

**CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE**

**Faculty of Economics and Management**

*Department of Economics*



Diploma Thesis

**The financial analysis of Stavební firma**

**HOBST a.s.**

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

## DIPLOMA THESIS ASSIGNMENT

Bc. Jindra Košťálová

Economics and Management

Thesis title

**Financial Analysis of Stavební firma HOBST, a.s.**

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### **Objectives of thesis**

The goal of the theoretical part is to determine and explain the main terms that are related to the financial analysis.

The practical part aims to evaluate the financial stability of a chosen company Stavební firma HOBST, a.s. using the methods, procedures and calculations of financial analysis.

### **Methodology**

The literature review was done using the methods of synthesis, extraction, induction and deduction. Author tried to explain the main terms about financial analysis using these methods. There were described the main terms connected with financial analysis and subsequently there were explained the different methods. There were also briefly analysed the main financial statements that are necessary for a proper financial analysis.

In the analytical part, there were used the methods of the financial analysis that were applied to a concrete data from specific financial statements such as balance sheet and income statement of the years from 2012 until 2015 from the company Stavební firma HOBST.

**The proposed extent of the thesis**

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**Keywords**

Financial analysis, profitability, liquidity, activity, construction company

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SAMONAS, M. Financial forecasting, analysis, and modelling: a framework for long-term forecasting. West Sussex, England: Wiley, 2015. Wiley finance series. ISBN 978-1-118-92110-4.

TSAY, R. S. An introduction to analysis of financial data with R. Hoboken, N.J.: Wiley, c2013. Wiley series in probability and statistics. ISBN 978-0-470-89081-3.

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## **Declaration**

I declare that I have worked on my diploma thesis “The financial analysis of Stavební firma HOBST a.s.” by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any third person.

In Prague .....

.....

Bc. Jindra Košťálová

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# The financial analysis of Stavební firma HOBST a.s.

## Finanční analýza Stavební firmy HOBST s.s.

### ABSTRACT

The diploma thesis focuses on the financial analysis of the company Stavební firma HOBST a.s. The company focuses on the heavy engineering such as bridges, concrete walls and water management constructions. The first part of the thesis explains the main terms related to the financial analysis. It starts with the explanation of the financial statements, different methods of the analysis and lastly, there is briefly explained the current situation on the Czech construction market. The main part of the diploma thesis, practical part, focuses on the analysis itself. The analysis is done for four years: 2012 – 2015. There is the horizontal and vertical analysis of the main financial statements, such as balance sheet and income statement. This analysis gives us a deep look into the individual items of the mentioned financial statements. It is followed by the ratio analysis, which shows some of the important indicators which are subsequently compared with the values of industry averages. Last but not least, the practical part analysis the composition of the individual construction from the contract owner view, and from the type of the construction views. There is a regression analysis of the relationship between revenues of the constructions for state and the amount of investment of state into infrastructure.

### Key words

Financial analysis, profitability, liquidity, activity, construction company

### ABSTRAKT

Cílem této diplomové práce je zhodnotit finanční situaci firmy Stavební firma HOBST a.s. Tato firma se zabývá stavbou mostů, velkých betonových zdí a vodohospodářskými stavbami. První část této práce má za cíl vysvětlit důležité pojmy spojené s finanční analýzou. Nejprve, se autor zaměřuje na vysvětlení a popsání nejdůležitějších finančních výkazu, které jsou v práci využívány – rozvaha a výkaz zisků a ztrát. Dále se zde popisují hlavní metody finanční analýzy a teoretická část je zakončena krátkým popisem stavu českého trhu stavebnictví. Hlavní část této diplomové práce je část praktická. Finanční analýza této firmy je provedena pro čtyři po sobě jdoucí roky – 2012 až 2015. Praktická část začíná popis vybrané firmy a upřesněním, čemu se firma věnuje. Dále je zde provedena horizontální a vertikální analýza finančních výkazů, která lépe porovná jednotlivé položky těchto listin. Následují podrobné výpočty jednotlivých poměrových ukazatelů, které jsou následně porovnány s průměrem tohoto průmyslu. Poslední část se věnuje spíše stavbám, které byly realizovány během těchto čtyř let. Je zde provedena regresní analýza závislosti výše výnosů, získané ze státních staveb, na výši investovaných finančních prostředků státem do infrastruktury.

### Klíčová slova

Finanční analýza, profitabilita, likvidita, aktivita, stavební firma

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## **LIST OF ABBREVIATIONS**

a.s. – joint-stock company

ROA – Return on assets

ROE – Return on equity

ROS – Return on sales

EBIT – Earnings before interest and taxes

EBT – Earnings before taxes

EAT – Earnings after taxes

ROS – Return on sales

TIN – Taxpayer Identification Number

CZK – Czech crown

# 1 INTRODUCTION

This diploma thesis is a complex analysis of the economic situation of the company Stavební firma HOBST, a.s. using standard methods and procedures of financial analysis and comparison of financial situation of the years 2012 to 2015. This outcome can be used by the management of the company to evaluate their performance and to determine the strategy for the next years.

The subject of this financial analysis is a construction company called Stavební firma HOBST, a.s. which is mainly focused on the heavy constructions such as bridge and reinforced concrete constructions, water management constructions and static securing of buildings. It is a company that has been founded in 1992, so nowadays it has a good and stable reputation on the market. This company works only on the Czech market, so all the calculations of this thesis are done in Czech crowns.

This thesis is divided into two parts. The first part, theoretical part, is mainly focused on the theoretical background of the financial analysis. First, it starts with the introduction of what the financial analysis is. Then it is followed by the theory behind the main financial statements, that are needed in the financial analysis, and that are used in this thesis. The main financial statements are Balance sheet and Income statement. There is described, in the theory, how the horizontal and vertical analysis is done for these financial statements. Then, there is a description of the financial ratios such as Liquidity ratios, Profitability ratios, Activity ratios and others. Last part of the theoretical part is focused more on the industry of constructions. There is described the economy of this industry in a broad way and subsequently there is more detailed description of the development of the economy of the construction industry in the Czech Republic, since the company is operating strictly on the Czech market.

The second part of this diploma thesis is a practical part. In this part, there is all of the theory mentioned in the first part applied for the certain data of the analysed company Stavební firma HOBST a.s. First it starts with the horizontal and vertical analysis of the Balance sheets and Income statements of the years 2012 to 2015, which were provided by the economic manager of the company for the purpose of this thesis. Then the diploma

this thesis proceeds with the financial ratio analysis. The results of the ratios are compared with the industry averages.

The next part of the practical part is more focus on the constructions itself. There is discussed the composition of all the construction in the analysed four years. The constructions are divided into four categories, and then analysed which category is the most profitable. The last part is focused on the contract owner's of the constructions. All the constructions are divided into two groups – state contract owner and private contract owner. Lastly, there is a regression analysis with two variables. The dependent variable is the amount of the revenues from state constructions and the independent variable is the amount of the money invested by state into the infrastructure. There is analysed the power of the relationship between those two variables.

## **2 OBJECTIVES AND METHODOLOGY**

### **2.1 Objectives**

The goal of a theoretical part of this diploma thesis is to determine and explain the main terms that are related to the financial analysis and to describe the main methods of the analysis.

The practical part of the thesis aims to evaluate the financial stability of a chosen company Stavební firma HOBST, a.s. using the methods, procedures and calculations of the financial analysis. The financial analysis will be done for four years: 2012 - 2015; therefore there will be done a comparison of these years. Also there will be done a regression analysis of the types of the construction that were constructed in the mentioned years.

### **2.2 Methodology**

The literature review was done using the methods of synthesis, extraction, induction and deduction. Author tried to explain the main terms about financial analysis using these methods. There were described the main terms connected with financial analysis and subsequently there were explained the different methods. There were also briefly described the main financial statements that are necessary for a proper financial analysis such as balance sheet and income statement.

In the analytical part, there were used the methods of the financial analysis that were applied to a concrete data from the financial statements of the year 2012, 2013, 2014 and 2015 from the company Stavební firma HOBST, a.s. The second part consists the regression analysis, which studies the types of construction and how it is influenced by the state budget.

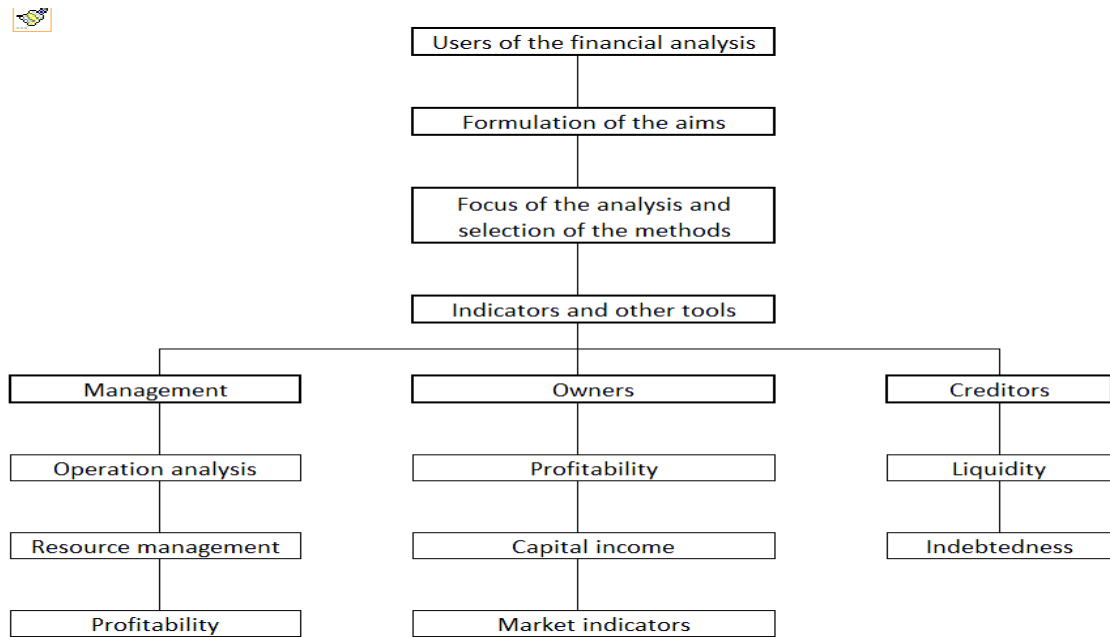
### 3 THEORETICAL PART

#### 3.1 What is financial analysis?

According to Peterson and Fabozzi (1999), financial analysis, also called analysis of financial statement, is “*the selection, evaluation and interpretation of financial data and other pertinent information to assist in evaluation the operation performance and financial condition of a company or an industry*”. (Peterson, Fabozzi, 1999)

The main purpose of the financial analysis is to prepare the details, materials and documents for the high quality decision-making about the operation of the company. It is clear that there is a close link between accounting and management of the entity. The accounting gives an accurate financial data, that link to one time period. These data then have to be analysed so it can be used for the evaluation of the company’s financial health. Financial analysis is important for management, shareholders (owners), creditors and other external users. Shareholders are mainly concerned with the present productiveness of the shares, banks can use it in terms of the provision of unsecured sources, suppliers will be interested in the ability to pay the invoice in time and the opportunity of the long-time cooperation, consumers will pay attention for the quality and punctuality of deliveries, employees will be interested in maintaining jobs and wage settlements and so on. It is shown in the figure 1, what is the most important part of the financial analysis for certain users of the financial analysis. (Peterson, Fabozzi, 1999)

Figure 1 Users of financial analysis and its focus



Source: Růčková, 2015

Every user of the financial analysis has to formulate the aims of the certain financial analysis. Based on these goals, there has to be chosen the appropriate method. In this step, the process of the financial analysis diverges according to target group that it is done for. (Růčková, 2015)

### 3.1.1 The aims of financial analysis

The financial analysis has its two main purposes from two time perspectives. The first one is to look in the past, which is a base for the analysis and for the formulation of conclusions and actions. It is possible to evaluate the development of the company from the history up to now. There are many criteria for the evaluation of the company's recent development. The second one is to look in the future and to focus on financial strategy such as the investment decisions, directing of the structure of the capital and the allocation of financial resources. It serves as a base for the financial planning at all time levels, short-time planning and long-time planning. The outcomes of the financial analysis are usually the input data for the financial planning. (Růčková, 2015)



The main aim of the financial analysis is to evaluate the financial situation of the company and to give a comprehensive overview on the financial health of the company. Also the aim is to compare the reality with the plan and using these data try to eliminate the differences and imperfections in the next years. Financial analysis is often used to reveal strengths and weaknesses of the company from the financial point of view. (Bohatová, 2017)

### **3.2 Limitations of financial analysis**

It may seem at first glance that financial analysis can perfectly assess the financial situation of the company by its indicators, but it is important to realize that each approach has both its advantages and disadvantages. Each external financial analyst who uses some of the techniques of financial analysis should know in advance about the limitations that the use of financial analysis brings, so they would be able to interpret their findings and the results correctly.

The first pitfall that must be considered in the application of financial analysis methods is the fact that the individual financial indicators are constructed on the basis of past and historical financial information. This entails the risk that the application of this accounting information will be current and may in certain cases be misleading. For this reason, there is in some cases necessary to supplement the financial analysis with some estimates based on data published after the date of the financial analysis. Another limitation of the financial analysis is the fact that data on the balance sheet and on the profit and loss account are expressed in so-called accounting prices. These prices are generally not truly reflective of the current market prices. A situation, in which there is an increase of fixed assets such as land or buildings, is not captured in the accounts. (Khan and Jain, 2007)

### **3.3 Financial statements**

The main sources of data for the financial analysis are the financial statements. The main financial statements in the Czech Republic which summarize the overall activities of the company over a certain period of time are Balance sheet, Income statement and Statement of cash flow. The reporting period that these financial statements need to be issued is at least once a year, but internally, the management of the company can produce them more often, for example monthly or quarterly. (Stárová, 2013)

#### **3.3.1 Balance sheet**

The balance sheet is a summary of assets, equity and liabilities at a certain moment of a time. It is compiled on the basis of information from the accounting. Balance sheet provides data about the company's financial position; therefore it is sometimes also called Statement of the financial position. One of the possible form of the balance sheet is called T-form, where there are assets on the left side, and equity + liabilities on the right side. (Spurga, 2004)

##### ***3.3.1.1 Types of balance sheets***

There are different types of balance sheets according to the time of the year when they are prepared.

###### ***3.3.1.1.1 Opening Balance Sheet***

It is compiled at the beginning of the accounting period or in the beginning of the business of the entity. It introduces the overview of the assets at the starting point of the entity. It is the day of the registration in to a compulsory register (Business Register).

It is compiled regularly, at the time of the annual financial report. It is usually 31<sup>st</sup> December or it can be the last day of business year of the entity. The opening balance sheet introduces the assets that the entity can use during the following accounting period. (Rubáková, 2015)

### **3.3.1.1.2 Closing balance sheet**

It is compiled at the end of the accounting period or eventually at the end of the business of the company.

The closing balance sheet introduces the assets after the economic activities of the company in the given accounting period. (Rubáková, 2015)

### **3.3.1.1.3 Extraordinary balance sheet**

It is compiled when there is a necessity to show a summary of the assets to another time. It can be for example the entry of the entity into liquidation, sale of the business and others. (Rubáková, 2015)

### **3.3.1.2 Balance sheet structure**

The total asset equals the total sum of equity plus liabilities.

**Assets = Equity + Liabilities**

#### **3.3.1.2.1 Assets**

*“Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions”* (Stárová, 2013)

An asset can be any tangible or intangible object, which has a certain value to the entity. There are many types. It can be divided into a long-term (fixed) assets and short-term (current) assets. This breakdown respects their role in the reproductive process, the fixed assets retain at their original form over several production cycles and they gradually depreciate and transfer their value to the value of the production, while current assets change their form a several times during the cycle and tend to be consumed at once. This division of the assets is according to their usability. The long-term assets can be used for more than one year, and short-term assets are used for less than one year.

Fixed assets are then divided into several types:

- a) Long-term intangible assets include patents, licenses, software and so on. Their purchase price is in the Czech Republic usually set to more than 60 000 CZK.
- b) Long-term tangible assets include land, buildings, equipment, machinery and other tangible assets, that the estimated useful time exceeds one year, and the purchase price is more than 40 000 CZK. Fixed tangible assets are use for the operations and not for the sale to customers and its value depreciate over the years of usage, so it loses its value.
- c) Long-term financial assets include securities and bonds, that are purchase for long-term investment and its estimated time of possession is more than one year. (Štohl, 2008)

Current assets changes in different form during the production activity and they are consumed at once. These assets create a part of the assets that are quickly convertible to cash, they are very liquid. To ensure the production, it is needed to keep them at a constant height.

- a) Short-term financial assets are cash and bank accounts. It is also valuables such as postal stamps, duty stamps and meal tickets and also securities which estimated time of possession is less than one year.
- b) Inventories include material, merchandise, products and work in progress.
- c) Receivables are claims which are held against customers, employers and other. So the entity acts as a creditor. A typical example is an issued invoice that has not been paid yet. (Štohl, 2008)

#### **3.3.1.2.2 Equity**

*“Owner's equity is sometimes referred to as the book value of the company, because owner's equity is equal to the reported asset amounts minus the reported liability amounts.” (Averkamp, 2017)*

Equity is the capital that belongs to the owner (owners, proprietors, and partners). It is the main carrier of the business risk. Its share in the total assets is an indicator of

financial security of a company or an organization. Equity is not a constant quantity, but it varies according to the profit of the certain period. If the company achieves profit, the equity grows. If the company is loss-making, equity decreases.

Equity is divided into several parts:

- a) Registered capital (Share capital) consists of financial and non-financial contributions of the shareholders in the company.
- b) Funds from profit are funds created internally from profit. It includes reserve fund and other funds (there are created based on the Articles of Association).
- c) Profit or loss from previous year which indicates what the company benefited from invested capital. (Grünwald and Holečková, 2006)

### **3.3.1.2.3 Liabilities**

*“Liabilities are the claims of creditors against the assets of the business – in other words, debts owned by the business.”* (Spurga, 2004)

- a) Short-term liabilities are expected to be paid in a short time period. This can be for example payables to suppliers of goods and services so the entity acts as a debtor, short-term bank loans, or other payables such as payables to financial institutions.
- b) Long-term liabilities are intended to finance assets with a long useful life (for example the acquisition of equipment or expanding a business). These include long-term loans and issued bonds. (Spurga, 2004)

### **3.3.2 Income statement**

Income statement, also called Profit or Loss account provides information about expenses and revenues; it means that its task is to inform the entity about the financial performance of the company. Income statement includes expenses on the left side, and revenues on the right side. (Kennon, 2016)

Profit and loss account is compiled according to so called accrual basis, which means that transactions are recorded and reported in the time of the concern of the revenue or expense and not according to the time, when the cash was paid. In other words, revenues and expenses are recognized in the period in which they were implemented. (Grünwald and Holečková, 2006)

#### **3.3.2.1 Expenses**

Consumption of factors of production incurred for the purpose of production expressed in financial units is called expenses. Expenses are a measure of consumption, depreciation of entity's assets and personnel work in order to produce and sell services and goods. It is measured as a cost of goods sold and cost of services sold to a customer.

#### **3.3.2.2 Revenues**

Revenue represents amounts of money, which the company acquired all of its activities for a certain period. They are measured as a sales of goods and sales of own products and services to a customer. (Grünwald and Holečková, 2006)

The opening balance of every expense and revenue accounts is 0. This is due to the requirement to determine the economic result for the accounting period. When the revenues exceed the expenses, there is a profit, on the contrary, when expenses exceed the revenues, there is a loss. (Štohl, 2008)

### **3.3.3 Cash flow**

Cash flow is defined as the actual cash flow of the company for a specific period in connection with its activities. There are a few facts, why it is important for the companies.

There is a timing difference between the economic costs and operations that produce their financial capture (rise in wage costs and the payment of wages). There is a difference between the movement of tangible assets and monetising (eg. buying on credit). There is a difference between costs and expenses and the revenues and incomes.

Analysis of cash flow can be determined by either the direct or the indirect method. Under the direct method company made the overall balance of revenues and expenditures and cash flow is calculated as the total difference. The indirect method is based on the profits and losses of the company, which is transformed into cash flow. It can be used only for cash flows from operating activities.

Cash flow is divided into three parts. The operational activities of the company cash flows are the difference between revenues and expenditures associated operating activities. In terms of investment activity expenses, these are the activities associated with the acquisition of fixed assets, income from sale, and loans which are not part of operating activities. Cash flows from financing activities primarily include additions and disposals of fixed capital and dividends received and paid. (Kislingerová and Hnilica, 2008)

## **3.4 Financial analysis methods**

Vertical and horizontal analysis works with the accounting statements, in which there are the major figures for the current year, last year and as many other accounting periods.

### **3.4.1 Horizontal analysis**

The horizontal analysis shows the operating and financial changes of the company over the time. It is shown in Czech crowns as well as in percentages. This method is usually used for the analysis of income statement and for balance sheet. There are two different approaches for the analysis of the financial statement from more than two years. In the first approach, the base is always the previous year. This is called “year-to-year” approach. This method can easily show the changes from year to year, but it does not indicate the changes over a longer time period. It is not possible to determine these changes, since the base year is always a different. For the analysis of the long-time changes, is better to use the second approach. The first, initial, year is always used as a base year. Therefore the results are always a comparison with the first year. Here, it is possible to compare the results and to get better view on the overall changes. (Nikolai, Bazley and Jones, 2010)

### **3.4.2 Vertical analysis**

Vertical analysis, unlike horizontal analysis, studies the structure of the financial statements in columns, not across years. It studies how large the share of individual items of the financial statements is. When the analysis is done for the balance sheet, it is based on the value of total assets; concerning the income statement it is based on the amount of sales or total revenues.

## **3.5 Ratio analysis**

Ratio analysis is the most widespread method of financial analysis. It gives a ratio and relationship between two or more items of the financial statements. This will give an idea about the company's financial situation in other context. It allows to get a picture of a



basic financial characteristics of the entity quickly and inexpensively. There are a lot of financial ratios, which are divided into the following groups:

- Liquidity ratios
- Profitability ratios
- Activity ratios
- Leverage ratios
- Market value ratios

### 3.5.1 Liquidity ratios

Liquidity ratios analyse and show the cash level of the certain company, and most importantly it analyses the ability of the company to turn the assets into cash to be able to pay off its liabilities and other obligations. These ratios are done using the data from balance sheet. It does not measure only the amount of cash, but it also measures how easy it would be for the firm to convert assets into cash.

The value of the indicators of liquidity in a particular company depends on several factors. The first is the strategy of the company. There is possible to distinguish aggressive strategy, under which a company chooses lower liquidity and a conservative strategy, within which the company maintains liquidity at a higher level. Furthermore, the values of liquidity ratios influence the external economic environment. The more turbulent the environment is, the more companies are cautious and maintain liquidity at a higher level. Amount of liquidity also significantly vary between the sector in which the company operates.

#### 3.5.1.1 Current ratio

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}} \quad (\text{Tracy, 2012})$$

Current ratio is the most used liquid ratio. It indicates how many times or how easily the company would be able to pay its short-term liabilities if all of the current assets were turned into cash.

### 3.5.1.2 Quick ratio (Acid test)

$$\text{Quick ratio} = \frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}} \quad (\text{Tracy, 2012})$$

Quick ratio, also called Acid test, also measures the ability of the company to pay off its current liabilities but the difference with the current ratio is that there are only quick assets. Quick assets are the assets that can be transferred into cash within 90 days. Inventories are deducted from the total current assets, because inventories are the least liquid assets.

### 3.5.1.3 Cash position ratio

$$\text{Cash position ratio} = \frac{\text{Short-term financial assets}}{\text{Current liabilities}} \quad (\text{Tracy, 2012})$$

This ratio shows the ability of the company to pay off its currently due obligations immediately. The numerator consist of only financial assets, such as cash, bank accounts, valuable and short-term securities.

## 3.5.2 Profitability ratios

Profitability ratios show the ability of the company to reach a profit from its invested capital. It is a form of expression of business profits. It can be characterized as a ratio of profits earned from business operations to different bases, such as the amount of equity, total assets, total costs and so on. (Holečková, 2008)

The numerator of profitability indicators may be substituted by the different forms of profit:

- Earnings after taxes (EAT) – also called net income
- Earnings before interest and taxes (EBT) – it is EAT increased by income tax on extraordinary activities and income tax on ordinary activities
- Earnings before interest and taxes (EBIT) – EBT increased by taxes

It always depends on a certain ratio, on a purpose of the analysis and on an entity.

### 3.5.2.1 Return on assets

$$\text{Return on assets} = \frac{\text{Profit}}{\text{Total assets}} \quad (\text{Tracy, 2012})$$

Return on assets ratio measures how efficiently and effectively the company manages its assets to gain profits during the year. In other words, it measures how profitable are the assets of the company. It is a percentage and the interpretation of this ratio is that every Czech crown that is invested in assets produce a certain percentage of net income. The higher the percentage is the better.

In this case the most comprehensive indicator of profit is EBIT. It is especially useful when the analysis is done for more years and it is compared and the tax is changing, or if there is a comparison of companies with different financing structure.

### 3.5.2.2 Return on equity

$$\text{Return on equity} = \frac{\text{Profit}}{\text{Total equity}} \quad (\text{Tracy, 2012})$$

This ratio shows how much of net profit is attributable to one crown of invested capital. Return on equity is a key indicator especially for shareholders, partners and other investors. It tells them whether their invested capital is used with an intensity corresponding to the size of their investment risk. In this case, it is usually used EAT. (Štohl, 2011)

### 3.5.2.3 Return on sales

$$\text{Return on sales} = \frac{\text{Profit}}{\text{Total sales}} \quad (\text{Tracy, 2012})$$

It is a ratio that indicates how many crowns of net profit is attributable to one crown of sales. This Indicator uses two variants of the construction of the numerator, it is possible to use either EBIT or EAT. It ranges from about 2% to 50%, and it should be over 10%. (Štohl, 2011)

### 3.5.3 Activity ratios

Activity ratio measures and reflects the efficiency of utilizing all of the assets of the certain entity. It brings out the relationship between sales and assets. These ratios can also be called Turnover ratios. (Gopal, 2008)

#### 3.5.3.1 Inventory turnover

$$\text{Inventory turnover} = \frac{\text{Sales}}{\text{Inventory}} \quad (\text{Tracy, 2012})$$

Inventory turnover indicates how long the stocks are tied up in the company, until their consumption or sale. It also serves as an indicator of liquidity. If the time of the cycle of inventory lowers over the time, the financial situation of the company is at good level. However, this is true only under certain conditions. Stock of material must be sufficiently large to ensure continuous production, and the company must have sufficient stocks of finished products to be able to meet the demand. Not enough of inventories may lead to decreased production and consequently decrease of sales. (Gopal, 2008)

#### 3.5.3.2 Fixed assets turnover

$$\text{Fixed assets turnover} = \frac{\text{Sales}}{\text{Net fixed assets}} \quad (\text{Tracy, 2012})$$

This ratio measures the efficiency of the long-term assets, fixed assets. It compares sales with fixed assets. It is important to mention that this ratio can vary according to the type of the certain business that is being analyzed. In the case of manufacturing company, which owns a lot of equipment the value of the fixed assets is higher than for example advertising agency. The manufacturing company and the advertising company might have the same value of sales, but the fixed assets turnover will be very different. (Marsh, 2013)

### 3.5.3.3 *Total assets turnover*

$$\textit{Total assets turnover} = \frac{\textit{Sales}}{\textit{Total assets}} \quad (\text{Tracy, 2012})$$

Total asset turnover indicates how many times the total assets turn over the year. It should be at least equal to one. In this case, the values of this ratio should be compared with the values of the same industry, because it can greatly differ across the industries. If the asset turnover of the company is lower than the industry average, the management should focus on increasing sales or in selling the inefficient use of assets. High values of these indicators show the fact that the company uses its assets efficiently. (Gopal, 2008)

### 3.5.4 *Leverage ratios*

Businesses usually use foreign capital to finance their own assets. If the company finances its activities only with its own resources, it could reduce the return on invested capital. Companies use foreign funds mainly because foreign capital is cheaper than own capital. The price of foreign capital is lower because interest on loans can be included in tax deductible expenses. This fact is called tax shield. Leverage ratio shows the rate of equity and debt in financing of the entity's assets. The increase in leverage may contribute to the growth of profitability, but it can also lead to increase of the risk of financial instability. (Kislíngerová, 2007)

#### 3.5.4.1 *Total debt ratio*

$$\textit{Total debt ratio} = \frac{\textit{Total debt}}{\textit{Total assets}} \quad (\text{Tracy, 2012})$$

This ratio represents and shows the amount of total assets that are financed and supported by the total liabilities. In other words, it is the comparison of total liabilities, with the total assets.

If the ratio is lower, that means that the company is able to pay off all of its debt, but it can also mean, that the company misses the probable opportunity to raise its profit.

On the other side, if the ratio is higher, it means that the certain company might have a problem with the ability to pay off all its liabilities. (Gopal, 2008)

### **3.5.5 Market value ratios**

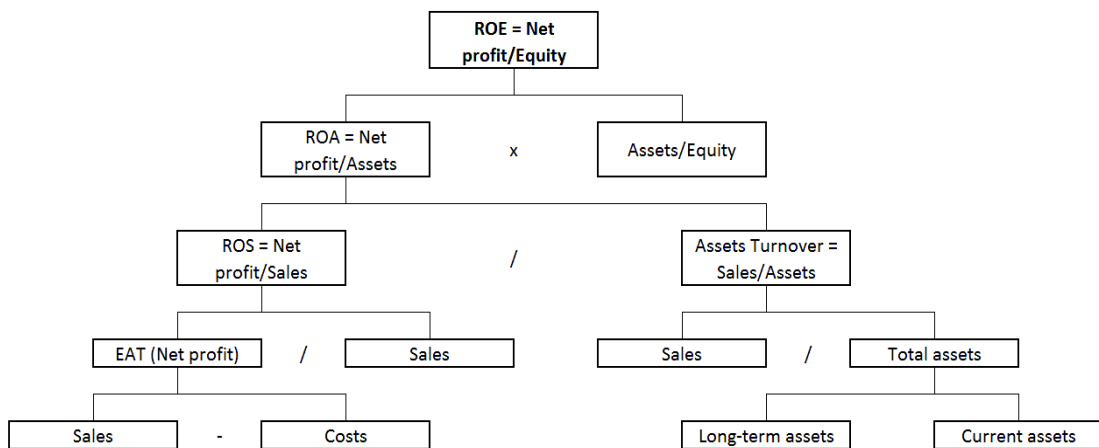
Market value ratios express evaluation of the company using the stock market indicators. It is important primarily for investors or potential investors. It can give them a view on a return on investment.

These financial ratios do not give unambiguous answers, but they help to ask the right questions. There are many questions that should be asked after calculating these ratios. Does the company use its assets effectively? The answer will be taken from ROA. Is the company able to pay its short-term obligation? The answer is in the liquidity ratio. How long does the company bond finances in its stock for? This will answer the activity ratio. And many other questions that will be asked and answered in the practical part of this thesis using the real data from the chosen company. (Růčková, 2015)

### 3.6 The pyramid of financial ratios

The two main aims of the pyramid of financial ratios is description of the interdependence of each ratios and analysis of complex internal ties within the framework of this pyramid. Any change in one of the ratio will have an effect on the whole system. This pyramid framework was firstly used in the chemical company called Du Pont de Nomeurs and it is still the most typical pyramid system. Du Pont breakdown is focused on the breakdown of return on equity and defining the individual items entering into this indicator.

Figure 2 Du Pont diagram



Source: Růčková, 2015

The essence of Du Pont diagram is a gradual and detailed decomposition of the indicator, which the most precisely describes the fundamental objective of the entity or the intention of the analysis. This indicator is then the top of the diagram. The figure 2 shows mutual connection between liquidity, financial structure and profitability of the company. It shows the share of profit margin, turnover of total assets and the use of debt to total return. This diagram facilitates the orientation in mutual relations of the indicators. The left side shows and works with the items of Profit and loss account, while the right side shows and works with the items of Balance sheet. (Sedláček, 2001)

### 3.7 Economy of construction industry

Construction industry is not only an important economic sector in most countries of the world, representing a complex area of human activity, but is also heavily involved in the creation of employment and the environment. Therefore, it is a sector, which daily affects each of us, particularly by its influence on the area in which we live. Development of the construction market has an effect on the current status of the economy, and vice versa, macroeconomic situation significantly influences developments in the construction sector.

The construction market has certain features that are custom to this sector and in such intensity do not appear in other sectors of the economy. It can be typically pointed out the high capital intensity of the industry, complexity of work contracts arranged between the parties, high organizational difficulty due to the large number of actors involved in the project, the time demands of construction, lower utilization of production capacity, diversity in procurement, a wide range of building types or necessity of authorization of suppliers etc. Construction production is also specific in regard of planning, management, monitoring and rationalization of the process. In all sectors of construction there are many steps of the projects that aim at improving efficiency and productivity, and identifying cost and margins. (Pleskač and Soukup, 2001)

Construction industry is an industry that is very dependent on the economy and its development. Investment construction is a reliable indicator of the growth of the national economy, but also when the economy drops it usually affects the construction first. The drop in investment construction is usually caused by an economy that is in danger, it starts to restrict the state investments in order to save resources for other purposes. (www.upnet.cz, 2017)



### **3.7.1 Factors influencing the development of the construction industry market**

There are many factors that influence the development of the market of construction industry, but these are the most important:

#### ***3.7.1.1 Conditions of the economy***

The conditions and the development of the national economy determine the investing activity on the construction industry market. Increase of the volume of constructions is one of the basic indicators of the revival of the national economy. This is why companies should not underestimate the prediction of the development of the economy, which can give them a view on the upcoming year, and they can prepare for it.

#### ***3.7.1.2 Technologies***

A successful acting on the construction industry market requires a high degree of innovations and use of the high technologies. Therefore, companies have to follow the newest trends and invest a lot of money to keep the pace of the development of the new technologies and be able to compete with other companies.

#### ***3.7.1.3 Demographic and social environment***

Demographic trends such as population distribution, age of population, migration and so on influences the development of the construction industry development. These demographic details determine the demand for constructions not only in the quantity way but it also determines the typology of the construction. It is important to do the analysis of the demographic trends mainly for the housing constructions and road constructions.

#### ***3.7.1.4 Policy and legislations***

In the construction industry, there are several rules that are given by the legislation. There are three categories of the rules that can be determined and that are connected with this industry. The first one is the basic conditions and rules of entrepreneurship, second one is the participation rules of the choice of the supplier and the last one is the requirements for technical standards and certifications.

### **3.7.1.5 Ecology**

Ecology is nowadays one of the most mentioned factors that can influence the development of the economy. It is important to ensure the protection of the environment. Moreover, the so called “green behaviour” can nowadays even give the company a certain competitive advantage. Some of the construction activities with the ecological character can get a financial support by state or the European Union. (Pleskač and Soukup, 2001)

### **3.7.2 Construction industry in the Czech Republic**

Construction industry belongs among the most important sectors of the Czech economy. It contributes to both GDP and on the employment rate. The support of this industry leads to the support of the whole domestic economy. Available studies show the multiplier effect of the construction industry on the employment rate. The coefficient is 3.2 to 3.5, which means that when there is an investment of 1 million CZK to do the construction industry it generates a need of 3.2 to 3.5 workers in the industry and in the other related industrial and non industrial activities. (Deloitte Czech Republic, Svaz podnikatelů ve stavebnictví v ČR, 2010)

The analyses showed that every 100 million CZK invested in the construction investment, it brings tax and other contributions to the public budget in the tens of millions. For example, in 2006, there were contributions to the state budget of 55.5 million CZK for every 100 million CZK invested in the construction investment. In 2012 it was already the contribution of 73 million CZK. This aspect is important in terms of finding the ways to overcome the economic crisis. The state can through public works contracts directly stimulate the domestic economy, because the construction industry does not depend on the import in any high way. (Deloitte Czech Republic, Svaz podnikatelů ve stavebnictví v ČR, 2010)

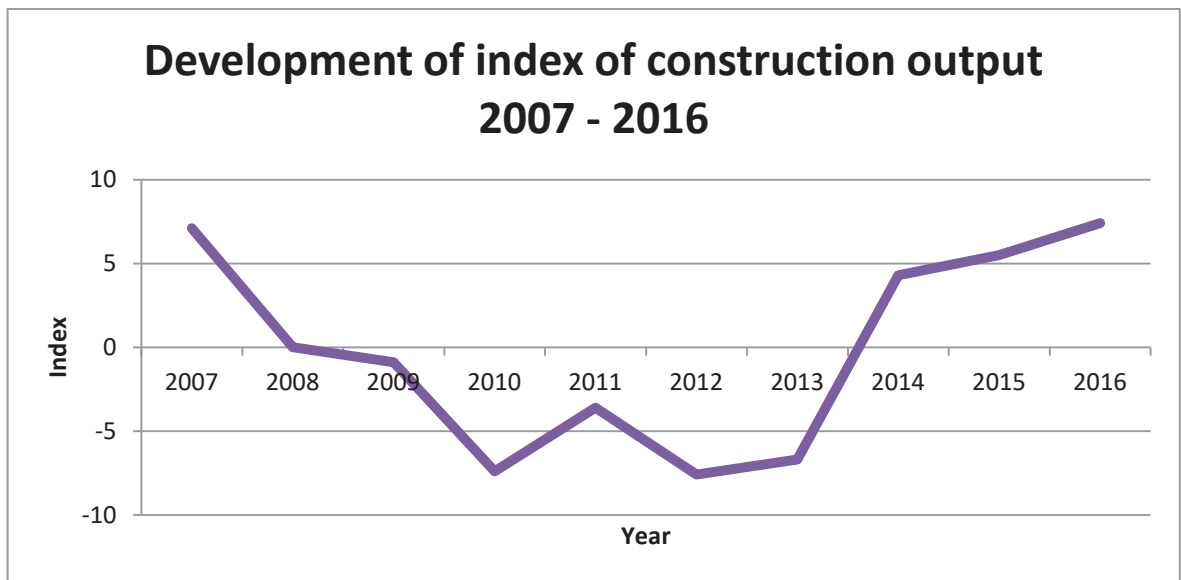
Maintaining a stable and constantly evolving construction industry brings a lot of positive effects for the Czech society. Following the criteria, it brings the development and modernization of transport infrastructure, such as system of highways, speedways and railways in the European network, and this brings an increase investments and therefore

the region's development. (Deloitte Czech Republic, Svaz podnikatelů ve stavebnictví v ČR, 2010)

Other positive effects may be, for example, implementation of energy saving buildings to reduce carbon emissions in the atmosphere and associated environmental improvements, construction of energy buildings in order to increase the energy independence of the Republic, protection against natural disasters and ensuring the construction, repair and refurbishment in order to meet the needs of increasing people's living standards. (Deloitte Czech Republic, Svaz podnikatelů ve stavebnictví v ČR, 2010)

In November last year 2016, the Czech construction industry has slowed the annual decline to 2.3 % from 8.5 % in October. The main reason for last year's decline in the Czech construction industry is the lack of public contracts for infrastructure construction. High comparative base from 2015 has also a big influence on the decline, because last year the Czech Republic could still use the rest of the money from EU. For this year 2017, there is mostly expected a slight growth in the sector. Since the beginning of last year to the end of November, Czech construction sector fell by 8.5 percent. (Ceskenoviny.cz, 2017)

Figure 3 Development of index of construction output



Source: Own processing according to the data from CZSO

Index of construction output is a basic indicator of the statistics of construction industry. The calculation is based on the development of constructions revaluated in the constant prices. The index is primarily calculated as a monthly base index. It is published for the whole population of enterprises with prevailing construction activity. (Czso.cz, 2017)

The index of construction output was decreasing since 2007. In 2007 it was 7.1 and in 2008 it was at the zero value. Since 2008 until 2013 the index was negative. In 2014 the index started to increase again and it was not negative anymore. In 2016, which is the last analysed year, the index was equal to 7.4.

## 4 PRACTICAL PART

### 4.1 Stavební firma HOBST, a.s.

For the financial analysis, there has been picked a Stavební firma HOBST, a.s. which is a construction company which has been founded in 1992. The company works exclusively on the territory of the Czech Republic. The author has a good access to some of the most important statements and data that are necessary for the analysis such as Balance sheets, income statements and data about some of the certain constructions.

#### 4.1.1 Basic information about the company Stavební firma HOBST, a.s.

##### Company logo:

Figure 4 Company logo



Source: [www.tvstav.cz](http://www.tvstav.cz)

**Name of the company:** Stavební firma HOBST a.s.

**TIN (Taxpayer identification number):** 48033251

**Address:** Splavná 1250, 198 00 Prague

**Legal form:** joint-stock company

**Date of origin:** 18<sup>th</sup> November 1992

**Scope of business:** bridge and reinforced concrete structures, engineering and water management constructions, concrete structures, static securing of buildings, cutting and drilling of reinforced concrete, steel constructions and locksmith work, building of houses, removal of buildings and other works

**Registered capital:** 22,000,000 CZK

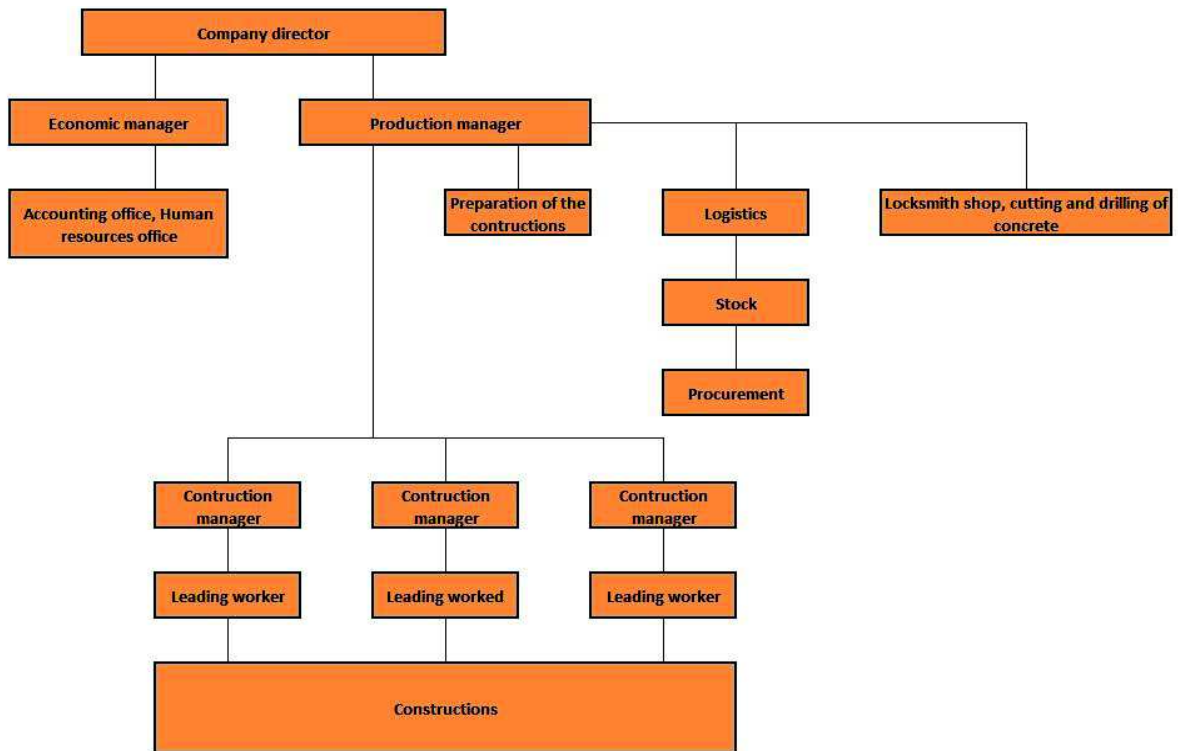
(Public Register and Collection of documents - Czech Ministry of Justice, 2017)

#### 4.1.2 History

Stavební firma HOBST, Inc. was founded in 1992. Its founders were Ing. Ota Hobst and his two sons Ing. Michal Hobst and Ing. Vladimír Hobst. Vladimír had many years of experience as a builder at a company Stavby mostů Praha. Limited Liability Company was registered in the Commercial Register at 18<sup>th</sup> November 1992, and it had only 3 employees. In 1994, Ing. Ota Hobst finished the activity at the company and he passed the shares of the company on to his sons. The company gradually expanded both in terms of number of employees and the volume of work performed. In 1999 the company bought a property in Zeleneč. There was built new facilities with offices, a locksmith shop and a dormitory for employees. Since 2004, the company has over 65 employees. (Stavební firma Hobst, 2017)

### 4.1.3 Organizational structure

Figure 5 Organizational structure



Source: Stavební firma HOBST, a.s.

An organizational structure in this company is changing over the time a lot. The number of employees is not stable due to the higher number of construction workers, that the company employ. At this point of the time, there are employed 21 construction workers. The rest of the construction workers is being hired through an agency. There is 11 office workers, which includes the company director, economic manager, payroll clerk, procurement manager, manager of logistics, head of flood management facilities and five construction managers. (K. Vančurová, personal interview, February 15<sup>th</sup> 2017)

#### 4.1.4 Accounting

Stavební firma HOBST a.s. uses a double entry accounting. The reporting period is the calendar year. The company has a duty to verify the accounts by auditor. According to the auditor, the financial statements for all the periods give a true and fair view of the economy of the entity. Stavební firma HOBST a.s. uses the method B for accounting of material. Material is usually transported directly to the individual building projects and subsequently it is put into the consumption at the actual acquisition costs. At the end of the financial year, there is carried out an inventorying of the non-used material at each building projects, which is then transferred to the warehouse at the acquisition costs. Depreciation of fixed assets of the company is always done using the straight-line depreciation. Since all the constructions are carried out in the Czech Republic, they do not charge anything in a foreign currency. (K. Vančurová, personal interview, February 15<sup>th</sup> 2017)



## 4.2 Analysis of Balance sheet

There is the most information about the company in the Balance sheet. This information can give the analysts the ability to get to know a great picture about three basic areas:

- a) Overview of the distribution of the assets at a certain company.
- b) Sources of financing that can highly affect the functioning of the company.
- c) Financial position of the company - relationship of current financial assets on the asset side profit or loss on the liabilities side. (Růčková, 2015)

### 4.2.1 Horizontal analysis of Balance sheet

The horizontal analysis of the company gives the answers to a question: What is the percentage change of particular item of the Balance sheet over the year?

**Table 1 Horizontal analysis of Balance sheet**

	<b>2012</b>	<b>Δ 2013</b>	<b>Δ 2014</b>	<b>Δ 2015</b>
<b>Long-term assets</b>	100.00%	21.96%	22.59%	47.21%
<b>Inventories</b>	100.00%	-11.31%	22.86%	-95.63%
<b>Short-term financial assets</b>	100.00%	-40.71%	73.15%	115.90%
<b>Receivables</b>	100.00%	7.32%	-8.24%	48.93%
<b>Own equity</b>	100.00%	-1.47%	-1.21%	0.76%
<b>Liabilities</b>	100.00%	-29.99%	139.28%	216.29%

Source: Own processing according to the data of the company

This analysis has been done, using the year 2012 as a base year. Subsequently the items of the balance sheets of the year 2013, 2014 and 2015 were compared with this base year. Long-term assets have been increasing over the years. According to the balance sheet, it is possible to say, that it is because of the purchase of the new buildings in the year 2013 then purchase of the new equipment in the year 2014. The biggest increase of the long-term assets was in the year 2015. In this year, there has been a huge increase of the equipment. In the comparison with year 2012, the increase was 47%, in terms of Czech crowns, it was over 10 mil. CZK. Since in 2015 the company had much more contracts, it is clear that they had to purchase a new equipment to be able to fulfil all the contracts.

In case of inventories, it is clear that there is a huge drop in the year 2015. Over the four analysed years, there are only three items in the inventories, material in store, work-in-progress and merchandise in store. The biggest part of the inventories over all amount is work-in-progress. For example, in the base year 2012 work-in-progress was in a value of 6,270,664 CZK. On the contrary, work-in-progress in 2015 was only 155,099 CZK. Since this value is to the end of the year, this huge difference is due to the non-finished construction, and it implies to unbilled work and material for this construction.

Short-term financial assets have been fluctuation over these four past years. In the year 2013 it has dropped nearly by half of its amount. In this case, the biggest differences are caused by the money on the bank accounts. In 2014, the amount of the short-term financial assets increased by more than 100 % in terms of 2013 and by more than 70 % in comparison with the base year 2012. Again, the difference is mainly caused by the amount of money on the bank account. In the year 2014, the company really became a successful, and they got a lot of new contracts. In the year 2015, the increase has continued. The amount on the bank accounts at the end of 2015 was 39 million CZK. In the year 2012, it was only 18 million CZK.

The biggest item of the receivable is receivable by customers. This is also linked to the increase of the contractions over the years, mainly in the year 2015. Change of the receivables in 2015 in comparison with 2012 was almost 50 % which equals to 20 million CZK.

Own equity is not very changing over the years. The registered capital is every year 22 million CZK. The only little change is caused by the retained earnings from previous years. In 2012, there has been a loss, so the retained earnings decreased. Since then, there was always profit, and that is way retained earnings are increasing.

Liabilities in the year 2013 have decreased in comparison to the year 2012 and that is caused by a decrease of the contractions in the year 2013, so the payables to suppliers also decreased. This can look like it is a good thing that the liabilities are low, but it is very closely connected with the receivables. Since this company does not have many of bank loans, the difference is really mainly caused by the payables to suppliers, and where there

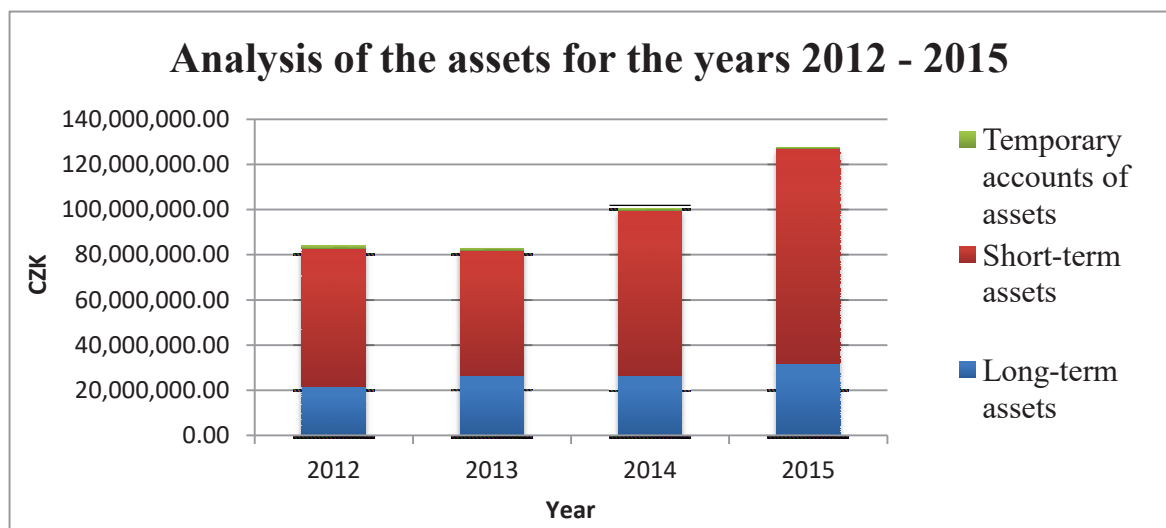
is a lot of payables to suppliers, there usually is even more receivables to customers, so over all it is a good thing.

#### 4.2.2 Vertical analysis of Balance sheet

In the process of vertical analysis of balance sheet, there will be tracked the percentage share of individual items at a balance sheet of one year.

##### 4.2.2.1 Analysis of assets

Figure 6 Analysis of the assets



Source: Own processing according to the data of the company

The company uses more short-term assets, then long-term assets. According to the balance sheets, only items of the long-time assets are software, which is already fully depreciated, buildings, which have the biggest part of these asset, equipment and land. Equipment is in the amount of 17 million CZK, because as a construction company, they have to own several machines that they can use at the constructions. Short-term assets are definitely the bigger part of their assets, and that is mainly because of the amount of money at their bank accounts and receivables by customers. There is more than 55 million CZK at the account Customers.

**Table 2 Percentage share of assets**

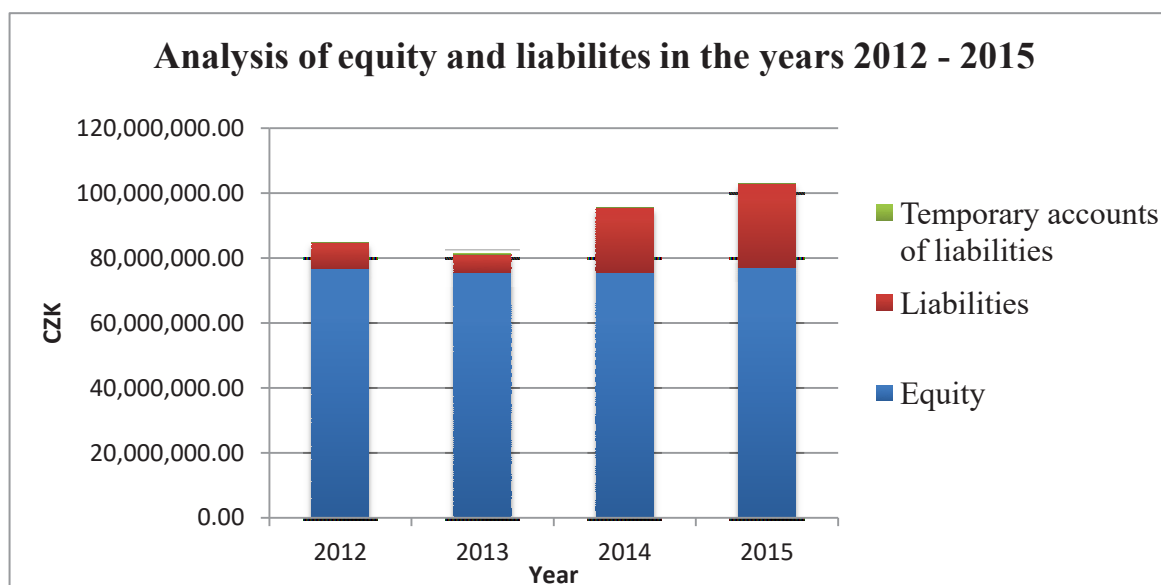
<b>Assets</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Long-term assets	25.75%	31.75%	26.37%	24.94%
Short-term assets	72.93%	67.11%	73.00%	74.81%
Temporary accounts of assets	1.32%	1.14%	0.63%	0.26%

Source: Own processing according to the data of the company

The vertical analysis of the company's assets shows the structure of the company's distribution of the assets. According to the Graph 1, it is possible to say that the company had over the four analyzed years always more of the short-term assets, than long-term assets. In the year 2013 the share of the long-term assets had increased mostly due to the purchase of new buildings and land and at the same time, there was a decrease of the money on the bank accounts. Year 2015 has brought a purchase of new equipment needed for the operation of the company, which means that, there has been a big increase of the long-term assets. However, this year has been very successful for this company, so there has been also a huge increase of the short-term assets, mostly in case of receivables from the customers.

#### 4.2.2.2 Analysis of equity + liabilities

Figure 7 Analysis of equity and liabilities



Source: Own processing according to the data of the company

Table 3 Percentage share of equity and liabilities

Equity + Liabilities	2012	2013	2014	2015
Equity	90.14%	92.79%	79.06%	74.88%
Liabilities	9.69%	6.96%	20.82%	25.06%
Temporary accounts of liabilities	0.17%	0.25%	0.12%	0.06%

Source: Own processing according to the data of the company

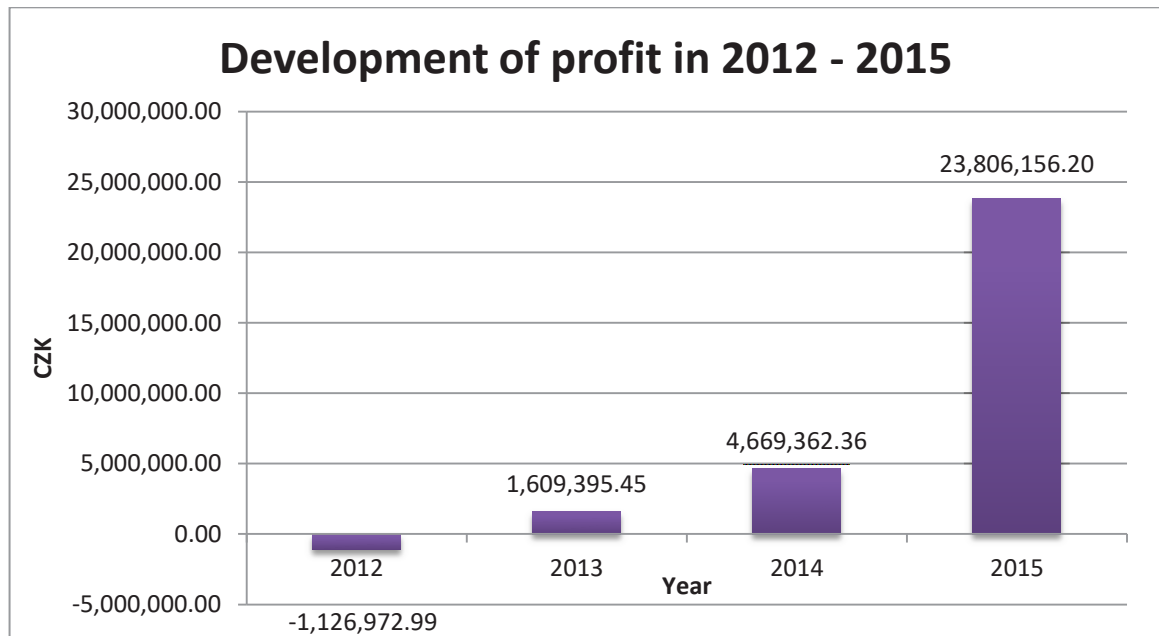
In terms of the vertical analysis of equity and liabilities, it is possible to say that the company corresponding tendencies to use their own resources of financing. The share of own equity is decreasing over years, but the amount of the own equity is over years almost the same. This is caused by the increase of the liabilities, mostly increased of the obligations towards suppliers. The increase of the liabilities is linked to the increase of the orders that the company got in the year 2015.

### 4.3 Analysis of Profit and Loss account

It is important to analyse not only Balance sheet, but also Profit and loss account. During the analysis of Profit and loss account, it is possible to find the answer to a question, how does the certain item of the account influence the net income. The information from the Profit and Loss account is important for the assessment of the company's profitability. (Růčková, 2015)

#### 4.3.1 Development of profit/loss

Figure 8 Development of profit



Source: Own processing according to the data of the company

From the graph above, it is clear that the company was over the last years recovering from the financial crisis that started in the year 2008. In the year 2012, they did not achieve the profit and their loss for the year was 1,126,972.99 CZK. This loss is due to low amount of contracts and low amount of work. In the next years, there has already been achieved the profit and it is increasing over the three years. In the year 2013 the company recovered from the economic crisis and they achieved the profit of 1,609,395.45 CZK. The next year 2014 was even more successful for the company and the profit reached almost 5 million CZK. In the year 2015 there was a huge increase of the profit. The company got a big

contract which included the renovation of Czech railways, specifically the bridges and underpasses on the railroads. The profit of this year was 23,809,156.20 CZK.

### 4.3.2 Analysis of expenses

Table 4 Analysis of expenses

	<b>2012</b>	<b>Δ 2013</b>	<b>Δ 2014</b>	<b>Δ 2015</b>
<b>Purchases consumed</b>	100.00%	14.82%	7.10%	44.57%
<b>Services</b>	100.00%	4.57%	33.92%	195.18%
<b>Personal expenses</b>	100.00%	4.34%	-3.25%	7.97%
<b>Taxes and charges</b>	100.00%	46.26%	241.30%	211.56%
<b>Sundry operating expenses</b>	100.00%	-26.82%	-1.91%	185.18%
<b>Depreciation</b>	100.00%	55.48%	93.98%	106.97%
<b>Financial expenses</b>	100.00%	0.32%	3.23%	29.06%

Source: Own processing according to the data of the company

The analysis of expenses was done using the year 2012 as a base year. The other years, such as 2013, 2014 and 2015 were subsequently compared with this year. In the table above, there are the differences between the year 2012 and the other years. The item “purchases consumed” includes the material consumed, energy consumption and in the year 2015 also merchandise sold, but the highest item is always the material consumed. There was almost always an increase in the consumed material, only in the year 2014 there was a decrease in the comparison with the previous year, but still an increase in the comparison with the year 2012. Of course, to produce more, and to achieve higher profit, it is also necessary to have higher expenses.

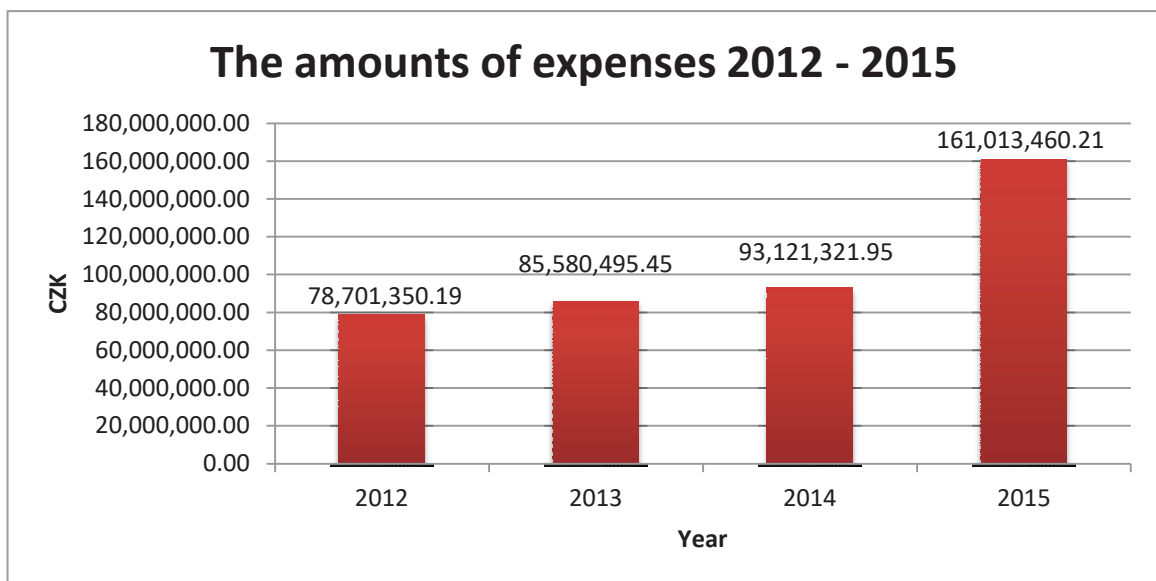
The next item “Services” includes accounts Repair and maintenance, Travel expenses, Representation expenses and other services. It is similar case as in the first item, these expenses are also increasing, due to more work and more construction, that were done in the year 2015.

Personal expenses, which are mainly the wages of employees, are more or less similar in every year. It only depends on the number of construction workers that the company employs in the certain year.

Sundry operating expenses includes gifts, fines, penalties, shortages, damages and other operating expenses. There is not any huge difference in the first three years. Only in the last year, there is a big increase. This increase is due to the sale of the fixed assets. The amount of net book value of fixed assets sold was 3,900,000 CZK in this year.

Depreciation is almost equally increasing every year. This is due to the straight line depreciation that is used by the company. In the other financial expenses, which includes for example interest expenses is not any huge and substantive change that should be mentioned in this analysis.

Figure 9 The amounts of expenses



Source: Own processing according to the data of the company

As it is clearly to see in the graph above, in the year 2012, when the company achieved loss, the amount of expenses was the lowest. In the next years, 2013 and 2014, when the company achieved comparable profit, the expenses were very similar. Lastly, in the year 2015, the expenses were notably higher. In this year, the company also achieved the highest profit. This means that higher income is naturally connected with higher



expenses. Higher expenses lead to higher revenues and that lead to higher income. It is just important for the companies to find the best proportions of these amounts.

### 4.3.3 Analysis of revenues

Table 5 The analysis of revenues

	2012	Δ 2013	Δ 2014	Δ 2015
<b>Revenues from own outputs</b>	100.00%	16.48%	25.14%	150.71%
<b>Changes in inventories</b>	100.00%	-179.33%	65.01%	-282.29%
<b>Sundry operating revenues</b>	100.00%	-41.72%	186.64%	675.36%
<b>Financial revenues</b>	100.00%	-27.62%	-52.39%	-76.77%

Source: Own processing according to the data of the company

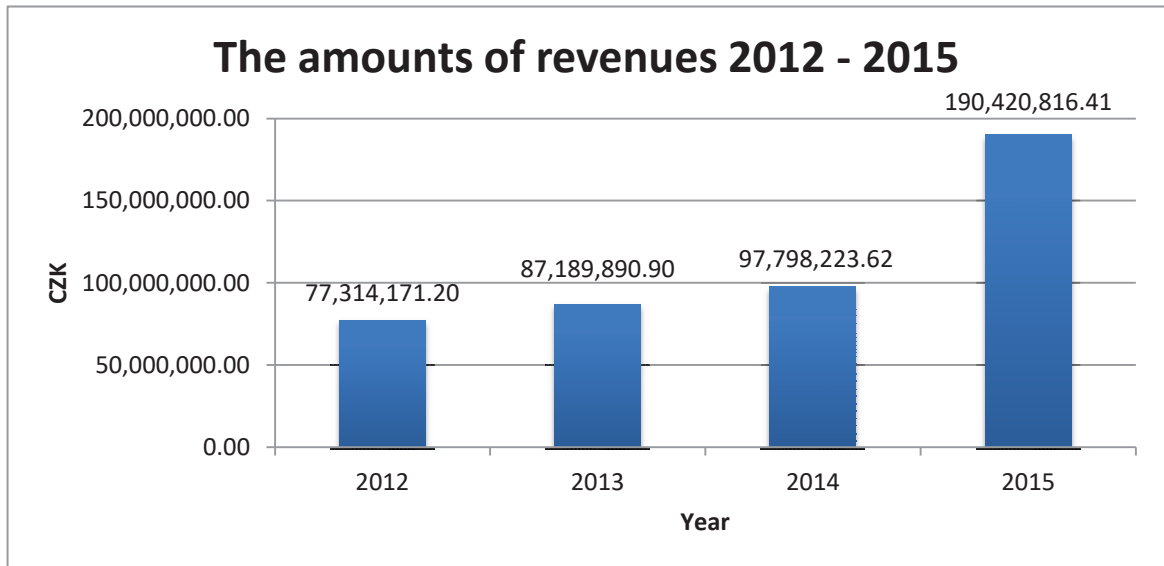
The analysis of the revenues was also done using the year 2012 as a base year. The next three years were then compared with this base year. In the table above, there are illustrated the differences between the base year 2012 and the next years 2013, 2014 and 2015. The first item of this analysis “revenues form own outputs” includes revenues from own products, revenues from services and in the year 2015 also revenues from merchandise. This item is equally increasing according to the profit that was achieved in the certain years. The highest revenues of own products were then in the year 2015.

On the contrary, the item “changes in own inventory”, which includes mostly the changes in work-in-progress, is not very stable. There was a big drop in the year 2013, then a little increase in the year 2014 and the biggest drop in the year 2015. In the years 2013 and 2015, the amount on the account Changes in work-in-progress was even negative. This account is used for the work that was done in the certain year, but it was not invoiced to the customer yet. This means, that because of the high work-in-progress in the years 2012 and 2014 that has been finished in the years 2013 and 2015 the work-in-progress had to be cancelled and the revenues were then moved to the account revenues from own products.

Concerning the item “sundry operating revenues” it is similar as the expenses. The big increase of these revenues in 2015 is due to the sale of the fixed assets which reached

almost 4 million CZK. Financial revenues include only interest rate. This value is decreasing over the analysed years.

Figure 10 The amounts of revenues



Source: Own processing according to the data of the company

The total revenues in the analysed years are constantly increasing. This is again connected tightly with the achieved profit at the end of the financial year. In the year 2012, the revenues were the lowest and at this year the company did not even achieved the profit. In the next years, there was a profit, but again, the revenues correspond with the amount of the profit. In the year 2015, the profit was the highest out of the analysed years, and the revenues were also the highest. Of course, without the revenues, it is not possible to achieve profit.

## 4.4 Ratio analysis and comparison with the industry averages

### 4.4.1 Liquidity ratios

Liquidity ratios show the ability of the company to pay off its short-term liabilities, because one of the key factors for a successful business is the solvency. In the perfect case, the ratios should not be too low, but even not too high. In the case of higher ratios than the average, it is important to know that excessive liquidity can reduce profitability, because the financial resources are not deposited in a more profitable form.

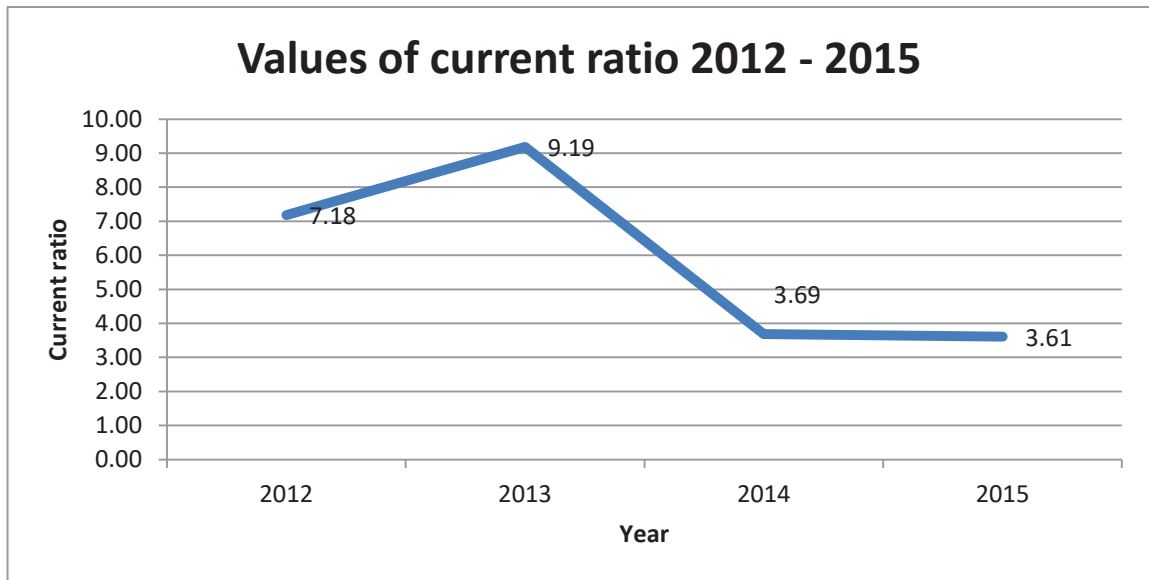
Table 6 Liquidity ratios

	2012	2013	2014	2015
<b>Current ratio</b>	7.18	9.19	3.69	3.61
<b>Quick ratio</b>	6.44	8.32	3.30	3.60
<b>Cash position ratio</b>	2.10	1.75	1.57	1.48

Source: Own processing according to the data of the company

As it is shown in the table above, the liquidity ratios were very high in the year 2012 and 2013 and they are decreasing and a little bit fluctuating over the next years. According to bizstats.com the industry average for the current ratio is 2.43 and for the quick ratio it is 2.25. So, it is possible to say that the construction industry average of the liquidity ratios is higher than the rest of the industries. (Bizstats.com, 2017)

Figure 11 Values of current ratio

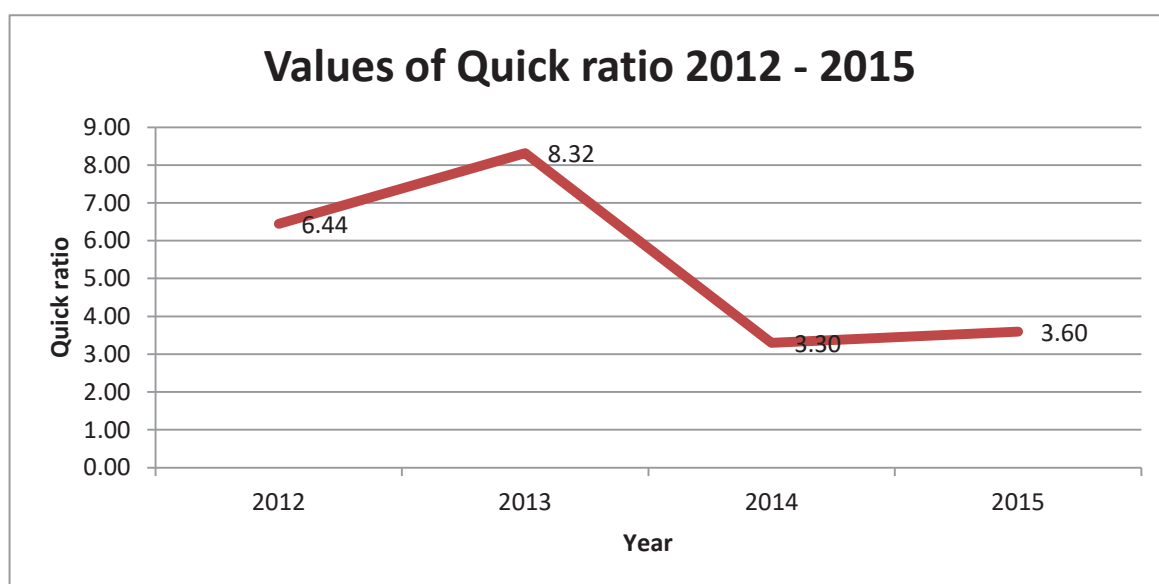


Source: Own processing according to the data of the company

First liquidity ratio that has been counted is Current ratio. In the current ratio, there is compared a total current assets with a total current liabilities. It is important for the companies that current ratio is not below 1, when it gets below 1 it can indicate some liquidity problems, and the certain company might not be able to pay off all its current liabilities. In this case, with the company Stavební firma HOBST, a.s., there is a current ratio in 2012 in the value of 7.18. This is very high number. It can tell the company that they have too much working capital tied up in inventories or debtors. In the year 2012 there is very high number of work-in-progress specifically it is more than 6 million CZK, then they have almost 18 million CZK at bank accounts and 36 million CZK are their receivables by customers. On the side of liabilities, the highest item is suppliers in the value of 17 million CZK. These values can help to recognize the problem. The company has too much of a cash at the bank account in the comparison with the low value of payables. They should invest some of the money. In the year 2013 the current ratio has even increased to the value of 9.19. The differences with the previous year are mainly caused by an increase of the receivables to almost 41.5 million CZK and simultaneously decrease in the payables. This means, that they have too much of a working capital tied up by debtors. They could invest this money, but they are not available right now. In the year 2014, there was a huge drop of the Current ratio, and now it is at a good level. When the ratio is between 1 and 3 or 3.5 it is an acceptable liquidity and it means that there is an

efficient management of working capital. The difference in comparison with the rest of the years is mostly due to the huge increase of the payables. The suppliers account now has a value of more than 16 million CZK, which means that there is more constructions done. There is also a decrease of receivable and increase of the cash at the bank accounts. In the year 2015 the ratio has even more dropped, which in this case is a good thing. The drop is caused by the decrease of the value of the account work-in-progress.

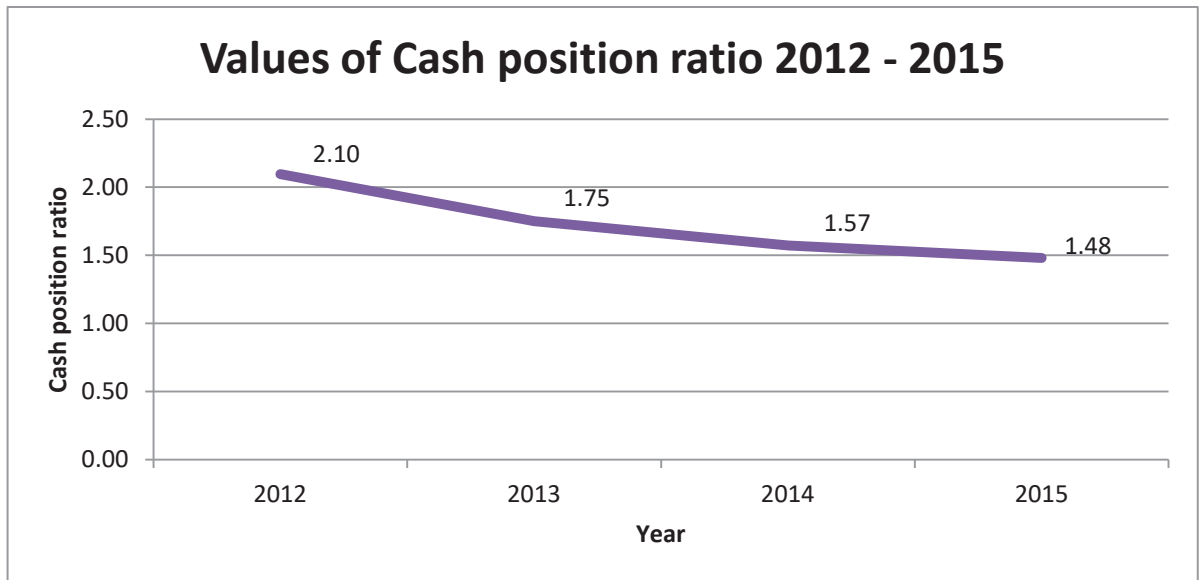
Figure 12 Values of Quick ratio



Source: Own processing according to the data of the company

Quick ratio is a value that compares the current assets minus inventory with the current liabilities. There is not very big difference with the current ratio since this company does not have a big value in inventories. The value of quick ratio in 2012 was 6.44 which is very high, but in the year 2013 it is even higher. This is again caused by the high value of receivables and low value of payables. In the year 2014, the quick ratio has dropped a lot to a value of 3.30 and in the year it has increased a little bit to the value of 3.60. This little increase is different in the comparison with the current ratio. It is because in the quick ratio, there is not included the work-in-progress value. In the year 2015 there is a big amount in the account of customers, and that is what the increase caused.

Figure 13 Values of Cash position ratio



Source: Own processing according to the data of the company

Values of Cash position ratio are completely different from the previous liquidity ratios. Cash position ratio is a comparison of short-term financial assets and current liabilities. In the graph above, it is shown that the cash position ratio is decreasing over the time. The biggest value of the short-term assets is at the bank accounts. The value for 2012 was almost 18 million CZK, for 2013 it was 10.5 million CZK, for 2014 it was 31 million CZK and for 2015 it was 39 million CZK. All the values of Cash ratio throughout the four years are high. Cash ratio should be somewhere between 1 – 1.3, so only in the last year 2015 it was almost in the acceptable value.

To conclude the liquidity ratio, it is possible to say that there is not any warnings about low liquidity of the company, there are only some possible improvement in the management of working capital which can lead to a higher profitability of the company.

#### 4.4.2 Profitability ratios

Profitability ratios measure the ability of the company to make a profit with the use of the invested capital. The main financial statement for these ratios is the Income statement.

Table 7 Profitability ratios

	2012	2013	2014	2015
<b>Return on assets</b>	-1.12%	1.94%	4.65%	22.96%
<b>Return on equity</b>	-1.47%	2.13%	6.17%	30.85%
<b>Return on sales</b>	-1.50%	1.84%	4.96%	12.63%

Source: Own processing according to the data of the company

For the computations of the profitability ratios, there were used the Net profits, also called Earnings after taxes (EAT). According to the bizstats.com the average of the construction industry for the ROA is 33.09%, for the ROE it is 64.02% and for the ROS, it is 6.49%.

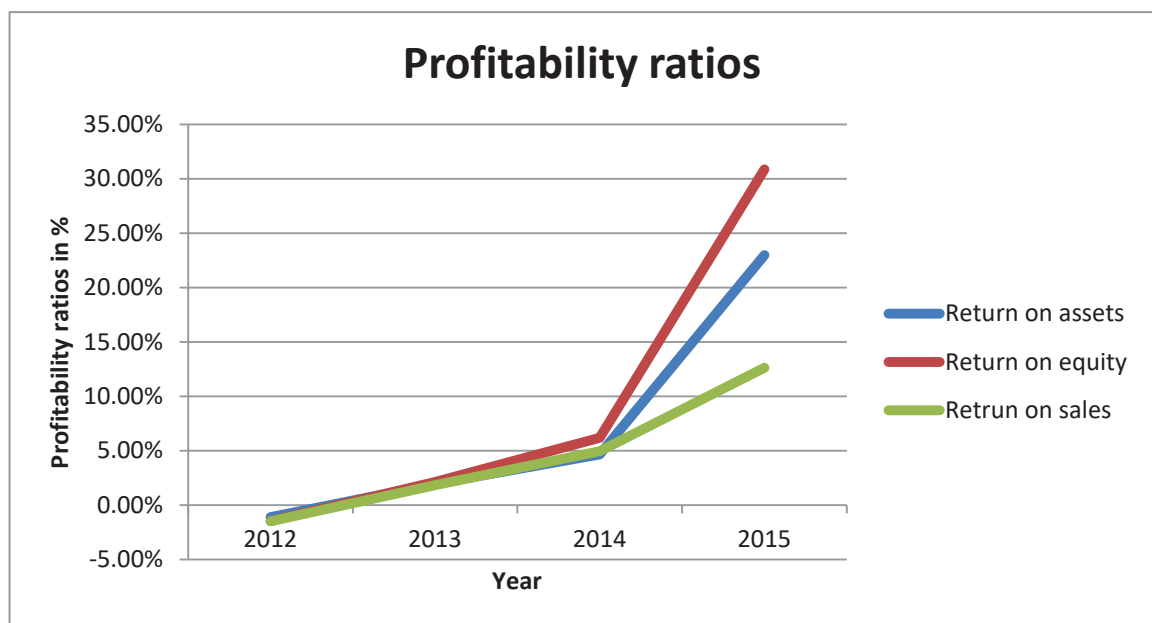
Return on Assets is a ratio that compares the net worth with all the assets, it does not recognize the source of what were the assets purchased from. In the year 2012, where there was a loss, the number is negative. In the year 2013 there was already a profit, and the value of return on assets is 1.94%. This is still quite low number, but it is clearly seen that the company has achieved the profit. In the year 2014, when the profit increases in the comparison with the previous year, the return on assets increased 4.65%. In the year 2015, the profit was very high and the ROA was 22.96%. Since the industry average is 33%, this company has not reached the average in any of the analyzed years.

Return on equity compares the values of net profit and own equity. It measures the ability to make a profit out of the equity that the shareholders have put in the company. In the year 2012, it was again negative number. In the year 2013, the value of return on equity was 2.13% which is still low number, but at least they generated the profit. In the year 2014, the ratio was 6.17%, and in the year 2015, the value was 30.85. There was a huge

increase of this ratio in the year 2015 and that is due to the high profit that the company reached. Still, according to the statistics, the company has not reached the industry average. This might be due to the low register capital, which is in the value of 22,000,000 CZK.

Return on sales show the ability of the company to generate the profit out of the whole sales that they reached in the certain year. It evaluates the performance of the operating activities. In the year 2012, it is still negative and it is very high negative number according to the average values of this ratio. In the year 2013, the ratio was 1.84%. In the year 2014, the value was 4.96%, and it has already almost reached the industry average which is, according to the bizstats.com in the value of 6.49%. In the year 2015, return on sales increased up to 12.63 which is almost double the average.

Figure 14 Profitability ratios



Source: Own processing according to the data of the company

On the graph above, it is shown that all of the calculated profitability ratios very correspond with each other, and its values are very dependent on the value of profit/loss. According to the industry average, ROE should be the highest, ROA should be the second highest and ROS should be the lowest value. This is also true in this certain company.



### 4.4.3 Activity ratios

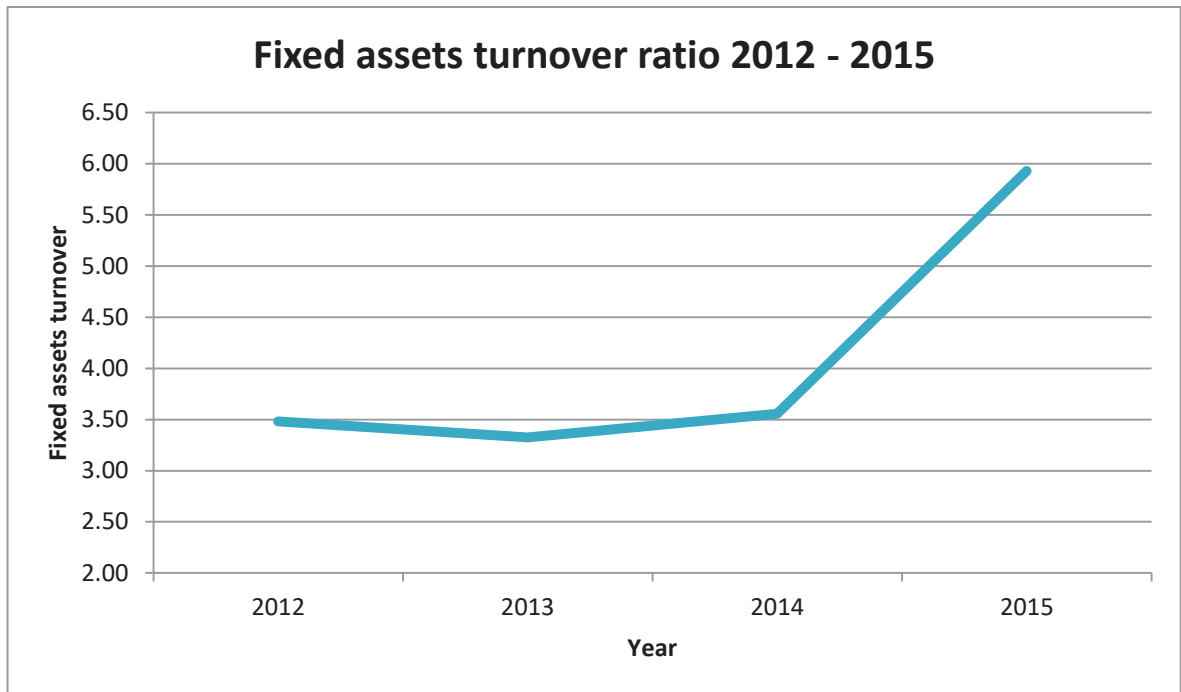
Table 8 Activity ratios

	2012	2013	2014	2015
<b>Inventory turnover</b>	11.81	16.31	12.03	676.80
<b>Fixed assets turnover</b>	3.48	3.33	3.56	5.93
<b>Total assets turnover</b>	0.90	1.06	0.94	1.48

Source: Own processing according to the data of the company

Inventory turnover shows how quickly can company use up its supply of goods and turn them into sales. It compares the Sales with the ending value of inventory. In this case, the inventory turnover can be little bit biased, since it is used more for the retail businesses. In the construction company it is very influenced by the value of work-in-progress in the end of the year. In 2012 the inventory turnover was 11.81, which means that the company sold out its inventory almost 12 times in this particular year. In the year 2013, the company was more efficient, because they sold out its inventory 16 times per the year. In 2014 it has dropped again and the ratio was 12.03. In the year 2015, this is where the work-in-progress totally changed the ratio. The company did not end up with any work-in-progress at the end of the 2015, and the inventory turnover is 676.8. This would mean that they sold out its inventory 676 times per the year, but the result is influenced by the finished work in 2015. According to bizstats.com, the industry average of inventory turnover is 454.24. So it is possible to say that the company got above the average only in the year when they did not have any work-in-progress, but it is not possible to really count on it.

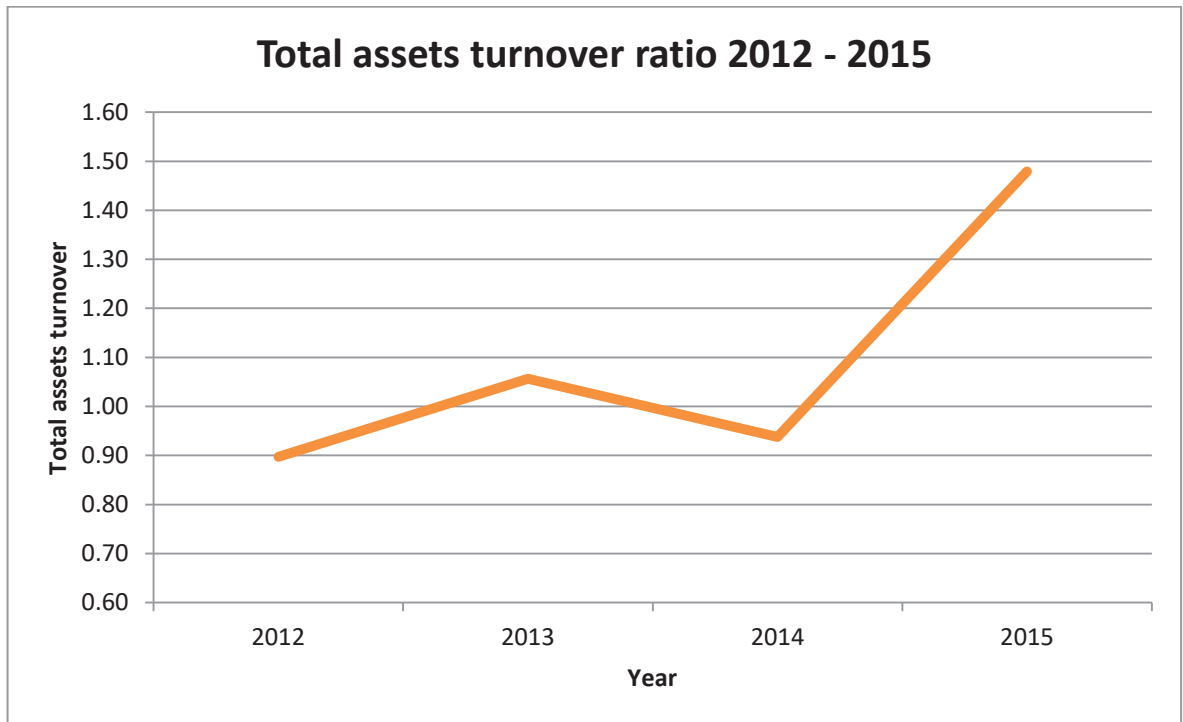
Figure 15 Fixed assets turnover ratio



Source: Own processing according to the data of the company

Fixed assets turnover ratio measures the ability of the company to turn its fixed assets into the revenues. It compares the value of sales with the value of fixed assets minus depreciation. In the year 2012, the fixed assets turnover ratio was 3.48 which mean that from every CZK in fixed assets the company made 3.48 CZK. In the year 2013 the ratio was 3.33, in the year 2014 it increased to 3.56, and in the year 2015, where there was the highest profit it is clear that there would be the highest fixed assets turnover ratio. It was 5.93. This means that from every CZK put in the fixed assets the company got 5.93 CZK.

Figure 16 Total assets turnover ratio



Source: Own processing according to the data of the company

The last activity ratio is Total assets ratio. This ratio compares the value of the sales with the value of total assets at the end of the year. According to bizstats.com, the average value of this ratio is 0.20. It is already possible to say, that the company is above average in every analysed year. Even in the year with the loss. This may be due to the fact, that they do not own a lot of fixed assets. They do not own a lot of huge equipment, and they prefer to borrow one, if they need to use it.

## 4.5 Du Pont decomposition of ROE

Du Pont diagram of decomposition of Return on equity shows the indicators that mostly influence ROE and it can reveal the areas that might have the highest potential to improve the profit. From the table below, it is clear, that any changes that appears in the data lead to a change of ROE.

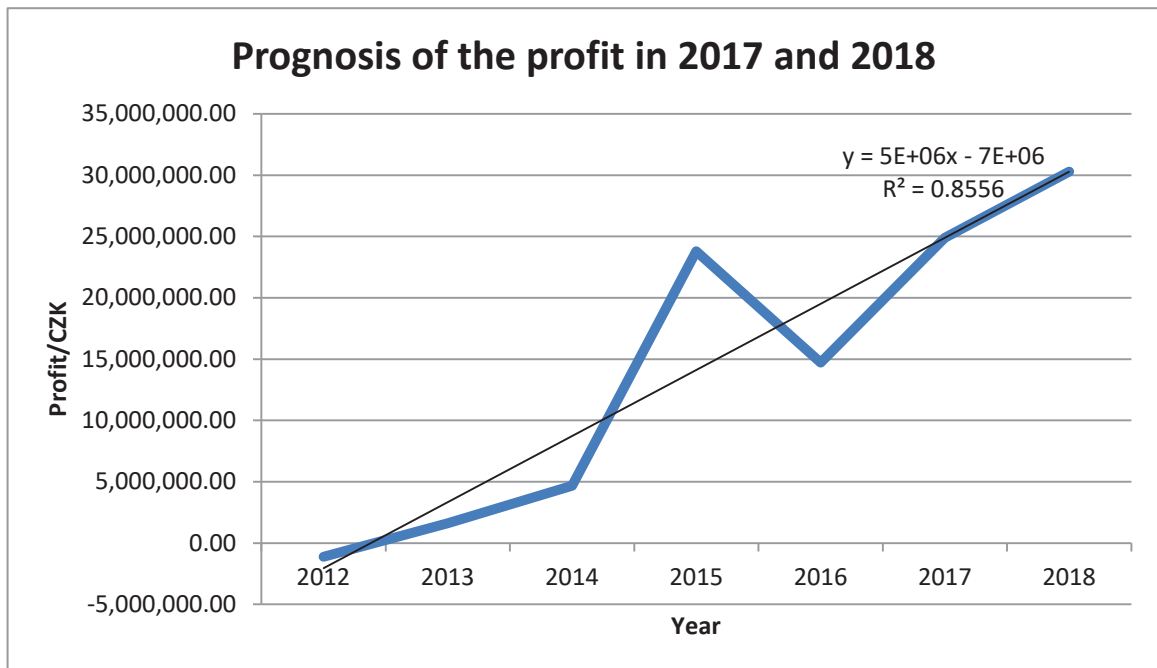
Table 9 Du Pont decomposition of ROE

	2012	2013	2014	2015
<b>ROE</b>	<b>-1.47%</b>	<b>2.13%</b>	<b>6.17%</b>	<b>30.85%</b>
ROA	-1.12%	1.94%	4.65%	22.96%
Assets/Equity	1,0989	1,1034	1,3266	1,6526
Total assets turnover	0.8970	1.0561	0.9376	1.4791
ROS	-1.50%	1.84%	4.96%	12.63%

Source: Own processing according to the data of the company

From the table above, it is possible to say that the highest influence on the ROE has Return on Sales. The fluctuation of the value of ROS almost exactly copies the fluctuation on the values of ROE. In 2012, the value of ROS was -1.5% and the value of ROE was -1.47%, then it increased in the year 2013. ROS increased to 1.84% and ROE increased to 2.13%. So there was an increase in both ratios, only the increase was smaller. In the year 2014, there was increase again in both of the ratios, and same was in the year 2015. There is always an increase in both ratios; only in ROS the increase is smaller. Return on assets also very influences ROE, because it also almost copies the values. The lowest influence out of these analysed ratios has the Total assets turnover, where there was a decrease in 2014 in Total assets turnover, but there was an increase in ROE.

## 4.6 Prognosis of profit



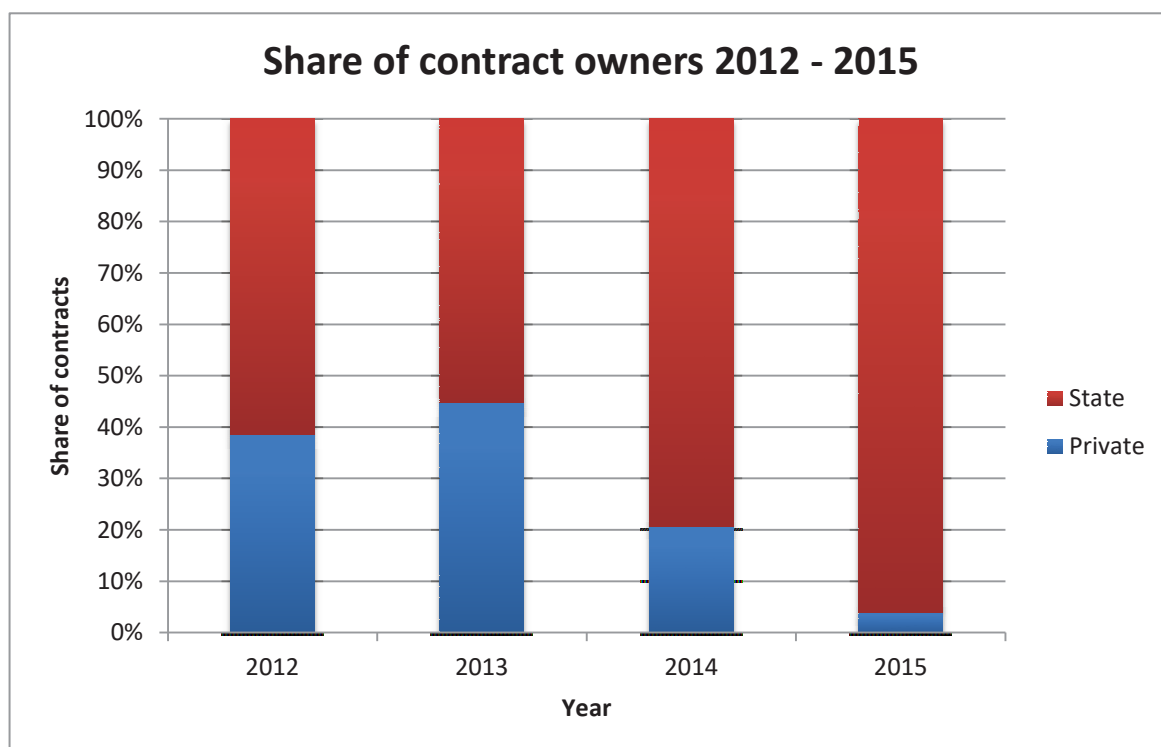
Source: Own processing according to the data of the company

According to the linear prognosis, which was done using Excel, it is possible to say that the profit in the next years will be increasing. The year 2016, the real profit was taken from the company's balance sheet and it was 14,715,111.41 CZK. Using the last five years 2012, 2013, 2014, 2015, 2016 and its real profits the prognosis for the next two years was as follows. In the year 2017 the profit will be in the amount of 24,898,889.35 CZK. This is similar amount as in the year 2015. The profit in the year 2015, was the highest out of the analysed years, it was in the amount of 23,806,156.20 CZK. If the company would achieve this profit in this year, it would be a huge success. In the year 2018, the prognosis of the profit is in the amount of 30,286,982.31 CZK. This seems as really high number, which is caused by the use of the linear prognosis in Excel. However, it is still possible for the company to achieve this profit.

#### 4.7 Analysis of the state and private constructions of the company

The company Stavební firma HOBST a.s., gets usually a lot of contracts from the state, but the share of the state and private contract owners differ throughout the years. In the following figure, it is shown, what was the share of contract owners in 2012 – 2015.

Figure 17 Share of contract owners



Source: Own processing according to the data of the company

According to the graph above, it is possible to say that the share of private (natural person or legal person other than state) contract owners is decreasing from 2013. This may be caused by the amount of money that state did invest in the infrastructure in those particular years. The following table shows, the amount that the state invest in the road transport, rail transport and inland waterways, which are exactly the types of construction that the company focuses on.

**Table 10 Amount of money invested in the infrastructure by state**

<b>(in mil. CZK)</b>				
<b>Type of infrastructure</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Rail transport	9 533,6	8 717,7	12 787,3	31 784,5
Road transport	20 487,6	16 539,2	11 818,7	19 926,0
Inland waterways	433,0	186,1	263,1	412,5
<b>Total</b>	<b>30 454,2</b>	<b>25 443,0</b>	<b>24 869,1</b>	<b>52 123,0</b>

Source: Own processing according to the data of Ministry of transportation

In the year 2015, the company's most of the constructions, about 95%, were ordered by the state. This corresponds with the highest amount of invested money into infrastructure by the ministry of transportation in this year. This means, that the company might be dependent on the state contracts. On the other hand, in the year 2012, the share of contract owner's was about 60% of state and 40% of private, but the amount of invested money into infrastructure by the state was the second highest from these four analysed years. In this year, the company focused more on the smaller and private constructions, in the comparison with the year 2015, where there was not that many of constructions but they were very big and predominantly ordered by state.

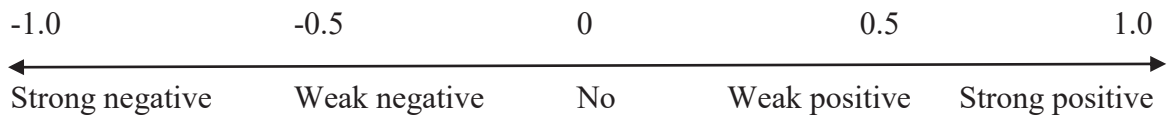
#### **4.8 Regression analysis**

Regression analysis is a statistical method that allows exploring the relationship between two variables - independent variable (X - called regresand) and dependent variable (Y - regressor). It helps to understand how to change the value of the dependent variable in response to changing one of the independent variables (while other independent variables remain constant). The final estimate is based on so-called. Regression function.

### 4.8.1 Regression statistics

**R (Correlation coefficient)** = Correlation coefficient determines the association between the variables. The range of R is always between 1 and -1.

Strength of the correlation:



**R<sup>2</sup> (Coefficient of determination)** = It is a percentage that explains the extent to which the independent variable explains the movement of the dependent variable. The value of R-square is between 0 to 1.

**Adjusted R-square** = Adjusted R-square shows the percentage of the explained variables, but it considers only the independent variables, which really affect the dependent variable. Adjusted R-square range is also between 0 to 1.

**Standard error** = Standard error shows the average distance between the real values and the regression line. In other words, it shows how wrong the model is on average. The smaller the value, the better since it means, that the real values are closer to the regression line. (Montgomery, Peck and Vining, 2012)

### 4.8.2 Hypothesis of the regression analysis

H<sub>1</sub>: There is a relationship between the revenues of the company from the state construction and amount of the investment of the state into infrastructure.

H<sub>0</sub>: There is no relationship between the revenues of the company from the state construction and amount of the investment of the state into infrastructure.



**Table 11 Input data**

	Revenues of the company from state construction	Investment of state into infrastructure
2012	35,199,870.35	30,454,200,000.00
2013	33,516,737.19	25,443,000,000.00
2014	70,287,484.17	24,869,100,000.00
2015	201,791,000.52	52,123,000,000.00

Source: Own processing according to the data of the company and data of Ministry of transportation

Table 11 shows the input data for the following regression analysis.

#### **4.8.3 Regression analysis of the state constructions of Stavební firma HOBST a.s.**

**Table 12 Regression statistics**

<b>Regression Statistics</b>	
R	0.935550762
R square	0.875255228
Adjusted R square	0.812882842
Standard Error	34,413,159.71
Total number of cases	4

Source: Own processing according to the data of the company

This regression was done, using the data of four analyzed years – 2012, 2013, 2014 and 2015. The dependent variable  $y$  is the total number of revenues for the whole years that were gained out of the constructions, where there was state as a contract owner. The independent variable  $x$  is the total amount of the investment of the state into infrastructure.

The correlation coefficient in this case is 0.93 which means there is a strong positive correlation between the dependent variable and independent variable. Coefficient of determination, also called R-square, is 0.875 which says that 87,5% of the variable y is explained by the variable x. The remaining 12.5% is called random error, which says that 12.5% of variable y is explained by some other variables.

The null hypothesis was accepted, which means that there is a statistically significant relationship between the revenues of the company from the state construction and amount of the investment of the state into infrastructure.

**Table 13 Regression analysis part 1**

	<b>Coeff.</b>	<b>Standard Error</b>	<b>t Stat</b>	<b>p-value</b>
Intercept	-107,260,486	54,181,630.07	-1.97964672	0.18630156
Investment of state into infrastructure	0.00579307	0.001546456	3.74602937	0.064449238

Source: Own processing according to the data of the company

**Table 14 Regression analysis part 2**

	<b>Lower 95%</b>	<b>Upper 95%</b>	<b>Lower 95,0%</b>	<b>Upper 95,0%</b>
Intercept	-340,385,224.9	125,864,252.1	-340,385,224.9	125,864,252.1
Investment of state into infrastructure	-0.000860794	0.012446934	-0.000860794	0.012446934

Source: Own processing according to the data of the company

P-value for the independent variable x is equal to 0.064 which means if the level of significance would equal to  $\alpha = 0.05$ , the variable is not statistically significant. The variable is statistically significant only for  $\alpha = 0.1$  level of significance.

Regression equation:

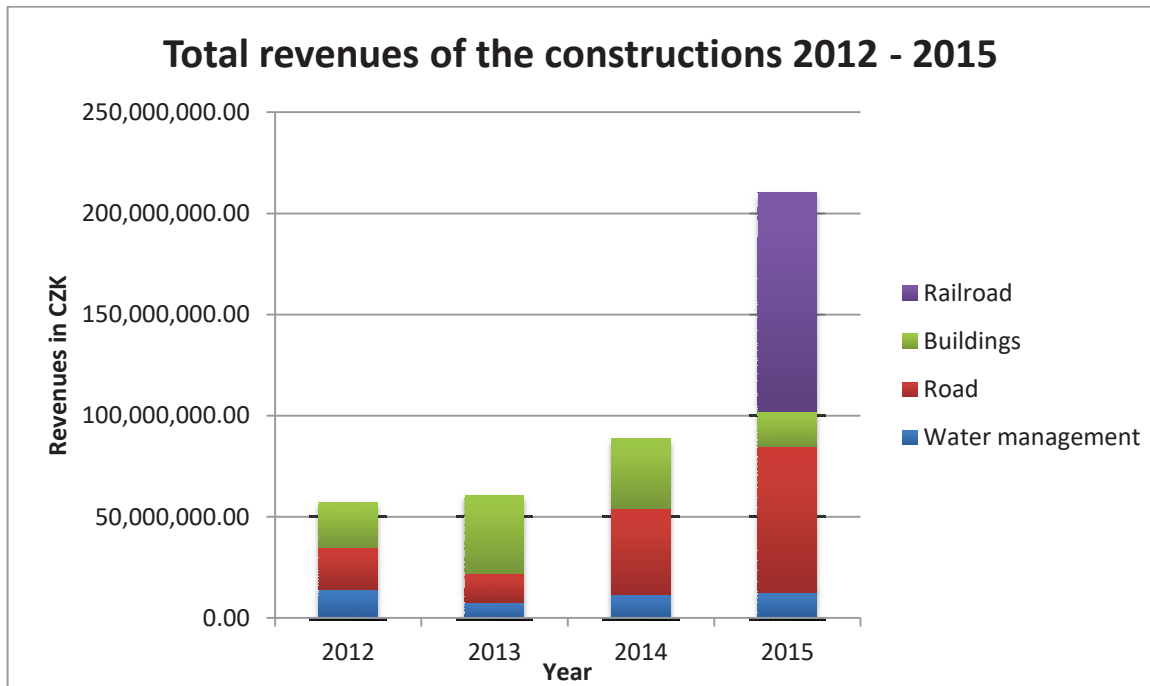
$$y = 0.0057x - 107,260,486 + \varepsilon$$

The regression equation says that if the investment of the state into the infrastructure increases by 1 CZK, then the revenue of the construction where there is a state as a contract owner increases by 0.0057 CZK. This might seem as a really low number, but it is important to realize, that the revenues from the constructions are usually around 1-5 million CZK. Also it is important to take into account that Stavební firma HOBST a.s. has only a small proportion of the total state constructions.

#### **4.9 Composition of the total revenues according to the type of the construction**

Stavební firma HOBST a.s. focuses mainly on the heavy civil constructions. The following graph shows the composition of the total construction in the years 2012 – 2015. There are compared the total revenues of those four years, and the revenues are divided into four categories of construction. The first one is Water management which mostly includes Wastewater treatment plant and water reservoirs. The second category is Road constructions, which mainly includes bridges, garages and dilation. The third category is Buildings constructions. These include mostly houses and halls. The last category is Railroad construction. This category only appears in the last year 2015, but it is very significant part of the revenues in this year. Railroad construction mainly includes underpasses and other repairs on the railroads.

Figure 18 Total revenues of the constructions according to the type of the construction



Source: Own processing according to the data of the company

In the 2012, the composition of the revenues according to the type of the construction was quite even. The biggest part of the revenues is made of the buildings construction. This corresponds with the fact, that in the year 2012 there was not lot of the constructions where there was a state as a contract owner. The buildings constructions are mainly ordered by the some legal entity or even by some natural entity. In the year 2013, there were even more of the building construction and it again corresponds with the low amount of state constructions. The share of the water management construction and road construction is very low. In the year 2014, there started to be more of the state constructions which mainly include the road construction. Therefore, road construction is the biggest part of the revenues in the year 2014. The last analyzed year 2015 was the most successful. From the graph above, it is possible to say that success is mainly because of the huge part of the railroad construction ordered by the state. Also, big part of the revenues is made of road constructions. On the other hand, the number of the constructions in the year 2015 was the lowest out of the analyzed years. Therefore, it is better to focus on the state construction that are usually much bigger and that usually lead to higher revenues.

## 5 CONCLUSION

The aim of this diploma thesis was to evaluate the financial stability of the selected company Stavební firma HOBST a.s. The sources of the financial data, which was used in this thesis for the main calculating, such as balance sheet and income statement, were obtained by the companies accounting manager together with the data of the construction of the years 2012 – 2015.

The theoretical part of this diploma thesis did explain the main terms related to the financial analysis, including the financial statements as sources of the data for the analysis. It explained the methods of the financial analysis such as, analysis of the absolute indicators followed by the ratio analysis. There were also briefly explained the situation on the construction market in the Czech Republic.

The main part of this thesis is however the practical part. In this part, there were applied the methods of the financial analysis that were discussed in the theoretical part to the real data of the chosen company. The two main financial statements, that were used, are balance sheet and income statement. The data were analysed across four financial years – 2012, 2013, 2014, 2015. From the first view on the financial statement, specifically on the profits of these four years, it was clear that the years will differ a lot. Because of the different financial situations of the company throughout the years, it is possible to identify the strengths and weaknesses of this company.

From the horizontal and vertical analysis of the balance sheet and income statement, there is easily seen that, the company does not have any huge problem. The long-term assets are slowly increasing over the years. There is a huge increase in the accounts of liabilities. There is also an increase of the receivables, which is caused by the increase of contracts. However, it should not be such high, and the management should maybe improve the strategy of receiving the money for the work. Big difference is also seen in the accounts of inventories; this difference is mainly made by the low amount of the work-in-progress at the end of 2015. The management should always try to finish all its work towards the end of the day. The profit of the company was during these four years always

increasing in the comparison with the previous year, which is of course the aim of the business.

Concerning the ratio analysis, in almost every ratio, the company is above average. The biggest difference between the value of the company and the industry average is in the liquidity ratios. They have too much of the current assets, in the comparison with the current liabilities. It is definitely not necessary to have such a liquid assets. This is one of the most important things that the management should improve. They should invest some of the money, so they might be making higher profit. As far as profitability ratio, the company is again almost always above average, but it is not such significant difference as at the liquidity ratios. For the higher profitability, they should focus on the return on assets, since it was the lowest value out of the rest of the profitability ratio. But it is important to mention that even the lowest ratio ROA is still above the industry average. Activity ratios are quite stable. The one unstable activity ratio is Inventory turnover. It is caused by the different amount of the work-in-progress at the ends of the years.

The next analysis is focusing more on the construction itself. There was done an analysis of all the constructions that has started in the four analysed years and that constructions which had higher revenues than 250 000 CZK. In this part of the thesis, there was analysed the composition of the type of the construction. There were four types of the constructions – Road transportation, Buildings, Water management construction and Railroad transportation. Out of this analysis it is possible to say, that the most profitable type of constructions are constructions at railroad transportation and road transportation. This goes along with the last analysis, which is regression analysis. It examines the relationship between the revenues of the company from the state constructions and amount of the investment of the state into infrastructure. With very high correlation coefficient it is possible to say, that there is very strong positive relationship between these two variables. As a conclusion of this analysis, it is possible to say that for the future of the company, it is more profitable to focus on the big state construction which include road or railroad construction, because state is investing a lot of money into the improvement of infrastructure.

The company is overall very financially stable company. The first analyzed year 2012 was not successful, but since then, the company has been making profit. And they have become a stable company in the industry of constructions, with a high number of contracts whether state or public. It is also important to mention that construction industry has been flourishing in recent years, and that state has been improving the infrastructure a lot, which can make a huge difference in the profit of this company. This implies that the company's amount of the profit is highly dependent on government procurement.

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## 7 APPENDIXES

### BALANCE SHEET

31.12.2012

Company: Stavební firma HOBST a.s.

48033251

Praha 98 Kyje

CZ-48033251

<b>ASSETS</b>		
<b>Account</b>	<b>Name</b>	<b>Amount</b>
013	Software	48,500.00
021	Buildings and constructions	19,817,589.00
022	Equipment	8,825,795.00
031	Land	2,250,000.00
073	Accumulated amortization of software	-48,500.00
081	Accumulated amortization of buildings and constructions	-1,599,213.00
082	Accumulated amortization of equipment	-7,701,180.00
112	Material in store	99,577.00
121	Work-in-progress and semi-finished products	6,270,664.00
211	Cash	192,155.00
213	Valuables	1,950.00
221	Bank accounts	17,995,169.79
311	Customers	36,952,465.78
314	Advance payments made	429,703.70
341	Income tax	359,570.00
343	Value added tax	887,742.20
378	Other receivables	5,769,225.00
381	Deferred expenses	1,107,331.76
391	Adjustments for receivables	-7,812,458.90
<b>Total assets</b>		<b>83,846,086.33</b>
<b>EQUITY + LIABILITIES</b>		
<b>Account</b>	<b>Name</b>	<b>Amount</b>
321	Suppliers	6,075,562.56
324	Advance payments received	1,184,408.00
325	Sundry payables	36,372.00
331	Employees	722,686.00
336	Social security and health insurance institutions	393,365.00
342	Other direct taxes	98,026.00
345	Other taxes and charges	22,054.00
383	Accured expenses	141,086.00
411	Register capital	22,000,000.00
421	Legal reserve fund/Indivisible fund	4,400,000.00
428	Retained earnings from previous years	50,197,250.76
479	Other long-term liabilities	-297,751.00
<b>Total equity + liabilities</b>		<b>84.973059.32</b>

**Balance sheet - LOSS in the amount of 1,126,972.99**

## BALANCE SHEET

31.12.2013

Company: Stavební firma HOBST a.s.  
Praha 98 Kyje

0048033251  
CZ-8033251

ASSETS		
Account	Name	Amount
013	Software	48,500.00
021	Buildings and constructions	23,452,589.00
022	Equipment	8,424,717.00
031	Land	3,615,000.00
073	Accumulated amortization of software	-48,500.00
081	Accumulated amortization of buildings and constructions	-2,302,900.00
082	Accumulated amortization of equipment	-6,854,468.00
112	Material in store	73,948.60
121	Work-in-progress and semi-finished products	5,297,088.00
211	Cash	352,531.00
213	Valuables	1,500.00
221	Bank accounts	10,430,130.59
311	Customers	41,497,658.67
314	Advance payments made	714,679.31
343	Value added tax	1,216,293.00
378	Other receivables	5,406,049.00
381	Deferred expenses	943,612.28
391	Adjustments for receivables	-9,324,680.20
<b>Total assets</b>		<b>82,943,748.25</b>

EQUITY + LIABILITIES		
Account	Name	Amount
321	Suppliers	4,318,789.36
324	Advance payments received	125,800.00
325	Sundry payables	38,495.00
331	Employees	814,584.00
336	Social security and health insurance institutions	455,164.00
342	Other direct taxes - from wages	126,052.00
347	Other subsidies	78,908.67
383	Accrued expenses	204,033.00
411	Registered capital	22,000,000.00
421	Legal reserve fund/Indivisible fund	4,400,000.00
428	Retained earnings from previous years	49,070,277.77
479	Other long-term liabilities	-297,751.00
<b>Total equity + liabilities</b>		<b>81,334,352.80</b>

**Balance sheet - PROFIT in the amount of 1,609,395.45 CZK**

## BALANCE SHEET

31.12.2014

Company: Stavební firma HOBST a.s.  
Praha 98 Kyje

0048033251  
CZ-8033251

ASSETS		
Account	Name	Amount
013	Software	48,500.00
021	Buildings and constructions	23,452,589.00
022	Equipment	9,506,761.00
031	Land	3,615,000.00
073	Accumulated amortization of software	-48,500.00
081	Accumulated amortization of buildings and constructions	-3,079,287.00
082	Accumulated amortization of equipment	-7,024,852.00
112	Material in store	110,701.00
121	Work-in-progress and semi-finished products	7,322,125.00
132	Merchandise in store and in retails shops	393,354.15
211	Cash	220,080.00
213	Valuables	31,165.00
221	Bank accounts	31,243,536.70
311	Customers	36,495,543.37
314	Advance payments made	796,059.40
378	Other receivables	3,545,370.00
381	Deferred expenses	634,256.36
391	Adjustment for receivables	-6,882,406.60
<b>Total assets</b>		<b>100,379,995.38</b>

EQUITY + LIABILITIES		
Account	Name	Amount
321	Suppliers	16,857,952.03
324	Advanced payments received	1,180,972.00
325	Sundry payables	43,851.00
331	Employees	846,071.00
336	Social security and health insurance institutions	393,101.00
341	Income tax	0.01
342	Other direct taxes	120,966.00
343	Value added tax	448,421.00
347	Other subsidies	-203,553.03
379	Other payables	237,647.79
383	Accrued expenses	116,012.00
411	Register capital	22,000,000.00
428	Retained earnings from previous years	53,669,192.22
<b>Total equity + liabilities</b>		<b>95,710,633.02</b>

**Balance sheet - PROFIT in the amount of 4,669,362.36 CZK**

**BALANCE SHEET**  
**31.12.2015**

Company: Stavební firma HOBST a.s.  
Praha 98 Kyje

0048033251  
CZ-8033251

<b>ASSETS</b>		
<b>Account</b>	<b>Name</b>	<b>Amount</b>
013	Software	48,500.00
021	Buildings and constructions	23,452,589.00
022	Equipment	17,213,530.97
031	Land	3,615,000.00
073	Accumulated amortization of software	-48,500.00
081	Acc. amortization of buildings and constructions	-3,855,674.00
082	Accumulated amortization of equipment	-8,638,183.20
112	Material in store	123,496.80
121	Work-in-progress and semi-finished products	155,099.50
211	Cash	8,367.00
213	Valuables	44,960.00
221	Bank accounts	39,216,832.32
311	Customers	55,142,726.50
314	Advance payments made	489,775.20
315	Sundry receivables	3,926,000.00
343	Value added tax	1,610,971.00
378	Other receivables	1,525,278.00
381	Deferred expenses	326,416.04
391	Adjustments for receivables	-6,882,406.60
<b>Total assets</b>		<b>127,474,778.53</b>

<b>EQUITY + LIABILITIES</b>		
<b>Account</b>	<b>Name</b>	<b>Amount</b>
321	Suppliers	17,434,628.48
324	Advance payments received	45,000.00
325	Sundry payables	597,637.07
331	Employees	693,930.00
336	Social security and health insurance institutions	447,953.00
341	Income tax	5,140,720.00
342	Other direct taxes	139,891.00
345	Other taxes and charges	68,000.00
379	Other payables	1,257,404.23
383	Accrued expenses	98,961.00
389	Estimated payables	607,052.96
411	Register capital	22,000,000.00
428	Retained earnings from previous years	55,176,964.59
481	Deferred tax liability-receivable	-39,520.00
<b>Total equity + liabilities</b>		<b>103,668,622.33</b>

**Balance sheet - PROFIT in the amount of 23,806,156.2 CZK**

**PROFIT AND LOSS ACCOUNT**  
**from 01.01.2012 until 31.12.2012**

Company: Stavební firma HOBST a.s.  
Praha 98 Kyje

48033251  
CZ-48033251

<b>EXPENSES</b>		
<b>Account</b>	<b>Name</b>	<b>Amount</b>
501	Material consumed	27,168,377.60
502	Energy consumption	1,918,320.05
511	Repair and maintenance	912,337.44
512	Travel expenses	171,626.00
513	Representation expenses	17,671.95
518	Other services	30,883,680.37
521	Wages and salaries	10,051,759.00
524	Legal social security and health insurance	3,336,870.00
525	Other social insurance	144,000.00
527	Legal social security expenses	138,314.00
528	Other social expenses	2,120.00
531	Road tax	127,365.58
532	Real estate tax	10,316.00
544	Contractual fines and penalties	103,000.00
546	Depreciation of unconquered receivable	420,258.85
548	Other operating expenses	1,289,918.03
549	Shortages and damages	146,598.40
551	Depreciation, Amortization	1,134,426.00
558	Creation of legal adjustments	411,544.00
559	Creation of adjustments of operating activities	212,008.00
568	Other financial expenses	100,838.92
592	Income tax on ordinary income - deferred	-260,206.00
<b>Total expenses</b>		<b>78,441,144.19</b>

<b>REVENUES</b>		
<b>Account</b>	<b>Name</b>	<b>Amount</b>
601	Revenues from own products and young animals	74,617,719.14
602	Revenues from services	589,500.00
611	Changes in work-in-progress	1,227,203.13
641	Revenues from long-term assets sale	50,000.00
646	Revenues from written off receivables	443,895.00
648	Other operating revenues	24,705.00
662	Interest revenue	358,268.93
668	Other financial revenues	2,880.00
<b>Total revenues</b>		<b>77,314,171.20</b>

**Profit/Loss account - LOSS in the amount of 1,126,972.99 CZK**



## PROFIT AND LOSS ACCOUNT

from 01.01.2013 until 31.12.2013

Company: Stavební firma HOBST a.s.  
Praha 98 Kyje

48033251  
CZ-48033251

<b>EXPENSES</b>		
<b>Account</b>	<b>Name</b>	<b>Amount</b>
501	Material consumed	30,700,351.19
502	Energy consumption	2,697,562.99
511	Repair and maintenance	1,005,445.15
512	Travel expenses	145,277.00
513	Representation expenses	1,314,374.30
518	Other services	30,981,356.91
521	Wages and salaries	10,569,062.00
524	Legal social security and health insurance	3,500,636.00
525	Other social insurance	144,000.00
527	Legal social security expenses	50,505.00
528	Other social expenses	1,840.60
531	Road tax	194,565.89
532	Real estate tax	6,806.00
541	Net book value of fixed assets sold	27,655.00
544	Contractual fines and penalties	6,190.00
548	Other operating expenses	1,400,353.03
551	Depreciation, Amortization	1,221,133.00
558	Creation of legal adjustments	1,512,221.30
568	Other financial expenses	101,160.09
<b>Total expenses</b>		<b>85,580,495.45</b>
<b>REVENUES</b>		
<b>Account</b>	<b>Name</b>	<b>Amount</b>
601	Revenues from own products and young animals	87,122,829.56
602	Revenues from services	477,000.00
611	Changes in work-in-progress	-973,576.00
641	Revenues from long-term assets sale	201,562.00
648	Other operating revenues	100,677.00
662	Interest revenue	261,398.34
<b>Total revenues</b>		<b>87,189,890.90</b>

**Profit/Loss account - PROFIT in the amount of 1,609,395.45 CZK**

**PROFIT AND LOSS ACCOUNT**  
**from 01.01.2014 until 31.12.2014**

Company: Stavební firma HOBST a.s.  
 Praha 98 Kyje

0048033251  
 CZ-48033251

<b>EXPENSES</b>		
<b>Account</b>	<b>Name</b>	<b>Amount</b>
501	Material consumed	28,998,181.68
502	Energy consumption	2,153,170.75
511	Repair and maintenance	998,630.25
512	Travel expenses	145,903.00
513	Representation expenses	43,009.75
518	Other services	41,646,550.88
521	Wages and salaries	10,190,344.00
524	Legal social security and health insurance	2,772,596.00
525	Other social insurance	144,000.00
527	Legal social security expenses	120,103.50
528	Other social expenses	2,214.50
531	Road tax	240,987.10
532	Real estate tax	4,017.00
538	Other taxes and charges	224,908.00
543	Gifts	140,000.00
544	Contractual fines and penalties	40,000.00
545	Other fines and penalties	1,006.00
546	Depreciation of unconquered receivable	485,774.00
548	Other operating expenses	1,255,397.31
549	Shortages and damages	255.00
551	Depreciation, Amortization	1,566,295.00
558	Creation of legal adjustments	1,843,881.00
562	Interest expenses	7,539.30
568	Other financial expenses	104,097.23
591	Income tax on ordinary income - due	0.01
<b>Total expenses</b>		<b>93,128,861.26</b>
<b>REVENUES</b>		
<b>Account</b>	<b>Name</b>	<b>Amount</b>
601	Revenues from own products and young animals	93,799,730.70
602	Revenues from services	315,000.00
611	Changes in work-in-progress	2,025,037.00
641	Revenues from long-term assets sale	147,108.00
644	Contractual fines, interest on late payments	40,000.00
648	Other operating revenues	1,299,404.30
662	Interest revenue	171,943.62
<b>Total revenues</b>		<b>97,798,223.62</b>

**Profit/Loss account - PROFIT in the amount of 4,669,362.36 CZK**

**PROFIT AND LOSS ACCOUNT**  
**from 01.01.2015 until 31.12.2015**

Company: Stavební firma HOBST a.s.  
Praha 98 Kyje

0048033251  
CZ-8033251

<b>EXPENSES</b>		
<b>Account</b>	<b>Name</b>	<b>Amount</b>
501	Material consumed	39,615,494.45
502	Energy consumption	2,415,227.68
504	Merchandise sold (Cost of goods sold)	20,099.10
511	Repair and maintenance	1,526,303.20
512	Travel expenses	177,868.00
513	Representation expenses	71,244.26
518	Other services	92,637,742.73
521	Wages and salaries	11,520,006.00
524	Legal social security and health insurance	3,045,384.00
525	Other social insurance	116,000.00
527	Legal social security expenses	79,618.00
528	Other social expenses	1,953.00
531	Road tax	255,347.41
532	Real estate tax	5,518.00
538	Other taxes and charges	168,100.00
541	Net book value of fixed assets sold	3,900,000.00
542	Material sold	1,946.00
543	Gifts	250,000.00
544	Contractual fines and penalties	140,000.00
545	Other fines and penalties	375.00
548	Other operating expenses	1,296,566.32
551	Depreciation, Amortization	3,638,525.00
562	Interest expenses	43,399.49
568	Other financial expenses	86,742.57
591	Income tax on ordinary income - due	5,640,720.00
592	Income tax on ordinary income - deferred	-39,520.00
<b>Total expenses</b>		<b>166,614,660.21</b>
<b>REVENUES</b>		
<b>Account</b>	<b>Name</b>	<b>Amount</b>
601	Revenues from own products and young animals	188,105,812.31
602	Revenues from services	410,348.00
604	Revenues from merchandise	36,744.85
611	Changes in work-in-progress	-2,237,025.50
640	Sundry operating revenues	10,500.00
641	Revenues from long-term assets sale	3,953,719.75
648	Other operating revenues	56,813.00
662	Interest revenue	83,904.00
<b>Total revenues</b>		<b>190,420,816.41</b>

**Profit/Loss account - PROFIT in the amount of 23,806,156.20 CZK**