

Horizontal Analysis of Financial Statements with Examples & Steps

Horizontal analysis involves the financial statement data just like the one where it starts to compare the values of the financial items in various periods. Calculating the horizontal analysis or trend analysis of balance sheets means examining the fluctuations of the numbers over periods. You look at figures for two or more years. This indicates whether a firm is expanding or losing cash. It assists in analyzing financial statements. It helps in comparing business performance with that of the previous year. To sum up, horizontal analysis of financial statements provides the trend and change in the business in a transparent way.

What are Financial Statements? How to Perform Horizontal Analysis in Accounting to perform vertical analysis vs horizontal analysis Differences Horizontal Analysis vs Vertical Analysis Example along with comparative financial statements

What is a Financial Statement?

[Financial statements](#) show a company's financial health. They describe how much a company makes, spends, owns and owes. Companies rely on them to gauge their success. Banks and investors also use them before they make their decisions. Anyone studying finance or accounting needs to understand financial statements.

Types of Financial Statements

The most common financial statements are four types:

- **Income Statement** – This displays a company's revenues and costs. It indicates whether the company has made a profit or loss.
- **Balance Sheet:** This shows what the [company](#) has (assets) and owes (liabilities). It also displays the owner's equity.
- **Cash Flow Statement:** Tells where the business generated cash from and where it was spent.
- **Statement of Changes in Equity** – This report illustrates how money in the owner's pockets changed over time.

Each financial statement is a vital part of the big picture of a company's status. A proper financial statement analysis can only be performed when you aggregate several years of these statements together." Horizontal analysis in accounting is one such effective way to achieve this.

The Importance of Financial Statements for Analyses

Students should develop an understanding of how to read these statements, particularly in India. They aren't just for large organizations. Small businesses also use them. This topic has many questions in schools and colleges. You can also apply this knowledge in real life. When you are about to start a business, you require such reports.

Here, you also check how you performed in your business in 2023 and 2024 through horizontal [balance sheet](#) analysis or income statement check, and you use these reports.

Horizontal Analysis in Accounting

That sounds terrible unless you are looking for a way of performing horizontal analysis in accounting. You need to go through the steps and apply formulas to achieve the correct output. This requires you to have the horizontal analysis formula handy as well.

What is Horizontal Analysis?

It means measuring how quantities change over time. For example, you check the change if sales were ₹10,00,000 last year and ₹12,00,000 this year. You see both the volume and period move from one to the other. This will tell you if your sales are up or down.

Horizontal Analysis Formula

Horizontal Analysis (absolute) = Amount in Comparison Year — Amount in Base Year

Horizontal Analysis (%) =
$$\frac{\text{Amount in Comparison Year} - \text{Amount in Base Year}}{\text{Amount in Base Year}} \times 100$$

How to Perform Horizontal Analysis?

Step 1: Choose the Period

Select Two or More Years for Comparison. The most common selection is this year and last year.

Step 2: Gather the Financial Statements

Consider comparative financial statements. These feature data from each year next to each other.

Step 3: Apply the Horizontal Analysis Formula

The formula is:

(Amount Year N — Amount Year N – 1) / Amount Year N – 1 x 100

This provides the percentage change.

Step 4: Document the Change Amount

Take the new one and subtract the old amount from it. Write the result.

Step 5: Calculate percentage change

Apply the formula above and articulate the growth or decline in percentage.

Step 6: Analyze the Result

See which numbers went down and which went up. Try to find out why. This gives useful insights.

Item	2023 (₹)	2024 (₹)	Amount Change (₹)	% Change
Sales Revenue	10,00,000	12,00,000	2,00,000	20%

Operating Expense	4,00,000	4,50,000	50,000	12.5%
Net Profit	2,00,000	2,50,000	50,000	25%

From this table, you can see revenue has increased by 20%. That is a good sign. But expenses also increased. So, profit grew by 25%.

Why Students Should Know These Steps?

It helps with step-by-step methods, especially when preparing for your exams or if you want to be an accountant. In Indian exams, horizontal analysis has questions like "how to do horizontal analysis" & "apply horizontal analysis formula to find changes."

This is a fundamental aspect of financial education and a way of thinking about corporate expansion. Rewrite this method again and again. That is how you improve horizontal analysis in [accounting](#).

Horizontal Analysis vs. Vertical Analysis

Horizontal and [vertical analysis](#) can help you understand the financial statements. But they are not the same. Many students mix them up. So, Let us clarify them dialogue-wise.

Introduction to Both Analyses

This is a horizontal one as it compares the financial statements over the years. It shows trends over time. It tests the tendency of change. In contrast, vertical analysis tests the size of each item in a single year. It represents each item as a component of a whole. Now, let's go through them in detail one by one.

What is Horizontal Analysis?

As mentioned before, horizontal analysis measures growth from one year to another. It uses percentages to find growth. It answers questions like:

- Did [sales](#) increase this year?
- Did costs go down?

To calculate percentage change, you apply the horizontal analysis formula.

What is Vertical Analysis?

Vertical analysis is done only for a year. It establishes a baseline number such as "total sales" or "total [assets](#)." Then, it considers other figures as a percentage of the base.

For instance, if sales are ₹1,00,000, and the cost of goods is ₹40,000, then the cost is 40% of sales. This allows for comparisons where companies are different sizes in the same year.

Feature	Horizontal Analysis	Vertical Analysis
Time Focus	Multiple years	Single year
Base	Previous year's value	Total sales or total assets of same year
Use	Check trends	Check structure or proportion

Formula	$(\text{New} - \text{Old}) \div \text{Old} \times 100$	$\text{Item} \div \text{Total} \times 100$
Used For	Growth analysis	Ratio or internal analysis

Why This Comparison Matters?

If you prepare for exams or engage in financial statement analysis, you must follow that. Theoretical question or Sum based on horizontal analysis vs vertical analysis — You may be asked to define the difference between horizontal analysis and vertical analysis.

Accountants do both types of analysis in practical jobs. So, learn both. But keep in mind: horizontal analysis displays the change over some time, and vertical analysis shows the item-wise proportion in a single year. They are both integral components of analysis.

Example of Horizontal Analysis With Comparative Financial Statements

For the horizontal analysis, let us look at the example using real numbers to understand our topic completely. This is the part that helps you apply everything that you learnt beforehand.

What Is a Comparative Financial Statement?

These financial statements present the numbers of two or more years side by side. You do so for horizontal analysis in accounting. These statements are used to prepare horizontal balance sheet analysis as well as horizontal income statements.

Example of Horizontal Income Statement

For example, say we have the data for a company:

Income Statement Item	2022 (₹)	2023 (₹)	Change (₹)	Change (%)
Sales	15,00,000	18,00,000	3,00,000	20%
Cost of Goods Sold	8,00,000	9,00,000	1,00,000	12.5%
Gross Profit	7,00,000	9,00,000	2,00,000	28.6%
Operating Expenses	2,00,000	2,50,000	50,000	25%
Net Profit	5,00,000	6,50,000	1,50,000	30%

The horizontal analysis example in sales increased by 20%. Expenses increased as well, but profits climbed at a quicker pace. This further indicates how the business was doing.

Example of Horizontal Balance Sheet Analysis

Balance Sheet Item	2022 (₹)	2023 (₹)	Change (₹)	Change (%)
Total Assets	25,00,000	30,00,000	5,00,000	20%

Total Liabilities	10,00,000	12,00,000	2,00,000	20%
Shareholder's Equity	15,00,000	18,00,000	3,00,000	20%

This horizontal balance sheet analysis indicates the company is growing. Assets and equity went up. That is a healthy sign.

Why This Example Helps?

These examples help you with your studies and working in the accounting field if you prepare for exams. And they also help you understand how to do horizontal analysis. Indian students do a background study on such examples for a good score in a study in addition to attaining a job.

Relevance to ACCA Syllabus

Horizontal analysis: A key component of financial reporting and analysis covered in several [ACCA](#) papers, including FR (Financial Reporting), SBR (Strategic Business Reporting), and PM (Performance Management). This assists ACCA candidates in analyzing financial trends over time, comparing values between periods, and analyzing performance figures, which are crucial for financial decision-making and business evaluations. All the financial statements combined provide a complete picture of the company, and familiarity with this tool is essential for interpreting and presenting financial statements in accordance with international accounting standards.

Horizontal Analysis of Financial Statements ACCA Questions

Q1: Horizontal analysis compares primarily which of the following?

- (A) Financial ratios of a company versus industry averages
- B) Financial data across different firms
- C) Financial statements under varying frameworks of accounting
- D) Financial results for two or more periods

Ans: D) Results of financials of two or more than two periods

Q2: Which of the following is calculated in horizontal analysis to figure out trends?

- A) Time Based Absolute Changes and %,
- B) Current year data only
- C) Common-size ratios
- D) Variances compared with industry benchmark

Ans: A) Timing, absolute changes and percentage changes

Q3: Suppose net income has increased from ₹50,000 to ₹75,000 over a year; what is the percentage change in net income?

- A) 25%
- B) 33.3%

C) 50%

D) 60%

Ans: C) 50%

Q4: How does horizontal analysis benefit financial decision-making?

A) Segment-wise analysis across similar firms

B) It assesses adherence to regulations

C) It displays trends and patterns in financial performance

D) It translates all amounts into base year terms

Ans: C) Trends and patterns in Financial Performance

Q5: Which ACCA exam paper is really about financial statement analysis tools such as horizontal analysis?

A) PM

B) FR

C) SBR

D) All of the above

Ans: D) All of the above

Relevance to US CMA Syllabus

Horizontal analysis in the us [CMA syllabus](#) is of utmost importance, especially in Part 1 (Financial Planning, Performance & Analytics). [CMAs](#) use this tool to analyze variations in income statements and balance sheets across periods. It provides insights to inform management decisions on performance, budgeting, and forecasting. The requisite skills in conducting horizontal analysis and interpreting the horizontal analysis are required skills for CMAs in management accounting positions.

Horizontal Analysis of Financial Statements CMA Questions

Q1: Horizontal analysis analyzes financial information:

A) In the same industry as another company

B) From one accounting framework to another

C) In more than one accounting period

D) Using vertical percentages

Ans: C) Across multiple accounting periods

Q2: In horizontal analysis, what must you choose as a basis for comparison?

A) The most recent year

B) A base year

C) The industry average

D) The company's budget

Ans: B) A base year

Q3: If accounts payable have increased from ₹40,000 to ₹60,000 in a year, calculate the percentage.

- A) 33.3%
- B) 40%
- C) 50%
- D) 60%

Ans: C) 50%

Q4: Why use horizontal analysis in management accounting?

- A) To report taxes
- B) Identifying Financial trends
- C) To prepare financial statements
- D) To comply with GAAP

Ans: B) To know the financial trends

Q5: In which section of CMA Part 1 is horizontal analysis found?

- A) Cost Management
- B) Financial Reporting to External Parties
- C) Technology and Analytics
- D) Internal Controls

Ans: B) External Financial Reporting

Relevance to the US CPA Syllabus

For CPA candidates, horizontal analysis makes interpreting information fly, especially in FAR (Financial Accounting and Reporting) and BEC (Business Environment and Concepts) sections. Horizontal analysis helps [CPAs](#) examine performance over time to spot trends and anomalies across reporting periods, which can help with audits, disclosures and decision-making. It is one of the core competencies in financial reporting to be able to comprehend and explain such patterns.

Horizontal Analysis of Financial Statements CPA Question

Q1: What is the analysis that a CPA conducts when comparing revenues over the years?

- A) Vertical analysis
- B) Common-size analysis
- C) Horizontal analysis
- D) Cross-sectional analysis

Ans: C) Horizontal analysis

Q2: What is the financial statement that horizontal analysis works on?

- A) Only income statement
- B) Only cash flow statement
- C) All the significant financial statements
- D) Only the balance sheet

Ans: C) All major financial statements

Q3: What is a horizontal analysis, and why would a CPA do a horizontal analysis of liabilities?

- A) To turn values from percentages
- B) To detect fraud only
- C) To detect major trends and shifts
- D) To comply with tax laws

Ans: C) To identify important trends and shifts

Q4: Which of the following is NOT a benefit of horizontal analysis?

- A) Identifying unusual trends
- B) Focus on year-on-year percentage changes;
- C) Industry comparison of companies
- D) Passing early warnings of financial difficulties

Ans: C) Ratio comparisons among firms in the same niche

Q5: You might come across financial statement analysis tools like horizontal analysis; which CPA exam section needs deep coverage of these tools?

- A) AUD
- B) REG
- C) FAR
- D) Ethics

Ans: C) FAR

Relevance to CFA Syllabus

Horizontal analysis is one of the concepts found across CFA Level I and Level II syllabi (Financial Reporting and Analysis part). [CFAs](#) rely on it to analyze a company's financial performance and evolution in pertinent metrics over periods. Investment analysts use horizontal analysis for forecasting, valuation, and risk assessments, making it a crucial skill in equity and credit analysis.

Horizontal Analysis of Financial Statements CFA Questions

Q1: What is the end goal of horizontal analysis in investment analysis?

- A) Review compliance with accounting
- B) Analyze shifts in performance by time

C) Resize figures to common dimensions

D) Contrast industry standards

Ans: B) To track trends in performance over some time

Q2: How do you calculate the growth rate if your sales revenue increased from \$2 million to \$2.6 million?

A) 20%

B) 25%

C) 30%

D) 35%

Ans: B) 30%

Q3: How can negative net income percent change be interpreted in horizontal analysis?

A) Inflation impact

B) Decline in profitability

C) Tax compliance issue

D) Higher non-cash expenses

Ans: B) Profitability decline

Q4: What is included in the horizontal analysis?

A) Quantitative modelling

B) Time-series analysis

C) Qualitative research

D) Cash ratio computation

Ans: A b) Time-series analysis

Q5: What dimensions of horizontal analysis are covered under Financial Statement Analysis at the CFA Level?

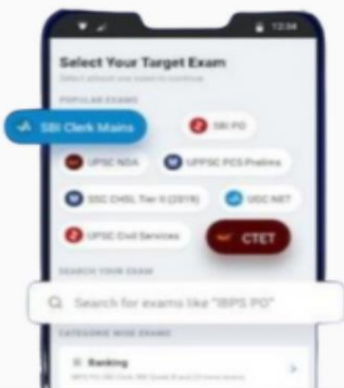
A) Level I

B) Level II

C) Level III

D) All Levels

Ans: A) Level I



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