

CH10 - Financial Analysis

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Info – Horizontal Analysis

- Study of percentage changes from year-to-year
- $\frac{\text{New Dollar} - \text{Older Dollar}}{\text{Old Dollar}}$
- Trend % = $\frac{\text{Any Year}}{\text{Base Year}}$

Info – Vertical Analysis

- Shows relationship between financial statement to its base
- Vertical Analysis Income Statement % = $\frac{\text{Each income statement item}}{\text{revenue}}$
- Vertical Analysis Balance Sheet % = $\frac{\text{Each Asset Item}}{\text{Total Assets}}$ or = $\frac{\text{Each L + SE Item}}{\text{Total L + SE}}$

Info – Common Size Statement

- Report only vertical analysis percents, in % of revenue
 - No dollar amount
- Help in the comparison of different companies
- Financial result in terms of a common denominator