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Financial statements are accounting reports which support decision making in companies. The most important statements are:

1) Balance Sheet
2) Operating statements
In Accounting and in Law, the word "balance" arises from the balance or equality expressing in the following accounting equations:

- Assets = Liabilities + Equity
- Applications = Sources
It is a dynamic accounting statement that is intended to demonstrate the formations of the net results in an exercise, by comparing revenues, costs and expenses, calculated according to the accounting principle of accrual.
An operating statement, provides a financial summary of the operational and non-operational results of a business in a certain period. Despite being produced annually for the purpose of legal disclosure, in general they are made monthly for administering purposes and quarterly for tax purposes.
One of the simplest analysis techniques to apply and at the same time, most important in reference to the wealth of information is the **horizontal and vertical analysis**. Analyses of businesses are based on comparisons, being they are affected by past indices or by some industry indicator.
• However, this process is completed with related values obtained from the same financial statement, and also from changes of amounts and absolute results over time, allowing to verify its future trends and its developments.

• Meanwhile, one of the simplest application techniques, however among the most important, consists in the assessments of business performance, through vertical and horizontal analysis.
Horizontal Analysis

- It expresses the evolution of the items of the financial statements of consecutive years, through index numbers, establishing items for the earlier for as the index-base 100.

- The horizontal analysis is achieved through index numbers. First it is necessary to establish a data-base.
• **Summary:** In other words, net sales increased 1.73 or 73% and 1.26 or 26% in 20X2 and 20X3, respectively, based on the values of 20X1. With a quick analysis, we can verify that the increase of gross profit in 20X2 (69%) did not keep pace with the increase of sales (73%), denoting a higher consumption of such revenues by production costs. However, in 20X3 the opposite occurs, with a development proportionally higher gross profit in relation to revenues.
• Allows the presentation of the percentage of participation relative to each idem of the Balance Sheet and of the Operating Statement, in relation to its respective group and total to which it pertains.

• In the case of Assets and Liabilities it is obtained by weighing the value of each item by its respective reference, which is, Total Assets or Total Liabilities.

• In the Operating Statement, the Net is the basic reference for calculating the weight of the percentage participation of each item.
Vertical Analysis

- The vertical analysis is a comparative process where A análise vertical é um processo comparativo onde se extraí relacionamentos percentuais entre itens pertencentes a uma mesma demonstração financeira de um ano. A finalidade é dar uma idéia da representatividade de um item ou subgrupo de uma demonstração financeira relativamente a um determinado total ou subtotal tomado como base. Tomando como exemplo, obtemos os valores percentuais de cada item pelo ativo total que corresponde 100%:
• **Summary:** in the above example we can verify, from the total assets of the company, a decrease in relative share of short-term investments (Current assets), which now represent 50% to 46% of the total assets in 20X2. Conversely we found that long-term applications (achievable and permanent) increased their relative shares from one year to another.
Vertical Analysis

- The vertical analysis, despite being able to be used for all Financial Statements, is most useful for Operating Statements, gains more importance in the use of Operating Statements, where we can express the various items in relation to sales, gross or net, and, in expenditure, represent each of them in relation to the total expenses.
References

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