CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

FACULTY OF ECONOMICS

Diploma Thesis

Topic:

Financial Analysis of Chosen Company

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Declaration

I declare that the bachelor thesis on topic: „Financial analysis of chosen company" was written by me, by the help of specific literature and other sources which are included in the review of used material, and by the help of consultations with the supervisor Ing. Jiří Mach, PhD.

In Prague 25th April 2011

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Signature

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Financial analysis of Chosen Company

(Finanční analýza vybraného podniku)

Summary

This diploma thesis on the topic of "Financial analysis of chosen company" should evaluate the assets and the financial condition of the company ABC Czech, Ltd. This company was established on the Czech market in February 1991. It is a leading supplier of market research and opinion polling services in the Czech Republic. It provides the collection, analysis and interpretation of marketing-related information.

The first part of my diploma thesis will be focused on a theoretical explanation of the financial analysis. Also which information is needed to prepare proper analysis and which methods are used.

In the second part I am going to use the financial statements of the company to evaluate and to calculate the financial situation of it. I will apply several basic techniques which are used to found out the indicators. These are the vertical and horizontal analysis together with calculations of the indicators of ratio analysis, which includes rentability, liquidity, activity and debt-coverage, etc. The balance sheet and the income statement were used for these calculations.

At the end of the diploma thesis conclusions and recommendations from the financial analysis will be added to support the future development of the company. Another point in the conclusion will be present financial strategy and the SWOT analyse.

Key words:

Balance sheet, Income statement, financial analysis, enterprise, ratio analysis

Souhrn

Tato diplomová práce na téma „Finanční analýza vybrané společnosti" by měla zhodnotit majetek a finanční situaci společnosti ABC Czech, s. r. o. Tato společnost vznikla na českém trhu v únoru 1991. Je předním poskytovatelem průzkumů a mínění v České republice. Poskytuje sběr, analýzu a interpretaci marketingových dat.

V první části mé diplomové práce se zaměřím na teoretické vysvětlení finanční analýzy. Také, jaké informace jsou potřebné k přípravě finanční analýzy a jaké metody jsou při tom používány.

Ve druhé části použiji finanční výkazy společnosti za účelem ohodnocení finanční situace podniku. Je zde aplikováno několik základních technik, které se používají k zjištění ukazatelů. Jedná se o vertikální a horizontální analýzu účetních výkazů společně s výpočty poměrových ukazatelů. Mezi ně patří ukazatel rentability, likvidity, aktivity, zadluženosti, atd. Pro tyto výpočty byla použita rozvaha výkaz zisků a ztrát.

Na závěr této diplomové práce je doporučení z finanční analýzy a doporučení pro budoucí rozvoj společnosti. Dalším bodem v závěru je současná finanční strategie a SWOT analýza.

Klíčová slova:

Rozvaha, Výkaz zisků a ztrát, finanční analýza, podnik, poměrová analýza

➢ Content

1 Introduction

If we think about what a company or an enterprise or a firm means, we will find that it is a term which describes a legally organized group of persons operating with a set of tangible and intangible items which are used to evaluate the activity called as a business. The main purpose of the business is and always will be to make a profit. It is generally well known think.

When the company is thinking about the major and long-term decisions of financial and non-financial character, they should always make something like inventory of current activity. The way how the current situation is reflected in a financial performance and the health of business they made the financial analysis. Because the important decisions of long-term impact are always made in companies, the financial analysis should be evaluated continuously and properly at least once a year.

When the company is doing the financial analysis, it is comparing not only the present score, but the developmental trends in time, the comparison with competitors in the line of business or with the standards, about the cohesion of company decisions, stability as well as the potential of another development.

Other purpose of the financial analysis is how the enterprises deal with the investment of external resources for creating the assets. When we analyse the purpose of the financial analysis we can see the strengths but also the weaknesses and how to discover the company causes.

The financial analysis is a set of activities and their goal is to find out and globally evaluate the financial situation of the enterprise. The users of these results are stakeholders, people who are somehow interested in the company activities. It should be the owners, investors, banks and other creditors, but also the state, customers, suppliers, managers, employees or competitors. The financial analysis is one of the sources which provide them the information about the company solvency.

2 Objectives of Thesis

2.1 Objective of Thesis

At first, I will elaborate the knowledge that were summarized in the literature and different works, where I found quite wide range of materials related to the topic which I chose.

The main objective of this diploma thesis is to evaluate the financial situation of chosen company and also to provide some recommendations for the enterprise from the financial analysis.

Another objective is to analyse the present financial strategy and do some suggestions for the future development of the company according to financial situation.

During the diploma thesis I will divided the aim into several parts. Firstly I will theoretical explanation of the methods of financial analysis. Another will be the evaluation of the structure of financial statements of the ABC Czech, s. r. o. Also the evaluation of the development of the items of financial statements of the company will be mentioned. I will also try to compare the economic situation during the period 2007-2009.

3 Literature review

Below you will find short outlook of definitions which are going to clarify the basic purpose of financial analysis. These resources contain many different views how to understand to the financial analysis.

,, Financial analysis evaluates behavior of financial mechanisms in the enterprise according to state and development of financial situation, and according to operational, investing and financial activities. "(GRÜNWALD, R., HOLEČKOVÁ, J., 2007). Another definition is "The main purpose of the financial analysis is to comprehensively describe a financial situation of the enterprise, to show economic development and to find causes of given situation." (ROSOCHATECKÁ, E., 2006) Other author defines that "The aim and sense of financial analysis is to make (by using the special methodical measures) a diagnosis of financial management of the enterprise, to record all its sections, or eventually when making more detail analysis to appraise some of the sections of financial management. " (VALACH, J., 1999) By the end of the list of definition I would like to mention for me the most understandable one, which briefly tells that ,,Financial analysis based on the financial statements help to describe a company's financial performance and health." (FELDMAN M., 2007)

So as you can see above there are many definitions containing a lot of information which are describing the financial situation of enterprises. The only difference between them is that they differ in its content and time slope. Another important point which we can find from the definitions is that if you want to make any decisions concerned with the finance, they should be based on the financial analysis in order to make effective and efficient steps by the issues of financial management, dividend policies, etc. The last important point of a financial analysis is to whom or for who is the financial situation made. There is a phrase that describes it very clearly "All the users have one thing in common; they need to *know* just to be able to *manage*." (GRÜNWALD, R., HOLEČKOVÁ, J., 2007)

These people are called stakeholders. They are somehow involved in the company activities.

There exist two basic groups of users – external / internal. They can be subdivided into:
- owners

- investors

- banks and other creditors

- state and state organs

- customers

- suppliers

- competitors

- managers

- employees

These are the main users of the financial analysis. The results from the financial analysis are also used as a beginning for the financial management department (i. e. the decisions that should be taken for the future performance of the company), the department use it for the future decision about the finance and investment together with the tactical direction of the company.

3.1 Basic information sources for financial analysis

The quality and reliable data which describes the financial situation of the enterprise are very important. It is also important thing is to be aware that neither the best method of financial analysis or its practical application and interpretation of results of the financial analysis are not able to eliminate the errors. It can be caused by the non-reliable and untrusting data used.

,, Generally the data and information needed for financial decision making are collected from the financial statements: the balance sheet, income statement and cash flow statement. These statements are composed on the basis of financial accounting as a process of collecting, recording and sorting facts about the economic situation of the enterprise." (VALACH, J., 1999)

Another data or resources which are used for the financial analysis are from the internal area of accounting issues, economic statistics, annual records, stock and capital market, financial analytics. Also other tools which are related to the future financial plans of the enterprise could be taken in account.

When I will now summarize the basic information sources for the financial analysis I will mention:

- **Financial statements:**
    - Balance sheet
    - Income statement
    - Cash flow statement

- **Information about:**
    - Owners
    - Products
    - Technologies
    - Suppliers and consumers
    - Structure and number of employees……

- **Additional information can be:**
    - News about the total situation on the market:
        - Financial
        - Products
        - Materials
        - Work
    - Information of statistical characteristics from technical paper or from the statistics from the state……

In the next chapters I will summarize the methods and financial statements and the calculation, which are needed to calculate the financial analyses, from used literature.

3.1.1 The Balance sheet

The balance sheet is a financial statement, which is prepared to a fixed date. It records the amount of assets employed by the company (i. e. the resources committed) and liabilities incurred to lenders and owner´s equity (i.e. the funds obtained).

"The recorded value of the total assets invested in the business at any point in time must be matched precisely by the recorded liabilities and owners' equity supporting these assets. " (HELFERT, E. A., 2001) This definition means that the value of assets always has to be equal to value of invested capital.

<div align="center">

ASSETS = LIABILITIES + EQUITY

</div>

„The balance sheet indicates each individual items of assets, liabilities and shareholder´s equity; shows the state of property and sources for its coverage on a particular date (usually end of the quarter or fiscal year), financially expressed." (GRÜNWALD, R., HOLEČKOVÁ, J., 2007)

Now I will summarize the structure of the balance sheet.

Total assets
- Fixed assets
  - Long-term intangible assets
  - Long-term tangible assets
  - Long-term financial assets
- Current assets
  - Inventories – material, unfinished production, products, animals, goods
  - Long/short-term receivables
  - Financial assets
- Accruals

Total Liabilities
- The equity
  - Registered capital
  - Capital and Reserve funds
  - Profit/loss from previous year
  - Profit/loss from the current year
- External resources
  - Reserves
  - Long/short-term payables

     o Bank loans
- Accruals

Very important point is that if we make a change in on part of the balance sheet we have to reflect this change also in the other part of it. So, each change has to have its origin and its effect. It means that we have to make two changes.

The values of quantity in the balance sheet are status.

3.1.2 Income Statement

Income statement is a financial statement which has to perform the development of profit and grow of the enterprise. It contents the revenues and expenses and also it provides valuable information about the way how the possible profit or loss was gained.

,, The income statement is a financial report that depicts the operating performance of a company (i.e., revenues less expense generated) over a specific period of time (typically a quarter or year). "(FELDMAN M., 2007)

The income statement content so called flow variables, it monitors always the revenues and the expenses which are related into exact date. It is very important to know the beginning and the end of this period, when the income statement is made. Usually it is one calendar year.
We can subdivide revenues and expenses into three subgroups. These are revenues and expenses from:

- Operating activity
- Financial activity
- Extraordinary activity

The profit or loss which is calculated from the income statement changes the owners´ equity on the balance sheet. The income statement is the statement which records the economy of the company in money units, but it does not reflect the real money state which has the company available. Because of that another statement is made. It is a statement about the flows of money. It is called cash flow statement.

3.1.3   Cash flow statement

After the balance sheet, which monitor the status of assets and capitol in the enterprise and the income statement, which monitors the results of economy, such as the difference between the revenues and expenses of the enterprise it is really important to have a view about the flow of the real money, which flows into and out of the company. For this reason we prepare third account statement.

„The cash flow statement is important for the purposes of financial analysis because the income statement and balance sheet can be manipulated through the use of different accounting methods and assumptions, while a company's uses and sources of cash are objectively recorded when cash is paid and received, respectively." (FELDMAN, M., 2007)

Cash inflows/outflows are segregated into three major categories:

- 1. Cash Flow from Operating Activities
- 2. Cash Flow from Investing Activities
- 3. Cash Flow from Financing Activities

„The user can judge both the magnitude and the relationships of these cash movements, such as the company's ability to fund investment needs from operational results, the magnitude and appropriateness of financing changes, and disproportional movements in working capital needs." (HELFERT, E. A., 2001)

The cash flow statements are possible to build in by direct or indirect method. The direct method is setting up the cash flow by monitoring the revenues and expenses and their difference. The indirect method is setting up the cash flow by correction of operating results about the non-unity between earnings and revenues and expenses and cost.

The results of the income statement – EAT (Earnings after tax) – will appear in ending balance sheet as a part of own capital. The statement of cash flow by indirect method gets from the net profit and it revise it about the changes in passive and active amount which were reflected in seizure or in dishoarding of money. The result of the cash flow is shown in the ending balance sheet as an increase in item of cash or bank account.

4 Methodology

In the diploma thesis will be used several types of methodology which will be used to evaluate the financial situation in ABC Czech, s. r. o. It will be done by:

a) *Vertical and horizontal analysis* – will be created by the help of data gained from the financial statements - balance sheet and the income statement in their full extent in the period 2007-2009.

b) *Ratio indicators* – rentability (profitability), liquidity, activity, debt-coverage for the time period 2007-2009 will be calculated according to the given formulas. The results will be compared to each other within the time period.

c) *Balance rules*

d) *Bankruptcy index* – the index IN99 – specially designed according to the Czech conditions, Altman analysis

There exist a several techniques of financial analysis and hundreds of different ratios; the aim of the financial analysis is not calculate as many numbers, but to get the clearest background for other future decisions about the possibilities how to improve the operating management.

Steps in the financial analysis

Now I would like to mention additional information how the procedure of the basic steps should look like. "The most common approach starts with collection and preparation of the data together with selection of the methods.

After the methods are selected the calculation of the indicators (ratios) can be initiated; then it could be useful to compare the ratios with the averages of the ratios in the industry (sectoral, comparative analysis); next takes place the evaluation of the ratios in specified period of time (trend analysis – describing the development about specific issue of financial situation and whether it gets better or not, usually in graphical view); "then evaluation of the relations between the indicators (e.g. Du pont´s system of ratios) can be eventually used and finally

design of precaution (for this purpose SWOT analysis could be used in order to identify the strong and weak sites in the financial situation of the enterprise)." (SYNEK, M., 2002)

All the used materials for the calculations (i.e. the balance sheet and the income statement) are included in the supplements.

The financial analysis can be evaluated by several types of method, in different scale of details and also by various forms and techniques. There are no any regulations and any laws which should codify or predefined the system of financial analysis. There is also no official methodology how to do the financial analysis. There has been created several commonly accepted techniques which are used to provide reliable financial information about the financial situation of the enterprise as the accounting statement.

„If we use only the items from accounting statements we talk about absolute (elemental) method, but if we use relation of two items and its numerical value we talk about relative method(ratio analysis)." (GRÜNWALD, R., HOLEČKOVÁ, J., 2007)

There are also available more challenging and exaction methods with works with mathematical and statistical procedures as discriminator, clustered, regression and correlation analysis and other empirical distributional functions.

4.1.1   Absolute (elemental) Method

This simple method is „ based on conversion of indicators from absolute vales into relative percentage"(ROSOCHATECKÁ, E., 2006) The results of the calculations are usually based on the base/chain index numbers and are generally connected with the horizontal and vertical analysis of financial statement.

„The percentage decomposition is appropriate for comparing items of the enterprise in the long run, but the disadvantage is that it is not able to show causes of the changes, because the absolute base for the calculation changes, therefore information from the items could be incomparable." (ROSOCHATECKÁ, E., 2006) The calculation of this absolute (elemental) method is quick and simple.

Horizontal analysis

It is sometimes called as a horizontal analysis which is monitoring the progress of items of financial statements in time. It evaluates the stability and the development from the point of view of suitability in all items and the power of development. The horizontal analysis compare one year to another. It allows seeing how each item has changed in relationship to the changes in other items.

There are two possible ways how to make the horizontal analysis:
- Ratio analysis – relative increase of value of item in balance sheet or income statement, it means that we measure value in time *n* according to the value o *(n-1)*
- Absolute increase of value of items in balance sheet or income statement, it means that we observe the difference in time *n* and *n-1* − we provide differential analysis

Vertical analysis

This analysis focuses on one particular year and shows every item of a financial statement as a percentage of a summary amount.

The goal of vertical analysis is to establish:
- Ration of each effects on total assets
- Ration of each resources on total liabilities
- Ration of each item of income statement on sales

„ The vertical analysis gives an indication of the magnitude of each line item's contribution to the big picture. The base for the vertical analysis is usually the sum (100%) from the balance sheet or gained revenues. "(FRIEDLOB, G. T., 2003)

It is good to fulfill the vertical and horizontal analysis by analysis of balance rules. Such as: Golden rule, Risk balancing rule and Pari rule.

Golden rule

It compares the long-term asset and long-term capital (own + long-term foreign capital). The good result is if there is equality.

Risk balancing rule

It tells us that there should be more own capital then foreign capital.

Pari rule

It tells us that the own capital should be financed by long-term asset, but there should be also used the long-term foreign capital as well. It means that in the company there should be less of own capital then the long-term asset.

4.1.2 Ratio analysis

For necessity of financial analysis we use the financial ratio analysis which are organize in groups. They measure a particular aspect of financial health of the company. They are also use to analyze the mutually relationship and connection between ratios. These groups are important and equal.

"For successful accomplishment of the financial analysis is necessary to use appropriate system of indicators, that have the ability to inform enough about the financial situation and the development of the enterprise." (ROSOCHATECKÁ, E., 2006)

Ratios are often classified according to these four categories: *Liquidity, rentability/ profitability, debt coverage, activity.*

,, Conclusions derived from ratio analysis are often based on the users'intentions and frame of reference; that is, "interpretation depends on the user" (FELDMAN, M., 2007) so that the historical trends of these ratios can be used to find out the financial situation of the enterprise, its operations and possibilities for an investment.

4.1.2.1 *Profitability Ratios*

Rentability or profitability measures how the enterprise creates a new effects and how it reaches a profit of invested capital. This ratio compares the result of the enterprise activity according to some base which is chosen. The higher profitability in the enterprise, the better manages with its capital and assets.

„Profitability, respectively return on invested capital is a measure of ability of enterprise to create resources, to generate profits by using the invested capital". (VALACH, J. 1999) Indicators of profitability are obtained from Balance sheet and from the Income statement. „ For most of these ratios, having a higher value relative to a competitor's ratio or the same ratio from a previous period is indicative that the company is doing well." [15]

According to profitability the most common indicators are:

1. **Return on Equity** *(Shareholders' Investment)* **ROE**

It shows the effectiveness of reproduction of a capital which was put in by the owners. It observes how much of net profit belongs to one crown of invested by the owners of the enterprise.

$$\textbf{ROE} = \text{Net income/Stockholders' equity} = (\text{Net income/Total assets}) \times (\text{Total assets/Stockholders' equity})$$

„It is the most common ratio used for measuring the return on the owners' investment is the relationship of net profit to equity, or total shareholders' investment." (HELFERT, E. A., 2001). The return on equity figure takes into account the retained earnings from previous years, and tells owners how effectively their capital is being reinvested. An enterprise that has a high return on equity is more likely to be able to generate cash internally.

For the measurement the income can be obtained from earnings before taxes and interests (EBIT) or from earnings after taxes (EAT).

2. **Return on Assets ROA**

It is the key measure of profitability. It compares the profit of the company with total inputs no matter if they were financed from own or foreign capital. We can use several measurements.

ROA = Earnings before interest and taxes/Total Assets = (EBIT/Sales) × (Sales/Total assets)

,, Return on assets reflects all the activities no matter how they have been financed. Measured is reproduction of all the capital invested into the enterprise (both owner's and stockholders). "(GRÜNWALD, R., HOLEČKOVÁ, J., 2007),, It's supposed to use net income and important is the development in the time." (ROSOCHATECKÁ, E., 2006) The higher the ROA number, the better, because the company is earning more money on less investment.

3. **Return on capital employed ROCE**

ROCE = (EBIT / Capital Employed*)

* Capital Employed = Total assets − Current liabilities

,,Return on capital employed shows widely used measure of efficiency of the enterprise, usually for comparison with other enterprises." (GRÜNWALD, R., HOLEČKOVÁ, J., 2007) ,,Mostly applied to internal goal setting, it helps to make asset utilization a performance issue, at least near term. It does not relate well to economic measures used in judging new investments, nor does it assist in making day-to-day decisions on an economic basis." (HELFERT, E. A., 2001),, ROCE should always be higher than the rate at which the enterprise borrows, otherwise any increase in borrowing will reduce shareholders' earnings."[16]

4. Return on sales (profit margin) ROS

It shows how much crowns of profit the company is creating from one crown of sales. If this ration is not developing well, we can expect that also in other ratios the situation will not be good. In the calculation there is use with EBIT or EAT.

ROS = EAT/(profit from own products or services + revenues from sales)

„Return on sales represents a percentage of the income and sales and therefore shows how much of every crown of sales a company can report as profit." (FRIEDLOB, G. T., 2003)

Generally it is better to compare the results over time to look for development or to compare it to other companies in the industry. „An increasing value indicates the enterprise is growing more efficient, while a decreasing value could signalize looming financial troubles."[15]

Profit margin is usually obtained in two forms:

Operating PM = Earnings before interest and taxes/ Sales

„Operating PM eliminates influences of financial expenditures, mainly interests, which does not belong to operating sphere. The advantage is that both compared values can be used soon after the end of month, quarter or year (confirmed by the market and accounting issues)." (GRÜNWALD, R., HOLEČKOVÁ, J., 2007)

Net PM = Earnings after taxes/ Sales

„The relationship of net income to sales indicates management's ability to operate the business with sufficient success and essentially expresses the overall cost effectiveness of the operation."[4]

5. Other Indicators

Return on costs = income (EAT / EBT) / expenses

„ This indicator shows efficiency of economic activity of the enterprise, how many percent of the net income receive each one crown of spent expenses. When measuring the time raw it should have increasing tendency. As an optimal value is considered when indicator is higher than 10%.

$$\textbf{Operating Expense} = \text{Various expense items/ Sales}$$

This relation shows how many percentage of each crown of sales represent all the expenses. „This indicator is compared in relation with return of sales and it should be of decreasing slope in the developmental raw." (ROSOCHATECKÁ, E., 2006)

4.1.2.2 *Activity Ratios / Asset Utilization Ratios*

Activity ratios record how the company is able to use individual items of assets. It shows if the company has capacity surplus or other way round the absence of productive assets and the future it will not be able to realize growth opportunities.

In case of activity ratios we can meet with two types:
- Number of turnovers
- Time of turnover

„Activity ratios evaluate dependence of invested capital in each individual form of assets or measure the ability to utilize the assets of the enterprise." (GRÜNWALD, R., HOLEČKOVÁ, J., 2007) „These indicators of activity are usually represented by rate of turnover and time of turnover (i.e. days sales)." (VALACH, J., 1999)

1. **Total Assets Turnover Ratio**

$$\textbf{Asset turnover} = \text{Sales/Total assets}$$

„Indicator of revenues compared to total assets shows the ability of the enterprise to secure investment into assets with given level of revenues, or how quickly is able to turn over the invested capital and to show the turnover of total assets." (GRÜNWALD, R., HOLEČKOVÁ, J., 2007) Higher the number is the better. „It also indicates pricing strategy: enterprises with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover."[15]

2. Inventory Turnover Ratio

Inventory turnover ratio = Sales/ Inventory

„Inventory turnover measures how many times a company sells and replaces its inventory in a period (quarter or year), that is, how efficiently a company utilizes its inventory." (FELDMAN, M., 2007)

The calculated value shows how many times during a year the inventory or the assets turns into other forms of short-term assets until the sale of finished products or service.

3. Inventory Turnover Period

Inventory Turnover Period = Inventory/Sales x 365 Days

Inventory Turnover Period has the same predictive function as the Inventory Turnover, but from the different view point. It measures the average number of days, when the inventory is bind in the enterprise till the time of its consumption or to the stage of its sale.

4. Receivables Turnover

Receivables turnover = Revenues / Average Accounts Receivable

The receivables turnover ratio measures a company's efficiency to manage and to collect its accounts receivable and „shows how quickly the receivables are transformed into financial

resources." (VALACH, J., 1999). By maintaining accounts receivable, the enterprise is indirectly extending interest-free loans to their clients. A high ratio implies either that a company operates on a cash basis or that its extension of credit and collection of accounts receivable is efficient. A low ratio implies the company should re-assess its credit policies in order to ensure the timely collection of imparted credit that is not earning interest for the firm." [15]

5. Receivable Turnover Period

Receivable Turnover Period = Accounts Receivable/Revenues x 365 Days

„This indicator shows how long time, in fact how many days the assets of the enterprise are hold in the form of receivables" (VALACH, J. 1999) or in other words how long does it take to collect revenues after a sale has been made. The smaller the number the better, because therefore the enterprise has a chance to put the retained revenue to usage again. „Ideal is to reinvest and make more sales."'[15]

6. Working capital turnover

Working capital turnover = Revenues / (Current assets − Current liabilities)

"The relationship of revenues to average working capital expressed as the number of times working capital is turned over during the given period in time. It is an indicator of the effectiveness with which *working capital* is managed." (HELFERT, E. A., 2003) „In a general sense, the higher the working capital turnover, the better because it means that the enterprise is generating a lot of revenues compared to the money it uses to fund the revenues."[15]

7. Turnover of Accounts payable

Accounts payable turnover = Purchases/Accounts payable

This ratio shows how the company is able to repays its accounts payable to its creditors. It shows how many times during the one accounting year is the enterprise possible to turn over the accounts payable.

8. Payable Turnover Period

Payable Turnover Period = Accounts Payable Turnover / (Revenues/365 days)

It shows number of days, during which the enterprise is from its suppliers is using the free business credit. ,,This ratio shows how many days it takes to pay accounts payable. This ratio is similar to accounts payable turnover (above.) The business may be losing valuable creditor discounts by not paying promptly." [16]

4.1.2.3 Debt-Coverage Ratios

This ratio of debt-coverage measures the foreign and own sources, but it is dealing with a possibility to provide expenses of the debt. During this debt-coverage analysis is good to find out also the amount of total assets, which has the company on leasing. The assets got through the leasing are not in the balance sheet. It is only as part of expenses in the income statement.

,, By the term coverage ratio it is meant the fact that the enterprise uses external investment (debts) to finance its assets and activities." (VALACH, J., 1999)

,, Generally it is followed the rule that if it is possible the owner´s capital should be greater than the external, taking to account the fact that the external capital has to be paid. Lower owner´s capital could cause problems with gaining the external capital according to banking on the external capital so that the investors are forced to bear higher risks." (VALACH, J., 1999)

Various indicators are used there to measure the financial structure. These indicators are found in the Balance Sheet. In this ratio the analysis of the relationship between debts, owner´s capital and the total capital are used.

1. **Total Debt Ratio**

$$\textbf{Total Debt Ratio} = \text{Total Debt/Total Assets}$$

This ratio is influenced mainly by four factors: taxes, risk, type of activity and the rate of financial freedom of the enterprise. It also describes the proportion of external capital against the assets of the company. In this ratio holds: the higher the ratio, the greater risk for the lender. ,,It determines how much of the assets have been financed by debt"[15]

2. **Times Interest Earned (Interest Coverage)**

$$\textbf{Interest coverage} = \text{Earnings before Interest and Taxes/Interest Expense paid}$$

This ratio is calculated as the rate of Earning before Interest and Taxes and Interest Expenses paid. It informs, how many times is the enterprise able to cover the interest from the foreign capital, after all the expenses related with productivity of the company are paid.

,,Times interest earned measures the ability of a company's earnings (earnings before interest and taxes, EBIT) to cover its interest expense payments generated from a company's debt obligations." (FELDMAN, M., 2007)

,,The enterprises indicating declining revenues and profits should avoid the higher part of the debts due to obligation to pay them" (VALACH, J., 1999). It is important to notice that ,,the lower the ratio, the more the enterprise is burdened by debt expense. When the interest coverage ratio is 1.5 or lower, ability to meet interest expenses may be questionable. An interest coverage ratio below 1 indicates the enterprise is not generating sufficient revenues to satisfy interest expenses."[15]

4.1.2.4 *Liquidity Ratios*

By Liquidity ratios the company expresses the ability to transform its total assets into the financial obligations (which is usually within one year). And also it shows how the company is able to cover in time and on selected place all its liability fallen due.

„One way to test the degree of protection afforded lenders focuses on the short-term credit extended to a business for funding its operations. It involves the liquid assets of a business (i.e. those current assets that can readily be converted into cash) on the assumption that they form a cushion against default." (HELFERT, E. A., 2001)

The liquidity relates with the company long-term existence; its operating depends on the company strategy, but also on the compromise, because high liquidity freeze resources with very small or no revenues, which can not be invested and they decline the profitability of the company.

The low liquidity can be source of problems from shortage of financial sources.

Generally three basic ratios are used according to liquidity of the current assets:

1. **Current Ratio**

Current Ratio = Current Assets/Current Liabilities

It shows, how many times are the short – term assets are higher than the short –term liabilities. It means how many times the company is able to satisfy its creditors. The recommended value for the current ratio is 1,8 – 2,5, but for today companies it is a big withholding of the asset.

„Presumably, the larger this ratio, the better the position of the debt holders." (HELFERT, E. A., 2001) Despite to this fact there exist recommended values which tells that „As an optimal value of this ratio is considered 2:1, but generally it ranges from 1.5 : 1 and 2.5 :1 due to different economical environment in which the enterprise operates." (VALACH, J., 1999).

2. **Quick Ratio**

Quick ratio = (Current Assets – Inventories)/Current Liabilities

The Quick ratio is tighter Current ratio. We deduct the Inventories from the Current Assets, because the inventory is the worst convertible into the cash. The recommended value for the Quick ratio is between 1 – 1,5.

Or other literatures provide another formula for computation:

Quick test = cash + accounts receivables + short-term investment/current liabilities

„The recommended value is in range of 1 : 1 – 1.5 : 1, but the value 1 means that the enterprise is able to pay off its debts without selling its inventory." (ROSOCHATECKÁ, E., 2006)

3. **Cash Ratio**

Cash ratio = (cash + short term investment)/current liabilities

Cash ratio looks at whether or not a company has enough money from its current operations to pay off its current liabilities. The optimal value should be between 0,2 – 0,5. Some literature shows different values, but the difference is only small.

„This ratio shows the ability to pay to certain day, ability of the enterprise to cover by its own financial assets its current liabilities. As an optimal value is recommended 0.2 : 1 – 0.6 : 1. (FRIEDLOB, G. T., 2003)

4.1.2.5   Bankruptcy and Score (site) index

Bankruptcy index

These indexes are mainly used for the creditors who are interested in if the company can stand to its liability.

„ These indexes determine the level of threat of the enterprise against the bankruptcy, so that they use some ratio analysis indicators to measure the financial health and finally deriving the

financial problems. They are assigned especially for creditors due to their interest in the ability of the enterprise to fulfill its debts." (ROSOCHATECKÁ, E., 2006)

Altman´s analysis

It is one of the possibilities how to evaluate collectively the financial health of the company. It is estimated by help of one number – the Z-score – which is made from five indicators. It is profitability, debt ratio, liquidity and structure of capital. The Altman´s index – the Z-score – can be calculated by two versions. The difference is if the company is or is not traded on the capital market. According to this number and the condition has a big reliability that it will estimate the on-coming bankrupt of the company approximately two years ahead.

1. **Altman´s index for enterprises not traded on the capital market:**

    $Z = EBIT/A*3,107 + NI/A*0,998 + E/FC*0,42 + RP/A*0,847 + WC/A*0,717$

2. **Altman´s index for enterprises traded on the capital market:**

    $Z = EBIT/A*3,3 + NI/A + E/FC*0,6 + RP/A*1,4 + WC/A*1,2$

Where:

EBIT/A = earnings before interest and taxes / total assets
NI/A = net income / total assets
E/FC = Equity / foreign capital
RP/A = retained profit / total assets
WC/A = working capital / total assets

But the unreliability according to the conditions of Czech Republic, such as different scale of accounting system, difference between the Czech and US accounting, etc., gave a birth to index IN99 derived and composed by Mr. And Mrs Neumaier in 1995. This index is from the other indexes the best known one.

The **index IN99** from Mr. And Mrs Neumaier has a following formula:

$$IN99 = -0,017 * A / EI + 4,573 * EBIT/A + 0,481 * NI / A + 0,015 * CA / (CL + CBC)$$

Where:

A / EI = total assets / external investment

EBIT/A = earnings before interest and taxes / total assets

NI / A = net income / total assets

CA / (CL + CBC) = current assets / (current liabilities and current bank credit)

If the value of IN99 is higher than 2,07 then the enterprise creates value, if it is between 1,42 – 2,07 rather creating value, if it is between 1,089 – 1,42 it is hard to say if the company is creating some value, if it is between 0,689 – 1,089 it is rather worst and if it is less than 0,684 then the enterprise is not creating its value and it rather destroys itself. The value that range between 2,07 to 0,684 it means that is not exact and this interval is in so called "grey zone". [17].

Score (site) indexes

These indexes use the information from some ratio analysis indicators same as the bankruptcy indexes.

„They simply reflect the rate of quality of the enterprise according to its productivity".(ROSOCHATECKÁ, E., 2006) According to this index there the values from the ratio analysis indicators are evaluated and afterwards reconsidered to significance of each view for final evaluation of the financial situation.

„To obtained values are given points. The sum or average of given points is determined by the scoring mark and on its basis is possible to define the financial assurance in the near future." (GRÜNWALD, R., HOLEČKOVÁ, J., 2007)

As the most famous score index is considered Kralicek's Quick-test from 1990.

4.1.2.6 *Economic Value Added (EVA) indicator*

The company which provides the positive net profit it should not have to reach the positive economic profit. The economic profit is the profit deducted of foreign capital and also the expenses on own capital – so called explicit revenues. The EVA is also part of profitability ratios.

„EVA supposes, that is possible to find out for every enterprise the actual required profitability that would satisfy the investors and which afterwards influence the market price of the company's stock." (GRÜNWALD, R., HOLEČKOVÁ, J., 2007)

„EVA is said to measure in real terms the increase in wealth, defined as total equities, including both creditors' equity and stockholders' equity. EVA is the statistic stockholders need." (FRIEDLOB, G. T., 2003)

EVA is calculated as:

$$\textbf{EVA} = NOPAT - (\text{The cost of capital}) * (\text{Total debt and owners' equity})$$
$$EVA = NOPAT - (WACC) * (L + OE)$$

Where:

NOPAT = Net operating profit after taxes
WACC = Weighted average cost of capital (as a percentage)
L = Liabilities (the equity of creditors)
OE = Owners' equity

$$WACC = (E * Re) / V + [D * Rd * (1\text{-}Tc)] / V$$

Where:
Re = cost of equity
Rd = cost of debt
E = market value of the firm's equity
D = market value of the firm's debt

V = E + D

E/V = percentage of financing that is equity

D/V = percentage of financing that is debt

Tc = corporate tax rate

„If the net amount is positive, value has been created; if it's negative, value has been destroyed." (HELFERT, E. A., 2001)

The successful company should have the positive net profit, but also the value of EVA. It means the higher is the value of EVA it is better.

4.1.2.7 *Indicators describing the position at the capital market*

The information used for calculating the ration analysis above is mainly found out from the information from the company accounting. It informs about the past of the enterprise, but these indicators are describing the characters which are related with the future of the enterprise seen by the investors.

Among the most common indicators belong the following:

1. **Price-to-Earnings Ratio (P/E)**

$$P/E = \text{Market Price of Stock/Earnings per Share}$$

„The relationship of the market price of a share of *stock* to the most recent *earnings per share* over 12 months; is used as a rough indicator of what investors are willing to pay for one crown of a company's *earnings*." (HELFERT, E. A., 2001) „As P/E is lower in the time in comparison with other shares, it is probable, that the share is currently underestimated and for the investor it means „cheap" and therefore it is an appropriate opportunity for investment." (VALACH, J., 1999)

2. **Earnings per Share (EPS)**

EPS = Net Income to Common Stockholders/Weighted Average Shares Outstanding

„Earnings per share is a popular profitability ratio, measuring company's earnings per share calculated on the basis of the average of all common shares actually outstanding." (HELFERT, E. A., 2001) Important is to notice that sometimes there might be a confusion about the results, due to ignoring of the capital which is required to generate income. Therefore what can happen is that two enterprises might have the same number of EPS even though they do not have the same value of equity.

3. **Payout Ratio**

Payout ratio = Cash Dividends/Net Income

„Payout ratio indicates the percentage of earnings distributed to shareholders in the form of dividends" (FELDMAN, M., 2007) and the lower the ratio, the more secure the dividend because smaller dividends are easier to pay out than larger dividends."[15]

4. **Book value per share**

Book value per share = Common shareholders' equity / Outstanding shares

„This figure represents the recorded residual claim of the shareholder as stated on the balance sheet." (HELFERT, E. A., 2001) Generally the book value is considered to be the accounting value of each share, which is in reality different than what the market is valuing the stock at. Situation where the book value is found as a useful is when comparing the book value against the market value with the purpose to do not underestimate the value.

5. **Dividend Yield**

Dividend yield = Cash Dividends / Market Price of Stock

„The current return to shareholders from dividends received over a specified period, derived by dividing dividends per share by the current average market price of the *stock*." (HELFERT, E. A., 2001) Dividend yield is a way to measure how much cash flow the investors are getting for each CZK invested in an equity position - in other words „ how much they are getting from dividends. Investors who require a minimum stream of cash flow from their investment portfolio can secure this cash flow by investing in stocks paying relatively high, stable dividend yields."[15]

6. **<u>Plowback ratio</u>**

Plowback ratio = 1 - payout ratio

„Earnings which is not paid in dividends stays as a non-divided income disponible for the activities of the enterprise. Proportion of earnings reinvested back to the enterprise is describes by this ratio."(VALACH, J., 1999) The faster a company is growing, the more desirable it would be to have a higher plowback ratio. With a slow-growing company, an investor would prefer a large payout ratio.[15]

4.1.3 **Ratio analysis as a system**

The ratios discussed have many elements in common, as they are derived from key components of the same financial statements. „ In fact, they are often interrelated and can be viewed as a system. The analyst can turn a series of ratios into a dynamic display highlighting the elements that are the most important levers used by management to affect operating performance. "(HELFERT, E. A., 2001) these systems are generally called the Pyramid of Ratios which is based on gradual decomposition of one top indicator (usually return on assets or return on equity) into partial indicators. There are relations between them as addition/subtract or multiplication/ division. The most known system of ratio is The Du Pont system.

The basic Du Pont's formulas:

ROA = Net profit / Sales * sales / assets = Net profit / Assets

ROE = Net profit / assets * assets / equity = Net profit / sales * sales / assets * assets / (assets – Liabilities)

<div align="right">(ROSOCHATECKÁ, E., 2006)</div>

,, One of the advantages is that is possible to objectively identify the relations and effect of changes among the partial indicators. "(VALACH, J., 1999) or in other words there are visible movements of dependent variables according to relationship to independent figure.

5   Results

5.1   Description of the selected enterprise

ABC Czech is a leading supplier of market research and opinion polling services in the Czech Republic, i.e. the collection, analysis and interpretation of marketing-related information including the consultation services to clients from Industry, Trade, Media, and Service Providers from the private and public sector. The company was set up in February 1991. In 2000 ABC Prague merged with XYZ - a Czech independent research agency, which since its setting up in 1991 has accomplished a strong position in the Czech and Slovak market. As of 1st July 2009, the companies ABC Prague and XYZ Research changed their names.ABC Prague changed into ABC Czech and XYZ Research into XYZ ABC. ABC Czech is a co-founder of SIMAR, a professional association of market research agencies in the Czech Republic, and several of our researchers are members of ESOMAR, a worldwide organization of market research professionals.

For the research the company is using several types of methods for the market research. All the scientific tools and processes which are employed in the collection of data, its analysis and the reporting of the findings are used to collect the acquiring the suitable information. The methodology which is company using is regular multi-client omnibus surveys or exclusive Ad hoc projects, In-home, in-hall or in-store interviews, PAPI, CAPI, CATI, CAWI, CASI, written interviews, consumer product tests, Mystery Shopping and Qualitative Research.

The company´s business is divided into three sectors, which correspond to the three sources from which data supplied to client is drawn. The first one is the Custom Research sector which is specialized in operational and strategic marketing issues to virtually every industrial sector and market. The second sector is the Retail and Technology information on retail sales of technical consumer goods is gathered on a continuous basis. The sources of information for the Retail and Technology sector are retailers. The last sector is the sector of Media, which delivers continuous customized research on reach, intensity and use of TV, radio, print and online media. The sources of information for the Media sector are the media.

The average number of the workers within the company is about 139 employees. From this 5 people are the directors and one of these people is a general director who also a member of Board Management. Therefore the enterprise is said to be as a midsized company according to general characteristics of the enterprise about the number of employees.

5.2 Vertical Analysis of Balance Sheet

In the first place there will be paid the main attention to the vertical analysis of assets. In the following table no. 1 are seen figures such as fixed assets, current assets which remain quite stable in years 2007 and 2008.

Table no. 1 – Vertical analysis of Assets

		2007	2008	2009
	Total Assets	100%	100%	100%
B.	**Fixed Assets**	**21%**	**23%**	**38%**
	Long-term intangible	2%	2%	2%
	Long-term tangible	3%	2%	18%
	Long-term financial	16%	18%	18%
C.	**Current Assets**	**76%**	**73%**	**60%**
	Inventories	5%	4%	6%
	Short-term receivables	59%	60%	48%
	Short-term financial asset	12%	9%	6%
D	**Accruals**	**3%**	**2%**	**1%**

Source: Own calculations

Vertical analysis is used to assess the structure of assets and liabilities of the business. The structure of assets clearly shows that current assets account for more than 70% of total assets, primarily due to short-term Trade Receivables from third parties. In 2009, Current Assets represented only 60% of total assets. The rest of the assets include Financial Investments, namely a 75% equity stake in a small firm that belongs to the German-based ABC Group.

Table no. 2 – Vertical analysis of the equity and liabilities

		2007	2008	2009
	Total liabilities	100%	100%	100%
A	**The Equity**	**29%**	**18%**	**-13%**
	Capital funds	6%	6%	6%
	Reserve funds	3%	3%	3%
	P/L previous year	17%	21%	9%
	P/L current year	4%	-12%	-31%
B	**Other sources**	**71%**	**78%**	**95%**

	Reserves	0%	0%	2%
	Long-term payables	0%	0%	0%
	Short-term payables	71%	78%	92%
	Bank loans	0%	0%	1%
C	**Accruals**	**0%**	**4%**	**18%**

Source: Own calculations

Until 2009, Equity Capital accounted on average for 20% of total liabilities (table no. 2). Liabilities continue to play an ever greater role in the company's financial performance. This performance has had a significantly deteriorating trend, in particular in 2009 when the loss incurred considerably affected Equity Capital, and the situation had to be discussed with the business owners. A great portion of liabilities has the form of a short-term loan from ABC Czech, s. r. o., which has been growing over years; this can be attributed to the recently completed restructuring process, connected with considerable capital expenditures for Fixed Assets acquired.

5.3 Horizontal Analysis of Balance Sheet

The horizontal analysis will be examined the items of the balance sheet. For the horizontal analysis can be used two methods how to count it. It is the by chain base index numbers or by difference numbers.

Table no. 3 – Horizontal analysis of assets

Chain base index numbers

		2008/2007	2009/2008
	Total assets	0,89	1,01
B	**Fixed assets**	**0,97**	**1,69**
	Long-term intangible	0,90	0,91
	Long-term tangible	0,86	7,49
	Long-term financial	1,00	1,00
C	**Current assets**	**0,85**	**0,84**
	Inventories	0,68	1,67
	short-term receivables	0,91	0,81
	short-term financial	0,65	0,70
D	**Accruals**	**0,55**	**0,58**

Asset growth indices show us that, on a year-on-year basis, it was Fixed Assets that grew the fastest, mainly due to the acquisition of new offices and furnishing; all that was again connected with the restructuring process (according to Table no. 3). Work in Progress also increased, primarily due to a change in the calculation of Work in Progress: since 2009, the Project Completion Percentage method is used, whereas before the method was distorted due to poorly estimated budget project costs.

In this respect, I would like to comment on the correctness of the Financial Statements for 2007 and 2008. As a result of the restructuring process and a change of the audit form used, several significant errors were found in the reporting of Work in Progress, Accruals and Deferrals and other items. In the specific analyses below, I will point out the distorted data and attempt to give a logical explanation of relevant indicators.

Table no. 4 – Horizontal analysis of equity and liabilities

		Chain base index numbers	
		2008/2007	**2009/2008**
	Total liabilities	0,89	1,00
A	**The equity**	**0,56**	**-0,69**
	Capital funds	0,00	0,00
	Reserve funds	1,00	1,00
	P/L previous year	1,09	0,44
	P/L current year	-2,80	2,67
B	**Other sources**	**0,98**	**1,22**
	Reserves	0,00	0,00
	Long-term payables	0,00	0,00
	Short-term payables	0,98	1,18
	Bank loans	0,00	0,00
C	**Accruals**	**29,40**	**3,43**

Source: Own calculations

I would also like to mention the deteriorating financial performance or loss that has negatively affected the structure of liabilities, in particular Equity Capital. Short-term Liabilities grew year on year mainly due to the capital expenditures connected with representative offices, which were financed from a loan granted by the owner of ABC Group. (Table no. 4)

5.4 Vertical and Horizontal Analysis of Income statement

A comprehensive analysis of the Income Statement shows several clear developments. We can observe major changes in 2009, resulting from the ongoing economic crisis and the restructuring process. (Table no. 5) The continuing weaker financial performance was a negative phenomenon. On the other hand, reduced Wages and Salaries were a positive change, attributable to a lower headcount. Another positive change was the investments in the company's assets (offices, furniture and new hardware for interviewers). However, these capital expenditures will have a greater impact on the profit/loss of 2010.

Table no. 5 – Vertical analysis of income statement

		2007	2008	2009
I	Revenues from sold goods	0%	0%	0%
A	Expenses on sold goods	0%	0%	0%
+	Sale margin	0%	0%	0%
II	**Production**	100%	100%	100%
B	Production consumption	43%	45%	49%
+	Added value	57%	55%	51%
C	Personnel expenses	54%	62%	66%
E	Depreciations of int. and tang. assets	2%	1%	2%
III	Revenues from disposals of FA and material	0%	0%	0%
*	Operating profit/loss	0%	-9%	-18%
*	Profit/loss from financial operations	2%	3%	1%
Q	Income tax on ordinary income	0%	0%	0%
**	Operating profit/loss ordinary aktivity	2%	-6%	-17%
*	Extraordinary revenues	0%	0%	-1%
***	Profit/loss of current accounting period	2%	-6%	-18%
****	Profit/loss before tax	2%	-6%	-18%

Source: Own calculations

In the horizontal analysis of the Income statement can be seen the way how the parameters of creating profit can be changed. (Table no. 6)

Table no. 6 – Horizontal analysis of income statement

		Chain base index numbers	
		2008/2007	**2009/2008**
I	Revenues from sold goods	0,0	0,0
A	Expenses on sold goods	0,0	0,0
+	Sale margin	0,0	0,0
II	Production	0,9	0,9
1	Revenues from own products and services	0,9	0,8
2	Change in inventory of own products	8,6	-2,1
3	Capitalisation	0,0	0,0
B	Production consumption	0,9	0,9
+	Added value	0,8	0,8
C	Personnel expenses	1,0	0,9
D	Taxes and fees	1,1	0,4
E	Depreciations of int. and tang. assets	0,5	1,6
III	Revenues from disposals of FA and material	2,0	0,8
F	Net book value of disposed FA and material	0,1	254,3
G	Change in operating reserves and adj.	1,6	5,4
*	Operating profit/loss	-27,8	1,7
*	Profit/loss from financial operations	1,7	0,1
Q	Income tax on ordinary income	-1,1	0,0
**	Operating profit/loss ordinary activity	-2,8	2,5
*	Extraordinary revenues	0,0	0,0
***	Profit/loss of current accounting period	-2,8	2,7
****	Profit/loss before tax	-2,7	2,6

Source: Own calculations

5.5 Balance Sheet Financing Rules

The balance sheet Golden Rule compares the relationship between fixed assets and long-term capital; respectively it is watch the time placement of capital into the assets. In the graph no. 1 the development of it is seen.

Graph no.1 – Balance Sheet – Golden Rule
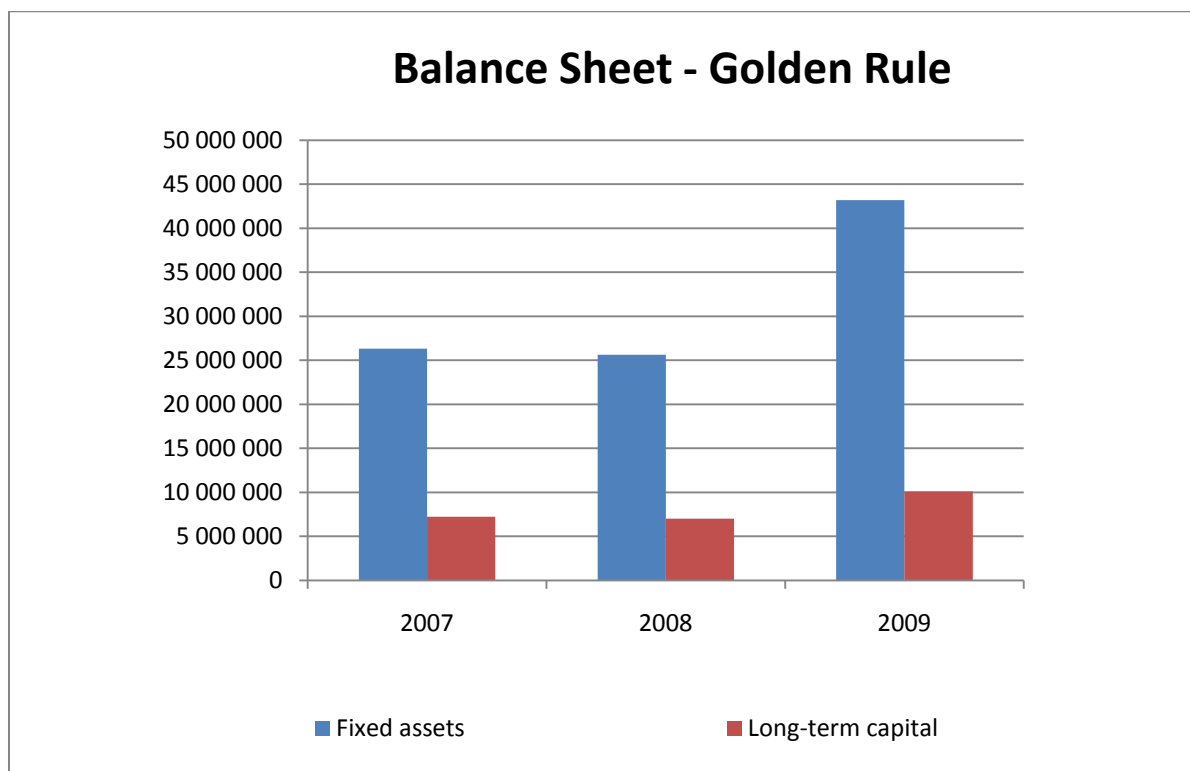
Balance Sheet - Golden Rule

The Golden Rule of Balance Sheet financing was not observed in a deteriorating trend. (Table no. 7) Fixed Assets were not fully covered by long-term capital but by short-term credit; if this trend continues to prevail, the company may face financial difficulties in the future. It should be mentioned that short-term loans were granted by the German parent company of ABC Czech,s. r. o., which regularly monitors the financial performance of its subsidiaries and should thus ensure that the loans be repaid.

Table no. 7 – Golden Rule

Balance Sheet – Golden Rule	2007	2008	2009
Fixed Assets	26 336 227	25 625 351	43 183 180
Long-Term Capital	7 227 280	7 000 000	10 119 100
Capital surplus	-73%	-73%	-77%

The Risk Balancing Rule is dealing with the relationship between the equity and the liabilities.

Graph no. 2

Risk Balancing Rule
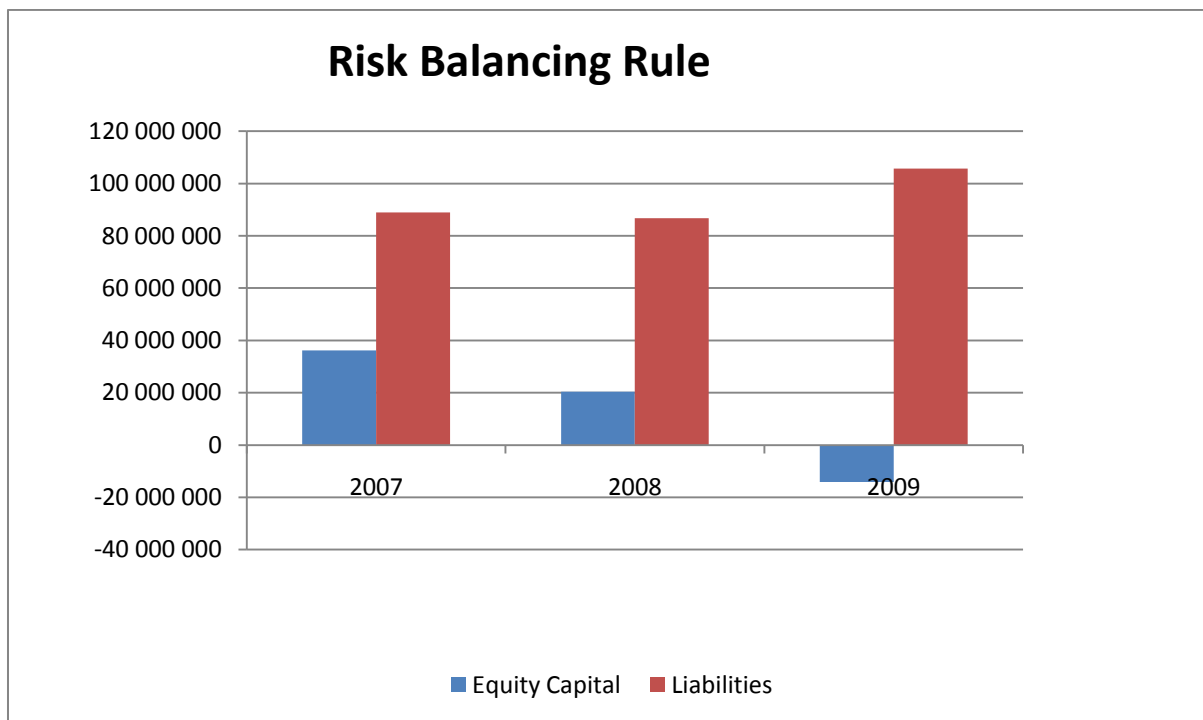
In the graph no. 2 it si summarize the ralationship of the equity capital and the liabilities. As can be seen there is more liabilities than the own capital and that the own capital is decreasing. It is not good for the company that there is more liabilities than equity.

Table no. 8

Risk Balancing Rule	2007	2008	2009
Equity Capital	36 193 097	20 439 269	-14 098 508
Liabilities	88 945 819	86 758 284	105 664 564
Equity Capital surplus	-59%	-76%	-113%

Source: own calculation

This rules stipulates that Equity Capital should exceed Liabilities or be equal at worst (see table no. 8). In the case of ABC Czech, s. r. o.,this rules was not adhered to as Liabilities considerably exceeded Equity Capital; even though the Liabilities had the form of a loan from the parent company, the company should aim to gradually reduce the leverage. The loan has not yet been repaid and the company lacks the cash to repay it; it is likely that the loan maturity will be extended by another year.

The Pari Rule compares the fixed assets and equity capital and it sais that that all the fixed asset should be covered by the equity capital, only occasionally. In graph no. 3 can be seen the situation in ABC Czech, s. r. o.

Graph no.3
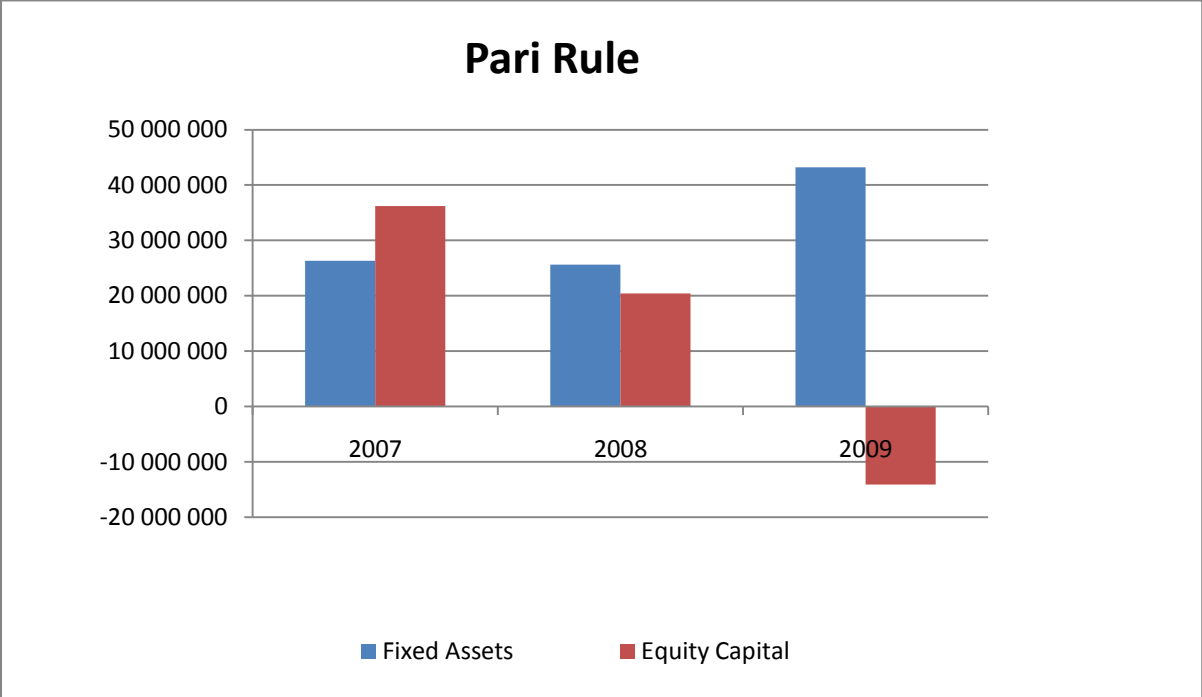
Pari Rule

Source:own calculation

The Pari Rule shows a relation between Fixed Assets and Equity Capital. Due to the high loss and negative Equity Capital in 2009, we can see that only Liabilities were used to finance the company's operations. In 2007, only Equity Capital was used for financing the running business, which resulted in higher tax liabilities and lower earnings. (Table no. 9)

Table no. 9

Pari Rule	2007	2008	2009
Fixed Assets	26 336 227	25 625 351	43 183 180
Equity Capital	36 193 097	20 439 269	-14 098 508
Asset surplus	-27%	25%	-406%

5.6 Working Capital Analysis

In particular the indicator of Working Capital should show a positive value. In the case of ABC Czech, s. r. o., this value is negative, which shows a very ineffective use of Working Capital. (Table no. 10) The negative value can primarily be attributed to the considerable loan from the company's owner. In order for the company to render financially sound performance, it is crucial to reduce this loan and manage cash flow effectively.

Table no. 10

OA - KZ	2008	2009
WC	-5 402 524	-35 689 695
WC/A	-0,05	-0,32
WC/T	-0,02	-0,19

5.7   Ratio analysis

Profitability or rate of return how it is called in some literature sources, is one of the most watch and monitor indicator. It shows us the ability of the company to use effectively its invested capital. As you can see in the graph no. 5 the company is not creating a profit in two last years.

Graph no.5
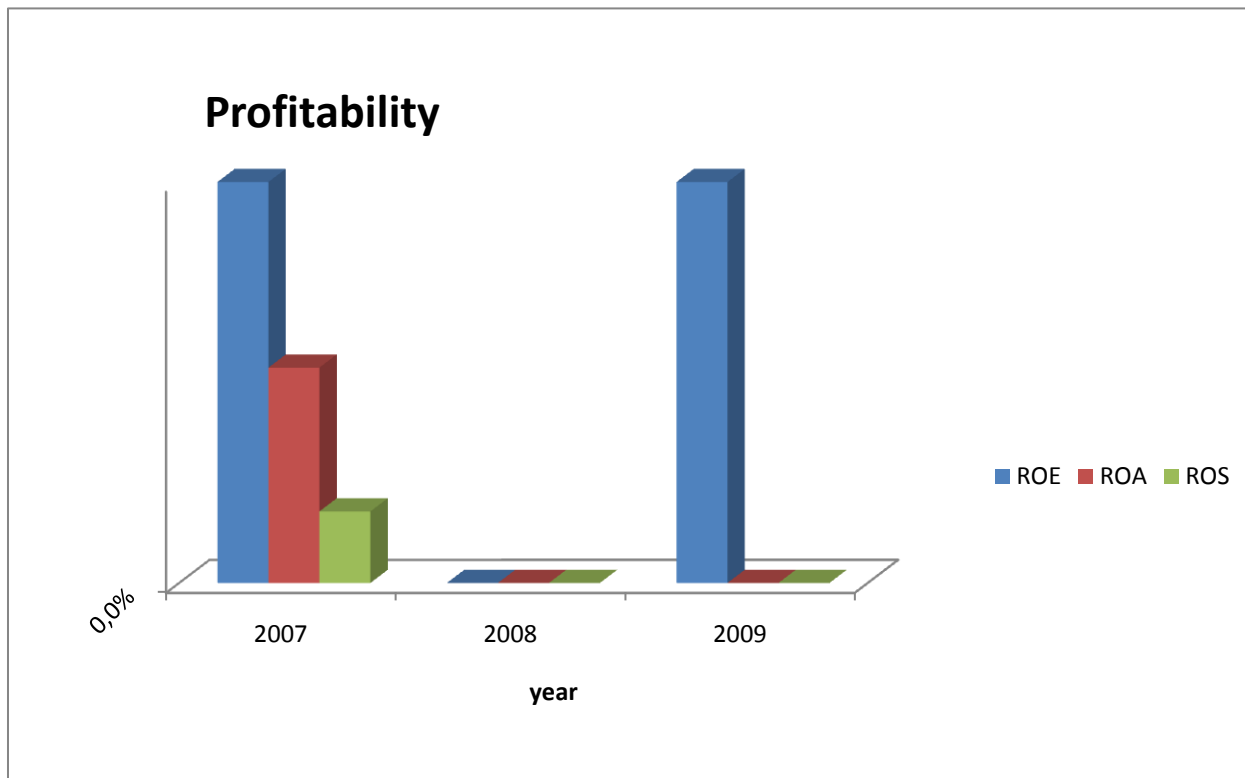
Source: own calculation

It makes no sense to calculate the profitability ratios for 2008 and 2009 when the company generated a loss. The positive ROE value in 2009 is due to the negative Equity Capital. (Table no. 11) In the following years, the company should focus on becoming profitable again.

Table no.11

1. PROFITABILITY	2007	2008	2009
ROE	12,8%	-63,4%	245,0%
ROA	5,4%	-9,5%	-28,7%
ROS	1,8%	-5,7%	-18,0%

Source: own calculation

The liquidity ratio should be according to the literature somewhere between 0,2 and 0,5. In table no. 12 can be seen that values are higher or lower than recommended values.

Table no. 12

2. LIQUIDITY	2007	2008	2009
Current Ratio	1,08	0,94	0,66
Quick Ratio	1,01	0,89	0,59
Cash Ratio	0,17	0,11	0,07
WC / AKT	0,05	-0,05	-0,31

Source: own calculation

These ratios indicate the company's ability to honor its liabilities. The liquidity ratios in our case do not have the optimum values due to the high loan from the company's owner. (Graph no. 5)

Graph no.5
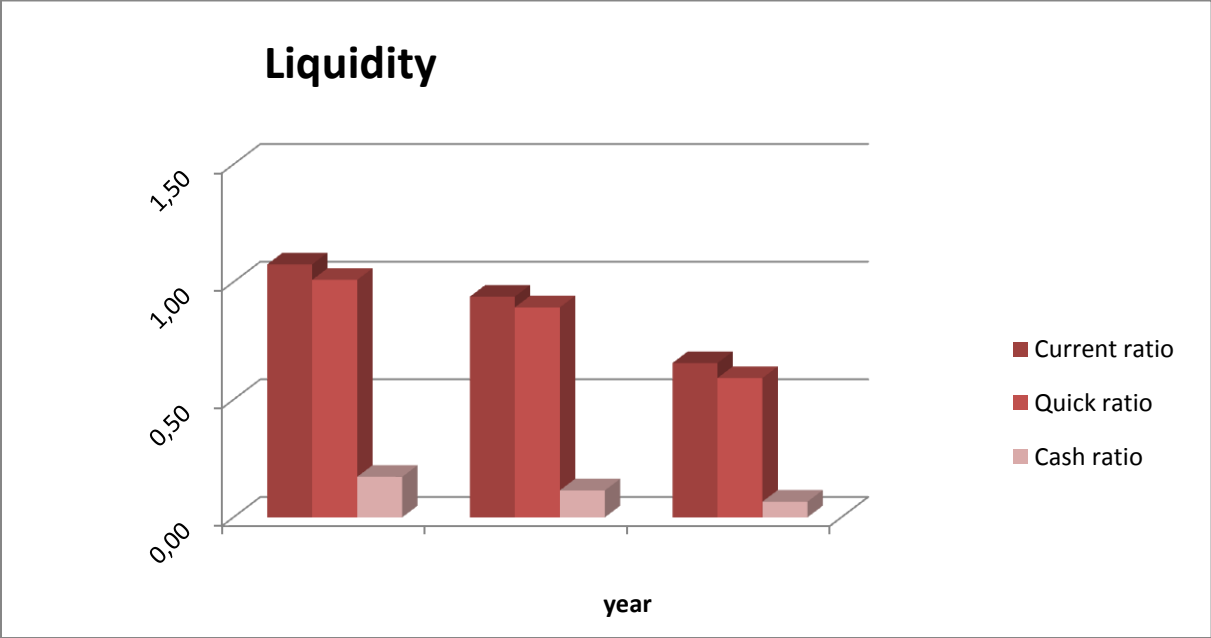
Source: own calculation

In table no. 13 can be seen how the company uses its assets. It means that only 3.5 times a year the invoices issued are paid to the company, with funds in the form of receivables being unavailable for 100 days on average. I view it a positive trend that the Total Assets Turnover declined over the years under review. The Inventory Turnover ratio is inaccurate due to the new method of calculating Work in Progress introduced in 2009. When comparing the Accounts Receivable and Payable Turnover Periods, it becomes clear that the company enjoys an advantageous position that continued to improve over the years. For the sake of clarity, the company on average used supplier credit for 150 days, while granting its customers supplier credit averaging at 100 days.

Table no. 13

3. ACTIVITY	2007	2008	2009
Total Assets Turnover	2,1	2,0	1,7
Inventory Turnover	44,3	57,2	29,1
Inventory Turnover Period	8	6	12
Accounts Receivable Turnover	3,5	3,3	3,5
Accounts Receivable Turnover Period	103	108	102
Accounts Payable Turnover	2,9	2,6	1,9
Accounts Payable Turnover Period (Credit Term)	123	138	194

Source: own calculation

The company's overall indebtedness was considerably rising and reached 95% (Table no. 14), which means the company finances its operations primarily by debt. In view of the fact that the company used a loan from its owner, the probability of financial instability is rather low.

Table no. 14

4. CAPITAL STRUCTURE	2007	2008	2009
4.1 Total Debt Ratio	71%	78%	95%
4.2 Interest Coverage	4	-4	-14

Source: own calculation

5.8 Altman Bankruptcy Formula (Z-score) and IN99 Index

According to the Altman Bankruptcy Formula and calculating a Z-score can be find out if the company is not reaching the zone of bankruptcy. In the table no. 15 is the Z-score lower and lower in years given and it means that the company is threatened by bankrupt.

Table no. 15

Partial Ratio	Weight	2007	2008	2009
EBIT/A	3,107	0,054	-0,095	-0,287
T/A	0,998	2,066	2,024	1,711
VK/CZ	0,420	0,407	0,236	-0,133
NZ/A	0,847	0,171	0,209	0,092
WC/A	0,717	0,053	-0,049	-0,310
	Z-score	**2,58**	**1,96**	**0,62**

Source: own calculation

Anohter indicator which can evaluate if the company is healthy or not is the Index IN99. This index is evaluate in table no. 16.

Table no. 16

Partial Ratio	Weight	2007	2008	2009
A/CK	-0,017	1,409	1,284	1,057
EBIT/A	4,573	0,054	-0,096	-0,289
VYNOS/A	0,481	2,160	2,157	1,783
OA/KZ	0,015	1,075	0,938	0,656
	IN99	**1,28**	**0,59**	**-0,47**

Source: own calculation

Both ratios signal serious financial problems faced by the company (Graph no. 6). As these calculations are of high descriptive value, the management and in particular the owners of the group should deal with the issue and look for a solution immediately. If the group lacks the cash required to support the cash flow in ABC Czech, s. r. o., the scenario of bankruptcy becomes very likely.

Graph no.6

Aggregate Indices
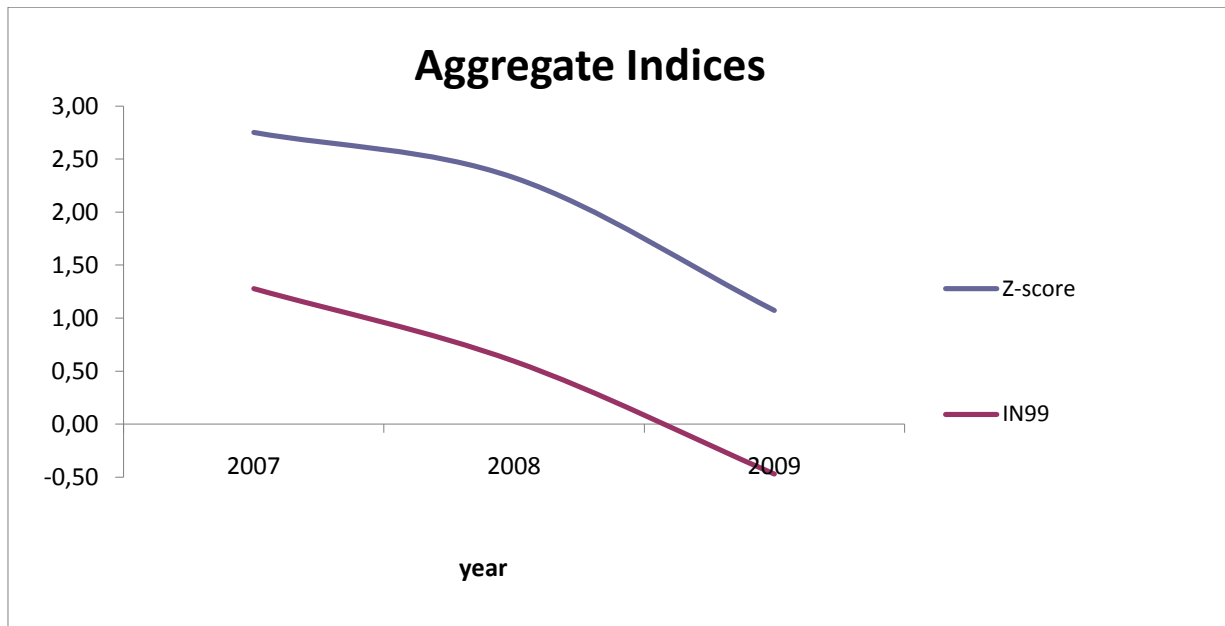
Source: own calculation

The graph no. 7 shows the structure of the indicators which are needed for the calculation of the Z-score. It is clear that the Altmann structure is mainly influenced by the revenues/total assets.

Graph no.7

Altmann structure
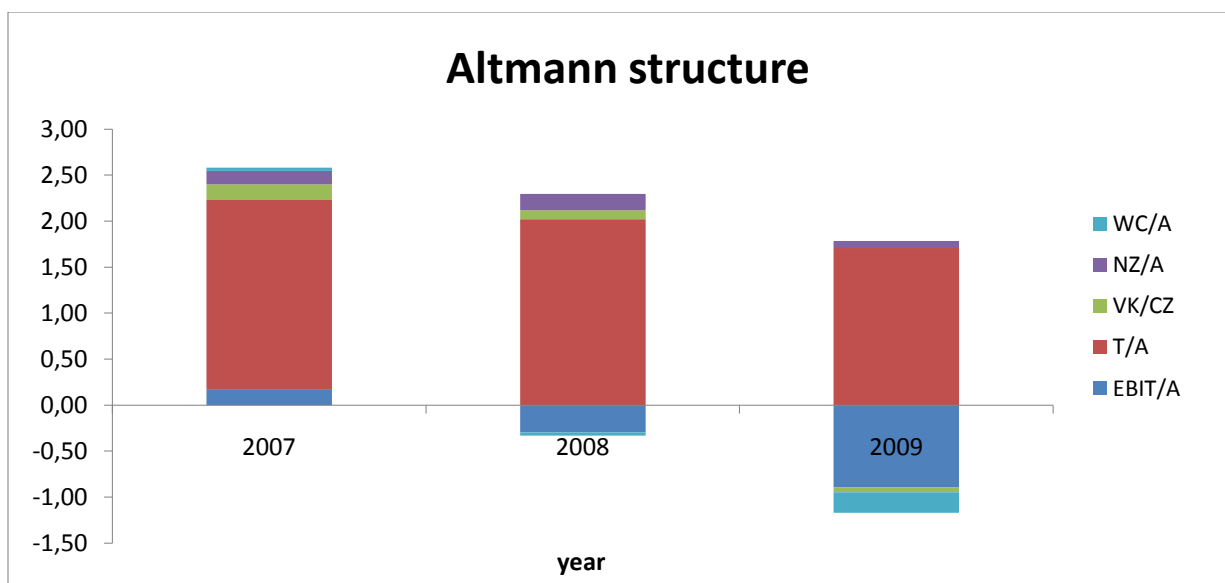
Source: own calculation

The Taffler model is also called the Taffler test. It is another indicator which can show if the company has a problem wiht a bunkruptcy or not. Nowadays the modified model includes only 4 ratio indicators with the constant values, as can be seen in table no. 17.

Table no. 17

	Weight	2007	2008	2009
R1	0,53	0,08	-0,12	-0,31
R2	0,13	1,07	0,94	0,64
R3	0,18	0,71	0,78	0,91
R4	0,16	2,07	2,02	1,71
	Tafler model	**0,64**	**0,52**	**0,35**

For the T values it is valid that if the T is higher than 0,3, there is a small probability of bankruptcy but on the other way round if the T is lower than 0,2 there is a high risk of bankruptcy.

In the graph no. 8 can be seen, what is the construction of indicators which influences the Taffler model.

Graph no.8
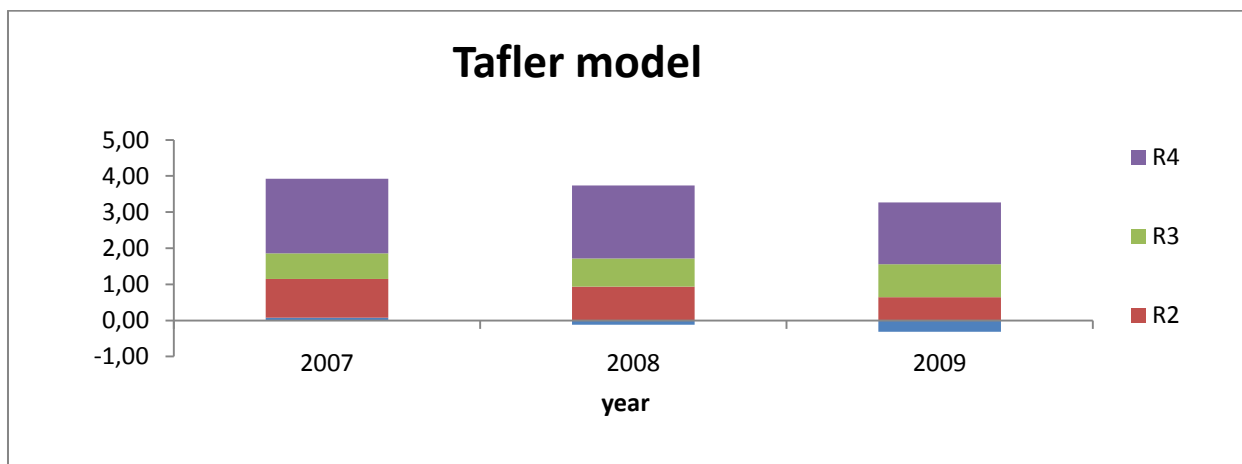
The Tafler model value is greater than 0.3, and although getting close to this limit value, ABC Czech, s. r. o. still faces a rather low probability of bankruptcy.

Graph no. 9

EVA Structure
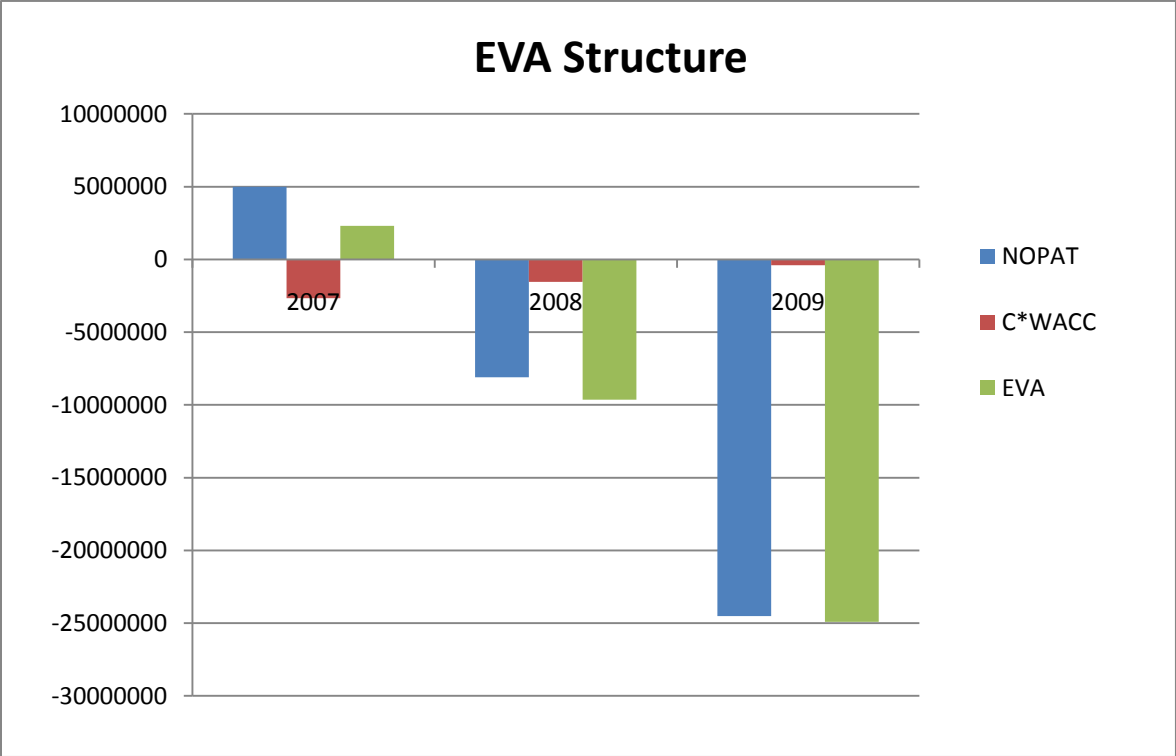
The EVA (Economic Value Added) indicator exactly reflects the situation in the company. As already mentioned, the business underwent major restructuring in 2008, during which 60% of the entire company including management and the staff changed; as a result, the company recorded a loss after several profitable years, and in 2009 new offices were acquired. Due to market changes and the economic crisis, ABC Czech, s. r. o. generated a loss in 2009 as well. The plan for 2010 foresees a loss at the level of 2008.

Based on the various financial analysis methods I have applied on ABC Czech, s. r. o., I would recommend the management to focus primarily on raising Equity Capital. Following the major restructuring process, the company is now in the stabilization phase, gaining market share and having a good potential to generate profits again. The management should also deal

with the debt ratio of 95%; the company needs to begin to gradually repay the great loan received within the ABC Group. Also another process which should help to this company is from my point of view the financial strategy.

5.9 SWOT Analysis

Due to the results which ensue from calculations there is a SWOT analysis which will analyze the company´s internal and external key factors.

Strengths	Weaknesses
➢ Management of accounts receivable ➢ Positive capital expenditure policy despite the losses incurred ➢ Financial stability despite high indebtedness	➢ Negative Equity Capital ➢ High indebtedness ➢ Control of project costs that affect the profitability of specific projects ➢ Lower gross profit margin
Opportunities	Threats
➢ Develop information technologies for online research ➢ Growing research requirements due to changes in the consumers' buying behavior	➢ Better conditions created for other entities to do business in marketing research ➢ Competitors and their survival strategies at the cost of lower quality of their studies

6   Discussion

The results will be discussed in this chapter of the diploma thesis and compared with the literature.

To determine profitability is important to company investors. This ratio is used to determine the company efficiency and performance. Ratios that show returns represent the firm´s ability to measure the overall efficiency of the company in generating returns for its shareholders. The enterprise should calculate the profitability ratio in the time when it is creating a profit, but the ABC Czech, s. r. o. is creating the loss in years 2008 and 2009. So, there is no sense to calculate the profitability ratios. In table no. 11 are compared ratios for three years. The ROA ratio is all the time lower than the ROE ratio which means that the research company is not able to cover its indebtedness. Sholleová (2008) says that it could be caused by a big portion of own capital, but in this enterprise it is caused by using a too expensive foreign capital, which lower the net profit against the EBIT. The research company has the only positive profitability in year 2007 but values are not so high. It means that the research company is not very interested for future investors and it should focus on becoming profitable again. There is a positive ROE in 2009, but it is caused by the negative equity capital.

Another ratio analyzed is the liquidity ratio. Due to this ratio there were used three calculations – Current ratio, Quick ratio, Cash ratio. These ratios indicate the research company´s ability to honor its liabilities.
Due to Rosochatecká (2006) the recommended value for Current ratio are between 1,8-2,5; for Quick ratio 1-1,5 and for Cash ratio 0,2-0,5. Nevertheless for nowadays companies the current ratio should be the values lower due to the fast development and is concerned as a uselessly big retaining of the assets. In the company ABC Czech, s. r. o. the Current ratio is from 0,66 to 1,08. It shows that the company is not able to pay its short-term liabilities from the short-term assets. Quick ratio in the company is 1,01-0,59 and the Cash ratio is 0,17-0,07. All values show that the situation in the firm is very critical. These values are cause by the high loan from the company´s owner.

The total assets turnover should be according to Sholleová (2008) at the minimum level of 1. In the research company it is from 1,7 to 2,1. It is good and it means that the management is using the assets at its disposal to promote sales. Because of the low amount money on the

bank account and due to the loans which the company has is the Accounts payable turnover period more than 70% higher than the Accounts receivable turnover period.

The company's overall indebtedness was considerably rising and reached 95%, which means the company finances its operations primarily by debt. In view of the fact that the company used a loan from its owner, the probability of financial instability is rather low. The Rosochatecká (2006) says that the situation is becoming bad when the indebtedness is higher than 50%. In the case of this company is the level of 95%, the company has no space for using the foreign capital. The Interest coverage ration has the recommended minimal value 3 due to Sholleová (2008). The examine company has the value 4 in year 2007 but other two years the value is negative from -4 to -14. It means that the company is not able to cover from the operating activity provide the costs for foreign capital.

For the analyses if the company is close to bankrupt or not were used Altman Bankruptcy Formula, the IN99 Index and the Tafler model. All of them are used to evaluate the financial health of the company. For the Altman Formula, the calculation for company which is not traded on the capital market was used. By calculating this formula we get the Z-score number which evaluate if the company is financially healthy or not. The book from Sholleová (2008) indicate that if the Z-score is higher than 2,9 the company healthy, between 1,23 and 2,89 is the company in so called grey zone and about the health of the enterprise cannot be uniquely determined. If the value is below 1,23 the enterprise is threaten by bankrupt. The research company has the values in 2007 and 2008 in the grey zone, so we can not exactly say if the company is financial healthy or not. But in year 2009 the Z-score is 0,62. It means that the company has a serious financial problems and it is facing the bankrupt.

The EVA ratio (Economic value added) is an indicator which exactly reflects the situation in the company. It was already mentioned that the business in the research company underwent major restructuring in 2008, during which 60% of the entire company including management and the staff changed and also the whole company moved into new offices in 2009. All these aspects influenced that the company recorded a loss after several profitable years. Another point which also influences the situation was the economic crisis and ABC Czech, s. r. o. generated a loss in 2009 as well. It is in graph no. 9 that both indicators which influence the EVA Structure are negative and then in year 2009 the EVA reached nearly a decline 25 mil. CZK. The plan for year 2010 foresees a loss at the similar level as in year 2009.

The really worst financial situation of the research company is caused by a big loan from the company´s owner, due to a big restructuring of the company in year 2008 and 2009. New management was employed, new office were rented, etc. If the company will not change the financial situation, the scenario of bankruptcy becomes more than possible.

7 Conclusions and Recommendations

In conclusions the financial strategy would be recommended to rebuild the financial situation in the ABC Czech, s. r. o. From my point of view without a good financial strategy the company can not reached the good financial results and also can not have a good financial analysis.

7.1 Analysis of Current Financial Strategy

The company has not yet officially presented its financial strategy, just financial plans. This is primarily attributable to the long process of restructuring, accompanied by numerous changes. Another reason is the global crisis that has totally changed the way the market develops, affecting the pricing policies of rival research agencies. The company presently tries to adapt to new customer requirements; therefore, it needs different experience and knowledge on the part of the staff.

For this reason, the main goal of the financial strategy is to improve the quality and effectiveness of the key production and sales personnel and, thus, acquire new clients, improve the agency's image and credibility in the market – the goal is namely "positioning" based on the corporate and business strategy. The agency aims to achieve this goal by forming mentor teams, within which it is easier to perform control and communicate over specific projects, and by analyzing frequent errors in job execution, conducting relevant training sessions and sharing know-how of the experienced staff and mentors. Last but not least, effective variable cost control will be pursued because presently the variable costs are controlled by each of the project managers.

7.2 Consistence of Financial Strategy with the Higher-Level Business Strategy

Based on the business strategy and the goals of the financial strategy described above, we can say that the financial goals formulated are consistent with the higher-level business strategy; however, the various aspects of the financial strategy have not been detailed and their implementation up to now has been rather marginal.

7.3 Internal Analysis of Specific Aspects of Financial Strategy

In this section I would like to focus on analyzing the resources and capabilities of ABC Czech, s. r. o. in order to identify the company's strengths and weaknesses but also key competencies and specific advantages enjoyed by the firm.

The following figure shows the areas that form part of the financial strategy:
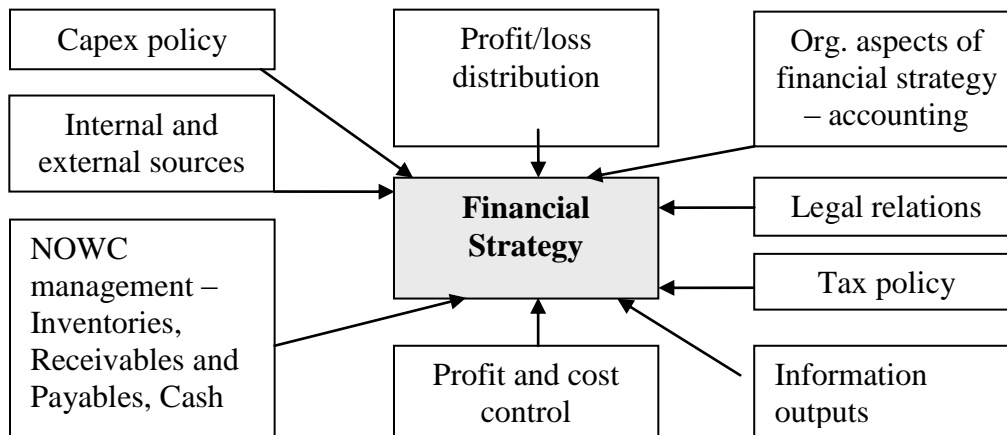
Graph. no.7: Ekonomické řízení podniku, str. 148, Polák M., Landa M., 2008

7.4 Capital Expenditure Policy

ABC Czech, s. r. o. decided to invest in a 3-year restructuring process that was required for the agency to be able to remain in the market. This process was funded from Equity Capital and loans from the parent company.

The company plans another major capital expenditure in order to innovate its respondent interviewing processes; this investment should in the long run generate a competitive advantage, gradually reduce costs and improve efficiency and accuracy of the respondents' answers. This capital project will be implemented in 2010.

Other minor capital expenditures aim to improve internal processes and increase the staff performance. The financing of these capital projects has marginal impacts on the company's liquidity.

7.5 Internal and External Financing Policy

Assets are depreciated and amortized using the straight-line method; software for 36 months, property, plant and equipment for 72 months and technical improvements for 180 months.

Retained Earnings were primarily re-invested for the sake of restructuring; over the last 2 years the company generated a loss.
Provisions are created mainly for loss-generating projects and also to cover future risks and expenses.

Debt financing currently poses a problem for the company, the company's owner has to stand pledge. The company uses operative lease contracts.

7.6 Managing Net Operating Working Capital

The company provides research-related services and, thus, maintains no inventories. ABC Czech, s. r. o. has no problems with the management of receivables as most clients pay settle invoices timely as specific parts of the research results are delivered; this also applies to ABC Czech, s. r. o., which also pays invoices by due dates. ABC Czech, s. r. o. uses a credit line with an approved limit from the parent company.

7.7 Profit Distribution

Over the last 2 years, the company generated a loss, which was to some extent covered from Retained Earnings. In 2009, the company recorded negative Equity Capital; therefore, the owner decided in 2010 to increase the Equity Capital or raise Other Capital Funds, and transferred a portion of the loss to the account of Accumulated Loss. The loss incurred by the company is mainly attributable to the extensive restructuring process, initiated in 2008, and also to the economic crisis that changed the market structure and customer requirements.

7.8 Profit and Cost Control

The company aims to improve its process-oriented accounting system mainly due to market changes and fierce competition. This system was introduced during the restructuring process and now needs to be innovated and its observance better monitored. Variable costs are still not under the management's control and these costs cannot be influenced timely. One of the reasons is the lack of knowledge and failure to observe rules on the part of project managers since some processes still have no software support and the related administrative efforts are time-consuming and inefficient.

The issue of cost control is connected with numerous interrelated criteria.
I am going to analyze this area in detail in my dissertation; now I would only like to mention that in its current situation, ABC Czech, s. r. o. needs to focus on cost control. In late 2009, a cost-reduction project was launched, which identified around 20 processes that affect primarily fixed costs. Their analysis and subsequent negotiations with suppliers resulted in an average fixed cost reduction of 10%.

Since the company's greatest cost items are personnel expenses and production costs, attention needs to be paid to these areas and the costs must be effectively managed. The company has cost calculation sheets in place, but interviewing showed that the margin percentage is not observed. This of course has to do with the system of account managers' remuneration; these managers strive to sell a given project and profitability aspects are secondary for them. Due to the complexity of research study production, it is difficult to determine who exactly is to be responsible for the project profitability; it is teamwork and so most studies have so far generated a loss and one production team blames the other.

7.9 Tax Policy

Due to the losses from the past 2 years, the company had little use for any tax policy implications; nevertheless, legal means for tax-effective cost reductions were consistently used. The company uses the services of a reputable tax advisor that annually compiles the income tax return.

7.10 Financial Strategy Formulated

The strategy formulates long-term goals that the company wants to achieve as well as the methods to be used to attain them. The mere existence of such a strategy in the firm does not mean that the company is actually strategically managed. Managing a company strategically means carrying out a number of activities = strategic management.

My analysis has shown that the current activities of the Finance Department mostly had to do with obtaining funds from the ABC Group to fund the restructuring process and, nowadays, the capital projects connected with the innovation of the respondent interviewing system.

Below I have attempted to formulate a strategy that will above all eliminate the existing weaknesses of ABC Czech, s. r. o.

Most important strategic goals in financial management:
1. Increase Equity Capital
2. Reduce debt
3. Control variable project costs
4. Raise the gross profit margin on each of the projects and improve the overall project quality
5. Finance other projects aimed to improve competitiveness

The above goals only set a framework and need to be broken down into specific goals and targets under the financial strategy.

Financial Strategy Proposed

The financial strategy must primarily aims to restore business profitability as a profit is an indication of the overall success of the company. Therefore, specific functional strategies need to be interconnected and harmonized to follow the same goals. I have already mentioned that Finance can manage the variable costs of specific projects by communicating regularly with project managers and preparing cost analyses. This process needs to be supported by the management and also by software tools used to perform the analyses. Furthermore, this system needs to be linked to the personnel policy and the remuneration system. Another step

will be to manage the gross profit margin, where the management needs to define specific rules and, if relevant, penalties for failing to observe the required margin. This has to do with the service pricing policy that is in the responsibility of Sales. The company should also immediately raise its Equity Capital and, subsequently, aim to reduce its debt. Last but not least, the planned capital projects should be implemented that focus on innovations that should in the future bring a competitive advantage.

Even today when there are numerous books available on this topic, many a manager still does not realize that strategic management is one of the crucial factors influencing the firm's long-term competitiveness and success. I think that considering ABC Czech, s. r. o.'s existing market position and the recently completed long restructuring process, this document including all the analyses will be a useful tool in developing and strategically managing ABC Czech, s. r. o. in the future.

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9 List of supplements

9.1 Balance sheet

AKTIVA	číslo řádku	2007	2008	2009
Aktiva celkem	001			
Pohledávky za upsaný vlastní kapitál	002			
Dlouhodobý majetek	003			
Dlouhodobý nehmotný majetek	004	125 413 617	111 700 456	112 415 583
Zřizovací výdaje	005			
Nehmotné výsledky výzkumu a vývoje	006	26 336 227	25 625 351	43 183 180
Software	007	2 542 996	2 296 014	2 096 774
Ocenitelná práva	008			
Goodwill	009			
Jiný dlouhodobý nehmotný majetek	010	2 447 000	2 241 093	2 096 774
Nedokončený dlouhodobý nehmotný majetek	011			
Poskytnuté zálohy na dlouhodobý nehmotný majetek	012			
Dlouhodobý hmotný majetek	013	95 996	54 921	0
Pozemky	014			
Stavby	015			
Samostatné movité věci a soubory movitých věcí	016	3 201 707	2 737 813	20 494 882
Pěstitelské celky trvalých porostů	017			
Základní stádo a tažná zvířata	018	967 952	923 258	13 539 583
Jiný dlouhodobý hmotný majetek	019	838 089	929 672	6 943 101
Nedokončený dlouhodobý hmotný majetek	020			
Poskytnuté zálohy na dlouhodobý hmotný majetek	021			
Oceňovací rozdíl k nabytému majetku	022	1 395 666	884 883	12 198
Dlouhodobý finanční majetek	023			
Podíly v ovládaných a řízených osobách	024			
Podíly v účetních jednotkách pod podstatným vlivem	025			
Ostatní dlouhodobé cenné papíry a podíly	026	20 591 524	20 591 524	20 591 524
Půjčky a úvěry - ovládající a řídící osoba, podstaný vliv	027	20 591 524	20 591 524	20 591 524
Jiný dlouhodobý finanční majetek	028			
Pořizovaný dlouhodobý finanční majetek	029			

Poskytnuté zálohy na dlouhodobý finanční majetek	030			
Oběžná aktiva	031			
Zásoby	032			
Materiál	033			
Nedokončená výroba a polotovary	034	95 385 251	81 355 760	67 947 034
Výrobky	035	5 841 183	3 946 161	6 605 977
Zvířata	036			
Zboží	037	2 272 680	477 255	4 262 757
Poskytnuté zálohy na zásoby	038			
Dlouhodobé pohledávky	039			
Pohledávky z obchodních vztahů	040			
Pohledávky - ovládající a řídící osoba	041	3 568 503	3 468 906	2 343 220
Pohledávky - podstatný vliv	042	0	0	0
Pohledávky za společníky, členy družstva a za účastníky sdružení	043			
Dlouhodobé poskytnuté zálohy	044			
Dohadné účty aktivní	045			
Jiné pohledávky	046			
Odložená daňová pohledávka	047			
Krátkodobé pohledávky	048			
Pohledávky z obchodních vztahů	049			
Pohledávky - ovládající a řídící osoba	050			
Pohledávky - podstatný vliv	051	74 274 378	67 475 641	54 435 759
Pohledávky za společníky, členy družstva a za účastníky sdružení	052	65 040 297	58 356 427	54 078 609
Sociální zabezpečení a zdravotní pojištění	053			
Stát - daňové pohledávky	054	3 485 254	1 500 000	253 385
Krátkodobé poskytnuté zálohy	055			
Dohadné účty aktivní	056			
Jiné pohledávky	057	5 186 715	7 285 013	-10 213
Krátkodobý finanční majetek	058			
Peníze	059			
Účty v bankách	060	562 112	334 201	113 978
Krátkodobé cenné papíry a podíly	061	15 269 690	9 933 958	6 905 298
Pořizovaný krátkodobý finanční majetek	062	483 952	243 002	144 812
Časové rozlišení	063	14 785 738	9 690 956	6 760 486
Náklady příštích období	064			
Komplexní náklady příštích období	065			
Příjmy příštích období	066	3 692 139	2 026 568	1 166 649
Kontrolní číslo	999	3 528 468	1 699 733	1 166 649

66

		163 671	326 835	0
			443 683	449 543
		5 016 654 469	322	610

PASIVA	číslo řádku	2007	2008	2009
Pasiva celkem	067	125 281 156	111 379 346	111 660 877
Vlastní kapitál	068	36 193 097	20 439 269	-14 098 508
Základní kapitál	069	7 000 000	7 000 000	7 000 000
Základní kapitál	070	7 000 000	7 000 000	7 000 000
Vlastní akcie a vlastní obchodní podíly (-)	071			
Změny základního kapitálu	072			
Kapitálové fondy	073	0	0	0
Emisní ážio	074			
Ostatní kapitálové fondy	075			
Oceňovací rozdíly z přecenění majetku a závazků	076			
Oceňovací rozdíly z přecenění při přeměnách	077			
Rezervní fondy, nedělitelný fond a ostatní fondy ze zisku	078	3 149 999	3 149 999	3 149 999
Zákonný rezervní fond / Nedělitelný fond	079	700 000	700 000	700 000
Statutární a ostatní fondy	080	2 449 999	2 449 999	2 449 999
Výsledek hospodaření minulých let	081	21 420 290	23 243 099	10 289 268
Nerozdělený zisk minulých let	082	21 420 290	23 243 099	10 289 268
Neuhrazená ztráta minulých let	083			
Výsledek hospodaření běžného úč. období (+/-)	084	4 622 808	-12 953 829	-34 537 775
Cizí zdroje	085	88 945 819	86 758 284	105 664 564
Rezervy	086	227 280	0	2 027 835
Rezervy podle zvláštních právních předpisů	087			
Rezerva na důchody a podobné závazky	088			
Rezerva na daň z příjmů	089			
Ostatní rezervy	090	227 280	0	2 027 835
Dlouhodobé závazky	091	0	0	0
Závazky z obchodních vztahů	092			
Závazky - ovládající a řídící osoba	093			
Závazky - podstatný vliv	094			

	číslo			
Závazky ke společníkům, členům družstva a k účastníkům sdružení	095			
Dlouhodobé přijaté zálohy	096			
Vydané dluhopisy	097			
Dlouhodobé směnky k úhradě	098			
Dohadné účty pasivní	099			
Jiné závazky	100			
Odložený daňový závazek	101			
Krátkodobé závazky	102	88 718 539	86 758 284	102 545 464
Závazky z obchodních vztahů	103	15 008 777	12 697 242	14 941 057
Závazky - ovládající a řídící osoba	104			
Závazky - podstatný vliv	105	55 346 246	60 503 264	71 339 895
Závazky ke společníkům, členům družstva a k účastníkům sdružení	106	3 000 000	0	0
Závazky k zaměstnancům	107	6 532 464	6 221 434	7 026 774
Závazky ze sociálního zabezpečení a zdravotního pojištění	108	2 594 918	2 263 784	2 525 834
Stát - daňové závazky a dotace	109	6 236 134	5 072 560	6 711 904
Krátkodobé přijaté zálohy	110			
Vydané dluhopisy	111			
Dohadné účty pasivní	112			
Jiné závazky	113			
Bankovní úvěry a výpomoci	114	0	0	1 091 265
Bankovní úvěry dlouhodobé	115			
Krátkodobé bankovní úvěry	116			1 091 265
Krátkodobé finanční výpomoci	117			
Časové rozlišení	118	142 240	4 181 793	20 094 821
Výdaje příštích období	119	142 240	4 181 793	14 342 533
Výnosy příštích období	120			5 752 288
Kontrolní číslo	999			

9.2 Income statement

označ.	Text	číslo řádku	2007	2008	2009
I.	Tržby za prodej zboží	01			
A.	Náklady vynaložené na prodané zboží	02			
+	Obchodní marže	03	0	0	0
II.	Výkony	04	258 807 719	225 590 954	191 915 890

II.1.	Tržby za prodej vlastních výrobků a služeb	05	259 015 905	227 386 379	188 130 388
II.2.	Změna stavu zásob vlastní činnosti	06	-208 186	-1 795 425	3 785 502
II.3.	Aktivace	07			
B.	Výkonová spotřeba	08	112 526 543	101 404 605	93 803 206
B.1.	Spotřeba materiálu a energie	09	4 342 780	4 094 770	3 243 094
B.2.	Služby	10	108 183 763	97 309 835	90 560 112
+	Přidaná hodnota	11	146 281 176	124 186 349	98 112 684
C.	Osobní náklady	12	139 594 064	140 793 675	127 565 384
C.1.	Mzdové náklady	13	114 739 156	115 802 571	104 155 397
C.2.	Odměny členům orgánů společnosti a družstva	14			
C.3.	Náklady na sociální zabezpečení a zdravotní pojištění	15	24 304 518	24 616 746	23 210 752
C.4.	Sociální náklady	16	550 390	374 358	199 235
D.	Daně a poplatky	17	74 997	81 122	31 956
E.	Odpisy dlouhodobého nehmotného a hmotného majetku	18	5 209 395	2 707 532	4 332 385
III.	Tržby z prodeje dlouhodobého majetku a materiálu	19	253 996	496 605	373 697
III.1.	Tržby z prodeje dlouhodobého majetku	20	253 996	496 605	373 697
III.2.	Tržby z prodeje materiálu	21			
F.	Zůstatková cena prodaného dlouhodobého majetku a materiálu	22	13 180	1 000	254 304
F.1.	Zůstatková cena prodaného dlouhodobého majetku	23	13 180	1 000	254 304
F.2.	Prodaný materiál	24			
G.	Změna stavu rezerv a opravných položek v provozní oblasti a komplexních nákladů příštích období	25	35 071	55 083	295 120
IV.	Ostatní provozní výnosy	26	105 754	315 861	1 454 648
H.	Ostatní provozní náklady	27	983 960	1 647 197	1 037 200
V.	Převod provozních výnosů	28			86 906
I.	Převod provozních nákladů	29			463 883
*	Provozní výsledek hospodaření	30	730 259	-20 286 794	-33 952 297
VI.	Tržby z prodeje cenných papírů a podílů	31	78 000		
J.	Prodané cenné papíry a podíly	32	1 238 000		
VII.	Výnosy z dlouhodobého finančního majetku	33	8 414 708	9 025 046	4 639 883
VII.1.	Výnosy z podílů v ovládaných a řízených osobách a v účetních jednotkách pod podstatným vlivem	34	8 414 708	9 025 046	4 639 883

označ.	Text	číslo řádku			
VII.2.	Výnosy z ostatních dlouhodobých cenných papírů a podílů	35			
VII.3.	Výnosy z ostatního dlouhodobého finančního majetku	36			
VIII.	Výnosy z krátkodobého finančního majetku	37			
K.	Náklady z finančního majetku	38			
IX.	Výnosy z přecenění cenných papírů a derivátů	39			
L.	Náklady z přecenění cenných papírů a derivátů	40			
M.	Změna stavu rezerv a opravných položek ve finanční oblasti	41			
X.	Výnosové úroky	42	188 062	107 060	29 153
N.	Nákladové úroky	43	1 833 130	2 617 285	2 271 034
XI.	Ostatní finanční výnosy	44	2 726 712	4 679 235	642 741
O.	Ostatní finanční náklady	45	4 164 909	4 174 060	2 052 280
XII.	Převod finančních výnosů	46			
P.	Převod finančních nákladů	47			
*	Finanční výsledek hospodaření	48	4 171 443	7 019 996	988 463
Q.	Daň z příjmů za běžnou činnost	49	278 894	-312 969	9 989
Q.1.	splatná	50	264 237	-309 120	
Q.2.	odložená	51	14 657	-3 849	9 989
**	Výsledek hospodaření za běžnou činnost	52	4 622 808	-12 953 829	-32 973 823
XIII.	Mimořádné výnosy	53			
R.	Mimořádné náklady	54			1 563 952
S.	Daň z příjmů z mimořádné činnosti	55			
S.1.	splatná	56			
S.2.	odložená	57			
*	Mimořádný výsledek hospodaření	58			-1 563 952
T.	Převod podílu na výsledku hospodaření společníkům (+/-)	59			
***	Výsledek hospodaření za účetní období (+/-)	60	4 622 808	-12 953 829	-34 537 775
****	Výsledek hospodaření před zdaněním (+/-)	61	4 901 702	-13 266 798	-34 527 786
	Kontrolní číslo	99			

9.3 Vertical and horizontal analysis of Income statement

označ.	Text	číslo řádku	2007	2008	2009
I.	Tržby za prodej zboží	01	0%	0%	0%
A.	Náklady vynaložené na prodané zboží	02	0%	0%	0%

+	Obchodní marže	03	0%	0%	0%
II.	Výkony	04	100%	100%	100%
II.1.	Tržby za prodej vlastních výrobků a služeb	05	100%	101%	98%
II.2.	Změna stavu zásob vlastní činnosti	06	0%	-1%	2%
B.	Výkonová spotřeba	08	43%	45%	49%
B.1.	Spotřeba materiálu a energie	09	2%	2%	2%
B.2.	Služby	10	42%	43%	47%
+	Přidaná hodnota	11	57%	55%	51%
C.	Osobní náklady	12	54%	62%	66%
C.1.	Mzdové náklady	13	44%	51%	54%
C.2.	Odměny členům orgánů společnosti a družstva	14	0%	0%	0%
C.3.	Náklady na sociální zabezpečení a zdravotní pojištění	15	9%	11%	12%
E.	Odpisy dlouhodobého nehmotného a hmotného majetku	18	2%	1%	2%
III.	Tržby z prodeje dlouhodobého majetku a materiálu	19	0%	0%	0%
IV.	Ostatní provozní výnosy	26	0%	0%	1%
H.	Ostatní provozní náklady	27	0%	1%	1%
V.	Převod provozních výnosů	28	0%	0%	0%
I.	Převod provozních nákladů	29	0%	0%	0%
*	Provozní výsledek hospodaření	30	0%	-9%	-18%
VII.	Výnosy z dlouhodobého finančního majetku	33	3%	4%	2%
VII.1.	Výnosy z podílů v ovládaných a řízených osobách a v účetních jednotkách pod podstatným vlivem	34	3%	4%	2%
N.	Nákladové úroky	43	1%	1%	1%
XI.	Ostatní finanční výnosy	44	1%	2%	0%
O.	Ostatní finanční náklady	45	2%	2%	1%
XII.	Převod finančních výnosů	46	0%	0%	0%
P.	Převod finančních nákladů	47	0%	0%	0%
*	Finanční výsledek hospodaření	48	2%	3%	1%
Q.	Daň z příjmů za běžnou činnost	49	0%	0%	0%
Q.1.	Splatná	50	0%	0%	0%
Q.2.	Odložená	51	0%	0%	0%
**	Výsledek hospodaření za běžnou činnost	52	2%	-6%	-17%
XIII.	Mimořádné výnosy	53	0%	0%	0%
R.	Mimořádné náklady	54	0%	0%	1%
*	Mimořádný výsledek hospodaření	58	0%	0%	-1%
***	Výsledek hospodaření za účetní období (+/-)	60	2%	-6%	-18%
****	Výsledek hospodaření před zdaněním (+/-)	61	2%	-6%	-18%
	Kontrolní číslo	99	0%	0%	0%
	pomocné - výkony celkem	1 + 4	100%	100%	100%

		EBIT	61+43	3%	-5%	-17%

Text	číslo řádku	2008/2007	2009/2008
Tržby za prodej zboží	01		
Náklady vynaložené na prodané zboží	02		
Obchodní marže	03		
Výkony	04	0,9	0,9
Tržby za prodej vlastních výrobků a služeb	05	0,9	0,8
Změna stavu zásob vlastní činnosti	06	8,6	-2,1
Aktivace	07		
Výkonová spotřeba	08	0,9	0,9
Spotřeba materiálu a energie	09	0,9	0,8
Služby	10	0,9	0,9
Přidaná hodnota	11	0,8	0,8
Osobní náklady	12	1,0	0,9
Mzdové náklady	13	1,0	0,9
Odměny členům orgánů společnosti a družstva	14		
Náklady na sociální zabezpečení a zdravotní pojištění	15	1,0	0,9
Sociální náklady	16	0,7	0,5
Daně a poplatky	17	1,1	0,4
Odpisy dlouhodobého nehmotného a hmotného majetku	18	0,5	1,6
Tržby z prodeje dlouhodobého majetku a materiálu	19	2,0	0,8
Tržby z prodeje dlouhodobého majetku	20	2,0	0,8
Tržby z prodeje materiálu	21		
Zůstatková cena prodaného dlouhodobého majetku a materiálu	22	0,1	254,3
Zůstatková cena prodaného dlouhodobého majetku	23	0,1	254,3
Prodaný materiál	24		
Změna stavu rezerv a opravných položek v provozní oblasti a komplexních nákladů příštích období	25	1,6	5,4
Ostatní provozní výnosy	26	3,0	4,6
Ostatní provozní náklady	27	1,7	0,6
Převod provozních výnosů	28		
Převod provozních nákladů	29		
Provozní výsledek hospodaření	30	-27,8	1,7
Tržby z prodeje cenných papírů a podílů	31	0,0	
Prodané cenné papíry a podíly	32	0,0	
Výnosy z dlouhodobého finančního majetku	33	1,1	0,5

Výnosy z podílů v ovládaných a řízených osobách a v účetních jednotkách pod podstatným vlivem	34	1,1	0,5
Výnosové úroky	42	0,6	0,3
Nákladové úroky	43	1,4	0,9
Ostatní finanční výnosy	44	1,7	0,1
Ostatní finanční náklady	45	1,0	0,5
Převod finančních výnosů	46		
Převod finančních nákladů	47		
Finanční výsledek hospodaření	48	1,7	0,1
Daň z příjmů za běžnou činnost	49	-1,1	0,0
Splatná	50	-1,2	0,0
Odložená	51	-0,3	-2,6
Výsledek hospodaření za běžnou činnost	52	-2,8	2,5
Mimořádné výnosy	53		
Výsledek hospodaření za účetní období (+/-)	60	-2,8	2,7
Výsledek hospodaření před zdaněním (+/-)	61	-2,7	2,6
Kontrolní číslo	99		
pomocné - výkony celkem	1 + 4	0,9	0,9
EBIT	61+43	-1,6	3,0