

12-2A – Vertical Analysis

Harpreet Gill is concerned about his company's financial performance and financial position. He has obtained the financial statements of his largest competitor, Hossain Inc. and notes that the company is over ten times larger than his, so it is making the numbers difficult to compare.

Below is condensed financial information from Hossain Inc. and Gill Inc.:

Hossain Inc. and Gill Inc.		
Income Statements		
For the years ended August 31, 2017		
	<u>Hossain</u>	<u>Gill</u>
Sales	\$5,600,000	\$450,000
Cost of goods sold	<u>2,300,000</u>	<u>160,000</u>
Gross profit	3,300,000	290,000
Operating expenses	<u>2,200,000</u>	<u>125,000</u>
Operating income	1,100,000	165,000
Interest expense	<u>60,000</u>	<u>5,000</u>
Income before taxes	1,040,000	160,000
Income taxes	<u>300,000</u>	<u>48,000</u>
Net income	<u>\$740,000</u>	<u>\$112,000</u>

Hossain Inc. and Gill Inc.		
Balance Sheets		
As at August 31, 2017		
	<u>Hossain</u>	<u>Gill</u>
Current assets	\$1,450,000	\$85,000
Long-term assets	<u>3,000,000</u>	<u>250,000</u>
Total assets	<u>\$4,450,000</u>	<u>\$335,000</u>
Current liabilities	\$500,000	\$68,000
Long-term liabilities	<u>1,500,000</u>	<u>120,000</u>
Total liabilities	2,000,000	188,000
Shareholders' equity	<u>2,450,000</u>	<u>147,000</u>
Total liabilities and shareholders' equity	<u>\$4,450,000</u>	<u>\$335,000</u>

Required:

- Prepare a vertical analysis for the companies calculating the relative percentages of each item in the financial statements. (Round your answers to the nearest tenth of a percent, ie 0.13578 → 13.6%)
- Comment on the common-sized income statements of the companies (prepared in part a.).
- Comment on the common-sized balance sheets of the companies (prepared in part a.).