online this is for that person that needs immediate fingertip access. Very convenient.

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