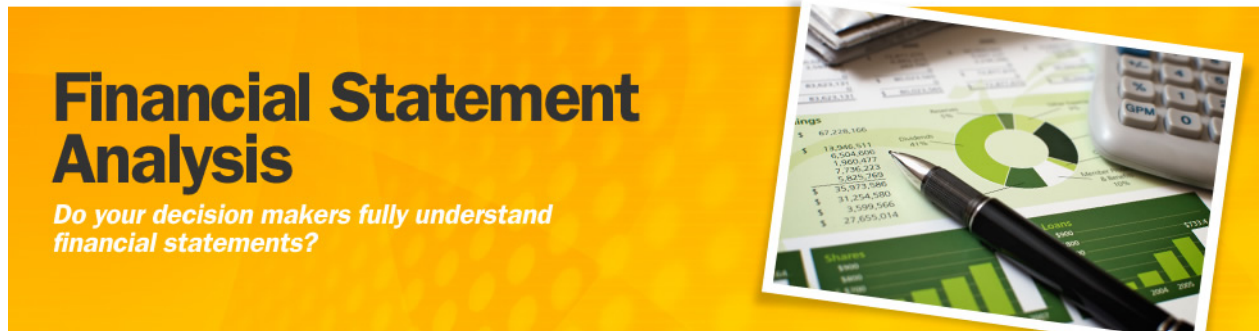


## Financial Analysis

### Common Size Financial Statements/ Financial Statement Analysis



Let's first decide WHO wants to see our financial statements! We, as the accountants prepare the work. We do so for various parties. This includes our bosses, the Board of Directors for our company, auditors, employees and stockholders. We want to summarize the data using various forms of analysis, so that the users do not get overwhelmed. Remember, they may not be as educated in accounting as we are! We need to keep it simple! The methods that are often used are:

- Horizontal Analysis
- Vertical Analysis
- Ratio Analysis

#### **\*\*Video Alert\***

The following video is an introduction to financial statement analysis, explaining WHY we want to do this!

<http://www.youtube.com/watch?v=8DmChanpSmw&feature=fvsr>

Horizontal analysis just compares the percentage change in each of the accounts. For example, if Sales are \$900,000 in 2011 and \$800,000 in 2010 the difference is +12.5%. We do this for all the accounts and then try to explain WHY there are these changes.

In Vertical Analysis, we compare the change in an account to ONE set marker. For example, we may determine that we wish to compare all changes in all accounts to

SALES. This shows us trends in another way. Are cost of the goods still a decent percentage of sales? How has it changed from last year?

**\*\*Video Alert\***

This video covers horizontal and vertical analysis!

<http://www.youtube.com/watch?v=qYg0FjG5xng>



Ratio analysis is really fun! We compute various fractions with formulas that we are given. We then take these results and compare them to the prior year's ratios. Why did it change? Did it change at all?

We can also take these ratios and compare them to our competition. Home Depot has a high current ratio (just for our example). If we are Lowes, we will want to know if we are as good! So we will compare our ratios against theirs!

**\*\* Web Site Alert\*\***

Click here for great info on ratios!

<http://member.accountingcoach.com/explanations/PDF/FinancialRatios.pdf>

**Enjoy your week!**

Debra Touhey, MSA, CFE

Reference

[Edmonds, T. O., & Tsay, B. \(2012\). Survey of Accounting \(3rd edition ed.\). New York: McGraw-Hill Irwin.](#)

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