

Accounting Equation

- **Basic Equation:**
 $\text{Assets} = \text{Owner's Equity} + \text{Liabilities}$
 - **Expanded Equation:**
 $\text{Assets} = \text{Capital} + \text{Revenue} - \text{Expenses} - \text{Drawings} + \text{Liabilities}$
 - **Profit:**
 $\text{Revenue} - \text{Expenses OR Income} - \text{Expense}$
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Inventory

- **Net Realisable Value**
 $= \text{Expected Selling Price} - \text{Additional Cost to Sell Inventory}$
- **Impairment Loss in Inventory***
 $= \text{Cost} - \text{Net Realisable Value}$

* Note: impairment loss could only be incurred if cost > net realisable value

Trade Receivables

- **Allowance for impairment of trade receivables**
 $= \text{Trade receivables} \times \%$
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Non-current Assets

- **Straight-Line Method:**
 $\text{Depreciation per Year} = (\text{Cost} - \text{Residual Value}^*) / \text{Useful Life}$
 $\text{Depreciation per Year} = \text{cost} \times \text{depreciation rate} (\%)$
- **Reducing Balance Method:**
 $\text{Depreciation per Year} = \text{Net Book Value} \times \text{Depreciation Rate} (\%)$
- **Net Book Value (NBV):**
 $= \text{Cost} - \text{Accumulated depreciation}$
- **Gain on sale of NCA (NBV < Selling price)**
- **Loss on sale of NCA (NBV > Selling price)**

* Note: Residual Value is also known as Scrap Value.

Long-term Borrowings

- **Interest expense incurred for the year**
= Outstanding loan x % x $\frac{\text{months}}{12}$
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Statement of Financial Performance (Profit and Loss)

- **Net Sales Revenue:**
Net Sales Revenue = Sales Revenue - Sales Returns
 - **Gross Profit:**
Gross Profit = Net Sales Revenue - Cost of Sales
 - **Profit for the year:**
Profit for the year = Gross Profit + Other Income - Other Expenses
 - **Cost of Sales:**
Cost of Sales = Beginning Inventory + Purchases - Ending Inventory
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Statement of Financial Position (Equities)

- **Owner's Equity:**
= Beginning capital + Additional capital + Profit - Drawings
 - **Shareholder's Equity:**
Share capital = number of shares x value per share(\$)
Dividends declared = number of shares x dividends value per share(\$)
Retained earnings = Beginning balance + Profit for the year - Dividends declared
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Profitability Ratios

- **Mark-Up on Cost:**
= (Gross Profit / Cost of Sales) x 100%
 - **Gross Profit Margin:**
= (Gross Profit / Net Sales Revenue) x 100%
 - **Profit Margin:**
= (Profit for the year / Net Sales Revenue) x 100%
 - **Return on Equity**
= (Profit for the year / Average equity*) x 100%
* **Average Equity:**
= (Beginning equity + Ending equity) / 2
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Liquidity Ratios

- **Working Capital Ratio**
= Current Assets – Current Liabilities
 - **Current Ratio:**
= Current Assets / Current Liabilities
 - **Quick Ratio (Acid-Test Ratio):**
= (Current Assets - Inventory) / Current Liabilities
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Efficiency Ratios

- **Inventory Turnover (Times):**
= Cost of Sales / Average Inventory*
- **Inventory Turnover (Days):**
= (Average Inventory* / Cost of Sales) x 365
- **Trade Receivables Turnover (Times):**
= Credit Net Sales Revenue / Average Trade Receivables^
- **Trade Receivables Turnover (Days):**
= (Average Trade Receivables^ / Credit Net Sales Revenue) x 365

***Average Inventory:**
= (Beginning Inventory + Ending Inventory) / 2

^**Average Trade Receivables:**
= (Beginning Balance + Ending Balance) / 2

Note: All ratios are usually expressed to 2 decimal places and/or as percentages where applicable.