

What is Trend Analysis?

Worksheet

Trend analysis expresses each period's financial figure as a percentage of a base-year figure using $\text{Trend \%} = \left(\frac{\text{Current Year Value}}{\text{Base Year Value}} \right) \times 100$, revealing growth or decline over time.

$$\text{Trend \%} = \frac{\text{Current Year Value}}{\text{Base Year Value}} \times 100$$

Questions

- Base year revenue = \$80,000, current year = \$100,000. Trend %?
 - 80%
 - 100%
 - 125%
 - 120%
- A trend percentage below 100% means the value:
 - Increased
 - Stayed exactly the same
 - Decreased versus the base year
 - Cannot be determined
- Trend analysis is also known as:
 - Vertical analysis
 - Horizontal analysis
 - Ratio analysis
 - Break-even analysis
- Why is a stable, representative base year important?
 - It makes math easier
 - A distorted base year skews all later trend percentages
 - It is legally required
 - It only affects the balance sheet
- Revenue was \$100,000 in the base year (2021) and \$132,000 in 2025. Find the trend percentage.
- Operating expenses were \$50,000 in the base year and \$45,000 two years later. What does the trend percentage show?
- A company's net income trend line reads: Year 1 = 100%, Year 2 = 115%, Year 3 = 95%. What does this indicate?
- Define: What is the trend analysis formula?
- Define: What does a trend percentage of 100% mean?
- Define: What is another name for trend analysis?

Answer Key

1. C) $125\% - (100,000/80,000)100 = 125\%$.
2. C) Decreased versus the base year - Below 100% means the current figure is lower than the base year figure.
3. B) Horizontal analysis - It compares the same line item across multiple periods, i.e., horizontally.
4. B) A distorted base year skews all later trend percentages - An unrepresentative base year misleads every subsequent trend percentage.
5. Trend % = (Current Base) 100 Trend % = $(132,000 / 100,000) 100$ Trend % = 132%, meaning revenue grew 32% since the base year
6. Trend % = $(45,000 / 50,000) 100$ Trend % = 90% Expenses fell to 90% of the base year, a 10% decrease - generally favorable if revenue held steady
7. Year 1 to Year 2: net income grew 15% versus the base year Year 2 to Year 3: net income fell from 115% to 95%, a decline versus both prior years The trend shows growth followed by a downturn, prompting further investigation into the Year 3 drop
8. Trend % = (Current Year Value Base Year Value) 100.
9. The value is unchanged from the base year.
10. Horizontal analysis, since it compares figures across periods (rows) rather than within one period.

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