

CONCEPT: VERTICAL ANALYSIS

- A **vertical analysis** evaluates a financial statement line item as a _____ of its “base.”

□ The base item will always be equal to 100%. The base used is different for each financial statement:

- **Income Statement Base** → _____

- **Balance Sheet Base** → _____ and _____

□ Next, find the percentage of the base for every other line item using the following formula:

$$\text{Percentage of Base} = \frac{\text{Line Item Amount}}{\text{Base Amount}}$$

EXAMPLE: Complete a vertical analysis of the following Income Statement for 2018 and 2017:

	2018	2018 Percentage of Total	2017	2017 Percentage of Total
Net Sales	65,455		58,081	
Cost of Goods Sold	54,912		45,377	
Gross Profit	10,543		12,704	
<i>Operating Expenses</i>				
Rent Expense	2,411		2,411	
Selling Expense	982		871	
Depreciation Expense	1,400		902	
Total Operating Exp.	4,793		4,184	
Income from Operations	5,750		8,520	
Interest Expense	480		400	
Other Expenses	70		120	
Income before Taxes	5,200		8,000	
Income Tax Expense	2,080		3,200	
Net Income	3,120		4,800	

PRACTICE: Complete a vertical analysis of the following balance sheet:

	20X2	20X2 Percentage of Total	20X1	20X1 Percentage of Total
Cash	26,211		18,514	
Accounts Receivable	15,912		18,530	
Inventory	6,424		16,028	
PPE, net	23,160		17,040	
Total Assets	71,707		70,112	
Accounts Payable	9,562		13,759	
Accrued Expenses	6,117		6,241	
Long-term Debt	30,000		25,000	
Common Stock	1,000		1,000	
APIC	19,000		19,000	
Retained Earnings	6,028		5,112	
Total Liabilities & Stockholders' Equity	71,707		70,112	