Small business series

Glossary of terms and formulas

A quick reference guide of common accounting terms and formulas.

Accounts receivable
Accounts receivable is the money customers owe your business.

Accounts payable
Accounts payable is money your business owes to vendors and suppliers.

Accruals
Accruals is a list of expenses you have incurred but not yet paid, or a list of sales that have been completed but not yet billed.

Allocation
Allocation is the process of distributing funds, resources, or costs to a particular account or particular purpose.

Assets
Assets are the things your company owns.

Balance sheet
A balance sheet reports assets, liabilities, and equity at a specific point in time.

Cash flow
Cash flow describes the inflow and outflows of cash in your business.

Depreciation
Depreciation is the process of assets losing value over time.

Equity
Equity is the portion of a company owned by investors and owners.

Expenses
Expenses refer to the costs of acquiring something—from tangible items to intangible services.

Fiscal year
A fiscal year is the one-year period of time you use for accounting purposes.

Forecasting
Forecasting is the process of using your business's historical financial data to predict future trends.

General ledger
The general ledger is a record of your business's financial transactions over the lifetime of your business.

Journals
Journals, or accounts, record transactions as they occur.

Liabilities
Liabilities are debts that your business is responsible for paying.

Liquidity
Liquidity refers to how quickly an asset can be converted into cash.

Profit and loss statement
A profit and loss statement lists earnings, expenses, and net profits for a given period of time.

Reconciliation
Reconciliation is the process of matching the balances in your accounting records to the corresponding balances reported by your financial institution.

Revenue
Revenue is the total amount of money collected for goods and services sold.

Working capital
Working capital is the amount of money your business has to invest or spend on items for the business at a point in time.

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Net income formula

Net income is the amount your business makes after deducting expenses. To calculate net income, subtract business expenses and operating costs from your revenue.

Net income = Revenue - Expenses

Break-even point

Your break-even point is the point at which the costs of running your business equals revenue generated. To calculate the break-even point in sales dollars, divide fixed costs by the contribution margin, or the profit of a single sale.

Break-even point (in dollars) = Fixed costs / Contribution margin

Profit margin formula

Your profit margin is the percentage of profit you keep from every sale. To calculate your profit margin, divide net income by net revenue and multiply by 100.

Profit margin = (Net income / Revenue) X 100

Days sales outstanding

Days sales outstanding is the number of days it takes for your business to collect payment following a sale. To find days sales outstanding, divide accounts receivable by total credit sales and multiply by the number of days in the time period.

Days sales outstanding = (Accounts receivable ÷ Total credit sales) X Number of days

Current ratio formula

The current ratio formula measures your company’s ability to pay off all your debts or liabilities at once. To find the current ratio, divide current assets by current liabilities.

Current ratio = Current assets + Current liabilities