**EFFECTIVE FINANCIAL MANAGEMENT**

**Learning Outcome 2: ACTIVITY 6**

**Horizontal analysis**

Horizontal and vertical analyses facilitate the interpretation and evaluation of the projected financial performance and financial position of a business over time.

The following data has been extracted from the projected financial statements of a business. The data covers 4 years (Y1 to Y4). Note how the financial data has been used to develop an index, with year 1 as the base year. Year 1 has been used as the base for the index (and given an indexed value of 100). The indexed data in year 2 has been expressed relative to the indexed data in year one. For example, the indexed figure for revenue in year 2 was calculated as follows:

(600 / 500) x 100 = 120

Projected $000s Index

Y1 Y2 Y3 Y4 Y1 Y2 Y3 Y4

500 600 700 800 Revenue 100 120

125 180 210 240 Cost of sales 100 144

100 90 112 136 Distribution Costs 100 90

50 66 84 104 Admin. expenses 100 132

225 264 294 320 Profit from operations 100 117

10 12 14 40 Finance costs 100 120

215 252 280 280 Profit before tax 100 117

75 96 98 96 Corporation tax 100 128

140 156 182 184 Profit after tax 100 111

#### Required: Individually

1. Complete the indexed data for year 3 and year 4 in the table above.
2. Analyse the indexed data and identify any trends or factors that you consider might be worthy of further investigation.