

PERSPECTIVES OF ANALYSIS OF THE STATE OF THE COMPANY THROUGH HORIZONTAL AND VERTICAL ANALYSIS FOR THE PURPOSE OF FUTURE PREDICTIONS

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Abstract: To stay “in touch” with their strengths and weaknesses, business systems should frequently update their procedures for analysis and comparison, as well as create new goals and activities. This will help them to take advantage of opportunities, minimize risks and make informed decisions in future forecasts. Every company is affected by different elements that affect financial policy research and have an impact on business results. Therefore, caution is needed when building financial policy tools and making financial decisions. However, while being overly cautious could reduce corporate effectiveness by preventing risk, being reckless can threaten not only a company's survival but also its effectiveness. With the help of comprehensive and accurate financial reports and their in-depth analysis, managers, staff, owners, investors and other stakeholders can learn how the business is doing, predict future performance and make necessary adjustments. Financial analysis of business is necessary for the proper management of the company's financial policy because it serves as a basis for decision-making. Analysts conduct various analyzes of financial statements to assess a company's financial status and future growth prospects. Among other things, we will try to determine the viewpoints of assessing the current status of the company in order to predict its future through vertical and horizontal analysis.

Keywords: *financial analysis, horizontal analysis, vertical analysis, future of the company.*

Field: Social sciences

1. INTRODUCTION

The primary goal of a business is undoubtedly to make money while simultaneously achieving other core goals. A company that is an active economic entity either grows or collapses due to the relationship with the elements that affect its position on the market. Therefore, it should effectively respond to favorable challenges or threats by growing and adjusting its internal strength, because if this adjustment is not made, other successful companies will use that situation to their advantage. A company should manage its relationship with the environment by choosing growth and development paths, strategies and rates that will allow it to maintain its vitality over time. The financial condition of a company is affected by its debt, solvency, ability to maintain the true value of its own capital and ability to reproduce. In order to fully assess it and make projections for the future, it is necessary to distinguish between good, acceptable and unfavorable financial positions. A company is considered to be in a good financial position if its debt provides relative security and independence for its creditors, if it is solvent, if it moderately raises its own capital during periods of stable currency, if it maintains the real value of its own capital during inflation and if it is able to finance simple reproduction from its own funds. Maintaining liquidity through financial balance, but without security, is a prerequisite for an acceptable financial situation. Since financial statements, as summary statements, show how the entity — the company — has used the money entrusted to it by its owners or creditors and what its current state is, accounting principles and IAS/IFRS must be followed to properly assess the status of the company. The preparation of financial statements alone is not enough, however, because for businesses in all industries, evaluating and understanding financial statements can be critical to predicting the future. This is because any business should prioritize continuity and quality, which in turn leads to a successful business and greater growth prospects. With the help of comprehensive and accurate financial reports and their in-depth analysis, managers, staff, owners, investors and other stakeholders can learn how the business is doing, predict future performance and make necessary adjustments. Considering all that has been said, it is evident that a thorough analysis of the current state of the business system and its ideal future location on the

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market is much needed. With regard to the subject of financial analysis, the widely accepted opinion in the literature is that the examination and assessment of the financial situation and the measure of profitability of invested capital, as well as the provision of purposeful information about it to certain users, are the general goals of financial analysis. In horizontal analysis, also known as trend analysis or time series analysis, financial trends are observed over time periods - a particular quarter or year. It is conducted before vertical analysis, and is usually most useful for companies that have been in business for a longer period of time. The most important element revealed through this comparative financial analysis is the trend of individual items in the financial statements. Analyzing financial trends over a period or years can help track changes in a company's financial condition, find patterns in its data and spot potential problems and opportunities, then create recommendations for a company to consider in order to maximize its financial success. When we analyze the profit and loss account with vertical analysis, we look at whether there has been an increase (decrease) in net profit, profit before tax, business profit, business profit in business income, which actually represent 100% of the size in relation to which the analysis is done. This type of analysis can also be used for various projections, because established trends can be used to predict future achievements and development of the company's financial position (Knežević et al., 2019, p. 46). Accordingly, different views of the authors were used on the analysis of financial statements and for the creation of horizontal and vertical analysis of the specific company for which we took the data from APR (Ashar, H. 2019, Bragg, S. M. 2020, López, V., & Martinez, J. 2020, Simmons, D., & Sykes, K. 2021 and others listed in the literature at the end of this paper).

2. FINANCIAL ANALYSIS

To give an accurate picture of a company's financial situation, success and liquidity, financial statement analysis quantifies and explores the connections and relationships between the balance sheet, income statement and cash flow statement. A financial analyst has access to specific tools or methods of analysis to perform this duty. When analyzing financial reports, the following tools are used: examination of basic financial parameters; analysis using leverage analysis and net working capital, but vertical analysis, horizontal analysis which will be the subject of this work.

Horizontal and vertical analysis vary primarily in that the former shows the percentage change of each item from quarter to quarter (QQ) or year to year (YoY) using percentages. The vertical analysis method considers the item's percentage of the overall amount, whereas the horizontal analysis formula considers the item's percentage change from one period to the next. Here, we compare and contrast each of the vertical and horizontal analysis formulas:

Vertical analysis formula = (statement item / total base figure) X 100

• Horizontal analysis formula = $\frac{\text{comparison year amount} - \text{base year amount}}{\text{base year amount}} \times 100$

However, it's important to keep in mind that line item percentages from one quarter or year to the next can still be compared using vertical analysis. The main distinction is that percentages from vertical analysis do not match percentage changes.

2.1. HORIZONTAL ANALYSIS

Each company must present comparative financial statements in accordance with generally accepted accounting principles, from which information for the current and prior years is gathered. In order to see changes in individual categories that have occurred during the analyzed period, horizontal analysis—also referred to as comparative analysis because it compares consecutive balance sheets, income statements, and cash flow statements for two or more years—is the first step in studying such statements. Financial statement items' changes from the prior year (or alternative) are reported in absolute quantities and in a particular currency, in our instance euros (€) and percentages (%).

2.1.1. Using horizontal analysis for forecasting

When we have access to a company's financial statements for two consecutive years, we can analyze how each item has evolved over time. This historical comparison allows us to identify trends and use them as a basis for projecting future performance. In other words, by reviewing past data, we can determine the quarterly or annual growth rates for various items on the income statement and balance sheet, which helps in forecasting their future behavior. For example, we can estimate future sales by analyzing how sales have grown in previous periods.

Horizontal analysis is essentially a method of comparing financial data across different time periods—usually between the current and previous year. The first step in this analysis involves calculating the change for each item, both in absolute terms and as a percentage, using a standard formula.

Difference (in absolute amount) = Current year – Previous year
Then to express those differences in % through the following formula:
(difference / previous year) x 100

Table 1. Example of horizontal analysis based on comparative balance sheet in € and %

Ordinal number	Position name	2024	2023	2024/2023	2024/2023
		Amount in €	Amount in €	Amount %	Amount %
	ASSETS				
1.	Fixed assets	42.360	38.523	3.837	9,96
2.	Current assets	362.421	206.354	156.067	75,6
	TOTAL ASSETS	404.781	244.877	159.904	65,2
	LIABILITY (Capital and liabilities)				
1.	Share capital	274.351	196.721	77.630	39,5
2.	Short-term liabilities	86.700	24.954	61.746	247,4
3.	Long-term liabilities	43.730	23.202	11.528	49,7
	TOTAL LIABILITIES	404.781	244.877	159.904	65,2

Source: Authors, 2025

In Table 1, we present the results of a horizontal analysis applied to a comparative income statement, using data from 2024 (base year) and 2023 (previous year). The calculations reveal the following changes in key balance sheet items: current assets increased by 75.6%, non-current assets rose by 9.96%, short-term liabilities surged by 247.4%, long-term liabilities grew by 49.7%, and share capital increased by 39.5%.

The sharp rise in current liabilities (247.4%) raises concerns, as these obligations require prompt repayment and could negatively impact the company's liquidity. This situation suggests that the company may be deferring payments, leading to a buildup of outstanding liabilities, which is reflected in the balance sheet.

Additionally, the rise in long-term liabilities points to a lack of investment in fixed assets or delayed repayment of long-term debt. On the other hand, the increase in share capital indicates that the company attempted to raise funds by issuing new shares to its owners. Instead of allocating resources toward acquiring new property, plant, and equipment, the company seems to be focusing on receivables, inventory, and cash reserves—evident from the significant 75.6% growth in current assets. Meanwhile, the modest 9.96% rise in fixed assets suggests only a slight expansion of operations.

2.2. VERTICAL ANALYSIS

Vertical analysis - analysis of the common size of the balance sheet and income statement is important because in this analysis, certain balance sheet items are expressed as 100%, and then all other items are expressed as a % of that basic item. This is a structural analysis of financial statements, or rather, an examination of the relationship of multiple items to one that is treated as 100%. Most often, total assets and liabilities in the balance sheet and sales revenue in the income statement are treated as 100%. Financial statements expressed in this way are called common size. Such reports are very useful in conditions of high inflation when it is not possible to compare absolute amounts over time (Dražić-Lutilský, 2010.)

Table 2. Data from the income statement of company “X” in percentages as of 31.12.

BALANCE SHEET	2024	2024	2023	2023
	Amount in €	Amount in % from income	Iznos u €	Amount in % from income
Net income from sales	438.050	100	381.420	100
Purchase value of goods sold	251.350	57,38	254.360	66,69
GROSS PROFIT	186.700	42,62	127.060	33,31
Selling expenses	95.300	21,75	41.650	10,91
General expenses	32.100	73,28	17.320	4,54
NET PROFIT	59.300	13,53	68.090	17,85

Source: Authors, 2025.

Based on the available data from Table 2, we can conclude that in 2024, sales and general expenses dominated the income structure. As a measure of the declining strength of the company's returns, the percentage of net profit in total revenues fell from 17.85% to 13.53%. In 2024, the share of the purchase price of sold goods in the total income structure was reduced from 66.69% to 57.38%. This can be attributed either to the efficiency of the procurement department, which procured the goods at a cheaper price and under more favorable conditions, or to the decline in the prices of those products in the market.

Table 3. Data from the balance sheet of company “X” in percentages as of 31.12.

Ordinal number	Position name	2024	Amount in €
		Amount in €	
	ASSETS		
1.	Fixed assets(real estate, plant and equipment, intangible assets and long-term placements)	42.360	10,46
2.	Current assets(cash, accounts receivable, inventory)	362.421	89,54
	TOTAL ASSETS	404.781	100
	LIABILITY (Capital and liabilities)		
1.	Share capital	274.351	67,78
2.	Short-term liabilities	86.700	21,42
3.	Long-term liabilities	43.730	10,80
	TOTAL LIABILITIES	404.781	100

Source: Authors, 2025

Based on the vertical analysis of the balance sheet, we can draw additional conclusions about the structure of assets and liabilities of the balance sheet. Current assets make up 89.54% of the assets structure, while share capital makes up 67.78% of the sources of financing in the liabilities structure. This structure leads us to the conclusion that, although own capital made up a significant part of fixed assets, short-term financing also played a role, which is not a good sign. In particular, it is evident that the funding sources and the terms of the fund structure are not consistent. It is also evident that the rule of the balance sheet, which stipulates that only long-term capital is used for the financing of fixed assets, has been complied with. Working capital, on the other hand, clearly deviates from the Acid Test rule (corresponding financing 1:1), which states that liquid assets must match short-term liabilities in order to guarantee the company's liquidity. Part of the fixed assets is financed with short-term loans because there is no long-term borrowed capital in this change.

3. DISCUSSIONS

When we analyzed the data to identify possible issues or possibilities for the business, we saw that current obligations had grown dramatically in comparison to long-term liabilities and equity, and current assets had expanded in comparison to fixed assets. The substantial increase in current liabilities (247.4%) in this instance is undesirable since current liabilities must be paid off promptly, which could jeopardize the company's liquidity.

Furthermore, users of this financial analysis technique should exercise particular caution when drawing conclusions about the reasons behind the observed results, as a seemingly positive change is not always a reliable indicator. Instead, it is necessary to assess the potential causes of the change. This situation creates the appearance that the company is delaying its present responsibilities because it lacks the necessary finances, and that the balance sheet displays a growing amount of outstanding debt. This corporation does not settle long-term obligations or invest in fixed assets, as seen by the rise in long-term liabilities. By issuing new shares, the corporation attempted to collect money from its owners, or shareholders, as evidenced by the rise in basic capital. In order to help the business prepare for the future and create successful plans, the recommendations include the company selling inventory, reducing receivables through collection, and paying off short-term liabilities with cash. If the resulting horizontal and vertical analysis is based on the financial statements of a greater number of consecutive periods and can be compared with the most significant competitors, connected enterprises, and industrial branches, it will become more significant. This reveals the company's relative position within the industrial branch to which it belongs. Furthermore, because an apparently positive shift is not necessarily a reliable indicator, practitioners of this financial research technique should exercise extra caution when extrapolating the causes of the observed findings. Rather, the assessment of the change's possible causes is required.

4. CONCLUSION

Financial analysis is the process of reclassifying and summarizing data, through the establishment of indicators and trends. Financial statement analysis, as a significant part of it, refers to the detailed examination of financial statements in order to obtain additional information about the business operations of the company. The true value of financial statements is that they are used as a basic tool in predicting the financial condition of the company in the future and in determining expected earnings and dividends. The analysis of financial statements is carried out using several different methods. Here we briefly discuss the methods of horizontal analysis, vertical analysis, and trend analysis. Conducting a horizontal analysis of the income statement and balance sheet helps investors and creditors determine the current financial position of the company. By observing past results, one can estimate the growth rate, observe trends (by comparing changes from period to period), generate forecasts, or project the acquired insights into the future. Horizontal analysis can help assess a company's financial condition or position relative to its competitors. Trend analysis, which is considered a type of comparative analysis, is the process of analyzing current trends in order to predict future ones. This may involve trying to determine whether current market trends—such as gains in a particular market sector—are likely to continue, as well as whether trends in one area of the market may cause trends in another. Although trend analysis can require a large amount of data, there is no guarantee that the outcome will be accurate. Proper trend analysis does not end with calculating the decreases and increases in percentages or trend amounts over several years. Such changes usually indicate areas worthy of further analysis or research and are only clues that can lead to significant findings. Accurate predictions depend on several factors, such as political and economic conditions, promotional spending, plant expansion, management plans for new products, and expected competitive activity. Taking these factors into account, along with trend analysis, vertical analysis, and horizontal analysis, gives us a reasonable basis for predicting future performance. In addition, when evaluating business results, the technique presented can be used to assess management's success and determine whether strategy implementation is the best and most appropriate path to growth and prosperity.

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