Quick Question On Financial Analysis

Use horizontal and vertical analysis to analyze the change in income-earning ability of the Consistency Corporation between 1993 and 1994. Use trend analysis to analyze the change in sales, cost of goods sold, and net income that occurred between 1991 and 1994.

Consistency Corporation
Comparative Income Statement
December 31, 1994

					1993-1994 Horizontal Analysis		1993-1994 Vertical Analysis	
	1991	1992	1993	1994	Change	% Change	1993	1994
Sales	$100,000	$120,000	$144,000	$172,800	$28,800	20	100	100
Cost of Goods Sold	50,000	60,000	72,000	86,400	14,400	20	50	50
Gross Profit	$ 50,000	$ 60,000	$ 72,000	$ 86,400	$14,400	20	50	50
Total Expenses	40,000	48,000	57,600	69,120	11,520	20	40	40
Net Income Before Taxes	$ 10,000	$ 12,000	$ 14,400	$ 17,280	$ 2,880	20	10	10

Trend Analysis

	1991	1992	1993	1994	
Sales	$100,000	$120,000	$144,000	$172,880	Sales are increasing at a rate of 20% and
Change		$ 20,000	$ 24,000	$ 28,880	
% Change		20%	20%	20%	

	1991	1992	1993	1994	
Cost of Goods Sold	$50,000	$60,000	$72,000	$86,400	costs are increasing at a rate of 20% causing
Change		$10,000	$12,000	$14,400	
% Change		20%	20%	20%	

	1991	1992	1993	1994	
Net Income Before Taxes	$10,000	$12,000	$14,400	$17,280	profit to increase by 20%.
Change		$2,000	$2,400	$2,880	
% Change		20%	20%	20%	

ANALYSIS:

This generic example is designed to demonstrate the relationship between sales, cost of goods sold, and expenses. If these factors increase at a constant rate, then Gross Profit and Net Income will increase at the same rate. The odds of a real-life problem with constant increases is small, though some stable, non-cyclical industries often show similar rates of change from year to year. A more common and equally interesting example appears on the next page.