SPARA

ACCOUNTING TERMS & KEY RATIOS REFERENCE GUIDE

FINANCIAL ESSENTIALS PROGRAM

BALANCE SHEET TERMS

ASSETS = LIABILITIES + EQUITY

• Assets	Resources owned by a business that provide future economic benefit.
• Current Assets	Assets expected to be converted to cash within one year.
• Accounts Receivable (A/R)	Money owed to the business by customers.
• Fixed Assets	Long-term assets used in operations.
• Liabilities	Obligations owed to others that must be paid in the future.
• Current Liabilities	Obligations due within one year.
• Accounts Payable (A/P)	Money the business owes vendors and suppliers.
• Debt	Borrowed funds that must be repaid.
• Owners' Equity	The owner's claim on the business.

INCOME STATEMENT TERMS

REVENUE − EXPENSES = NET INCOME

• Revenue	Income earned from providing goods or services.
• Cost of Goods Sold (COGS)	Direct costs of producing goods or delivering services.
• Gross Profit	Revenue remaining after deducting COGS.
• Gross Margin	Gross profit expressed as a % of revenue.
• Operating Expenses	Expenses required to run the business.
• EBITDA	Earnings before interest, taxes, depreciation, and amortization.
• Operating Income (EBIT)	Profit from operations before interest and taxes.
• Net Income	The amount remaining after all expenses have been deducted from revenue.

CASH FLOW STATEMENT TERMS

CASH IN − CASH OUT = NET CASH FLOW

• Cash Flow	The movement of cash into and out of a business.
• Operating Activities	Cash generated from normal business activities.
• Investing Activities	Cash used for purchasing or selling long-term assets.
• Financing Activities	Cash received from or paid to lenders and owners.
• Free Cash Flow	Expenses and capital expenditures.

KEY RATIOS

RATIO	FORMULA	WHAT IT MEASURES
• Current Ratio	Current Assets ÷ Current Liabilities	Short-term ability to meet obligations.
• Working Capital	Current Assets − Current Liabilities	Dollars available to fund day-to-day operations.
• Accounts Receivable Turnover (A/R Turns)	Annual Credit Sales ÷ Average A/R	How efficiently customers are paying.
• Days Sales Outstanding (DSO)	365 ÷ A/R Turns	Average days to collect from customers.
• Inventory Turnover	Cost of Goods Sold ÷ Average Inventory	How quickly inventory is sold and replaced.
• Days Inventory Outstanding (DIO)	365 ÷ Inventory Turns	Average days inventory remains on hand.
• Accounts Payable Turnover (A/P Turns)	Annual Purchases ÷ Average A/P	How efficiently vendor bills are paid.
• Days Payables Outstanding (DPO)	365 ÷ A/P Turns	Average days to pay vendors.
• Cash Conversion Cycle (Cash Cycle)	DSO + DIO − DPO	How long cash is tied up in operations.
• Debt-to-Equity Ratio	Total Liabilities ÷ Total Equity	Amount of debt used to finance the business.
• Gross Margin %	Gross Profit ÷ Revenue	Profit after direct costs as a % of revenue.
• Net Profit Margin %	Net Income ÷ Revenue	Overall profitability as a % of revenue.
• Return on Assets (ROA)	Net Income ÷ Total Assets	How effectively assets generate profit.
• Return on Equity (ROE)	Net Income ÷ Total Equity	Return generated for the owners.
• Return on Investment (ROI)	Net Profit ÷ Investment	Profit relative to investment.

REMEMBER A successful business leader understands three things:

1. **Profitability** Is the business making money?
2. **Liquidity** Does the business have enough cash?
3. **Financial Position** Is the business financially healthy?

The Balance Sheet, Income Statement, and Cash Flow Statement work together to answer these questions.

21 THE 21 IRREFUTABLE LAWS OF LEADERSHIP

BY JOHN C. MAXWELL

Follow these timeless principles to increase your influence, develop others, and leave a lasting legacy.

1 THE LAW OF THE LID
Leadership ability determines a person's level of effectiveness. The higher your capacity, the greater your impact.

2 THE LAW OF INFLUENCE
True leadership is influence—nothing more, nothing less.

3 THE LAW OF PROCESS
Leadership develops daily, not in a day. Growth requires intentional effort over time.

4 THE LAW OF NAVIGATION
Leaders chart the course. They see farther ahead and prepare others for the journey.

5 THE LAW OF ADDITION
Leaders add value by serving others and helping them succeed.

6 THE LAW OF SOLID GROUND
Trust is the foundation of leadership. Character and integrity build trust.

7 THE LAW OF RESPECT
People naturally follow leaders who are stronger or more capable than themselves.

8 THE LAW OF INTUITION
Leaders evaluate everything through a leadership lens and often sense opportunities and challenges before others do.

9 THE LAW OF MAGNETISM
You attract people who are like you. Your character and values shape the people you draw to your team.

10 THE LAW OF CONNECTION
Leaders touch a heart before they ask for a hand. People follow leaders who genuinely connect with them.

11 THE LAW OF THE INNER CIRCLE
A leader's potential is determined by those closest to them. Strong leaders build strong teams.

12 THE LAW OF EMPOWERMENT
Great leaders give power away by developing and trusting others.

13 THE LAW OF THE PICTURE
People do what people see. Leaders must model the behavior they expect.

14 THE LAW OF BUY-IN
People buy into the leader before they buy into the vision. Trust and credibility come first.

15 THE LAW OF VICTORY
Leaders find a way for the team to win, regardless of obstacles.

16 THE LAW OF THE BIG MO
Momentum is a leader's best friend. Success creates energy that makes future success easier.

17 THE LAW OF PRIORITIES
Activity is not necessarily accomplishment. Leaders focus on what matters most.

18 THE LAW OF SACRIFICE
Leaders must give up to go up. Greater leadership requires greater sacrifice.

19 THE LAW OF TIMING
Knowing what to do is important; knowing when to do it is equally critical.

20 THE LAW OF EXPLOSIVE GROWTH
To add growth, lead followers. To multiply growth, develop leaders.

21 THE LAW OF LEGACY
A leader's lasting value is measured by succession and the impact left behind.

MAXWELL'S CENTRAL MESSAGE
Leadership is not about authority or position. It is about influence, service, development of others, and leaving a legacy.

INFLUENCE | SERVE | DEVELOP | LEAVE A LEGACY