Balance Sheet
Capital expenditure
Revenue expenditure
Four fold classification
Goals of finance
Top line
Bottom line
Sources of finance
Convertible Debenture
Ploughing back of profits
EPS
Basic EPS
Diluted EPS
Bonus Shares (Capitalisation of reserves)

Market capitalisation (M cap)
Trading on equity
Window dressing (under provisioning)
Capital market
Primary market
Commercial paper
Cost of goods sold
Above the line & below the line
Charge and appropriation
ZTC and MAT
EOQ
Break even point

Horizontal Analysis

- The analysis of increases and decreases in the amount and percentage of comparative financial statement items is called **horizontal analysis**.
  - Each item on the most recent statement is compared with the same item on one or more earlier statements in terms of the amount of increase or decrease and the percent of increase or decrease.
- When comparing statements, the earlier statement is normally used as the base year for computing increases and decreases.

- **Horizontal analysis** (also known as *trend analysis*) is a financial statement analysis technique that shows changes in the amounts of corresponding financial statement items over a period of time. It is a useful tool to evaluate the trend situations.
- The statements for two or more periods are used in horizontal analysis. The earliest period is usually used as the base period and the items on the statements for all later periods are compared with items on the statements of the base period. The changes are generally shown both in dollars and percentage.
- Dollar and percentage changes are computed by using the following *formulas*:
- Horizontal analysis may be conducted for balance sheet, income statement, schedules of current and fixed assets and statement of retained earnings.

Next Page Click Here

Horizontal Analysis
– Balance Sheet

20A is the base year

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Comparative Balance Sheets
December 31, 20B and 20A

			Increase (Decrease)	
	20B	20A	Amount	%
Assets				
Current assets:				
Cash	$ 12,000	$ 23,500	$ (11,500)	(48.9)
Accounts receivable, net	60,000	40,000	20,000	50.0
Inventory	80,000	100,000	(20,000)	(20.0)
Prepaid expenses	3,000	1,200	1,800	150.0
Total current assets	[illegible]	[illegible]	[illegible]	(5.9)
Property and equipment:				
Land	40,000	40,000	-	0.0
Buildings and equipment	[illegible]	[illegible]	[illegible]	[illegible]
Total property and equipment	[illegible]	[illegible]	[illegible]	[illegible]
Total assets	$ 315,000	$ 289,700	$ 25,300	8.7

$\$12,000 - \$23,500 = \$(11,500)$

$(\$11,500 \div \$23,500) \times 100\% = 48.9\%$

Comparative Schedule of Current Assets
December 31, 2008 and 2007

	2008 ($)	2007 ($)	Increase or (Decrease)	
			Amount	Percent
Cash	90,500	64,700	25,800	39.9%
Marketable securities	75,000	60,000	15,000	25.0%
Accounts receivables (net)	115,400	120,000	(5,000)	(4.2)%
Merchandise inventory	264,000	283,000	(19,000)	(6.7)%
Prepaid expenses	5,500	5,300	200	3.8%
	550,000	533,000	17,000	3.2%

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Hoirzontal Analysis of Comparative Balance Sheets
For Years Ended December 31, 2014 and 2013

	2014	2013	Increase or Decrease Amount	Increase or Decrease Percent
Assets				
Cash	$ 33,000	$ 28,000	$ 5,000	17.86%
Marketable securities	20,000	22,000	(2,000)	(9.09%)
Notes Receivable	5,000	3,000	2,000	66.67%
Accounts Receivable	50,000	56,000	(6,000)	(10.71%)
Merchandise Inventory	70,000	43,000	27,000	62.79%
Prepaid expenses	6,000	4,000	2,000	50.00%
Total current assets	184,000	156,000	28,000	17.95%
Property, plant, and equipment	340,000	310,000	30,000	9.68%
Total assets	$ 524,000	$ 466,000	58,000	12.45%
Liabilities				
Accounts payable	$ 41,000	$ 38,000	$ 3,000	7.32%
Salaries payable	2,000	3,500	(1,500)	(75.00%)
Taxes payable	4,000	2,000	2,000	50.00%
Total current liabilities	47,000	43,500	3,500	7.45%
Bonds payable, 5%	100,000	100,000	-	0.00%
Total liabilities	147,000	143,500	3,500	2.38%
Stockholder's equity:				
Preferred stock 6%,	40,000	40,000	-	0.00%
Common stock	175,000	145,500	29,500	16.86%
Retained earnings	162,000	137,000	25,000	15.43%
Total stockholder's equity	377,000	322,500	54,500	14.46%
Total liabilities and stockholders equity	$ 524,000	$ 466,000	58,000	11.07%

Comparative Balance Sheet with Horizontal Analysis
ABC Company Ltd.
Balance Sheet, December 31, 2012 and December 31, 2011

(₹'000)

	Dec. 31, 2012	Dec. 31, 2011	Increase (Decrease)	Percent Change
Assets				
Current Assets:				
Cash	₹ 5,500	₹ 4,200	₹ 1,300	31.0
Marketable Securities	1,500	2,400	(900)	(37.5)
Accounts Receivable (less allowance for uncollectible accounts of ₹ 2,400 in 2012 and ₹ 2,000 in 2011)	61,600	52,000	9,600	18.5
Inventory [lower of cost or market]	76,000	63,000	13,000	20.6
Prepaid Expenses	900	600	300	50.0
Total Current Assets	₹ 1,45,500	₹ 1,22,200	₹ 23,300	19.1
Long-term Assets:				
Property, Plant, and Equipment (net of accumulated depreciation)	₹ 45,000	₹ 40,000	₹5,000	12.5
Investments	1,800	1,600	200	12.5
Total Long-term Assets	₹ 46,800	₹ 41,600	₹ 5,200	12.5
Total Assets	₹ 1,92,300	₹ 1,63,800	₹ 28,500	17.4
Liabilities and Shareholders' Equity				
Liabilities				
Current Liabilities:				
Notes Payable	₹ 5,700	₹ 3,000	₹ 2,700	90.0
Accounts Payable	22,000	24,100	(2,100)	(8.7)
Accrued Liabilities	30,000	27,300	2700	9.9
Total Current Liabilities	₹ 57,700	₹ 54,400	₹3,300	6.1
Long-term Liabilities:				
12% Debenture Bonds Payable	₹ 25,000	₹ 20,000	₹ 5,000	25.0
Total Liabilities	₹ 82,700	₹ 74,400	₹ 8,300	11.2
Shareholders' Equity				
10% Preferred Stock, ₹ 100 Par Value	8,000	8,000	—	—
Common Stock, ₹ 5 Par Value	20,000	14,000	6,000	42.9
Paid-in Capital in Excess of Par Value	7,500	5,500	2,000	36.4
Retained Earnings	74,100	61,900	12,200	19.7
Total shareholders' Equity	₹ 1,09,600	₹ 89,400	₹ 20,200	22.6
Total Liabilities and Stockholders' Equity	₹ 1,92,300	₹ 1,63,800	₹ 28,500	17.4

Exhibit 15.1: Comparative Balance sheet with Horizontal Analysis

Vertical Analysis

- The percentage analysis of the relationship of each component in a financial statement to a total within the statement is called **vertical analysis**.
- In a vertical analysis of the balance sheet, the percentages are computed as follows:
  - Each asset item is stated as a percent of the total assets.
  - Each liability and stockholders' equity item is stated as a percent of the total liabilities and stockholders' equity.
- In a vertical analysis of the income statement, each item is stated as a percent of sales.

Common-Sized Statements

- In a **common-sized statement**, all items are expressed as percentages, with no dollar amounts shown.
- Common-sized statements are useful for comparing one company with another or comparing a company with industry averages.

Summary of Analytical Measures

(slide 1 of 2)

Liquidity and Solvency Measures

	Method of Computation	Use
Working Capital	Current Assets – Current Liabilities	To indicate the ability to meet currently maturing obligations (measures solvency)
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	
Quick Ratio	$\frac{\text{Quick Assets}}{\text{Current Liabilities}}$	To indicate instant debt-paying ability (measures solvency)
Accounts Receivable Turnover	$\frac{\text{Sales}}{\text{Average Accounts Receivable}}$	To assess the efficiency in collecting receivables and in the management of credit (measures liquidity)
Numbers of Days' Sales in Receivables	$\frac{\text{Average Accounts Receivable}}{\text{Average Daily Sales}}$	
Inventory Turnover	$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$	To assess the efficiency in the management of inventory (measures liquidity)
Number of Days' Sales in Inventory	$\frac{\text{Average Inventory}}{\text{Average Daily Cost of Goods Sold}}$	
Ratio of Fixed Assets to Long-Term Liabilities	$\frac{\text{Fixed Assets (net)}}{\text{Long-Term Liabilities}}$	To indicate the margin of safety to long-term creditors (measures solvency)
Ratio of Liabilities to Stockholders' Equity	$\frac{\text{Total Liabilities}}{\text{Total Stockholders' Equity}}$	To indicate the margin of safety to creditors (measures solvency)
Number of Times Interest Charges Are Earned	$\frac{\text{Income Before Income Tax + Interest Expense}}{\text{Interest Expense}}$	To assess the risk to debtholders in terms of number of times interest charges were earned (measures solvency)
Number of Times Preferred Dividends Are Earned	$\frac{\text{Net Income}}{\text{Preferred Dividends}}$	To assess the risk to preferred stockholders in terms of the number of times preferred dividends were earned (measures solvency)