

Vertical Analysis

Vertical analysis is the analysis of a firm's financial statements over only one period. The purpose is to study the firm closely at a point in time or over only a single period of time.

In vertical analysis, the figures for a financial statement are all converted in some way following a simple formula to highlight certain aspects of the financial statement.

Possibly the most popular form of vertical analysis is the calculation of common-size financial statements. For instance, common-size balance sheets are balance sheets that show all items in the balance sheet as a percentage of total assets.

Vertical analysis contrasts with **horizontal analysis**. Horizontal analysis is the analysis of a firm's financial statements over many periods. The form of horizontal analysis used most often is comparative financial statements. In this form of horizontal analysis, a company's financial statement are prepared over multiple years showing both dollar and percentage changes. This form of analysis makes it much easier to see significant changes in smaller accounts that would normally be hard to spot since the dollar amount is small.