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Diploma thesis

Analysis of performance of a selected company

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Statutory declaration

I declare that I worked out this diploma thesis Analysis of performance of a selected company independently under the leadership of Ing. Ivana Blažková Ph.D. and noted in it all literary and other sources in accordance with the law.

In Brno, 21.12.2015

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Abstract

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This thesis deals with the financial performance of a selected company on the basis of financial statements for years 2009 to 2014. The theoretical part explains the basic concepts and methods of financial analysis. Practical part carries out the horizontal and vertical analysis, evaluation of profitability, activity, liquidity and indebtedness and the prediction of financial distress based on the financial statements of the analyzed company. In conclusion, the results are evaluated and suggestion for improving the company's financial situation are specified.

Key words: horizontal analysis, vertical analysis, ratio indicators, balance sheet, income statement

Abstrakt

Tato diplomová práce se zabývá finanční výkonností vybraného podniku na základě účetních výkazů z let 2009 až 2014. V teoretické části jsou vysvětleny základní pojmy a metody finanční analýzy. V praktické části je na základě finančních výkazů analyzované firmy provedena horizontální a vertikální analýza, zhodnocení rentability, aktivity, likvidity a zadluženosti a predikce finanční tísně. V závěru práce jsou zhodnoceny výsledky a uvedeny návrhy pro zlepšení finanční situace podniku.

Klíčová slova: horizontální analýza, vertikální analýza, poměrové ukazatele, rozvaha, výkaz zisků a ztrát

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1 Introduction

The financial analysis nowadays represents an integral part of financial management. Through the financial analysis the company receives feedback about the expected and the actual state in which are the individual company's areas located. The priority of economic entities is no longer to gain the profit, but also remain on the market and fight with ever-presented competition. Therefore, the management should know the financial situation of the company. The management should know all aspects that affect the status of the company on the market, among other things, it is necessary to understand the whole process of financial decision-making, timely response, assess the risk of financial activities and thereby achieve a stabilized position in the market and provide a possible development of the company to the future.

The results of financial analysis do not provide information only to the company management but also other interested entities, such as creditors, suppliers, employees of the company, banking institutions and others.

The analysis helps to managers to highlight not only strengths of the company, but also helps to detect possible failures in financial management. Sources of information for the analysis are financial statements (the balance sheet, the income statement) that allow to outline future trends. To assess the situation of the company is necessary to comprehensively evaluate the selected ratios. The financial analysis the basic tool for the financial manager. The financial manager is able to assess on the basis of results of the analysis and his experiences whether the decision, he made or he is getting ready to do, is an advantageous for the company.

2 Objectives and methodology

The main objective of this thesis is to carry out the financial analysis of the chosen company with the purpose to evaluate the effectiveness of the company, draw conclusions and outline recommendations for the improvement and stabilization of the individual indicators. To fulfill this objective will be achieved with selected methods of financial

analysis, particularly horizontal and vertical analysis, selected ratio indicators, analysis of indicator's systems and other methods.

This diploma thesis will be divided into two parts – theoretical and practical. The theoretical part will define the concepts of financial analysis, sources of information from which the financial manager gains the data, determine the users of financial analysis and outline a little bit of history of financial analysis. In this part will also be defined individual financial statements.

The next part will be connected with different methods of financial analysis which will be then applied in practical part and thus bring the selected indicator that results values should help to a comprehensive view of the company's financial situation.

The practical part will contain the overall analysis of the chosen company, at first will contain the general information about the analyzed company, then with the help of financial statements and ratio analysis will be discussed the actual financial situation of the company for last 6 years.

For processing the theoretical part will be used a professional literature. For processing the practical part will be used materials provided by the company's accounting manager, particularly balance sheets, income statements and cash flow statements as well as annual reports.

THEORETICAL PART

3 Financial analysis

Financial analysis is an area that represents a significant part of the complex financial management because it provides feedback between the intended effect of management decisions and reality. It is a subject closely linked to the financial accounting, which provides data and information for financial decision making through the basic financial statements: balance sheet, income statement and statement of cash flows (cash flow). These statements have been prepared on the basis of financial accounting as a process that collects, classifies and documents the details of the management of the company. The sources for financial analysis can be also other data from the field of internal accounting, economic statistics, money market and capital market. (Valach, 1999)

Financial analysis is defined as a formalized method that measures the collected data among themselves, expanding their explicitness, to reach certain conclusions overall economic and financial situation, according to which it would be possible to adopt a different decision. (Grünwald a Holečková, 1994)

Blaha (1996) states, that the financial analysis is an assessment of past, present and anticipated future of company's financial management.

According to Valach (1999) is the meaning and purpose of financial analysis to carry out the diagnosis of company's financial management with help of special methodical resources to capture all its components or in a more detailed analysis to evaluate some of the components of the financial situation (eg. an analysis of cost-effectiveness, analysis of indebtedness, liquidity analysis, etc.).

Main aims of financial analysis are:

- Verification of achieved results, quantifying of the causes that have affected these results of a systematic evaluation of independencies in order to reveal the real financial position of the company.

- Identifying reserves in operating and investing activities of the company, the possibility of a deeper analysis of the company's cash flow situation, revenues, expenses, asset utilization and its financial resources.
- The basis for the preparation of high-quality real short-term and long-term financial plans.
- Control tool because it allows to determine to what extent are the measure implemented successfully and how are manifested in the improvement or deterioration in the financial situation of the company and its performance. (Živělová, 1998)

Financial analysis can be divided into 3 basic stages. The first stage is aimed at the diagnosis of essential characteristics. It is the examination of the company that submits basic information about the individual components of financial management and their impact on the overall economic results. The final outcome of this stage should be detected deviations from normal.

The second stage of financial analysis is to intend deeper analysis of observed anomalies. Evaluation of the state is carried out by using specific tools and methods that are focus on problem areas of the company.

The third and final stage, include an evaluation of the financial analysis. There are presented and identified the causes of any undesirable development and proposals to deal with the situation. This assessment then serves as a basis for financial management. (Keown, 2006)

3.1 Sources of information for financial analysis

The most important and essential source of financial analysis are the financial statements. These reports give and overview of the structure of assets, sources of property coverage, the creation and use of profit and cash flow. These statements are balance

sheets, profit and loss statements and cash flow statements. Important information can also be found in the notes to financial statements and in annual reports.

Data sources for financial analysis can be divided by relevancy into 3 basic groups:

- financial information derived mainly from financial and internal accounting. These resources can be achieved from financial analysts and company's managers, the annual reports, stock exchange reports, annual reports of issuers of marketable securities, reports about the development of interest rates etc.
- Quantifiable information includes non-financial corporate and economic statistics, business plans, employment, consumption standards, cost and pricing calculations, analysis of future technology development, internal guidelines, etc.
- Non-quantifiable information contains commentaries of managers, reports of senior executives, auditors, independent assessments and forecasts.

For processing of financial analysis with high predictive ability the financial analyst needs a large amount of input information. The most important and essential source of information about the company and its financial situation are financial statements. The knowledge of contents of individual items of financial statements – balance sheet, income statement, cash flow statement, is a basic prerequisite for working with them. In addition to the knowledge of the individual items of these statements is also necessary to know the interconnection of statements. Financial statements are processed for accounting and tax purposes; therefore, they always do not contain data that truly reflect the economic reality of the company. Predictive ability of financial statements is one of the weaknesses of financial analysis. (Rao, 2007)

3.1.1 Balance sheet

The balance sheet is a basic financial statement. The balance sheet reflects the business assets and sources of property coverage on a specific date, expressed in monetary units (see Table 1).

Table 1.: Reduced scheme of the balance sheet

Assets	Liabilities
A. Receivables from subscription	A. Equity
	A.I. Registered capital
B. Fixed assets	A.II. Capital funds
B.I. Intangible fixed assets	A.III. Reserve funds
B.II. Tangible fixed assets	A.IV. Profit/loss of previous years
B.III. Long-term financial assets	Profit/loss of current year
C. Current assets	B. Other sources
C.I. Inventory	B.I. Reserves
C.II. Long-term receivables	B.II. Long-term liabilities
C.III. Short-term receivables	B.III. Short-term liabilities
C.IV. Short-term financial assets	B.IV. Bank loans and financial accommodations
D.I. Accruals	D.I. Accruals

Source: Own processing, 2015

The great disadvantage of the balance sheet is that it does not reflect correctly the current value of company's assets. Depreciation is only an inaccurate expression of a genuine process of asset's aging. The balance sheet almost never takes into account that exist cases when the long-term assets do not diminish but rather maintain or increase its value over time (i.e. arable land, forests, artwork). Inventories are not valued at current prices, but at purchase prices which distort data about the total value of current company's assets. The company's assets do not include assets that can have a significant influence on the efficient functioning of the company (especially company's workers, their qualification, knowledge or experiences). (Živělová, 1998)

3.1.2 The income statement

The income statement specifies which costs and revenues for each activity have contributed on the creation of profit or loss of the period. That means that the profit is equal to the difference between the income and expenses.

Costs and revenues are accounted by the so-called accrual method. This method provides a clearer picture of the profitability and operations of the company from year to year. That method tells us that revenues and expenses are recognized at the time when they occurred, although when this period may not coincide with the time of acceptance or issuance of monetary funds. The most common accounting case is the issuing of the financial and tax document for the sale or service. At the time of issuing the invoice we generate revenues but these revenues at this time may not coincide with the money income. (Sedláček, 1998)

Revenues are associated with an increase in assets, i.e. gain in money, increase of debt, increase of non-cash assets. Costs are associated with mitigation of assets, i.e. decrease in cash, loss of non-cash sources and increase of liabilities. Revenues and expenses are monetary expressions of these accounting cases. (Šůvová, 1999)

To time differentiation of expenses and revenues, that do not relate to the accounting period, serve accruals accounts. The purpose of compiling the income statement is a complete view on the company management that is capable to general profit by its business activities. The income statement is designed to show the result from operating, financing and extraordinary activities.

One of the main weaknesses of the income statement which should be taken into account while carrying out the financial analysis is the fact that some of the costs expressed in this statement are not actual expenditure (eg. depreciation, accruals) and some returns are not real income (eg. accruals). Also the profit is a simple accounting variable here and not the actual cash income. (Sedláček, 1998)

3.1.3 Cash Flow statement

The Cash Flow statement provides an overview of revenues and expenditures of finances. This statement reflects how were the resources generated and how were used for a certain period. Cash flows are generally divided on three activities.

Scheme of cash flow can be simply expressed as:

Opening balance of finances
+ CF from operating activity
+ CF from investment activity
+ CF from financial activity
= Final state of finances (Sedláček, 1998)

Cash Flow statement can be assembled by two basic methods, direct and indirect. Each company may choose the method of processing. The more common variant is the indirect method.

Direct method of cash flow statement processing is constructed on the basis of actual income and expenditures shown in the accounts of finances, as they were created for the period. This method is more laborious on processing and recording of individual financial inflows and outflows.

The indirect method of the cash flow statement processing is based on the profit of the given period which subsequently regulates cash flow by adding or subtracting accounting operations that do not affect the cash flow. The operations that modify the cash flow statement are for example depreciation of fixed assets, profit/loss on disposal of fixed assets, change in adjustments and reserves, change in inventories, receivables and liabilities, revenues and expenses associated with the acquisition of fixed assets. (Valach, 1999)

3.1.4 The annual report

The annual report is a report about the economic and financial situation in the past year. This report usually includes activities in the reporting period, the performance of the company, forecasts and plans for the future. (Sedláček, 1998)

3.2 History of financial analysis

The history of financial analysis goes back to the time when mankind began to use money for exchange. It's obvious that methods of financial analysis particularly dynamically changed according to current needs over a long period. But basic principles of compiling financial analysis remained the same.

The roots of modern financial analysis are anchored in the United States where have been created many theoretical works on this topic. The United States was also the first country that compiled branch reports based on accounting data analysis, that have served and serve to compare individual companies.

The original understanding of financial analysis was focused mainly on monitoring of differences in absolute indicators. In the next years came to the fore liquidity indicators and the company's survival. To these indicators were joined indicators of profitability and efficiency over time. Currently, the main purpose of financial analysis leads to results that show the overall financial and economic situation of the company. (Megginson, 2008)

3.3 Users of financial analysis

Information obtained on the basis of a financial analysis of the company serve to a much broader group of users than only the company management that uses the information in the decision-making. Among the most significant users of financial analysis are included:

- management
- employees
- customers and suppliers
- owners
- investors
- banks
- state.

Management

Managers use financial analysis and information obtained from the analysis primarily for financial management. Financial analysis identifies strengths and weaknesses of the company and based on knowledge these strength and weaknesses they can make a decision to the future period which will be substantially developed in the financial plan for the next periods. Through the financial analysis the managers can also get an information about the situation of other companies – competitors, business partners, potential business partners, etc. (Grünwald a Holečková, 1994)

Employees

In the prosperity of the company are also interested employees. Their interest is mainly related to the financial and overall stability of the company in terms of job security, wages and social perspective. Some employees are, as well as the management, motivated by the profit of the company. Financial results of the company (especially if they are positive) can also be used in collective bargaining of the unions with the representatives of the company. (Grünwald a Holečková, 1994)

Customers and suppliers

Customers are interested in long-term stability of the company, because their dependent on the supplies.

Suppliers are focusing particularly on the solvency of the enterprise, whether is the company able to meet its obligations.

Owners

Owners of the company obtain information about the performance and efficiency of business management.

Investors

Especially new investors have a great motivation to get the information from financial analysis in situation when they are considering to insert their funds into the

company and it is necessary for them to verify at the maximum possible extent in advance, that their decision is correct.

Existing investors are interested in the financial information from two perspectives – investment and control.

Investment perspective – shareholders or owners need to gain sufficient information to decide about possible further investments in the company. The main interest will concentrate on the risk and the rate of return on their invested capital.

Control perspective – This perspective is important in the case of joint stock companies, where is the ownership separate from the management and therefore between the owners and managers may lead to contradictions. The owners are interested in the way how managers treat with the resources that they have entered into the company.

Banks

Banks use the information from the financial analysis for decision making whether to grant a loan (or other services), to what extent and under what conditions. Some of the conditions may be directly linked to individual financial indicator.

State

The various state authorities use the information mainly as a statistical basis for the tax audit, control of the company with the state participation, etc. (Grünwald a Holečková, 1994)

3.4 Approaches to financial analysis

To assessing the economic effect are generally distinguished 2 basic approaches that can be applied in the company:

Fundamental analysis is based on extensive knowledge of the interrelationship between economic and non-economic phenomena, experiences of professionals (not only

observers, but also direct participants in economic processes), their subjective estimates and their feel for the situation and trends. During the fundamental analysis is processed large amount of qualitative data. If they are used in the analysis of quantitative data, their interpretation is derived usually without algorithmic procedures.

Technical analysis is based on quantitative analysis of economic data by using mathematical, statistical and other algorithmic methods with followed (qualitative) economic assessment of results. Due to algorithmic procedures is the analysis less demanding in term of personnel experience of financial analysts and is therefore very common in business practice. In my work, I will focus only on technical analysis. (Sedláček, 1998)

Methods of technical financial analysis can be broadly divided into methods using elementary mathematics and methods that are based on complex mathematical procedures.

3.5 Analysis of absolute indicators

For evaluation of financial situation in this analysis are used directly data that are contained in financial statements. In addition to monitoring of changes in absolute values of indicators over time are also usually found out their relative (percentage) changes. From the structure of assets and liabilities is clear, what is the composition of earnings needed for production and business activities of the company and from what source (capital) were purchased.

The property structure of the company

The assets of the company are usually analyzed by two basic components of structures, that are differing in length of time they are used in the operation. The investment property is characterized by long-term nature (useful life is longer than one year), i.e. that is not consumed at once, but gradually in the form of depreciation. Current

assets are constantly in motion, circulates in different forms, in material form (such as raw materials, works in progress, semi-finished products) or in monetary form (such as cash, cash equivalents, receivables, short-term securities), while one form passes into another form. (Sedláček, 1998)

The capital structure of the company

The capital structure specifies who owns the assets of the company, respectively about what resources (liabilities) assets originated. If the capital is inserted to the company by the entrepreneur (or by the group of owners) then we are talking about the equity. If the depositor of the equity is a creditor (e.g. the bank), we are talking about foreign capital.

The equity is a capital that belongs to the owner of the company. The owner is the main bearer of business risk and its share of total capital is an indicator of financial security (independence) of the company. The equity consists of the following items: share capital, capital funds and profit funds.

The foreign capital is a debt that the company must pay back at some time. For foreign capital the owners pay interests and other expenses related to its acquisition (banking fees, commissions). Nevertheless, foreign capital is cheaper than their own capital. The foreign capital consists of reserves, long-term foreign capital, short-term foreign capital and bank loans. (Sedláček, 1998)

3.5.1 Horizontal analysis

The horizontal analysis compares the changes of individual indicators in time. This analysis compares individual items of financial statement line by line, i.e. horizontally. For this type of analysis is required to have accounting data from more than one accounting period. The analysis should be made based on the data for at least four accounting periods to brought sufficiently meaningful results. Generally, the longer time

series, the more reliable and accurate analysis results. Based on financial analysis of time series can be analyzed the progress of changes that have taken place in the company over the years and also identify the trends that will manifest in future periods. (Sedláček, 1998)

For horizontal analysis are used the following formula:

Absolute change = indicator_t – indicator_{t-1}, where t is the relevant year

$$\text{Relative change} = \frac{\text{absolute change}}{\text{indicator}_{t-1}} * 100 \quad (\text{in } \%)$$

The disadvantage of the horizontal analysis is that it works only with the financial statements and results for individual years but does not take into account the ambient conditions of the company such as a change in inflation and others. In this case the annual change in results may be not necessarily caused by the change of management of the company but due to external influences. (Sedláček, 1998)

3.5.2 Vertical analysis

Vertical analysis is along with the horizontal analysis, the basic method of financial analysis. Unlike the horizontal is determined in the context of the reporting period for individual years. Vertical analysis is based on the percentage expression of individual items in the financial statements to the item that is designated as essential, thus 100 %. In the balance sheet is this basic essential item total assets or total liabilities. In the Income statement is the item typically total sales.

Vertical analysis of the balance sheet allows us a closer look at the property and financial structure of the company, we can see the ratio of its individual components. (http://www.readyratios.com/reference/analysis/vertical_analysis_of_financial_statements.html, 2015)

The disadvantage of this analysis is the change of absolute basis for the calculation of percentages in each year and that it does not estimate the causes of changes but only leads to finding changes. (Valach, 1999)

3.6 Analysis of differential indicators

To analyze and manage financial situation of the company serve the differential indicators known as funds of financial sources. The fund is seen as an aggregate (summary) of certain status indicators that reflect assets or liabilities. Generally, we can divide gross working capital, which means all current assets used in the company and net working capital which is a difference between the gross working capital and short-term liabilities.

$$\textit{Net Working Capital} = \textit{Current assets} - \textit{Short-term liabilities}$$

Among the shortcomings of the net working capital belong that the current assets from which is the capital derived, include some less liquid or as well even long-term or permanent liquid items (eg. irrecoverable receivables). In addition, the indicator is influenced by used valuation methods, especially property. (Sedláček, 1998)

3.7 Analysis of ratio indicators

Financial ratio indicators characterize the relationship between two or more absolute indicators by using of their share. Ratio indicators are the most popular and most widely used method of financial analysis because it allows to get a quick and inexpensive picture about basic financial characteristics of the company. They can be assembled as a unit, when they are measured as a share of the part of the whole and the whole, or as a

reference character, when it gives to the ratio a single variable. The disadvantage is the low ability to explain phenomena. According to the financial analysis are the ratio indicators divided into: (Sedláček, 1998)

- profitability indicators
- activity indicators
- indicators of financial independence (indebtedness)
- liquidity indicators (solvency)
- indicators based on cash flow.

3.7.1 Profitability indicators

Profitability indicators measure the amount of the profit with the amount of the resources that were used in the company to achieve the profit. Profitability is a measure of the company's ability to create new resources. In general, it is able to see the indicator of profitability as one of the most comprehensive way of assessing the company's performance.

The most common modifications of profitability indicators include:

- The return on equity - ROE
- The return on assets - ROA
- The return on invested capital - ROI
- The return on long-term resources - ROCE

The return on equity – ROE

This indicator expresses the return on the capital invested in the company by its owners. According to the indicator the investors can determine whether their capital is adequately reproduced with the respect to the risk of their investments. The indicator value should be higher than the interest that the investor would have flowed from the alternative investments (eg. inserting the resource to term deposit, etc.)

Possibilities of calculating ROE:

$$ROE \text{ before taxes} = \frac{\text{earnings before taxes EBT}}{\text{equity}}$$

$$ROE \text{ after taxes} = \frac{\text{earnings after taxes EAT}}{\text{equity}}$$

The return on assets – ROA

The return on total invested assets measures the earnings with total assets of the company, regardless of funding source. The indicator shows the total earnings capacity of the company, in other words shows what potential is hidden in the company. The indicator represents the total earnings of the company that are not yet affected by its financial structure. (Hamplová, 1999)

Possibilities of calculation:

$$ROA \text{ before taxes} = \frac{\text{earnings before taxes}}{\text{total assets}}$$

$$ROA \text{ after taxes} = \frac{\text{earnings after taxes} + \text{interest} * (1 - \text{taxe rate})}{\text{total assets}}$$

The return on invested capital – ROI

The return on invested capital expresses how effectively operates the total capital invested in the company regardless on the source of its financing.

Calculation of the indicator:

$$ROI = \frac{\text{earnings before interests and taxes}}{\text{total invested capital}}$$

The return on long-term resources – ROCE

ROCE indicator has a similar explanatory value as ROA indicator with the difference that is focused only on long-term capital and excludes short-term foreign resources and other liabilities. ROCE indicator thus indicates the yield potential of long-term resources. (Sedláček, 1998)

Calculation of the indicator:

$$ROCE = \frac{EBIT}{equity + long-term liabilities}$$

3.7.2 Activity indicators

Activity indicators measure how efficiently the company manages its assets. If the company has more assets than it is expedient for him, they create unnecessary expenses that reduce profit. On the contrary if the company has assets less than it is necessary for him, they lose revenues that could get through them.

Time of inventory turnover

This ratio determines the period for which are inventories bound in the company. It indicates the number of rotations of the inventory for the period. Generally, companies are pushing to speed up inventory turnover time that usually leads to increase in profit or reduce the need for capital to achieve the same profit. Time of inventory turnover is also an indicator of liquidity, therefore, it is necessary to keep them as low as possible – but without a negative impact on the supply of the company. (Synek, 2003)

$$Time\ of\ inventory\ turnover = \frac{inventories}{daily\ sales}$$

Total assets turnover

The total assets turnover measures the effectiveness of using of all assets in the company. It shows how to add value to fixed and current assets in production activity, regardless on the sources of financing of these assets. The value of the indicator varies considerably by the activity. The indicator is the number of turnovers (i.e. how many times are the assets turned) in a given time interval (per year). If the intensity of using the assets is less than the number of turnovers of total assets identified in industry average, than should be increased sales or sold off some assets of the company. (Živělová, 1998)

$$\text{Total assets turnover} = \frac{\text{total sales}}{\text{total assets}}$$

Turnover time of receivables

Turnover time of receivables (average maturity period of receivables) is the average length of time for which consumers owe to the company. It is the time that elapse between the sale on trade credit and direct debit of money. Companies are trying to shorten the period of receivables turnover for the shortest possible period by using different types of contractual discounts for repayment of the debt prior to maturity.

Turnover time of receivables can be compared with the usual payment terms for which the company invoice goods. If is the receivables turnover period longer than the normal maturity period, the status indicates a poor payment discipline of business partners.

$$\text{Turnover time of receivables} = \frac{\text{short-term receivables}}{\text{daily sales}}$$

Turnover time of liabilities

The turnover time of liabilities determines the time that elapses in average between the purchase of supplies and external operations and their payments. Purchases

on trade credit represents financial resources that the company retains after a certain period of time and that use to satisfy their own needs. (Sedláček, 1998)

$$\textit{Turnover time of liabilities} = \frac{\textit{total liabilities}}{\textit{daily sales}}$$

3.7.3 Indicators of financial independence (indebtedness)

Indicators of indebtedness indicate the relationship between foreign resources and equity of the company's financing. It measures the extent to which the company uses to finance the debt. But the indebtedness indicator is not only negative feature of the company. The growth of indebtedness can contribute to the overall profitability and the higher market value of the company but also can increase the risk of financial instability. (Synek, 2003) But the goal of the company is not to finance all assets by the equity. For the company are foreign resources more preferable, because they carry lower costs than the equity, on the other hand, increasing of financing assets by foreign capital still carries the greater risk. The company should therefore choose the optimal financing structure to minimize the costs associated with acquiring the capital. The golden rule of financing says that fixed assets should be financed by long-term resources and current assets should be financed by short-term resources. The basic indicator of indebtedness is the total indebtedness. (Dluhošová, 2006)

Total indebtedness

Total indebtedness is calculated as the share of foreign capital to total assets. The greater proportion of equity means the greater safety cushion against losses of creditors in the case of liquidation. Therefore, the creditors prefer the low total indebtedness.

$$\textit{Total indebtedness} = \frac{\textit{foreign capital}}{\textit{total assets}} * 100 \quad (\textit{in \%})$$

Long-term and short-term indebtedness

The long-term indebtedness reflects what part of the company's assets are financed by long-term debts. It helps to find the optimal ratio of long-term and short-term foreign resources. To long-term foreign resources can be included long-term trade payables, loans and reserves. (Sedláček, 1998)

The short-term indebtedness unlike the long-term indebtedness measures the short-term foreign capital to total assets of the company. In short-term foreign capital are included current liabilities, current bank loans, transitional and passive accruals. (Synek, 2003)

$$\text{Long-term indebtedness} = \frac{\text{long-term liabilities}}{\text{total assets}} * 100 \quad (\text{in } \%)$$

$$\text{Short-term indebtedness} = \frac{\text{short-term liabilities}}{\text{total assets}} * 100 \quad (\text{in } \%)$$

Interest coverage

Interest coverage informs about how many times the earnings exceeds the interests paid by the company. If the indicator is equal to 1, the result can be interpreted that the costs of paying the interest will be equal to the total company's profit.

$$\text{Interest coverage} = \frac{EBIT}{\text{interests}}$$

The rate of self-financing

The rate of self-financing reflects how much of the company's assets are financed with money of owners. It is used for the evaluation of the economic and financial stability of the company and is coupled with a solvency ratio that is considered as the most important indicator of the financial situation of the company. (Živělová, 1998)

$$\text{The rate of self-financing} = \frac{\text{equity}}{\text{total assets}} * 100 \quad (\text{in } \%)$$

3.7.4 Liquidity indicators

Liquidity indicators characterize the company's ability to meet its obligations. Liquidity is defined as the sum of all potentially liquid assets that the firm has available to cover its due liabilities. Solvency is defined as the readiness to pay the company's debts. There exist a mutual conditionality of liquidity and solvency. Solvency condition is that the company should have a part of assets bound in the form that can pay – i.e. in the form of money. In other words, the solvency requirement is a liquidity.

Current liquidity ratio

Current liquidity shows how many times the current assets cover short-term liabilities. It is sensitive to the structure of inventories and their correct (real) valuation related to their sales and accounts receivables. The ratio is a measure of future company's solvency and is sufficient for a value higher than 1.5. But it is necessary to emphasize that the appropriateness of the value of the indicator for individual company must be assessed in the light of specific conditions in which the company is located.

The disadvantage of the indicator is that disregards the structure of each of current assets and does not take into account the structure of short-term liabilities and their maturity. (Sedláček, 1998)

$$\text{Current liquidity ratio} = \frac{\text{current assets}}{\text{short-term liabilities}}$$

Quick liquidity ratio

This indicator eliminates the influence of the least liquid part of current assets – inventories. Thus, it only measures the quick current assets to short-term liabilities. According to Grünwald and Holečková (1994) is more preferable than the actual value of the indicator to track its evolution over time. The higher value of the ratio is more

preferable for creditors, conversely negative is for company management and owners because the high value of current assets is bound in the form of cash flow that provide only minimal improvements.

Quick liquidity ratio value should be higher than 1. (Grünwald a Holečková, 1994)

$$\text{Quick liquidity ratio} = \frac{\text{current assets} - \text{inventories}}{\text{short-term liabilities}}$$

Cash liquidity ratio

Cash liquidity ratio measures the company's ability to pay just due debts. Liquid assets includes all prompt means of payment (cash money, money on accounts, freely tradable securities, checks and more).

Indicator value should be higher than 0.2.

$$\text{Cash liquidity ratio} = \frac{\text{prompt payment means}}{\text{short-term liabilities}}$$

3.7.5 Indicators based on cash flow

The main objective of the cash flow analysis is to capture the phenomena indicating payment difficulties and to assess where is the financial situation of the company moving to. For the analysis is necessary to define the contents of cash flow that is then substituted into indicators. Among the most important content is considered the cash flow from operating activity because it is an essential source of financing generated by their activities.

Among the most commonly used indicators constructed on the basis of cash flow belong these indicators:

- Profitability ratios

$$\text{Return on total capital from CF} = \frac{\text{CF from operating activities}}{\text{total capital}}$$

$$\text{Return on equity from CF} = \frac{\text{CF from operating activities}}{\text{equity}}$$

- Liquidity ratios

$$\text{Current liquidity ratio from CF} = \frac{\text{CF from operating activities}}{\text{short-term debts}}$$

- Indicators of indebtedness (Suchánek, 2007)

$$\text{Interest coverage} = \frac{\text{CF from operating activities}}{\text{paid debts}}$$

$$\text{Degree of debt relief} = \frac{\text{CF from operating activities}}{\text{foreign capital}}$$

3.8 Analysis of indicator's systems

The disadvantage of the above described indicators is that they have only a limited predicative ability as they characterize only a certain section of business. Therefore, to assess the overall financial situation of the company are used the entire systems of indicators, often referred as analytical systems and models of financial analysis. The higher number of individual indicators within the analytical group then the results can display more detailed financial and economic situation in the company. On the other hand, a large number of indicators makes more difficult the orientation and the final evaluation of the company. (Sedláček, 1998)

During the creation of indicator's systems are distinguished:

- Systems of hierarchical indicators – a typical example are pyramidal analysis that are used to identify logical and economic ties between indicators by their decomposition – e.g. Du Pont analysis

- Purposed selection of indicators – these systems are compiled on the basis of comparative-analytical and mathematic-statistical methods with the aim of establishing such a variety of indicators that can diagnose a quality financial situation of the company (its financial health), respectively predict its crisis development. By purpose is divided into:
 - o Solvency (diagnostic) models – they work on the basis of a synthetic indicator to express the financial situation
 - o Bankruptcy (predictive) models – they are capable to indicate by the behavior of some indicator any threat of company's financial health. (Sedláček, 1998)

3.8.1 Pyramidal analysis

Pyramidal decompositions of indicators are usually arranged in a pyramid shape, where on the top is an indicator which is subsequently decomposed by multiplicative or additive links to individual items. Du Pont analysis belongs among the most important pyramid decomposition – this is the analysis of profitability (ROE) which includes a breakdown of synthetic indicators on sub indicators with which came out the multinational chemical company Du Pont de Nemours in the 60s of 20th century.

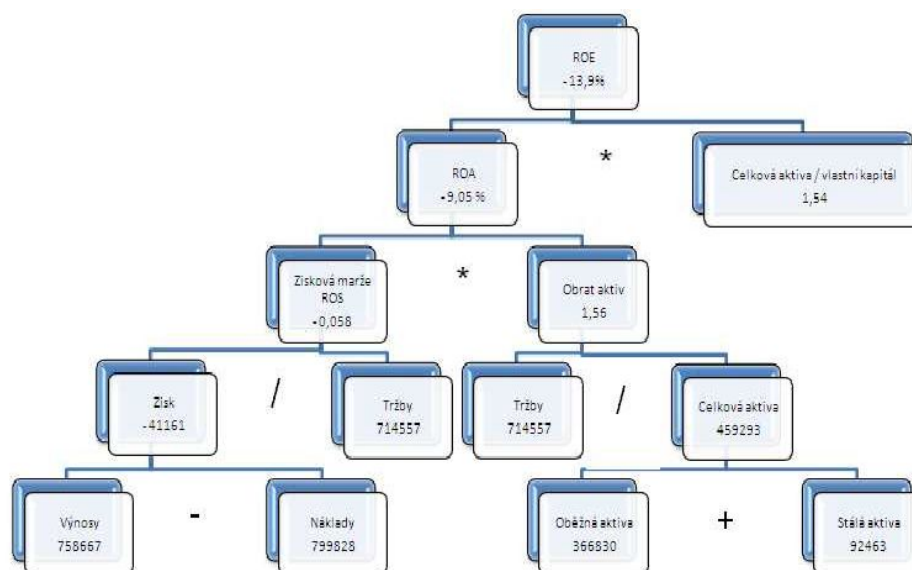


Figure 1: Du Pont pyramid decomposition

Source: www.managementmania.com, 2015

On the first level of analysis is the return on assets expressed as a function of two indicators:

- The profitability indicator of sales ($\frac{\text{net profit}}{\text{sales}}$)
- The turnover of total assets ($\frac{\text{sales}}{\text{total assets}}$)

$$\text{ROA} = \frac{\text{net profit}}{\text{sales}} * \frac{\text{sales}}{\text{total assets}}$$

From the pyramid decomposition can be inferred that the profitability of total invested capital is influenced by different combinations of sales profitability and turnover of total assets. The profitability of sales is mainly influenced by the amount of the costs, high turnover of total assets reflects the efficient usage of capital and assets which the company manages.

If the company is financed from foreign sources as well, there can show the effect of financial leverage and it is possible to carry out the second level of analysis. The effect of financial leverage is higher return on equity thanks to the multiplier of shareholder's

equity (assets/equity). The second level of the analysis indicates how the individual components of total assets (the profit margin, total assets turnover and financial leverage) operates in determining the return on equity. (Suchánek, 2007)

3.9 Solvency and bankruptcy models

Credibility and bankruptcy models of financial analysis were developed mainly by banking institutions for which it was very important to assess the financial situation of the company to decide about the granting or refusing the loans. On the basis of these models are identified and assessed degrees of risk that banking institutions will carry if they provide the loan to the company. (Suchánek, 2007)

For the purposes of this study I picked out from the large amount of credibility models two the most widespread – Kralicek quick test and Altman model of credibility.

3.9.1 Solvency index

The solvency index is based on multivariate discriminant analysis and it works with the following six indicators:

- X_1 = cash flow/foreign resources
- X_2 = total assets/foreign resources
- X_3 = earnings before taxes EBT/total assets
- X_4 = earnings before taxes EBT/total outputs
- X_5 = inventories/total outputs
- X_6 = total outputs/total assets

The solvency index is calculated according to the following equation:

$$B_i = 1,5 * x_1 + 0,08 * x_2 + 10 * x_3 + 5 * x_4 + 0,3 * x_5 + 0,1 * x_6$$

The higher value of the solvency index indicates the better financial and economic situation in the company. (Suchánek, 2007)

3.9.2 Kralicek quick test

The Kralicek quick test allows to determine the two groups of indicator's influence that are financial stability and efficiency, i.e. the consideration of financial situation of the company.

For a period of time is a cash flow dynamic information related to income and outcome of currency. It is necessary to concentrate on the determining technique regarding the data available and their dynamism. With the comparison to other models is the Kralicek quick test very tolerant, because it uses cash flow data before the reduction of taxes. (Kislingerová, 2008)

Kralicek quick test calculation:

- $R1 = \frac{\textit{equity}}{\textit{total assets}}$
- $R2 = \frac{\textit{liabilities-cash}}{\textit{cash flow}}$
- $R3 = \frac{\textit{cash flow}}{\textit{sales}}$
- $R4 = \frac{\textit{EBIT}}{\textit{total assets}}$

Table 2: Kralicek quick test interpretation

Indicators	1 excellent	2 very well	3 well	4 poor	5 dangerous
R1 = equity/total assets	> 30%	> 20%	> 10%	> 0%	negative
R2 = Debt Settlement Period from CF	< 3 years	< 5 years	< 12 years	< 30 years	> 30 years
R3 = Operating CF/Sales	> 10%	> 8%	> 5%	> 0%	negative
R4 = EBIT/Total Assets	> 15%	> 12%	> 8%	> 0%	negative
Total Grading	Arithmetic mean of all four indicators				

Source: <http://eujournal.org/index.php/es>, 2014

The paying ability of the company is measured considering that the result of each report is classified in relevance with valuation degree. The average of all gained values from each special report is a final valuation of the Kralicek quick test. (<http://eujournal.org/index.php/es>, 2014)

3.9.3 Altman index of credibility

This index was compiled in 1968 by professor Altman who has identified on the basis of statistical analysis of the business's ensemble several indicators that statistically were able to predict the financial collapse of the company. The index is calculated on the basis of discriminant analysis. The result is an equation to which are entered values of financial indicators. Based on the results we should be likely able to say whether will the company be prosperous in the future or headed for bankruptcy.

Altman equation:

$$Z = 0,717 * x_1 + 0,847 * x_2 + 3,107 * x_3 + 0,420 * x_4 + 0,998 * x_5,$$

where:

$$X_1 = \frac{EBIT}{total\ assets}$$

$$X_2 = \frac{sales}{total\ assets}$$

$$X_3 = \frac{market\ value\ of\ equity}{book\ value\ of\ debt}$$

$$X_4 = \frac{retained\ earnings}{total\ assets}$$

$$X_5 = \frac{net\ working\ capital}{total\ assets}$$

Interpretation of the Altman index:

- Z-score > 2,99 – satisfactory financial situation
 - 1,8 < Z-score < 2,99 – “grey zone”
 - Z-score < 1,8 – the company is threatened by severe financing problems.
- (Suchánek, 2007)

3.9.4 Index IN01

This index tries to assess the financial risk of Czech companies from the perspective of international rating agencies. The index is compiled specially for the Czech environment and works much like the Altman model. But unlike the Altman model this index is recommended for annual assessment of the financial health. (Suchánek, 2007)

Index IN01 equation:

$$IN01 = 0,13 * \frac{total\ assets}{foreign\ capital} + 0,04 * \frac{EBIT}{interest\ expenses} + 3,92 * \frac{EBIT}{total\ assets} \\ + 0,21 * \frac{sales}{total\ assets} + 0,99 * \frac{current\ assets}{short-term\ liabilities}$$

Interpretation:

IN01 > 1,77 – the company creates a value

0,75 <= IN01 < 1,77 – grey zone

IN01 < 0,75 – the company is heading to bankruptcy

3.9.5 Index IN95

Index IN95 is a bankruptcy model and between its indicators is not represented even one that would work with the market value as it is with the Altman model. This arrangement is an advantage for the conditions of a less liquid market. The index was tested on data for thousands of Czech firms and showed an excellent predictive ability for estimation of the financial distress of companies. The success of the index is more than 70 %.

Index IN95 equation – adjusted due to the orientation of the company, which will be analyzed in the practical part of this thesis.

$$\begin{aligned} IN95 = & 0,28 * \frac{total\ assets}{foreign\ capital} + 0,11 * \frac{EBIT}{interest\ expenses} + 13,07 * \frac{EBIT}{total\ assets} \\ & + 0,64 * \frac{sales}{total\ assets} + 0,10 * \frac{current\ assets}{short-term\ liabilities} - 6,36 \\ & * \frac{overdue\ liabilities}{sales} \end{aligned}$$

Interpretation:

IN95 > 2 – satisfactory financial situation

1 < IN95 ≤ 2 - grey zone

IN95 ≤ 1 - the company is threatened by severe financing problems.
(<http://www.finanalysis.cz/pouzite-bankrotni-modely.html>, 2015)

PRACTICAL PART

4 General information about Company XYZ, Ltd

Company was established in 1993 as a subsidiary of a leading European producer of electric motors. The company produces parts of electric motors – stators and rotors – for plants of its parent company in Nuremberg. It designs, develops and produces optimized drives and automation systems for a variety of applications from simple disposables to large one with high repeatability. Technical merit, innovation, flexibility and absolute customer orientation are the distinctive features of the Company's philosophy.

Because the company wanted to remain anonymous in this diploma thesis, I gave it the name Company XYZ, Ltd. It is therefore a limited liability company whose registered capital amounts to one million CZK. The year 2011 is a transition period when the company passed into the economic year and this period had 13 months. For the financial analysis I choose a six-year period between 2009 and 2014.

5 The balance sheet analysis

5.1 Assets

Horizontal analysis was performed on selected items of the balance sheet. Table 3 shows the absolute and percentage changes for individual items.

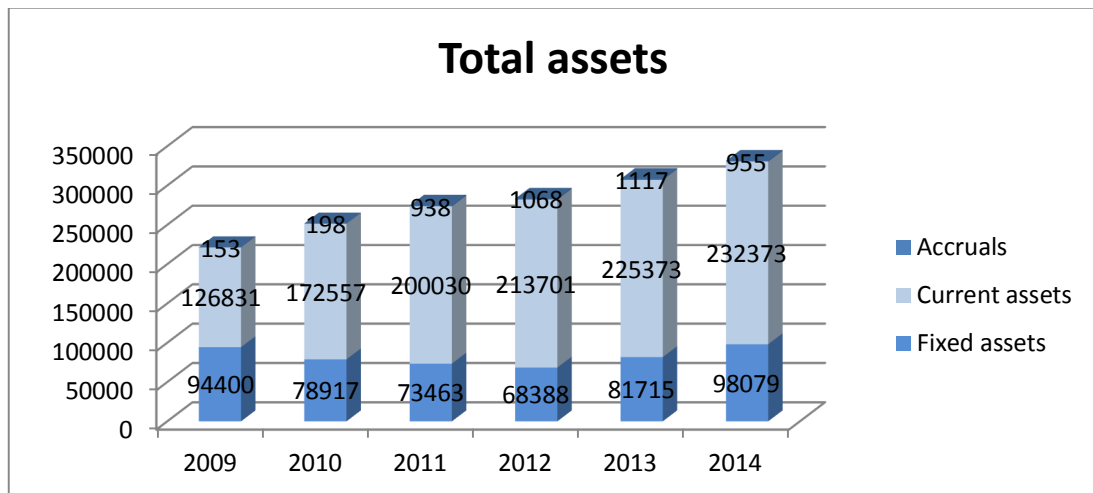
As can be seen in Graph 1 total assets showed throughout the whole period steady growth. The largest increase in total assets was recorded in 2010 when it grew by almost 14 %. This increase was primarily caused by the increase in inventories.

Table 3: Horizontal analysis of assets (in thous. CZK)

Absolute change	2010/2009	2011/2010	2012/2011	2013/2012	2014/2013
Assets	30288	22759	8726	25048	23202
Fixed assets	-15 483	-5 454	-5 075	13 327	16 364
Current assets	45 726	27 473	13 671	11 672	7 000
Accruals	45	740	130	49	-162
Procentual change	2010/2009	2011/2010	2012/2011	2013/2012	2014/2013
Assets	13,68%	9,04%	3,18%	8,85%	7,53%
Fixed assets	-16,40%	-6,91%	-6,91%	19,49%	20,03%
Current assets	36,05%	15,92%	6,83%	5,46%	3,11%
Accruals	29,41%	373,74%	13,86%	4,59%	-14,50%

Source: Own processing, 2015

Graph 1: The development of the absolute amount of assets (in thous. CZK)



Source: Own processing, 2015

The increase of fixed assets in 2013 is also interesting which was due to the purchase of a new machine tool (see Table 3). Another increase in fixed assets the

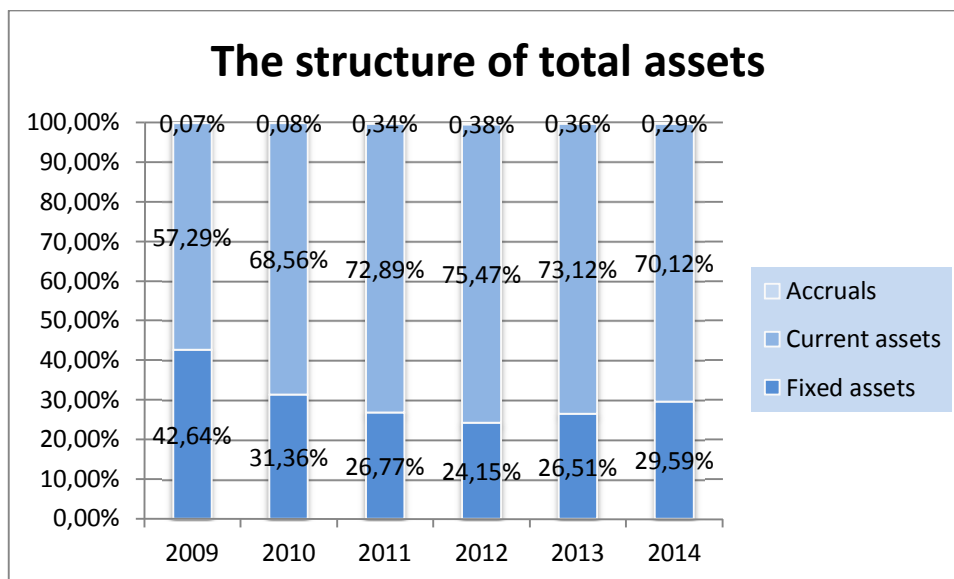
company recorded in 2014 as well. This time was the increase caused by commissioning of a new production hall and thus the real estate of the company.

Table 4: Vertical analysis of assets

Share in %	2009	2010	2011	2012	2013	2014
Total assets	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%
Fixed assets	42,64%	31,36%	26,77%	24,15%	26,51%	29,59%
Current assets	57,29%	68,56%	72,89%	75,47%	73,12%	70,12%
Accruals	0,07%	0,08%	0,34%	0,38%	0,36%	0,29%

Source: Own processing, 2015

Graph 2: The structure of total assets



Source: Own processing, 2015

The share of fixed assets on total assets decreased from the start of the reported period till 2012 but from the 2013 it started slightly increase due to the purchase of new machine tool in 2013 and commissioning of a new production hall in 2014 as mentioned above (see Table 4).

5.1.1 Fixed assets

Fixed assets in the production company usually create the lower part of total assets. This fact is confirmed even for the reported Company XYZ, Ltd. The most important element of fixed assets (over 99%) is tangible fixed asset (see Table 5). In this company the tangible fixed assets are in recent years mostly created by constructions and equipment, which is necessary due to the production activities of the company.

Table 5: The structure of tangible fixed assets (in thous. CZK)

	2009	2010	2011	2012	2013	2014
B. Fixed assets	94400	78917	73463	68388	81715	98079
B.II. Tangible fixed assets	99,80%	99,81%	99,89%	99,85%	99,74%	99,27%
B.II.1. Land	0,27%	0,32%	0,34%	0,37%	0,31%	0,26%
B.II.2. Constructions	67,64%	76,44%	77,12%	77,73%	60,82%	74,53%
B.II.3. Equipment	31,98%	23,12%	21,33%	20,86%	19,67%	22,50%
B.II.6. Other tangible fixed assets	0,11%	0,12%	0,11%	0,10%	2,60%	1,73%
B.II.8. Advance payments for tangible fixed assets	0,01%	0,01%	1,10%	0,85%	2,90%	0,77%

Source: Own processing, 2015

5.1.2 Current assets

As mentioned above, in production companies should current assets create greater part of total assets. According to vertical analysis of Company XYZ, Ltd. this condition is fulfilled. Table 6 shows that the company has most of its current assets tied up in inventories which are essential for the company's productive activity. The second largest

share is created by short-term receivables. Management of the company should seek to deal with these receivables and create a downward pressure on their maturity.

Table 6: The structure of current assets (in thous. CZK)

	2009	2010	2011	2012	2013	2014
C. Current assets	126831	172557	200030	213701	225373	232373
C.I. Inventory	67,90%	62,96%	80,18%	67,78%	59,21%	62,70%
C.II. Long-term receivables	0,00%	0,00%	0,00%	0,00%	0,00%	2,98%
C.III. Short-term receivables	30,62%	36,86%	19,03%	31,53%	39,91%	33,34%
C.IV. Short-term financial assets	1,48%	0,18%	0,79%	0,68%	0,88%	0,98%

Source: Own processing, 2015

5.2 Liabilities

When it comes about the analysis of the balance sheet it is obvious that the analysis of assets must be followed by the analysis of liabilities, i.e. assessment of the company's financial sources structure.

As can be seen in Table 7, total liabilities grew up during the whole period. The largest increase in total liabilities the company reached in 2010, this increase was mainly due to the increase in equity of 43 097 thous. CZK. Even though the total liabilities increased for the whole period approximately by 100 000 thous. CZK, the largest increase was recorded in equity that during the six monitored years increased more than two and a half times.

Table 7: Horizontal analysis of liabilities (in thous. CZK)

Absolute change	2010/2009	2011/2010	2012/2011	2013/2012	2014/2013
Total liabilities	30288	22759	8726	25048	23202
Equity	43 097	6 852	498	7 897	14 595
Other sources	-29 606	33 455	8 228	17 151	8 607
Accruals	16 797	-17 548	0	0	0
Procentual change	2010/2009	2011/2010	2012/2011	2013/2012	2014/2013
Total liabilities	14%	9%	3%	9%	8%
Equity	149%	10%	1%	10%	17%
Other sources	-15%	21%	4%	8%	4%
Accruals	2237%	-100%	0%	0%	0%

Source: Own processing, 2015

From the vertical analysis of liabilities which is described in Table 8, it is obvious that the largest part of total liabilities created foreign resources. The largest share of foreign resource the company achieved in 2009 when foreign resources accounted for almost 90 % of total liabilities. In 2010, however, was due to the increase in equity reduced the share of foreign resources to 64 % and until the end of the reporting period it was holding about 70 % of total liabilities. In this case accruals had only minimal share in changes of total liabilities. The biggest fluctuation reached accruals in 2010 due to the high amount of accrued costs.

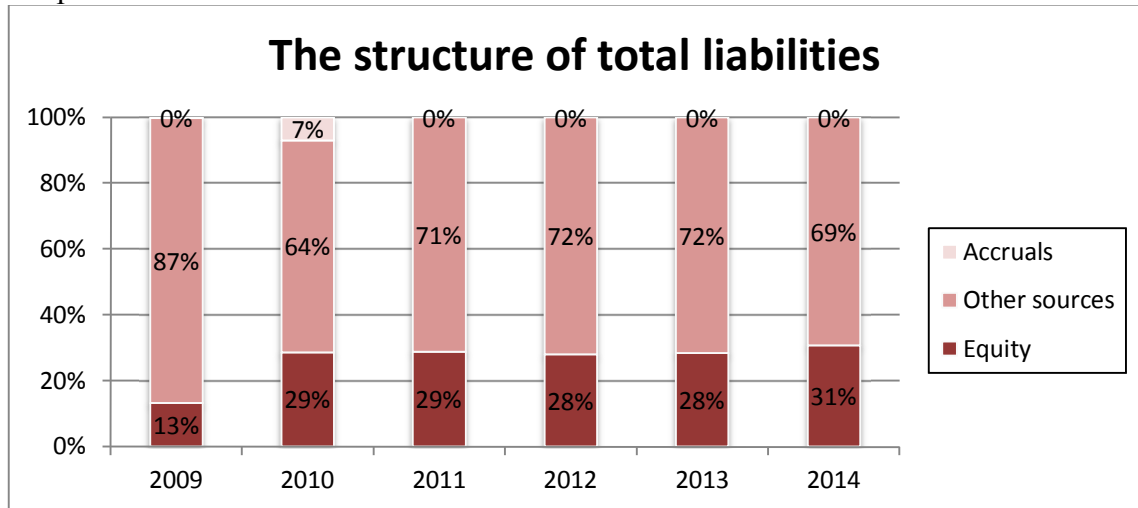
Table 8: Vertical analysis of liabilities

Share in %	2009	2010	2011	2012	2013	2014
Total liabilities	100%	100%	100%	100%	100%	100%
Equity	13%	29%	29%	28%	28%	31%
Other sources	87%	64%	71%	72%	72%	69%
Accruals	0%	7%	0%	0%	0%	0%

Source: Own processing, 2015

For better understanding serve the below Graph 3 that illustrates the proportion of equity, foreign resources and accruals between 2009 – 2014.

Graph 3: The structure of total liabilities



Source: Own processing, 2015

6 Income statement analysis

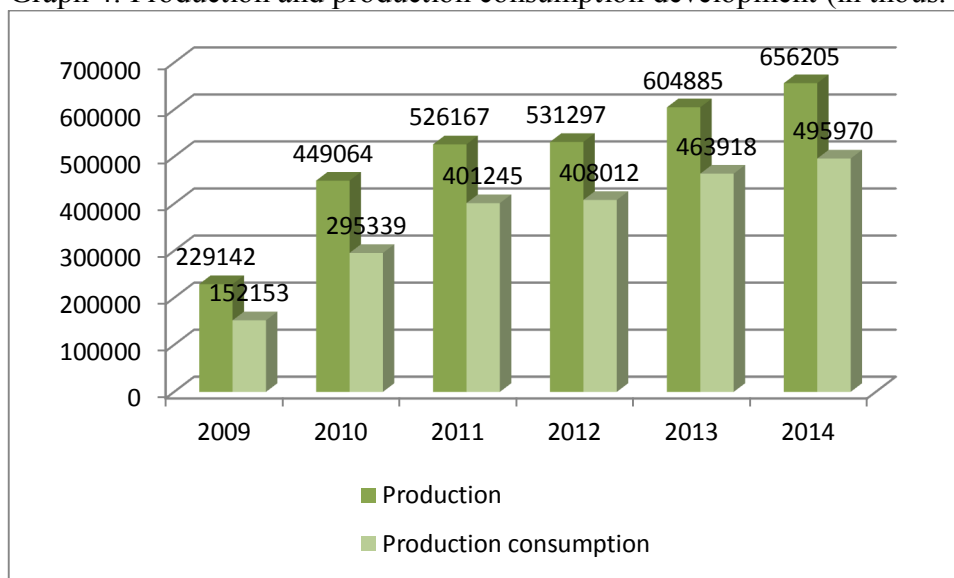
Profit and loss statement (income statement) belongs, together with the balance sheet, among two basic accounting documents and its main purpose is based on comparison of returns and costs to determine the profit or loss of the company. This statement can be divided into 3 parts in which is gradually identified operating profit, financial income and extraordinary profit.

6.1 Production development, production consumption and value added

From the income statement it is clear for the first sight that the Company XYZ, Ltd. focuses entirely on production activity. The company has no returns from sales of goods but the main part of returns is connected with the production.

Production development

Graph 4: Production and production consumption development (in thous. CZK)



Source: Own processing, 2015

Production consumption

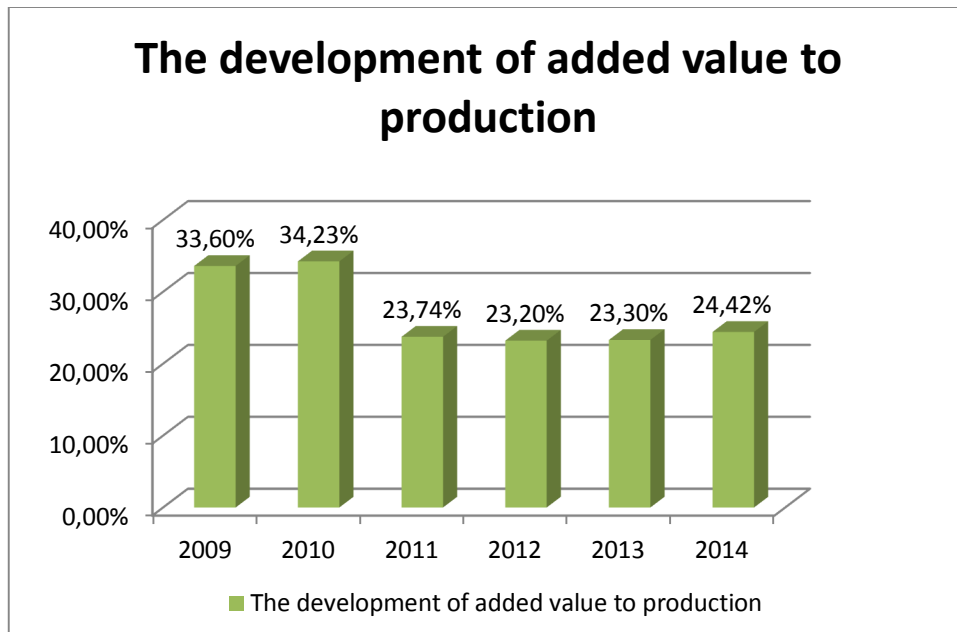
To the production it is related the production consumption. The production consumption includes mainly the cost of materials, repair and maintenance, cost of energy, travel expenses, entertainment expenses, the rental and costs for the acquisition of small intangible asset.

The production consumption is the most significant cost item. The largest item of the production consumption is the consumption of materials and energy whose share is over 80%, in 2012 and in 2013 even more than 90%.

Added value

The added value expresses the value added by processing, i.e. the value, that the entrepreneur adds by its activity to the value of purchased intermediates. Added value in economic terms represents a valuation of company's production factors (depreciation, personnel expenses and interest expense) and generated profit.

Graph 5: The development of added value to the production



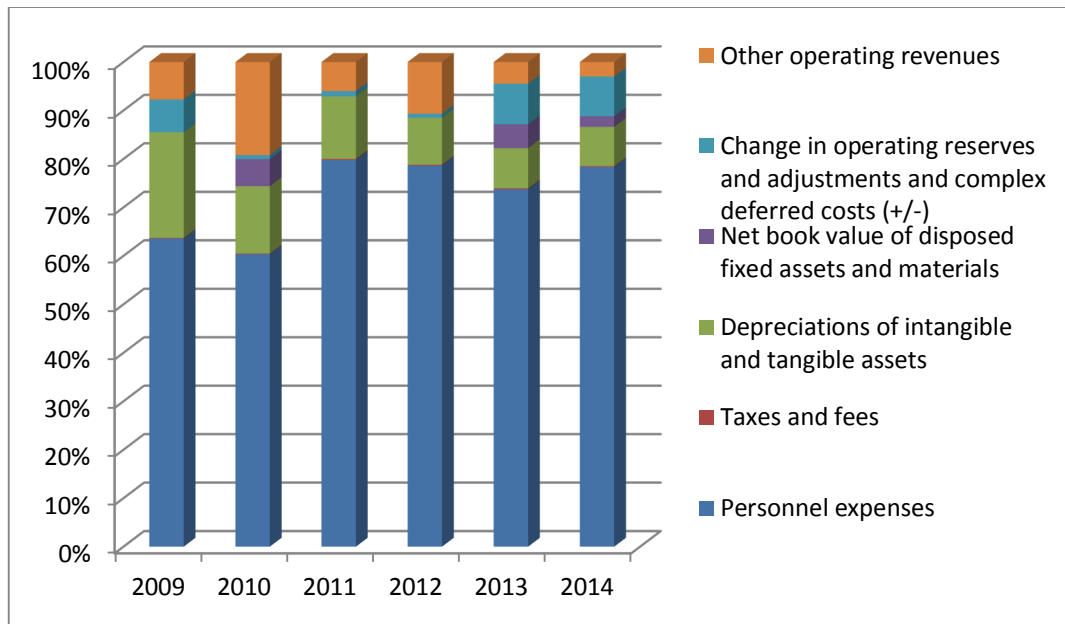
Source: Own processing, 2015

In 2010 was the added value higher than in 2009 which is considered as a positive step. (see Graph 5) But in other year the added value decreased about almost 11% as well as in 2012 when the added value was the lowest during the whole monitored period. From the 2013 the added value has begun to slightly rise again.

6.2 Operating expenses

Operating expenses are composed of personnel costs, taxes and fees, depreciation of fixed tangible and intangible asset, changes in provisions and adjustments related to operating activities and other operating expenses.

Graph 6: The structure of operating expenses



Source: Own processing, 2015

From the Graph 6 of the structure of operating expenses it is clear, that the main component of operating expenses are personnel costs and therein contained wages and salaries.

In 2009, in the company have been employed 179 workers. In 2010, the company introduced a new production program which required an increase in the number of workers. At the end of 2010, 242 workers were employed in the company. In 2011, the company hired three more workers. In 2012, thanks to the establishment of a new construction department and development department, the company increased its number of employees again to 270 workers. In 2013 this number even more increased to 300 employees mainly due to the large investments in new machinery and a shift of the final assembly from the parent company in Germany. At the end of 2014, the company employed 310 workers.

Graph 7: The development of wages and salaries (in thous. CZK)



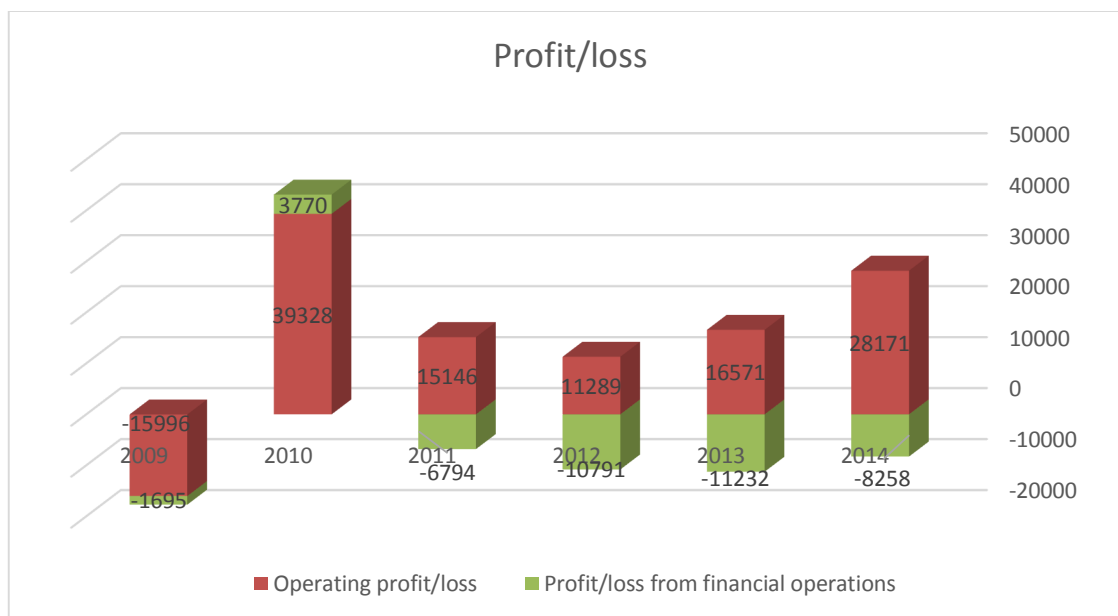
Source: Own processing, 2015

As can be seen in the Graph 7 of the development of wages and salaries, the amount was increasing except in 2012. The increasing costs of worker's wages and salaries are obvious because of the increasing number of employees each year.

6.3 Profit/loss analysis

Operating profit/loss is the difference between operating revenues and operating expenses of the company.

Graph 8: Operating and financial profit/loss (in thous. CZK)



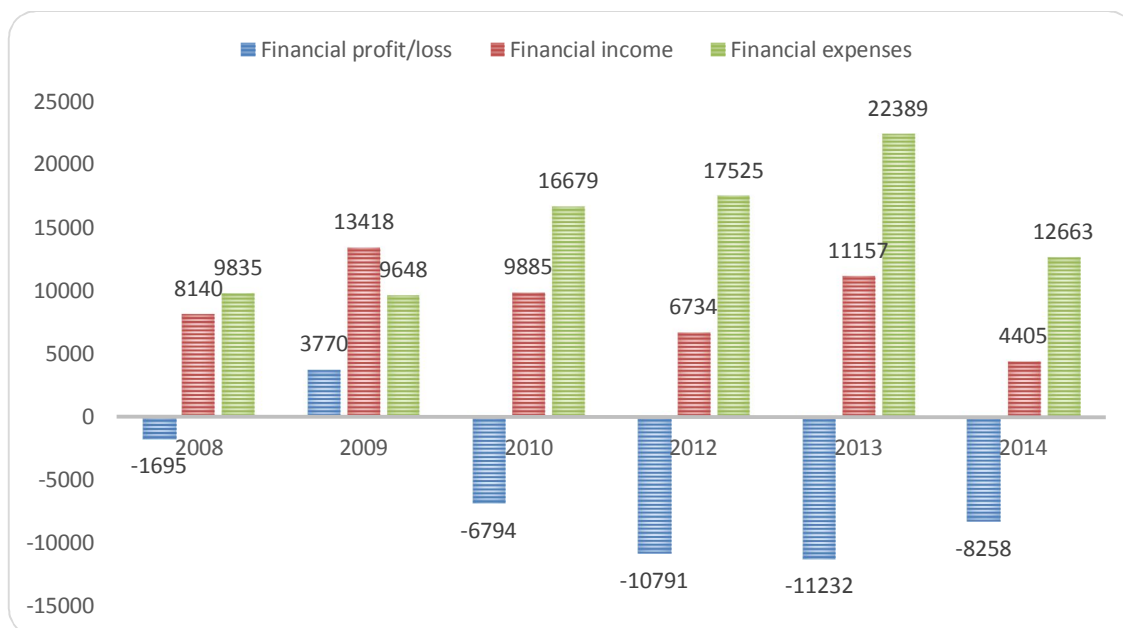
Source: Own processing, 2015

Except in 2009, the Company XYZ, Ltd. reported a profit in all monitored years. In 2009 the company recorded a loss of 15,996 CZK, but in 2010 reached an operating profit even 39,328 CZK. In 2011 the company achieved the operating profit by more than 60% less than in 2010, in 2012 even lower. But since 2013 the operating profit started to rise again and in 2015 the company achieved operating profit of 28,171 CZK (see Graph 7).

The financial profit or loss depends on the way of company financing and other financial operations and is calculated as the difference between financial income and financial costs.

The only year when the company reported a profit from financial activities is 2010 when reached the profit of 3,770 thous. CZK. In other years the company monitored a loss from financial operations. For a more detailed analysis of the company's financial results is in the following Graph 8 the financial result divided into financial income and financial expenses.

Graph 9: Financial income and expenses development (in thous. CZK)



Source: Own processing, 2015

Income tax on ordinary activities includes the tax liability of the company and depends on the level of taxation of legal entities which is determined by the law.

The level of taxation in monitored years was:

- 2009 – 20%
- 2010 – 2014 – 19%

The profit/loss on ordinary activities is the sum of the operating profit/loss and the financial profit/loss which is reduced by the income tax on ordinary activities.

The operating result on ordinary activities ended up losing 17,307 thous. CZK in 2009. However, next year the company get out of the loss and reached a profit of 43,098 thous. CZK which is the highest profit of the company during the reported period. In future years the profit fell, but the whole time was the company held itself in green numbers. In 2014 th company achieved a profit 20,095 thous. CZK.

7 Analysis of ratio indicators

Analysis of ratio indicators gives items to the mutual relation between themselves, which allows discovering new connections in the company. In the following analysis I will focus on the analysis:

- profitability ratios (efficiency)
- activity indicators
- indicators of financial dependency (indebtedness)
- liquidity ratios (solvency)
- indicators based on cash flow

7.1 Analysis of profitability indicators

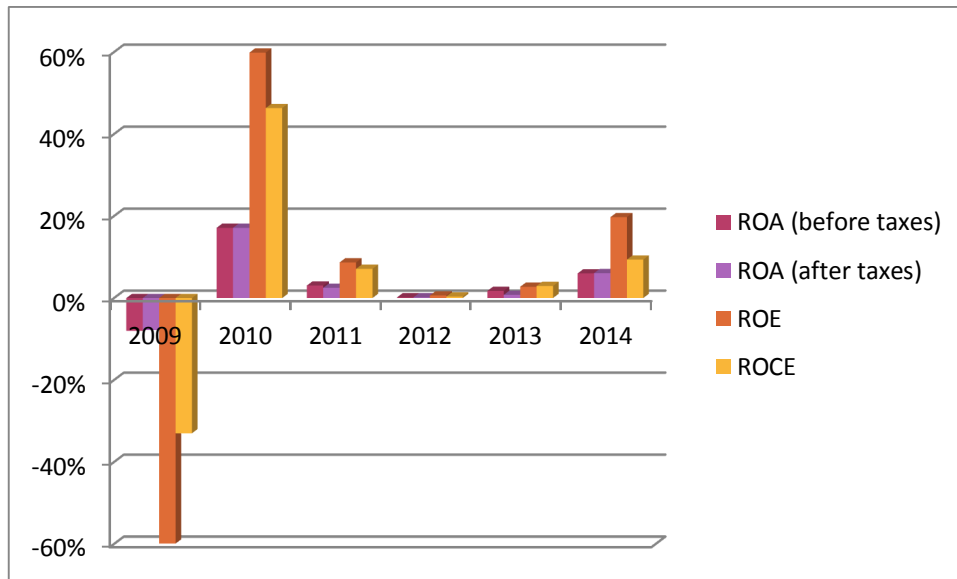
Profitability indicators inform about the effect achieved by embedded capital. The overview of calculated profitability indicators shows the Table 9.

Table 9: Overview of profitability indicators

	2009	2010	2011	2012	2013	2014
<i>ROA (before taxes)</i>	-7.99%	17.12%	3.04%	0.18%	1.73%	6.01%
<i>ROA (after taxes)</i>	-7.82%	17.12%	2.50%	0.18%	0.78%	6.06%
<i>ROE</i>	-59.90%	59.87%	8.69%	0.63%	2.75%	19.73%
<i>ROCE</i>	-32.99%	46.34%	7.12%	0.37%	2.94%	9.37%
<i>Tax rate (TR)</i>	20%	19%	19%	19%	19%	19%

Source: Own processing, 2015

Graph 10: Development of selected profitability indicators



Source: Own processing, 2015

Indicators of profitability are developed very similar in each reporting period. Except of 2009, all monitored profitability indicators show positive values. After the big boom in 2010 the values started to decline, but there is again the gradual growth since 2012. Negative values in 2009 are affected by the negative economic result.

Return on Assets – ROA

According to this indicator it is possible to assess whether the company effectively manages with all used means i.e. investments, means of payment or finished products. The higher indicator means more profitable company. It is appropriate to calculate this indicator also from the profit before tax to make clear to what extent is the profitability of the company affected by the outside influence – the tax system. In this case the influence by the tax system is very small.

The negative value of ROA in 2009 indicates a poor use of company property, it is mainly due to the negative economic result that in 2009 was affected by the global economic crisis. In 2010, the situation was completely reversed when the value of ROA reached 17.12 %. This progress was caused by the positive economic result. In the

following years the value of ROA decreased, between 2011 - 2013 the company on 100 CZK of employed capital showed a profit after taxes 0.2 – 3 CZK. In 2014 the ROA value increased again to much more satisfactory value of 6 %.

Return on Equity – ROE

The ROE indicator refers how much of net profit falls on one crown of invested capital. Except in 2009 the ROE reached higher values than the return on total assets. This development can be assessed very positively because the company efficiently uses foreign sources. The highest return on equity the company reached in 2010 due to the very good economic result.

7.2 Analysis of activity indicators

Activity indicators refers to the use of company's assets by its management. Selected indicators of activity and their values can be found in Table 10.

Table 10: Overview of activity indicators

	2009	2010	2011	2012	2013	2014
<i>Total asset turnover</i>	1.07	1.90	1.97	1.93	2.05	1.99
<i>The inventory turnover period (days)</i>	133	79	95	103	84	80
<i>Receivables turnover period (days)</i>	60	42	36	36	47	48
<i>Liabilities turnover period (days)</i>	249	120	101	100	76	63

Source: Own processing, 2015

Total asset turnover

The indicator shows the turnover of total assets in 1 year. It is calculated as a share of annual sales to total assets. The company should try to hold the value at the level of 1. This condition the monitored company fulfilled for the entire period.

The inventory turnover period

The indicator of inventory turnover period shows the time how are the stocks bound in the company. Generally, the pressure is to have the lowest time because the company has bound its financial resources in inventories.

The lowest inventory turnover period the company achieved in 2010. By 2012 the period increased again to more than 100 days, but the last two years began to fall again and in 2014 was the period 80 days.

Receivables turnover period

This indicator specifies the length of time that the customers owe the company. The company should try to shorten this time up on the basis of their business terms.

By 2012, the company managed to reduce the turnover period of receivables. In the last two years began to rise that increases capital intensity of the company.

Liabilities turnover period

The liabilities turnover period indicates the time how long the company defers the payments of invoices to their suppliers. During this time may the financial resources use to finance its own activities. This indicator is calculated as the proportion of liabilities to suppliers on daily sales.

It is obvious in Table 10 that the turnover period of liabilities has a downward trend during the whole monitored period. The turnover period of liabilities is higher than the turnover period of receivables all time. This positive fact means that the company should not get into financial troubles because of the lack of financial resources.

7.3 Analysis of indicators of financial dependency – indebtedness

These indicators are also referred as indicators of long-term financial stability. They are used to measure how the company uses the external resources to financing and how is the company able to cover its liabilities (see Table 11).

Table 11: Overview of indebtedness indicators

	2009	2010	2011	2012	2013	2014
<i>Total indebtedness</i>	86.22%	62.74%	68.62%	69.73%	66.29%	57.64%
<i>Long-term indebtedness</i>	10.78%	6.66%	11.37%	17.02%	25.17%	21.79%
<i>Short-term indebtedness</i>	75.44%	56.07%	57.25%	52.72%	41.13%	38.87%
<i>The rate of self-financing</i>	13.05%	28.60%	28.73%	28.02%	28.30%	30.73%
<i>Debt on equity ratio</i>	6.61	2.19	2.39	2.49	2.34	1.88

Source: Own processing, 2015

Total indebtedness was very high in 2009 when reached over 86 %. This means that the company in 2009 needed to its financing 86 % foreign sources. In next year the total indebtedness decreased mainly due to decline in long-term liabilities. Unfortunately, long-term liabilities increased again in 2012 which caused the increase of total indebtedness as well as in 2013 when total indebtedness reached almost 70 %. But from 2013 started total indebtedness decrease again. From the Table 11 is clear that total indebtedness is mainly created by short-term liabilities which decrease (except 2011) during the whole monitored period. On the other hand, the long-term indebtedness decreased only in 2010, then started increase and stopped in 2013 on level 25.17 %. In 2014 slightly decreased again on almost 22 %.

7.4 Analysis of liquidity indicators

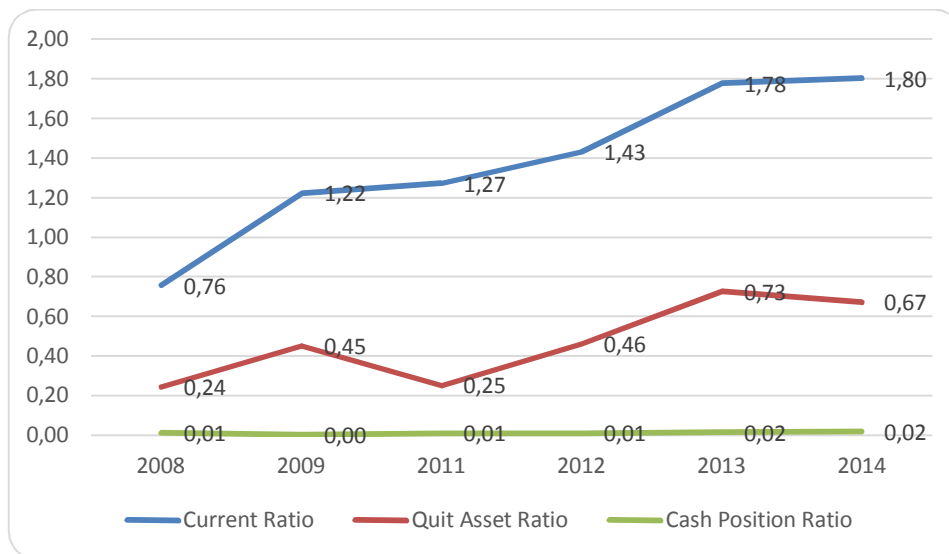
These indicators examine the company's ability to pay its short-term liabilities. The table 12 shows the calculated results for selected liquidity indicators and their optimal level.

Table 12: Overview of liquidity indicators

	2009	2010	2011	2012	2013	2014	<i>optimum</i>
<i>Current Ratio</i>	0.76	1.22	1.27	1.43	1.78	1.80	1.5
<i>Quit Asset Ratio</i>	0.24	0.45	0.25	0.46	0.73	0.67	1-1.5
<i>Cash Position Ratio</i>	0.01	0.00	0.01	0.01	0.02	0.02	0.2-0.5

Source: Own processing, 2015

Graph 11: Development of liquidity ratios



Source: Own processing, 2015

Current Ratio

Current Ratio shows how many times the current assets cover current liabilities of the company. It means how many times is the company able to satisfy the creditor if the company had turned all the current assets to cash. The main point of this measurement is to pay short-term liabilities of the company by those components of assets that are intended for this reason and not for example by the sale of fixed assets.

The recommended value of this ratio should be above 1.5. This criterion the company meets since 2013 when firstly came across the border of 1.5. Current liquidity growth is caused mainly due to increase in short-term receivables and inventories and a decline in short-term liabilities.

Quick Asset Ratio

This indicator removes from the numerator the least liquid part of current assets – inventories. In this case is the quick ratio mostly affected by short-term receivables and more less copy its development that can be described as sinusoidal. But unfortunately is this indicator below the optimum level throughout the whole monitored period, because the optimum level is 1. The company approached the optimal level the most in 2013, but in 2014 the quick asset ratio dropped again.

Cash Position Ratio

Cash position ratio is expressed as the ratio of financial assets and current liabilities. The recommended value is between 0.2 – 0.5. The company's values of cash position ratio are far below the recommended values.

8 The pyramidal system of indicators

Another possible approach to financial analysis of the company is the analysis of pyramidal system of indicators. The advantage of his approach is that provides a clear analysis of decomposition of profitability on individual sub-indicators and help us to understand the different context which the given indicator of profitability hides.

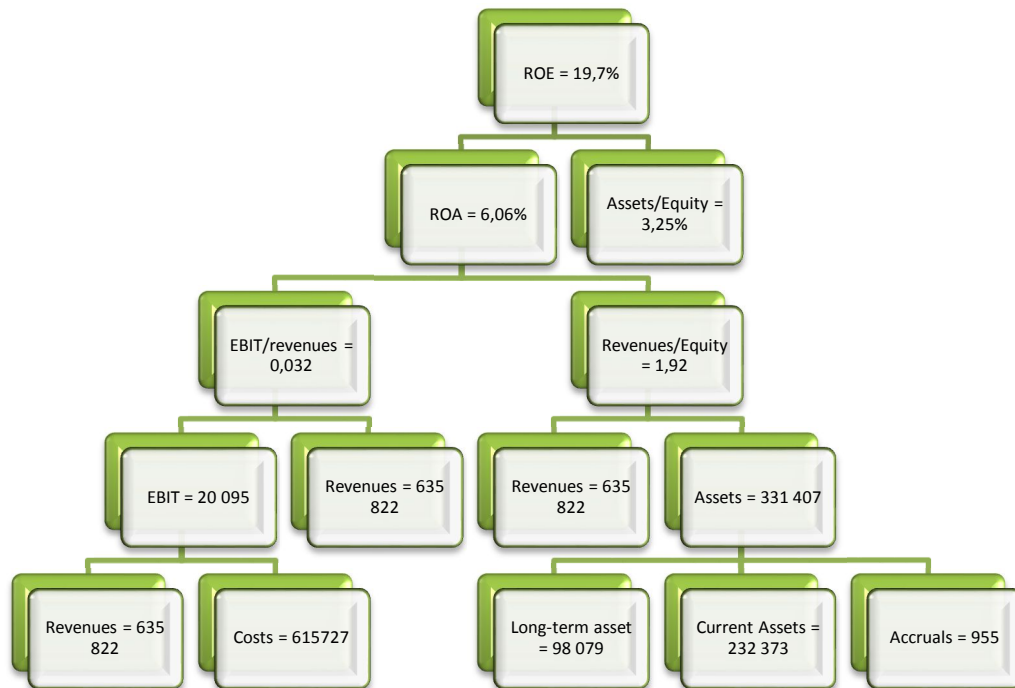


Figure 2: Du Pont diagram – ROE in 2014

Source: Own processing, 2015

The return on equity ROE can be decomposed into a product of two ratios. The decomposition in 2015 was:

$$\begin{aligned}
 ROE (19.7 \%) &= \frac{\text{net profit EAT}}{\text{sales}} \times \frac{\text{sales}}{\text{total assets}} \times \frac{\text{total assets}}{\text{equity}} \\
 &= (0.0316 \times 1.919 \times 3.255) \times 100 = 19.7 \%
 \end{aligned}$$

Financial leverage represents the indebtedness of the company. A higher share of foreign resources increased indicator of financial leverage and has a positive effect on return on equity, but only if the return on capital employed is higher than the interest rate on foreign capital. This relationship is due to the fact that higher debt, which will increase an indicator of financial leverage, on the other hand, causes a decrease in indicators of turnover total assets and in indicators of net profitability of revenues.

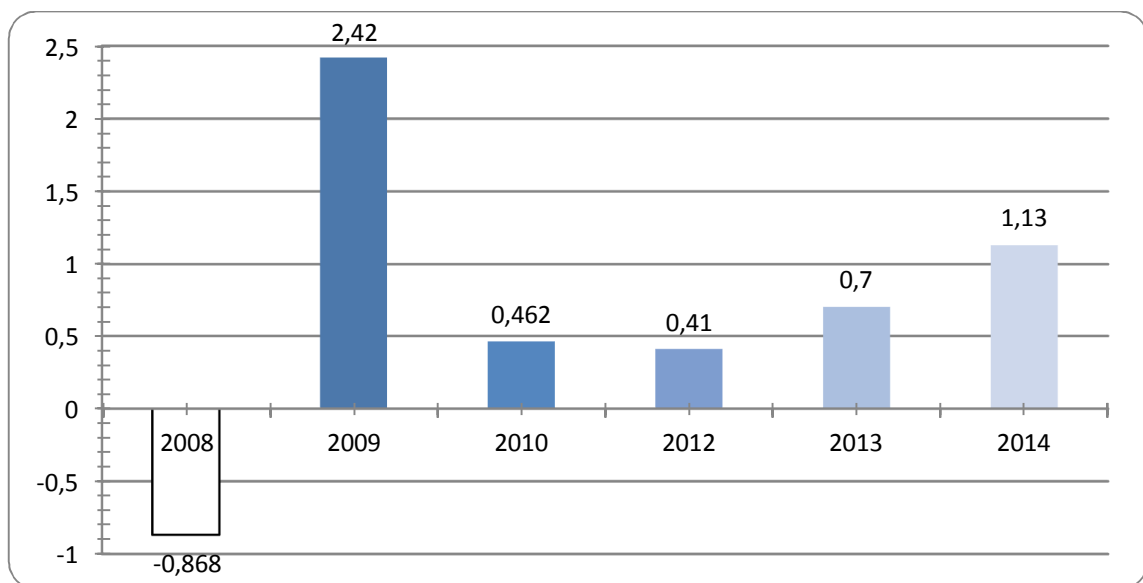
9 Analysis of credibility and bankruptcy models

9.1 Credibility models

The task of credibility models is to answer the question of whether it is good or bad company in the considered case.

Solvency model

Graph 12: The development of solvency index



Source: Own processing, 2015

Table 13: Evaluation of solvency index

Extremely bad	Very bad	Bad	Some troubles	Well	Very well	Extremely good
(-3;-2)	(-2;-1)	(-1;0)	(0;1)	(1;2)	(2;3)	3 and more

Source: <http://www.finanalysis.cz/pouzite-bankrotni-modely.html>, 2015

In 2009 was the situation bad. Behind this finding is a negative economic result that caused that the company is evaluated as in very bad situation with problems. But in 2010 is the situation completely reversed and the company is evaluated as in very well situation which was caused due to increase in most monitored contents of the solvency

model. Between 2011 - 2013 was the company's solvency index 0.4 – 0.7 which indicates some troubles. But the development of past 2 years was positive and in 2014 reached the amount 1.13 that indicates a good situation in the company and we can assume that this trend will continue in the coming years.

Kralicek quick test – modified by Kislingerová (2008)

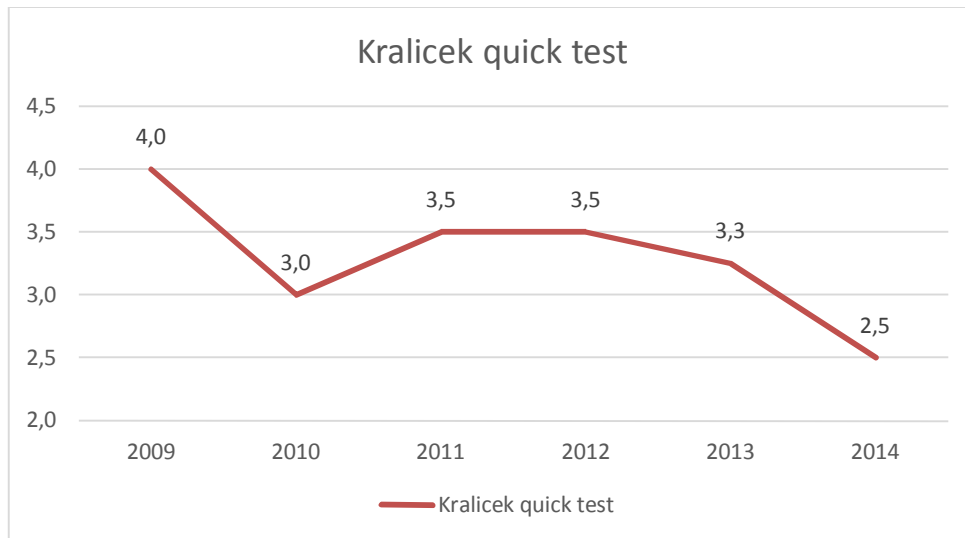
Table 14: Kralicek quick test

	2009	2010	2011	2012	2013	2014
<i>Quota of equity</i>	3	2	2	2	2	1
<i>Time of debt repayment from CF</i>	4	1	3	4	3	1
<i>CF in revenues</i>	4	5	5	4	4	4
<i>ROA</i>	5	4	4	4	4	4
<i>Mean</i>	4	3	3.5	3.5	3.3	2.5

Source: Own processing, 2015

The results of Kralicek quick test (see Table 14) has shown a slight improvement of the situation in the company in 2009 mainly due to great economic result in a given year. In 2010 and 2012 the situation deteriorated again but since 2013 the company's management improved in 2014 and in 2014 can be said that there was a significant improvement in financial management of the company.

Graph 13: Kralicek quick test



Source: Own processing, 2015

9.2 Bankruptcy models

Altman index of credibility

Table 15: Altman index of credibility

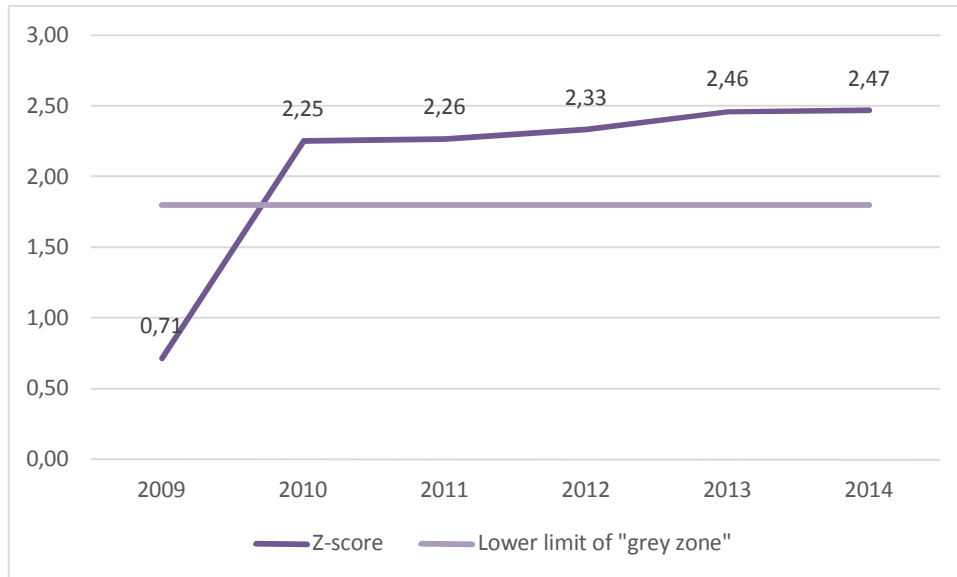
	2009	2010	2011	2012	2013	2014
<i>x1</i>	-0,1815	0,1249	0,1564	0,2275	0,3200	0,3125
<i>x2</i>	-0,0782	0,1712	0,0250	0,0018	0,0256	0,0606
<i>x3</i>	-0,0706	0,0122	0,0231	0,0316	0,0223	0,0169
<i>x4</i>	0,1514	0,4559	0,4186	0,4018	0,4270	0,5331
<i>x5</i>	1,0687	1,7894	1,8858	1,9046	1,9646	1,9186
Z-score	0,71	2,25	2,26	2,33	2,46	2,47

Source: Own processing, 2015

Except for 2009, the company is located in „grey zone“ where it is not possible to clearly determine where the company is heading to. In 2009, the company was in the area that suggests some troubles. As already mentioned above, the negative results of 2009 can be attributed mainly to negative economic result that affects indicators of Altman

model. Table 15 shows the results of all indicators of Altman model and its overall results for years 2009 - 2014.

Graph 14: Altman index of credibility

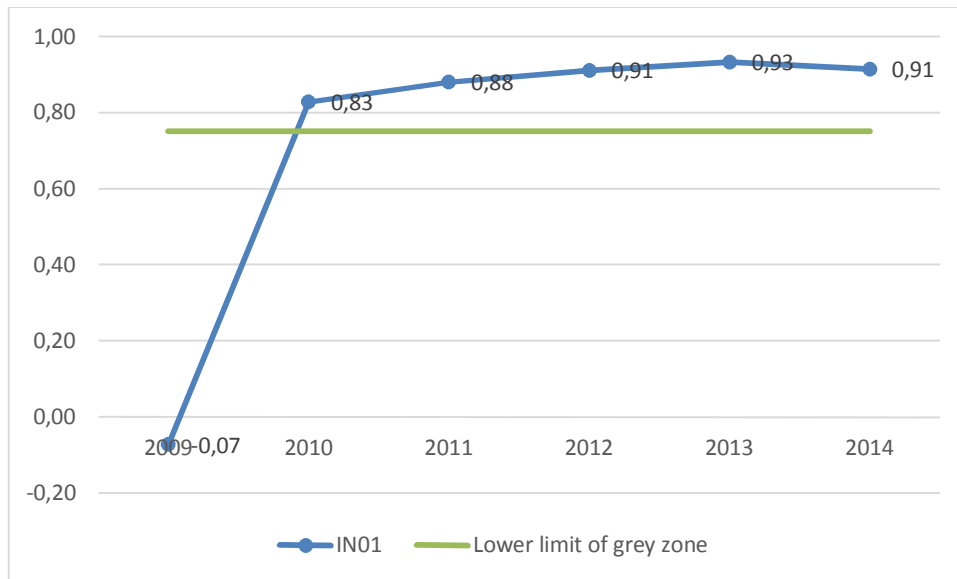


Source: Own processing, 2015

Index IN01

Graph 14 shows the development of the index IN01 where it is seen that values of the index actually copy the values of Altman Z-score index. In 2009, the company's value is located deep in the area that predisposes a company to an early bankruptcy. Fortunately, the company has weathered this period and from 2010 to 2014, the company increased its values to the grey zone, which unfortunately is not still satisfactory because the company for its owners does not create any value.

Graph 15: The development of the Index IN01

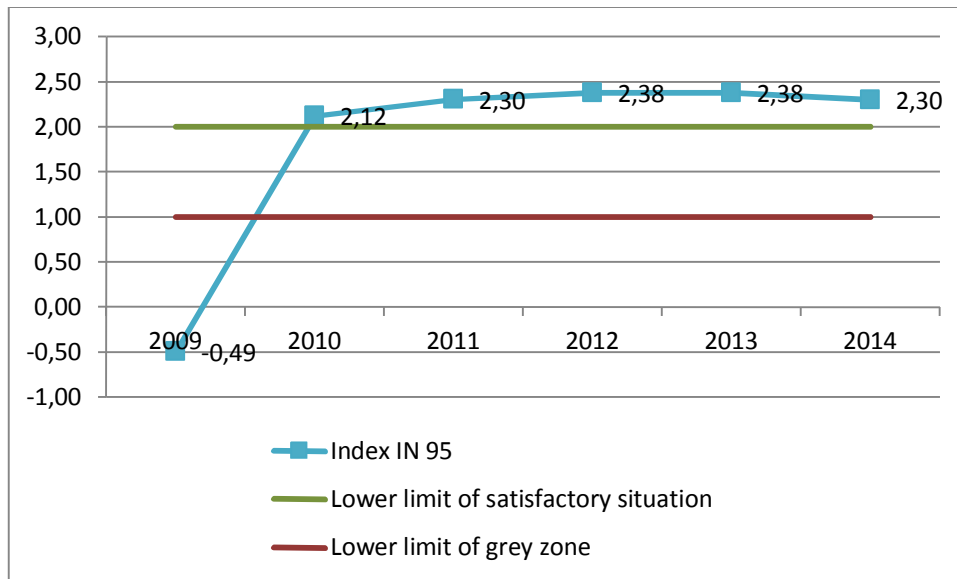


Source: Own processing, 2015

Index IN95

The credibility index like index IN01 copies the values of Altman's Z-score when the value of the index in 2009 reached a value deep in the level at which is the company threatened by severe financing problems. Unlike IN01 index values in other monitored years they do not reach only into the grey zone but directly into the area that represents a satisfactory financial position which is very positive for the company (see Graph 15).

Graph 16: The development of the Index IN95



Source: Own processing, 2015

10 The impact of the company on the region

Based on previous analysis of the financial performance of the company is evident that the company affects the region in which it operates and its influence extends even further the South Moravian region or Czech Republic due to its export activities for its maternal plant in Germany.

The surveyed company can be classified as a large engineering firm. Engineering has a long and good tradition in Czech Republic. A strategic objective of an engineering is an industrial potential that is fully comparable with the European Union. Comparability should not be only in the share of engineering industry on GDP but also in quality, efficiency of production and labor productivity. The task of Czech companies is to find sales areas and ensure enough funds for production technologies which together with the effective organization of work ensure the cost competitiveness. This significantly reduces the difference between the Czech Republic and the European Union in labor productivity and creates new employment opportunities.

To competing companies can be included large companies not only in the South Moravian region but throughout the Czech Republic as well as small business and entrepreneurs although they do not have turnovers but due to the lower costs of operations they are able to offer lower prices than large business. To reduce costs for transport and these offered lower prices are often a reason why these small and medium-sized companies in the same region serve as suppliers for large companies. Large companies also help in the development of weak regions.

In the South Moravian region there are several companies that are engaged in the same or similar business activities as the surveyed company. In the district Boskovice where the company has a headquarters is about 6 smaller companies with a similar business activity. The company has more competitors in the form of several companies with the same or similar production activities in Brno and its surroundings. For a more detailed description of the competing companies I have chosen two companies that can be considered as the main competitors in South Moravian region.

ARTECO al. Ltd. – company is located about 6 km from the analyzed company. The company was established in 1997 as a company engaged in the development and manufacture of single-purpose and special machines that builds on the experience of previous work in engineering. Currently the number of employees is 23 of which eleven workers are working in the field of machinery repairs.

OPIS engineering k.s. – this company is a limited partnership company that operated on the market since 1992 when the company was founded as a representative of the third largest manufacturer of drives – the Italian company BONFIGLILOGI Group for the Czech and Slovakia Republics. The company produces drive technology and mixers for industrial applications and is a service organization for companies producing machinery mainly for export abroad. The company is headquartered in Brno; it is about 40 km from the headquarter of the surveyed company. In the company is working steadily 17 employees.

11 Recommendations and conclusion

The aim of the thesis was to evaluate the economic situation of the Company XYZ, Ltd by using horizontal analysis, vertical analysis, calculation of ratio indicators (profitability, activity, indebtedness and liquidity), pyramidal decomposition of ROE and models of credibility and bankruptcy.

The development of the company can be evaluated very positively. Results of the analysis show that the company has built its market position in South Moravian region. Based on the data obtained the overall effectiveness of the company's management is positive mainly in the last five years.

Horizontal analysis of assets showed steady growth which was caused mainly due to growth of current assets. Fixed assets increased in the last two years only. Vertical analysis showed that fixed assets are composed primarily of current assets and these are created mostly by inventories and short-term receivables. The company holds a high level of inventories due to its productive activities. Tangible fixed assets create 99 % of fixed assets and they consist mostly of constructions and equipment.

Liabilities have grown throughout the whole period as well as assets. Liabilities are made up of two-thirds by foreign resources that consist mainly of short-term liabilities, more precisely of trade payables that the company tries to reduced.

In the Company XYZ, Ltd it can be monitored a significant development during the whole analyzed period. The company's economic result in the first monitored year 2009 was in negative numbers but in the following years the company showed a profit. As a disrupted period can be marked the year 2010 when the company managed to achieve a positive operating result. Despite fluctuation in economic results the company manages to maintain the profit until 2014 and can be expected that it will maintain the profit even in future years.

A problematic point that can be seen from the analysis is the inability to reduce the turnover period of receivables, which increased in 2013 and 2014. The company

should try to deal with claims by means for example of timely reminders of borrowers, the introduction of interests of arrears or increase effectiveness of recovery irrecoverable receivables. Creation of irrecoverable receivables can be prevented by detecting information about payment morale of new clients or require advance payments from customers.

The company is according the calculations profitable and able to meet its obligation, the company manages to efficiently reduce the turnover period of liabilities in long-term period. For suppliers is therefore a trustworthy company. The company is financially healthy; it is not in financial distress.

Bankruptcy and credibility models suggest that the company is not close to bankruptcy but not even in a very satisfactory financial situation. In most cases, according to these models, the company is in a grey zone. Negative values in the first monitored year were caused by negative economic result but the development over the past five years indicates a slow direction to a satisfactory situation.

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Figure 1: Du Pont pyramid decomposition

Figure 2: Du Pont diagram – ROE in 2014

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Balance sheet of Company XYZ, Ltd for years 2009-2014

Rozvaha – aktiva k 31.12. v tis. Kč netto*	2009	2010	2011	2012	2013	2014
Aktiva celkem	221384	251672	274431	283157	308205	331407
A. Pohledávky za upsaný vlatní kapitál	0	0	0	0	0	0
B. Dlouhodobý majetek	94400	78917	73463	68388	81715	98079
B.I. Dlouhodobý nehmotný majetek	187	147	82	100	216	719
B.I.1. Zřizovací výdaje	0	0	0	0	0	0
B.I.2. Nehmotný výsledek výzkumu a vývoje	0	0	0	0	0	0
B.1.3. Software	187	147	82	100	216	719
B.1.4. Ocenitelná práva	0	0	0	0	0	0
B.I.5. Goodwill	0	0	0	0	0	0
B.I.6. Jiný dlouhodobý nehmotný majetek	0	0	0	0	0	0
B.I.7. Nedokončený dlouhodobý majetek	0	0	0	0	0	0
B.I.8. Poskytnuté zálohy na dlouhodobý nehmotný majetek	0	0	0	0	0	0
B.II. Dlouhodobý hmotný majetek	94213	78770	73381	68288	81499	97360
B.II.1. Pozemky	250	250	250	250	250	250
B.II.2. Stavby	63721	60211	56588	53078	49568	72566
B.II.3. Samostatné movité věci a soubory	30132	18210	15655	14245	16028	21902
B.II.4. Pěstitelské celky trvalých porostů	0	0	0	0	0	0
B.II.6. Jiný dlouhodobý hmotný majetek	105	94	82	71	2117	1681
B.II.7. Nedokončený dlouhodobý hmotný majetek	0	0	0	61	11171	212
B.II.8. Poskytnuté zálohy na dlouhodobý hmotný majetek	5	5	806	583	2365	749
B.III. Dlouhodobý finanční majetek	0	0	0	0	0	0
B.III.1. Podíly - ovládaná osoba	0	0	0	0	0	0
B.III.2. Podíly v účetních jednotkách pod podstatným vlivem	0	0	0	0	0	0
B.III.3. Ostatní dlouhodobé cenné papíry a podíly	0	0	0	0	0	0

B.III.4. Půjčky a úvěry - ovládaná nebo ovládající osoba	0	0	0	0	0	0
B.III.5. Jiný dlouhodobý finanční majetek	0	0	0	0	0	0
B.III.6. Pořizovaný dlouhodobý finanční majetek	0	0	0	0	0	0
B.III.7. Poskytnuté zálohy na dlouhodobý finanční majetek	0	0	0	0	0	0
C. Oběžná aktiva	126831	172557	200030	213701	225373	232373
C.I. Zásoby	86117	108644	160388	144850	133444	145704
C.I.1. Materiál	51869	75422	118535	103302	95655	91235
C.I.2. Nedokončená výroba a polotovary	24047	27573	31455	27961	31309	46495
C.I.3. Výrobky	10201	5649	10398	6974	3407	7974
C.I.4. Zvířata	0	0	0	0	0	0
C.I.5. Zboží	0	0	0	0	0	0
C.I.6. Poskytnuté zálohy na zásoby	0	0	0	6613	3073	0
C.II. Dlouhodobé pohledávky	0	0	0	0	0	6926
C.II.1. Pohledávky z obchodních vztahů	0	0	0	0	0	0
C.II.2. Pohledávky - ovládaná nebo ovládající osoba	0	0	0	0	0	0
C.II.3. Pohledávky - podstatný vliv	0	0	0	0	0	0
C.II.4. Pohledávky za společníky	0	0	0	0	0	0
C.II.5. Dlouhodobé poskytnuté zálohy	0	0	0	0	0	0
C.II.6. Dohadné účty aktivní	0	0	0	0	0	0
C.II.7. Jiné pohledávky	0	0	0	0	0	0
C.II.8. Odložená daňová pohledávka	0	0	0	0	0	6926
C.III. Krátkodobé pohledávky	38840	63601	38070	67390	89949	77472
C.III.1. Pohledávky z obchodních vztahů	34443	59401	33281	58604	81671	68699
C.III.2. Pohledávky - ovládaná nebo ovládající osoba	0	0	0	0	0	0
C.III.3. Pohledávky - podstatný vliv	0	0	0	0	0	0
C.III.4. Pohledávky za společníky	0	0	0	0	0	0
C.III.5. Sociální zabezpečení a zdravotní pojištění	0	0	0	0	0	0
C.III.6. Stát – daňové pohledávky	3729	3896	4032	7068	7293	7737
C.III.7. Krátkodobé poskytnuté zálohy	643	279	757	1191	679	649
C.III.8. Dohadné účty aktivní	0	0	0	502	0	0
C.III.9. Jiné pohledávky	25	25	0	25	306	387

C.IV. Krátkodobý finanční majetek	1874	312	1572	1461	1980	2271
C.IV.1.Peníze	136	150	189	234	189	202
C.IV.2.Účty v bankách	1738	162	1383	1227	1791	2069
C.IV.3.Krátkodobé cenné papíry a podíly	0	0	0	0	0	0
C.IV.4.Pořizovaný krátkodobý finanční majetek	0	0	0	0	0	0
D.I. Časové rozlišení	153	198	938	1068	1117	955
D.I.1. Náklady příštích období	153	194	938	1068	1117	955
D.I.2. Komplexní náklady příštích období	0	0	0	0	0	0
D.I.3. Příjmy příštích období	0	4	0	0	0	0

Rozvaha – pasiva k 31.12. v tis. Kč	2009	2010	2011	2012	2013	2014
Pasiva celkem	221384	251672	274431	283157	308205	331407
A. Vlastní kapitál	28891	71988	78840	79338	87235	101830
A.I. Základní kapitál	1000	1000	1000	1000	1000	1000
A.I.1. Základní kapitál	1000	1000	1000	1000	1000	1000
A.I.2. Vlastní akcie a vlastní obchodní podíly	0	0	0	0	0	0
A.I.3. Změny základního kapitálu	0	0	0	0	0	0
A.II. Kapitálové fondy	0	0	0	0	0	0
A.II.1. Emisní ážio	0	0	0	0	0	0
A.II.2. Ostatní kapitálové fondy	0	0	0	0	0	0
A.II.3. Oceňovací rozdíly z přecenění majetku a závazků	0	0	0	0	0	0
A.II.4. Oceňovací rozdíly z přecenění při přeměnách společností	0	0	0	0	0	0
A.II.5. Rozdíly z přeměn společností	0	0	0	0	0	0
A.III. Rezervní fondy	100	100	100	100	100	100
A.III.1. Zákonný rezervní fond	100	100	100	100	100	100
A.III.2. Statutární a ostatní fondy	0	0	0	0	0	0
A.IV. Výsledek hospodaření minulých let	45098	27790	70888	77740	78238	80635
A.IV.1. Nerozdělený zisk minulých let	45098	27790	70888	77740	78238	80635
A.IV.2. Neuhrazená ztráta minulých let	0	0	0	0	0	0
A.V. Výsledek hospodaření běžného úč.období (+-)	-17307	43098	6852	498	7897	20095
B. Cizí zdroje	191742	162136	195591	203819	220970	229577
B.I. Rezervy	869	4245	7268	6364	16652	38564

B.I.1. Rezervy podle zvláštních právních předpisů	0	0	0	0	0	0
B.I.2. Rezerva na důchodu a podobné závazky	0	0	0	0	0	0
B.I.3. Rezerva na daň z příjmu	0	0	1500	0	2250	5246
B.I.4. Ostatní rezervy	869	4245	5768	6364	19902	33318
B.II. Dlouhodobé závazky	1856	418	19935	41855	35725	15282
B.II.1. Závazky z obchodních vztahů	862	418	259	703	1866	342
B.II.2. Závazky - ovládaná nebo ovládající osoba	994	0	19676	41152	33859	14940
B.II.3. Závazky - podstatný vliv	0	0	0	0	0	0
B.II.4. Závazky ke společníkům	0	0	0	0	0	0
B.II.5. Dlouhodobé přijaté zálohy	0	0	0	0	0	0
B.II.6. Vydané dluhopisy	0	0	0	0	0	0
B.II.7. Dlouhodobé směnky k úhradě	0	0	0	0	0	0
B.II.8. Dohadné účty pasivní	0	0	0	0	0	0
B.II.9. Jiné závazky	0	0	0	0	0	0
B.II.10. Odložený daňový závazek	0	0	0	0	0	0
B.III. Krátkodobé závazky	161269	135685	151253	143304	108942	112133
B.III.1. Závazky z obchodních vztahů	143616	127583	133444	124843	89257	92178
2. Závazky - ovládaná nebo ovládající osoba	11930	941	9444	9608	10313	10423
3. Závazky - podstatný vliv	0	0	0	0	0	0
4. Závazky ke společníkům	0	0	0	0	0	0
5. Závazky k zaměstnancům	2901	4098	5310	4743	5277	5405
6. Závazky ze sociál.zabezpeč. a zdrav.pojišť.	1564	2304	2418	2685	2995	3050
7. Stát –daňové závazky a dotace	332	482	478	581	645	669
8. Krátkodobé přijaté zálohy	0	0	0	0	0	0
9. Vydané dluhopisy	0	0	0	766	0	0
10. Dohadné účty pasivní	882	277	1075	78	364	0
11. Jiné závazky	44	0	84	0	91	392
B.IV. Bankovní úvěry a výpomoci	27748	21788	17135	12296	59651	63598
B.IV.1. Bankovní úvěry dlouhodobé	22006	16351	11266	6326	41841	56927
B.IV.2. Krátkodobé bankovní úvěry	5742	5437	5869	5970	17810	16671
B.IV.3. Krátkodobé finanční výpomoci	0	0	0	0	0	0
C.I. Časové rozlišení	751	17548	0	0	0	0
C.I.1. Výdaje příštích období	751	17548	0	0	0	0

C.I.2. Výnosy příštích období	0	0	0	0	0	0
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Source: www.justice.cz, 2015

Income statement of Company XYZ, Ltd for years 2009-2014

VZZ - Položka k 31.12. v tis. Kč	2009	2010	2011	2012	2013	2014
I. Tržby za prodej zboží	0	0	0	0	0	0
A. Náklady vynaložené na prodané zboží	0	0	0	0	0	0
+ Obchodní marže	0	0	0	0	0	0
II. Výkony	229142	449064	526167	531297	604885	656205
II.1. Tržby za prodej vlastních výrobků a služeb	236588	450335	517527	539289	605503	635822
2. Změna stavu zásob vlastní činnosti	-7446	-1271	8640	-7992	-618	20383
3. Aktivace	0	0	0	0	0	0
B. Výkonová spotřeba	152153	295339	401245	408012	463918	495970
B.1. Spotřeba materiálu a energie	128657	252536	345464	378415	423394	441994
2. Služby	23496	42803	55781	29597	40524	53976
+ Přidaná hodnota	76989	153725	124922	123285	140967	160235
C. Osobní náklady	61028	76722	98838	94930	105259	112514
C.1. Mzdové náklady	45840	56278	72590	69397	77044	82410
2. Odměna členům orgánů společnosti	0	0	0	0	0	0
3. Náklady na sociální zabezpečení a zdrav. pojištění	14055	19179	24569	23105	25697	27328
4. Sociální náklady	1133	1265	1679	2428	2518	2776
D. Daně a poplatky	129	189	229	180	249	235
E. Odpisy dlouhodobého majetku	20892	17669	15979	11687	11843	11639
III. Tržby z prodeje dlouhodobého majetku a materiálu	108	7147	7660	2133	11147	5140
III.1. Tržby z prodeje dlouhodobého majetku	14	5	11	71	5330	301
2. Tržby z prodeje materiálu	94	7142	7649	2062	5817	4839
F. Zůstatková cena prodaného dl. majetku a materiálu	0	7142	0	5	7014	3131
F.1. Zůstatková cena prodaného dlouhodobého majetku	0	0	0	5	4947	0
2. Prodaný materiál	0	7142	0	0	2067	3131
G. Změna stavu rezerv a op.položek v provozní oblasti	6535	1051	1343	1017	11980	11795
IV. Ostatní provozní výnosy	2892	5639	6396	6562	7175	6401
H. Ostatní provozní náklady	7401	24410	7443	12872	6373	4291
V. Převod provozních výnosů	0	0	0	0	0	0
I. Převod provozních nákladů	0	0	0	0	0	0

* Provozní výsledek hospodaření	-15996	39328	15146	11289	16571	28171
VI. Tržby z prodeje cenných papírů a podílů	0	0	0	0	0	0
J. Prodané cenné papíry a podíly	0	0	0	0	0	0
VII. Výnosy z dlouhodobého finančního majetku	0	0	0	0	0	0
VII. 1. Výnosy z podílů v ovládaných osobách a v účetních jednotkách pod podstatným vlivem	0	0	0	0	0	0
VII. 2. Výnosy z ostatních dlouhodobých cenných papírů a podílů	0	0	0	0	0	0
VII. 3. Výnosy z ostatního dlouhodobého finančního majetku	0	0	0	0	0	0
VIII. Výnosy z krátkodobého finančního majetku	0	0	0	0	0	0
K. Náklady z finančního majetku	0	0	0	0	0	0
M. Změna stavu rezerv a op.položek ve finanční oblasti	0	0	0	0	0	0
IX. Výnosy z přecenění cenných papírů a derivátů	0	0	0	0	0	0
L. Náklady z přecenění cenných papírů a derivátů	0	0	0	0	0	0
M. Změna stavu rezerv a opravných položek ve finanční oblasti	0	0	0	0	0	0
X. Výnosové úroky	6	0	0	0	0	0
N. Nákladové úroky	2581	1702	3499	4940	3793	3086
XI. Ostatní finanční výnosy	8134	13418	9885	6734	11157	4405
O. Ostatní finanční náklady	7254	7946	13180	12585	18596	9577
XII. Převod finančních výnosů	0	0	0	0	0	0
* Finanční výsledek hospodaření	-1695	3770	-6794	-10791	-11232	-8258
Q. Daň z příjmů za běžnou činnost	-384	0	1500	0	2942	-182
Q.1. - splatná	0	0	1500	0	2942	6744
- odložená	-384	0	0	0	0	-6926
** Výsledek hospodaření za běžnou činnost	-17307	43098	6852	498	2397	20095
XIII.Mimořádné výnosy	0	0	0	0	0	0
R. Mimořádné náklady	0	0	0	0	0	0
S. Daň z příjmů z mimořádné činnosti	0	0	0	0	0	0
S.1. - splatná	0	0	0	0	0	0
S.2. - odložená	0	0	0	0	0	0

T. Převod podílu na výsledku hospodaření	0	0	0	0	0	0
* Mimořádný výsledek hospodaření	0	0	0	0	0	0
*** Výsledek hospodaření za účetní období (+,-)	-17307	43098	6852	498	2397	20095
**** Výsledek hospodaření před zdaněním	-17691	43098	8352	498	5339	19913

Source: www.justice.cz, 2015

Cash flow statements of Company XYZ, Ltd for years 2009-2014

CASH FOW	2009	2010	2011	2012	2013	2014
Stav peněžních prostředků a peněžních ekvivalentů na začátku účetního období	0	1874	1572	1461	0	1980
Peněžní toky z hlavní výdělečné činnosti (provozní činnosti)	0	0	0	0	0	0
Účetní zisk nebo ztráta z běžné činnosti před zdaněním	-17691	43098	498	10839	5339	19931
Úpravy o nepeněžní operace	20878	37169	17448	23934	11460	29377
Odpisy stálých aktiv	20892	17669	11687	11843	11843	11639
Odpis pohledávek (+546)	0	0	0	0	0	0
Odpis opravné položky k úpl. nabytému majetku (+557, -657)	0	0	0	0	0	0
Změna stavu opravných položek	0	-2325	1921	-1558	0	-1621
Změna zůstatků časového rozlišení	0	16752	-130	-49	0	162
Změna stavu rezerv	0	3376	-904	10288	0	16412
(-) Zisk / (+) ztráta z prodeje stálých aktiv (-641+541)	-14	-5	-66	-383	-383	-301
Výnosy z dividend a podílů na zisku	0	0	0	0	0	0
Vyúčtované nákladové úroky a výnosové úroky	0	1702	4940	3793	0	3086
Čistý peněžní tok z prov. činnosti před zdaněním, změnami pracovního kapitálu a mimořádnými položkami	3187	80267	17946	34773	16799	49290
Změna potřeby pracovního kapitálu	0	-70547	-23652	-43957	0	5029
Změna stavu pohledávek	0	-24761	-29320	-22559	0	12477
Změna stavu krátkodobých závazků	0	-25584	-7949	-34362	0	3191
Změna stavu zásob	0	-22527	15538	11406	0	-12260
Případné úpravy o ostatní nepeněžní operace	0	-2325	-1921	1558	0	1621
Čistý peněžní tok z provozní činnosti před zdaněním a mimořádnými položkami	3187	9720	-5706	-9184	16799	54319

Výdaje z plateb úroků (zjednodušeno na nákl. úroky)	-2581	-1702	-4940	-3793	-3793	-3086
Přijaté úroky (zjednodušeno na výnosové úroky)	6	0	0	0	0	0
Daň z příjmů za běž. činnost a doměrky	384	0	0	-2942	-2942	-6744
Mimořádný hospodářský výsledek vč. daně	0	0	0	0	0	0
Přijaté dividendy a podíly (+)	0	0	0	0	0	0
Čistý peněžní tok z provozní činnosti	996	8018	-10646	-15919	10064	44489
Peněžní toky z investiční činnosti	0	0	0	0	0	0
Výdaje spojené s nabytím stálých aktiv	0	-2186	-6617	-30117	0	-28003
Příjmy z prodeje stálých aktiv (+641)	14	5	71	5330	5330	301
Půjčky a úvěry spřízněným osobám (investiční)	0	0	0	0	0	0
Čistý peněžní tok k investiční činnosti	14	-2181	-6546	-24787	5330	-27702
Peněžní toky z finanční činnosti						
Změna stavu dlouhodobých a krátkodobých závazků (půjčky, úvěry)	0	-7398	-24071	41225	0	-16496
Dopady změn vlastního kapitálu na peněž. prostředky a peněžní ekvivalenty	0	0	0	0	0	0
Zvýšení základního kapitálu a rezervního fondu vč. složených záloh	0	0	0	0	0	0
Vyplacení podílu na vl. kapitálu společníkům (-)	0	0	0	0	0	0
Peněžní dary a dotace do vlastního kapitálu (+)	0	0	0	0	0	0
Úhrada ztráty společníky (+)	0	0	0	0	0	0
Přímé platby na vrub fondů (-)	0	0	0	0	0	0
Vyplacené dividendy podíly na zisku včetně sráž. daně (-)	0	0	0	0	0	0
Změna stavu odložené daně (+ pohledávka, - závazek)	0	0	0	0	0	0
Čistý peněžní tok vztahující se k finanční činnosti	0	-7398	-24071	41225	0	-16496
Čisté zvýšení, snížení peněžních prostředků	1010	-1561	-111	519	15394	291
Stav peněžních prostředků a peněžních ekvivalentů na konci účetního období	0	0	0	0	0	0
	1874	312	1461	1980	1980	2271
Rozdíl	864	-1	0	0	-16414	0

Source: www.justice.cz, 2015