

Assignment Two

1. The management of XYZ Company provides you with comparative balance sheets of the years ended December 31, 2012 and 2011. Management asks you to prepare a **horizontal analysis** on the information.

XYZ CORPORATION Comparative Income Statements For the Years Ended December 31, 2012 and 2011				
	Increase (Decrease)			
	2012	2011	Amount	%
Net sales	\$ 520,000	\$ 480,000	\$ 40,000	8.3
Cost of goods sold	360,000	315,000	45,000	14.3
Gross margin	160,000	165,000	(5,000)	(3.0)
Operating expenses	128,600	126,000	2,600	2.1
Net operating income	31,400	39,000	(7,600)	(19.5)
Interest expense	6,400	7,000	(600)	(8.6)
Net income before taxes	25,000	32,000	(7,000)	(21.9)
Less income taxes (30%)	7,500	9,600	(2,100)	(21.9)
Net income	\$ 17,500	\$ 22,400	\$ (4,900)	(21.9)

As indicated in table above sales increased by 8.3% while net income decreased by 21.9%. You identified that there were increases in both cost of goods sold (14.3%) and operating expenses (2.1%). These increased costs more than offset the increase in sales, yielding an overall decrease in [net income](#). You already identified the Cause of the problem. Therefore, what are the possible actions should be taken to eliminate the reduction of the net income?

2. Assume you are a manager of XY Company, while you conduct a vertical analysis it is identified that 85% of the company expenses are incurred for salary. This intern highly affected the profitability of the organization. As a manager what are the possible remedial actions that you suppose to take in order to mitigate this drawbacks?