

## Quick Question On Financial Analysis

Use horizontal and vertical analysis to analyze the change in income-earning ability between 1993 and 1994 for the I'll Get Rich Corporation. Use trend analysis to analyze the change in sales, cost of goods sold, gross profit, total expenses, and net income that occurred between 1991 and 1994.

### I'll Get Rich Corporation Comparative Income Statement December 31, 1994

|                         |                 |                 |                 |                 | 1993-1994<br>Horizontal Analysis |          | 1993-1994<br>Vertical Analysis |             |
|-------------------------|-----------------|-----------------|-----------------|-----------------|----------------------------------|----------|--------------------------------|-------------|
|                         | 1991            | 1992            | 1993            | 1994            | Change                           | % Change | 1993                           | 1994        |
| Sales                   | \$10,000        | \$12,000        | \$15,000        | \$20,000        | \$5,000                          | 33.3     | 100.0                          | 100.0       |
| Cost of Goods Sold      | <u>5,000</u>    | <u>6,000</u>    | <u>7,000</u>    | <u>8,000</u>    | <u>1,000</u>                     | 14.3     | <u>46.7</u>                    | <u>40.0</u> |
| Gross Profit            | \$ 5,000        | \$ 6,000        | \$ 8,000        | \$12,000        | 4,000                            | 50.0     | 53.3                           | 60.0        |
| Total Expenses          | <u>4,000</u>    | <u>4,800</u>    | <u>6,000</u>    | <u>7,000</u>    | <u>1,000</u>                     | 16.7     | <u>40.0</u>                    | <u>35.0</u> |
| Net Income Before Taxes | <u>\$ 1,000</u> | <u>\$ 1,200</u> | <u>\$ 2,000</u> | <u>\$ 5,000</u> | <u>\$3,000</u>                   | 150.0    | <u>13.3</u>                    | <u>25.0</u> |

Sales are increasing more than costs and expenses causing both Gross Profit and Net Income to increase substantially.

### Trend Analysis

|                         |          |                 |                  |                  |  |
|-------------------------|----------|-----------------|------------------|------------------|--|
| Sales                   | 1991     | 1992            | 1993             | 1994             | Sales are increasing at an increasing rate and       |
| Change                  | \$10,000 | \$12,000        | \$15,000         | \$20,000         |  |
| % Change                |          | \$ 2,000<br>20% | \$ 3,000<br>25%  | \$ 5,000<br>33%  |  |
| Cost of Goods Sold      | 1991     | 1992            | 1993             | 1994             | costs are increasing at a decreasing rate causing    |
| Change                  | \$5,000  | \$6,000         | \$7,000          | \$8,000          |  |
| % Change                |          | \$1,000<br>20%  | \$1,000<br>16.7% | \$1,000<br>14.3% |  |
| Gross Profit            | 1991     | 1992            | 1993             | 1994             | Gross Profit to increase at an increasing rate.      |
| Change                  | \$5,000  | \$6,000         | \$8,000          | \$12,000         |  |
| % Change                |          | \$1,000<br>20%  | \$2,000<br>33.3% | \$ 4,000<br>50%  |  |
| Total Expenses          | 1991     | 1992            | 1993             | 1994             | Expenses are increasing at a decreasing rate causing |
| Change                  | \$4,000  | \$4,800         | \$6,000          | \$7,000          |  |
| % Change                |          | \$ 800<br>20%   | \$1,200<br>25%   | \$1,000<br>16.7% |  |
| Net Income Before Taxes | 1991     | 1992            | 1993             | 1994             | profit to increase at an increasing rate.            |
| Change                  | \$1,000  | \$1,200         | \$2,000          | \$5,000          |  |
| % Change                |          | \$ 200<br>20%   | \$ 800<br>66.7%  | \$3,000<br>150%  |  |