

# FINANCIAL STATEMENT ANALYSIS

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**HORIZONTAL ANALYSIS:** Income Statement or Balance Sheet data for relevant periods are placed side by side. Absolute and relative (percentage) changes between periods are calculated and compared.

**TREND ANALYSIS:** A type of horizontal analysis in which the time period is extensive and the number of items analyzed is often minimized. Trend analysis is often done on both an absolute and relative (percentage) basis.

**VERTICAL ANALYSIS:** The components of an Income Statement or Balance Sheet are expressed as a percentage of a key component, often Net Sales for the Income Statement and Total Assets for the Balance Sheet.

**RATIO ANALYSIS:** Related financial statement items are contrasted to better understand their interrelationship, especially as these interrelationships pertain to liquidity, profitability, leverage, and solvency.

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Data generated by these four types of analysis is often contrasted with industrial norms for a similar size company. Allowance must often be made for the current stage of the business cycle.

## I. HORIZONTAL AND VERTICAL ANALYSIS

FUTURE HORIZONS CORPORATION Comparative Balance Sheet December 31, 2002							
Assets	2002	2001	HORIZONTAL ANALYSIS		VERTICAL ANALYSIS 2002	VERTICAL ANALYSIS 2001	
			CHANGE	% CHANGE			
<b>Current Assets</b>							
Cash	\$ 30,000	\$ 25,000	\$ 5,000	20.0	5.7	5.3	
Accounts Receivable (Net)	90,000	50,000	40,000	80.0	17.0	10.7	
Inventory	80,000	90,000	(10,000)	(11.1)	15.1	19.2	
Prepaid Expenses	19,000	10,000	9,000	90.0	3.6	2.1	
<b>Total Current Assets</b>	<b>\$219,000</b>	<b>\$175,000</b>	<b>\$44,000</b>	<b>25.1</b>	<b>41.4</b>	<b>37.3</b>	
<b>Investments</b>	<b>\$ 50,000</b>	<b>\$ 64,000</b>	<b>(\$14,000)</b>	<b>(21.9)</b>	<b>9.5</b>	<b>13.7</b>	
<b>Plant Assets</b>							
Various Assets	\$320,000	\$280,000	\$40,000	14.3	60.5	59.7	
Accumulated Depreciation	60,000	50,000	10,000	20.0	11.3	10.7	
<b>Net Plant Assets</b>	<b>\$260,000</b>	<b>\$230,000</b>	<b>\$30,000</b>	<b>13.0</b>	<b>49.1</b>	<b>49.0</b>	
<b>Total Assets</b>	<b>\$529,000</b>	<b>\$469,000</b>	<b>\$60,000</b>	<b>12.8</b>	<b>100.0</b>	<b>100.0</b>	
<b>Liabilities</b>							
<b>Current Liabilities</b>							
Accounts Payable	\$ 50,000	\$ 40,000	\$10,000	25.0	9.5	8.5	
Accrued Liabilities	8,000	10,000	( 2,000)	(20.0)	1.5	2.1	
Income Taxes Payable	5,000	8,000	( 3,000)	(37.5)	.9	1.7	
<b>Total Current Liabilities</b>	<b>\$ 63,000</b>	<b>\$ 58,000</b>	<b>\$ 5,000</b>	<b>8.6</b>	<b>11.9</b>	<b>12.4</b>	
<b>Long-Term Liabilities</b>							
Bonds Payable	\$100,000	\$ 90,000	\$ 10,000	11.1	18.9	19.2	
<b>Total Liabilities</b>	<b>\$163,000</b>	<b>\$148,000</b>	<b>\$ 15,000</b>	<b>10.1</b>	<b>30.8</b>	<b>31.6</b>	
<b>Stockholders' Equity</b>							
Common Stock, \$5 Par	\$100,000	\$ 87,000	\$ 13,000	14.9	18.9	18.6	
Preferred Stock	100,000	100,000	- 0 -	-0-	18.9	21.3	
Paid in Capital in Excess	66,000	53,000	13,000	24.5	12.5	11.3	
Retained Earnings	100,000	81,000	19,000	23.5	18.9	17.3	
<b>Total Stockholders' Equity</b>	<b>\$366,000</b>	<b>\$321,000</b>	<b>\$ 45,000</b>	<b>14.0</b>	<b>69.2</b>	<b>68.4</b>	
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$529,000</b>	<b>\$469,000</b>	<b>\$ 60,000</b>	<b>12.8</b>	<b>100.0</b>	<b>100.0</b>	

Note: Data taken from page 108.

FUTURE HORIZONS CORPORATION  
Comparative Income Statement  
For the Year Ended December 31, 2002

	2002	2001	HORIZONTAL ANALYSIS		VERTICAL ANALYSIS 2002	VERTICAL ANALYSIS 2001
			CHANGE	% CHANGE		
Sales (Net)	\$479,600	\$410,000	\$ 69,600	17.0	100.0	100.0
Cost of Goods Sold	285,000	250,000	35,000	14.0	59.4	61.0
Gross Profit	\$194,600	\$160,000	\$ 34,600	21.6	40.6	39.0
Operating Expenses (Depreciation = \$20,000)	110,000	98,000	12,000	12.2	22.9	23.9
<b>Operating Income</b>	<b>\$ 84,600</b>	<b>\$ 62,000</b>	<b>\$ 22,600</b>	<b>36.5</b>	<b>17.7</b>	<b>15.1</b>

Note: 2002 data taken from page 108, other data not given in Quick Notes.

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