As a small business owner, you may not have a background in finance, and learning all the terms and concepts that come up when running a business may seem intimidating. Financial literacy is a critical skill to learn when starting a small business. AARP offers several courses from Financial Planning and Control, to Understanding and Managing Budgets. See which courses you’d benefit from here.

To get you started, here are a list of common terms that every small business owner should know:

- **Revenue** - Total income generated from all goods and services sold by your business
- **Profit** - Revenue generated subtracted by the total cost of operating your business
- **Accounts payable** - Payments that your business owns to suppliers or vendors for products that you received
- **Accounts receivable** - Payments that customers owe to your business for goods/services you’ve provided to them
- **Assets** - What your business owns. This can range from physical assets like machinery and inventory, to items like intellectual property
- **Liability** - The total debts your business is legally obligated to pay
- **Profit Margin** - The percentage of your total revenue that you keep as profit
- **Bottom Line** - The net profit of your business operations
- **Break-Even Point** - The amount of goods/services your business needs to sell to have your revenue equal costs
- **Cash Flow** - The net amount of cash that is coming into your business after both revenue and payments
- **Markup** - The difference between what it costs to make or provide your goods/services, and what you charge your customers
- **Working Capital** - The liquid value of your net business assets
- **Overhead** - The day-to-day costs of running your business (i.e. rent, labor, materials)
- **Turnover** - The total sales made by your business in a given period of time
Additionally, here are some common formulas small business owners should know when reviewing finances:

- **Net Profit Margin**
  Formula: Net Profit After Taxes / Net Sales

- **Gross Profit Margin Ratio**
  Formula: Gross Profit = (Revenue – Cost of Goods Sold) / Revenue

- **Profit Margin Ratio**
  Formula: Profit Margin = (Revenue – Expenses) / Revenue

- **Quick Ratio (also known as “The Acid Test”)**
  Formula: Quick Ratio = (Cash + Marketable Securities + Accounts Receivable) / Current Liabilities

- **ROI (Return on Investment) Ratio**
  Formula: ROI Ratio = (Gain from Investment – Cost of Investment) / Cost of Investment

- **Current Ratio**
  Formula: Current Ratio = Current Assets / Current Liabilities

- **Common Size**
  Formula: Common Size Ratio = Line Item / Total

For more information, resources, and guidance, check out the **Small Business Resource Center for the 50+** at https://www.smallbizrc.org/