

# The "Trend Analysis" Tool

## What is Trend Analysis?

Trend Analysis is a financial management technique that uses information from the Income Statements and Balance Sheets. You use this tool by "spreading the numbers" from two or more years. "Spreading" means laying out side-by-side in column format.

The tool can be used to compare month-to-month or year-to-year trends. While all categories can be examined, usually only the major components of the Income Statements and Balance Sheets are "spread" initially.

## How do I get the most out of it?

To maximize the effectiveness of this tool use it in conjunction with the "Common Sizing" Tool. Once you've spotted some problem areas - such as "declining gross profit margin/ "declining net income" or "decreasing sales levels" - you can go to the "BackTrac Financial Troubleshooter" Tool.

## Trend Analysis Example - Income Statements

<u>Category</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Sales	\$470,000	\$460,000	\$456,000
Cost of Goods Sold	305,500	303,600	305,520
Gross Profit	164,500	156,400	150,480
Operating Expense	117,500	138,000	123,120
Net Income	\$47,000	\$18,400	\$27,360

## Trend Analysis Example - Balance Sheet

<u>Category</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Total Assets	\$195,000	\$213,000	\$225,000
Total Liabilities	87,750	106,500	141,750
Equity	107,250	106,500	83,250

(Over)

For No Cost Business Advice, Please Call your local America's SBDC or Visit [SBDCTEXAS.org](http://SBDCTEXAS.org)  
Provide by the Northwest Texas SBDC

# The "Common Sizing" Tool

## What is Common Sizing?

Common sizing is a technique that converts dollar amounts on the Income Statement or Balance Sheet to percentages. There is one "common" number or item that all others are compared to.

Using this tool - especially in conjunction with the "Trend Analysis" Tool - gives you another - often clearer - picture of the financial portion of your business. This technique can be quite helpful in analyzing financial change in periods of growth or decline.

## How to Use it

The "common" numbers are different for an Income Statement than for a Balance Sheet. Let's begin with the Income Statement.

**Income Statement** -- To "common size" an Income Statement divide all other categories by "sales." Sales is the "common" number. The common item is always expressed as 100 percent. (See the simplified example below).

## Trend Analysis Example - Income Statements with Common Sizing

<u>Category</u>	<u>2003</u>		<u>2004</u>		<u>2005</u>	
Sales	\$470,000	100%	\$460,000	100%	\$456,000	100%
Cost of Goods Sold	305,500	65%	303,600	66%	305,520	67%
Gross Profit	164,500	35%	156,400	34%	150,480	33%
Operating Expense	117,500	25%	138,000	30%	123,120	27%
Net Income	\$47,000	10%	\$18,400	4%	\$27,360	6%

**Balance Sheet** -- To "common size" a Balance Sheet, divide all other categories by "total assets." The Total Assets amount is your "common" number.

## Trend Analysis Example - Balance Sheet with Common Sizing

<u>Category</u>	<u>2003</u>		<u>2004</u>		<u>2005</u>	
Total Assets	\$195,000	100%	\$213,000	100%	\$225,000	100%
Total Liabilities	87,750	45%	106,500	50%	141,750	63%
Equity	107,250	55%	106,500	50%	83,250	37%

**For No Cost Business Advice, Please Call your local America's SBDC or Visit [SBDCTEXAS.org](http://SBDCTEXAS.org)  
Provide by the Northwest Texas SBDC**