

# *Trend analysis*

**SUBJECT:ACCOUNTING FOR MANAGEMENT**

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# Trend analysis

- Trend simply means stalking tendency.
- Analysis of these general tendencies is called trend analysis.
- Comparing the past data over a period of time with a base year is called trend analysis

# Objectives of trend analysis

- To find the trend or direction of movement over a period of time .
- To make a comprehensive and comparative study of financial statements
- To have a better understanding of financial and profitability position

# Methods of trend analysis

- Trend percentages
- Trend ratios
- Graphic method

# Steps in the computation of trend ratios

- Select a base year .generally ,first year is taken as base year
- Take the figure of base year as 100.
- Calculate trend percentages in relation to base year.
- Each years figure is divided by the base years figure .

# Advantages of trend analysis

- It is a simple technique
- It is an easy method to indicate the future trends
- It reduces the chances of errors because it is possible to compare the percentage with the absolute figures.
- Information can be presented in the summary form

# Limitations of trend analysis

- The trend ratio of a single item has no significance unless it is compared with the trend ratio of related figures
- There may be no normal base year
- If the accounting principals and practices are not uniform throughout the period of analysis ,comparison of trend ratios may be unscientific

From the following information ,interpret the result of operation of a manufacturing co, using trend ratios

	2016	2017	2018	2019
Net sales	80	70	100	120
Less: CGS	60	55	72	80
Gross profit	20	15	28	40
Less: operating expenses	10	9	12	25
Operating net profit	10	6	16	15



	2016	2017	2018	2019	2017	2018	2019
Net sales	80	70	100	120	87.5	125	150
Less: CGS	60	55	72	80	92	120	133
Gross profit	20	15	28	40	75	140	200
Less: operating expenses	10	9	12	25	90	120	250
Operating net profit	10	6	16	15	60	160	150

# Conclusions

- From the above statement ,it can be seen that sales ,cost of goods sold and operating expenses have all declined in 2017. on the other hand , sales, CGS and operating expenses have all increased in 2018and 2019as compared to 2016.
- In 2019 the increase in sales is more than the increase in gross profit is more than the increase in CGS and operating expenses.
- Hence the operating net profit is much higher as compared to 2017.
- In 2019 the rate of operating net profit is little lower as compared to 2018 this is because the increase in gross profit is less than the increase in operating expenses.