Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Trade and Accounting

DIPLOMA THESIS

The Assessment of Financial Statements and Closing the Books of Accounts Procedures in a chosen Company

Author: Veronika Pavlasová
Supervisor: Ing. Enikő Lőrinczová, Ph.D.

CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Department of Trade and Accounting

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DIPLOMA THESIS ASSIGNMENT

Pavlasová Veronika

Economics and Management

Thesis title

The Assessment of Financial Statements and Closing the Books of Accounts Procedures in a chosen Company

Objectives of thesis

The aim of this diploma thesis is to characterize and analyse the process of book-closing and Financial Statements compilation in a chosen company, identify the problematic areas and suggest possible solutions for improvement.

Methodology

Methodology for the literature overview is based on data collection from the relevant legal framework, specialized publications and other written or online sources. The methods of analysis, synthesis, comparison and deduction are used to prepare the practical part and to formulate the conclusions of the thesis.

Schedule for processing

1. Introduction	9/2013
2. Objectives and methodology	9/2013
3. Literature overview	9/2013
4. Practical part	12/2013
5. Results and discussion	1/2014
6. Conclusions	2/2014
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8. Appendices	

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Accounting system, accounting regulation, accounting harmonization, financial statements, balance sheet, income statement, basis of valuation, equity, taxes

Recommended information sources

Czech Accounting Act Nr. 563/1991 Coll., as amended
Czech Accounting Standards
Czech Ministry of Finance: Decree 500/2002 Coll.
PricewaterhouseCoopers: Accounting legislation in 2012, Czech Republic, Trade Links, Prague, 2012
MACKENZIE, B. et al. Wiley IFRS 2013: Interpretation and Application of International Financial Reporting Standards, Hoboken, NJ: John Wiley & Sons, 2013, 1057 p., ISBN: 978 -1-118-27727-0
EPSTEIN, B., JERMAKOVICZ, E. Wiley IFRS 2009: Interpretation and Application of International Accounting and Financial Reporting Standards, Hoboken, NJ: John Wiley & Sons, 2009, 1238 p., ISBN: 978-0470-28609-8
EU. The Council of the European Communites. Fourth Council Directive 78/660/EEC of 25 July 1978 on the annual accounts of certain types of companies. In Official Journal OJ L 222, 14.8.1978., as amended

The Diploma Thesis Supervisor

Lőrinczová Enikő, Ing., Ph.D.

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Ing. Helena Čermáková, Ph.D.

Head of the Department

Electronic apporoval: December 5. 2013

Ing. Martin Pelikán, Ph.D.

Dean

Declaration

I hereby declare that I have worked on my Diploma Thesis “The Assessment of Financial Statements and Closing the Books of Accounts Procedures in a chosen Company“ individually and independently. All resources which I have used are listed in bibliography. I, as author of upper mentioned diploma thesis, assert that I didn´t violable copyright of third party in connection with its creation.

In Prague, 30th March 2014 ....

Veronika Pavlasová

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The Assessment of Financial Statements and Closing the Books of Accounts Procedures in a chosen Company

Hodnocení účetní závěrky a uzávěrky v konkrétním podniku

Summary

This diploma thesis submits the process of procedures of closing the books of accounts of chosen companies on the basis of detailed analysis financial statements for first three accounting periods 2010, 2011 and 2012. The thesis is divided into three main parts, the literature overview, practical part and last part consists from summarizing of results, conclusion and recommendation. The theoretical part of this work deals with the summary of main points from legal framework and financial ratios relevant to practical part. The financial analysis was used as a supplement for more complete assessment of enterprise. The paper presents some possibilities of using information from financial statements, analysis of data, examples of possible interpretation of results and recommendations.

Souhrn

Tato diplomová práce předkládá proces účetní uzávěrky vybrané společnosti na základě podrobné analýzy finančních výkazů za první tři účetní období 2010, 2011 a 2012. Práce je rozdělena do tří hlavních částí, literární rešerše, praktické části, shrnutím výsledků a zakončena doporučeními. Teoretická část se zabývá shrnutím hlavních bodů z právního rámce a finančních ukazatelů relevantních pro praktickou část. Z důvodu podání celistvějšího pohledu na vybraný podnik byla jako doplněk vypracována finanční analýza. Práce představuje některé možnosti použití informací z finančních výkazů, analýzu dat, příklady možných interpretací výsledků a doporučení.

Keywords:

Accounting, accounting procedures, accounting system, balance sheet, book closing, equity, enterprise, financial analysis, financial statements, income statement, the Czech Republic

Klíčová slova:

Česká republika, finanční situace, podnik, účetní postupy, rozvaha, účetní systém, účetnictví, vedení účetnictví, výkaz zisku a ztrát, závěrka, finanční analýza

Content

List of Tables, Graphs, Scheme, Charts

Acronyms

BS – Balance Sheet
CAS – Czech Accounting Standards
CB – Closing Balance
CEO – Chief executive officer
CR – Czech Republic
CZK – Czech crowns
D – Electricity, gas, steam and air conditioning supply
Decree – Decree on double-entry accounting No. 500/2002 Coll.
EVA – Economic Value Added
IS – Income Statement
L – Real estate activities
Ltd. – Limited Company
OB – Opening Balance
ROA – Return on assets
ROE – Return on equity
ROS – Return on sales

1 Introduction

Each entrepreneurial subject, whether it is a micro enterprise that keeps tax records, or a small, medium or large enterprise that uses double-entry bookkeeping, needs accounting for their management and decision-making information. Accounting is one of the sources that such information provides.

All processed data and information has to be processed under applicable law, to respect the accounting principles that have been performed on time according to a predetermined schedule. Received accounting information can be adequately use only in case that accounting entity respected following Czech legislative rules, such as Act No. 563/1991 Coll. (Accounting, Act), Act. No. 235/2004 Coll. (The Value Added Tax), Act No. 586/1992 Coll. (The Income Tax Act) and the Czech accounting standards for different types of entities. Currently, there are many different accounting systems which are spaced by a greater or lesser extent in the world. The Czech accounting system according to accounting system classification (Anglo-Saxon or Continental group) is a part of the continental group. The financial legislation of the Czech Republic is exposed to constant changes in order to approximate especially with European Union directives and the adoption by the world accepted accounting principles, which are in the mind of entities known under the term IAS/IFRS.

The financial statements are considered to be the culmination of the reporting period and represent the final processing of data in ledger. This is an implementation of preparation procedures and closing the books of accounts for specific accounting periods, in respect the principle of true and fair view of reality. The financial statements consist of the balance sheet, income statement and note. Financial statements themselves in a broader sense involves a process of closing the books of accounts, preparation of financial statements, verification, approval, publication and safekeeping of all documents that contain a given financial statements.

The work associated with the financial statements is demanding in terms of time and quality. High requirements are expected from the staff in the accounting department and in most cases they are also under control by audit firms. Among the general principles of bookkeeping, accounting units must comply the principle of balance continuity, the principle of accruals, the principle of consistent accounting methods, and the principle of true and fair view of reality.

The output of financial statements is to publish financial nature data. Internal and external users can obtain information about changes in assets and liabilities and financial situations. Also, obtained data could be analysed or could be used to predict the future development of the company. Executives may make decisions on financial statements on future investments, trade, enlargement and eventually liquidation of the company. The essence of financial statements is to provide comprehensive information on the financial situation of the analysed entity. Above all, it should be emphasized that the financial statements had to be drawn well and properly, which is essential to provide truthful and trustworthy information.

The primary business objective is to achieve adequate profitability while ensuring solvency, increase in value and continuous functioning in the future.

2 Objectives and Methodology

Objectives

The aim of this diploma thesis is to characterize and analyse the process of closing the books of accounts and Financial Statements compilation in the chosen company, identify the problematic areas and suggest possible solution for improvement.

<u>Objectives for the practical part (case study) are</u> to characterize the company, to analyse the accounting procedures at the end of the year in the chosen company, to analyse financial statements and to comply Income statement by function

<u>Objectives for the results and discussion part are</u> to point out the problematic areas in the process of closing the books of accounts, to point out the results of analysis the Financial Statement and to recommend possible solutions

At the end of this work, following hypotheses will be proved or disproved: “There could be an increase of tax savings by implementing a different level of project valuation.”

Methodology

Methodology used is based on data collection from the relevant legal framework, specialized publications and other written or online sources. This is followed by analysis of the current accounting procedures, synthesis, comparison and deduction used to the practical part. Financial Statement analysis, namely horizontal and vertical analysis of Financial Statements, are used in the quantitative analysis to find out economic development of the company´s results for its first three accounting periods 2010, 2011 and 2012. Used financial ratio analysis is also used. Used financial ratios are showed in the table below:

Table 1: Used financial ratios

Profitability ratios	Efficiency ratio	Liquidity ratios	Leverage ratios
- Return on Sales - Return on assets - Return on equity	- Asset turnover ratio - Receivable turnover ratio - Days dates outstanding ratio	- Current ratio - Quick ratio	- Debt ratio - Equity ratio

Own processing

Methodology for the assessment of the results and recommendation

Comparison of the currently used accounting procedures in the company with the legal requirements and the specialized publications, comparison of the financial statements with competitive company Martia followed by synthesis where are combining ideas into the complex whole, based on the results from the practical part. At the end of this work was used deduction as the process of reasoning in which a conclusion follows necessarily from the stated premises in the practical part.

3 Literature Overview

3.1 Accounting legislation in the Czech Republic

The basic rules and regulations in the Czech Republic are laid down in Act No. 563/1991 Coll., on Accounting, as amended (the "Accounting Act"). The Accounting Act refers to:

- Decrees of the Ministry of Finance of the Czech Republic ("MF CR") issued for each type of organisation private enterprises, insurance companies, banks and financial institutions, non-profit organisations, political parties, etc.), especially decree on double-entry accounting for entrepreneurs No. 500/2002 Coll., as amended.
- Czech accounting standards for entrepreneurs are prepared by MF CR, which proclaims accounting procedures for any type of organization in more details.

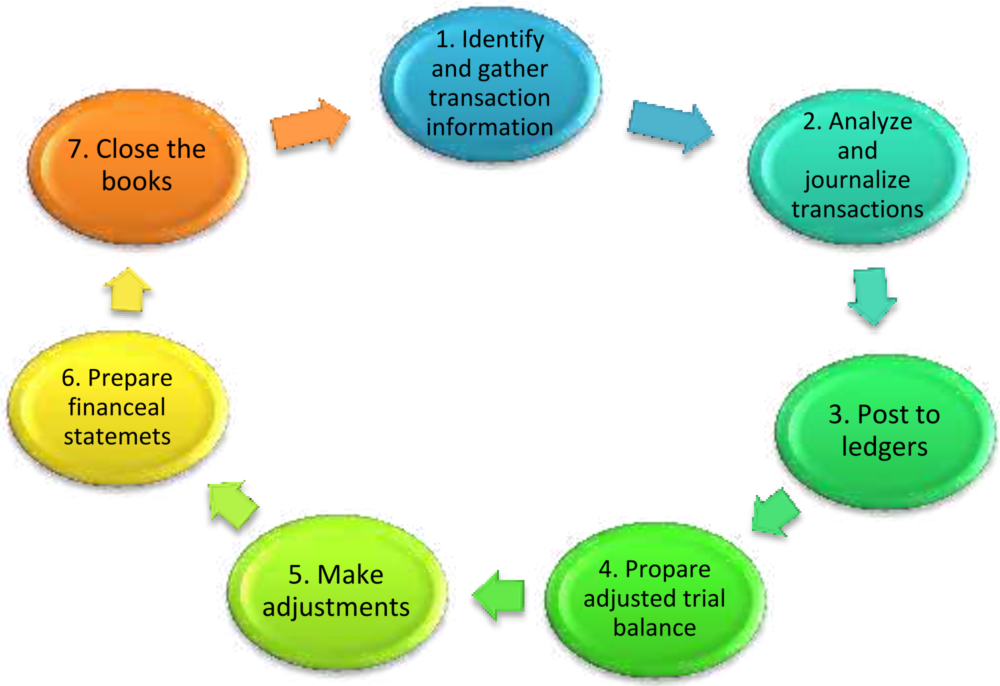
The Accounting Act defines the basic requirements for the preparation and publication of annual reports and the conditions that trigger the need for a mandatory statutory audit of financial statements (BERNÁT 2012).

3.2 Accounting procedures at the end of the year, leading to closing-the-books of accounts

Closing the books refers to procedures that take place at the end of the reporting period. Adjusting entries are made, and then the revenue and expense accounts are "closed." The profit/loss account and balance sheet, both revenues/expenses and assets/equity+liabilities, will all have zero balances until the new period begins. The profit from the closure of the resulting revenues and expenses is transferred to a closing balance sheet. Financial statements are output of closing the books procedures.

Accounting cycle is repeated each reporting period and contents of analysis of source documents or other information of select entity activities that are recognizable in the accounting records, journalizing (i.e. accounts effect, amount of effect on each account, direction of effect on the account), posting transactions to ledger and the final step is preparing Financial statements.

Scheme 1: Accounting cycle



Own processing based on Griffin 2009, p. 31

<u>Accounting procedures at the end of the year (preparation)</u>

1. **Taking-inventory of assets and liabilities** (Accounting Act, § 29, pp. 80-83)

Accounting entities shall take inventory in order to find out the actual position of all their assets and liabilities and check whether the actual position corresponds to that is shown in the books of account. Accounting entities take inventory at day of drawing up their financial statements. Accounting entities must keep evidence of inventory-taking of all their assets and liabilities for a period of five years after it is done. The actual position of assets and liabilities shall ascertain by physical inventory taking in case of physical stocktaking or by documentary inventory taking in case of liabilities and receivables.

If physical inventory-taking of tangible assets cannot be carried out at the close of the balance-sheet date, it can be carried out in the course of the last four months of the accounting period concerned, or in the two first months of the subsequent accounting period.

The actual amount of inventory may differ from what the books show. Whether the actual position, proved by physical counting or checking of accounting documents, is lower than the position the position shown in the books of account, it shall be referred to as "shortage" or, in case of cash and postage stamps, as "deficit". Whether the actual position is higher than the position shown in the books of account; it shall be referred to as "surplus".

2. Depreciation and Amortization

In general depreciation increases free cash flow while decreasing the amount of a company´s reported earnings. Accounting entities need to comply rules for depreciation of long-term assets set up by Accounting Act.

Accounting entities which own or have some other right to property shall account for such assets and their depreciation in accordance with account with the depreciation policy (Accounting Act, §28, (1), p. 78).

The valuation shall form a basis for calculating amortization of intangible fixed assets and depreciation of tangible fixed assets during their use. The method of depreciation of certain assets by component method may also be used for depreciation of certain tangible fixed assets, e.g. buildings, apartments, commercial space (Decree No. 500/2002 Coll. § 56 – (1), p. 177).

Component depreciation may be used in case that component value is significant in relation to the value of the entire asset or in case the useful life of the component significantly differs from the useful life of the entire asset. A specified component shall be depreciated separately from other components (Decree No. 500/2002 Coll. §56a – (1), p. 180).

Accounting entities shall draw up their depreciation schedule and update it according to the use of assets and changes in the course of using such assets by the accounting entity. With regard to the principle of materiality and the requirement to give a true and fair view of the subject matter of accounting and the accounting entity´s financial position, the accounting entity may take into consideration the anticipated residual value of a specific asset. Anticipated residual value shall mean a positive reasonable estimated amount that the accounting entity could acquire at the time of such assets disposal, e.g. by sale, after deducting anticipated expenses associated with the disposal (Decree No. 500/2002 Coll. §56 (3), page 178).

The amount of depreciation shall be rounded up to the full crown. The net book value of depreciable fixed assets shall be a difference between the valuation of these assets and accumulated depreciation thereto (Czech Accounting Standard No. 13, 4. – p. 288).

Depreciation methods could be based on the time, as Straight line depreciation and Accelerated depreciation (declining balance method or Sum of years ‘digit method), or based on the volume produced or level of activity.

Accounting unit can express use of assets by their own rules regarding to useful economic life or with regard to capacity (e. g. number of km, outputs) that depreciation is so called the accounting depreciation.

Straight line depreciation method is calculated as a constant amount or percent to each accounting period. This method is the simplest and probably the most common (HORNGREN, 2012, p. 460). The equation of straight line deprecation is a follows:

$$Depreciation\ expense = \frac{Cost\ (value)}{Estimated\ useful\ life}$$

Own processing based on HORNGREN 2012

Accelerated depreciation method allows more of the cost to be allocated near the start of an asset´s life than straight line does. This method works best for assets that produce more revenue in their early years, because higher depreciation in first years is matched against the greater revenue (HORNGREN, 2012, pp. 463-464).

There are allowed straight line depreciation method and accelerated depreciation method in the Czech Republic set by Income Taxes Act No. 586/1992 Coll.

Taxpayer classifies every long-term assets into the categories (1-6) listed in Annex 1 of Act No. 586/1992 in the first year of depreciation, the length of depreciation is from 3 to 50 years.

According to Annex 1 of Act No. 586/1992 Coll. on Income Taxes following assets could be depreciated:

- individual movable assets (or files) whose acquisition cost is more than CZK 40,000 and have an operational and technical functions of more than one year,
- buildings, houses and apartments or commercial premises (regardless of input price)
- construction,
- cultivated areas with fertility period longer than three years,
- adult animals and their groups, the input price higher than 40 000 CZK,
- technical enhancement,
- intangible fixed asset whose acquisition cost is more than 60,000 CZK.

Accelerated depreciation amounts can be computed using the following formula:

$$1st\ year: Depreciation\ expense = \ book\ value\ x\ depreciation\ rate$$

$$2nd\ year: Depr.expense = \frac{2 * book\ value}{depreciation\ rate - written\ off\ years}$$

Own processing based on Income Taxes Act

Accounting depreciation in contrast to tax depreciation doesn´t have limits for accounting depreciation. Therefore, it must be at the end of the accounting period adjusted income tax base by difference between accounting depreciation and depreciation for tax purposes (set by Act on Income taxes).

3. Adjustments

Adjustments express temporary decline in the value of assets. Adjustments shall be created at the debit of costs on the basis of inventory-taking ascertaining lower value of property than shown in appropriate asset accounts.

Where there is a permanent decrease in the value of a certain asset, the value decrease shall be debited to expenses, e.g. the writing off of a certain receivable on the basis of the relevant judicial ruling (CAS, §005, (2), (3), p. 248).

Adjustments shall be created only to asset accounts when there is a decrease in their book value, as evidenced by the information from inventory-taking. These adjustments shall be created only where a decrease in the valuation of particular assets in not constant or where a decrease in the valuation is not recorded in the books of account in another manner, e.g. by the fair value. During inventory-taking, the amounts and justification of the created adjustments shall be evaluated.

Adjustments shall also be created in the cases where it is so prescribed by the Act on Reserves for the purposes of computing Income Tax Base.

The creation of adjustments shall be debited to the expenses and a particular adjustment shall be reduced or, if relevant, cancelled, by accredit entry in the expense account where inventory-taking in the following period does not prove that the level of such adjustment is justified.

Adjustments may not have a debit balance and may not be created for the aim of increasing the value of assets (Decree No. 500/2002 Coll., §55, pp. 176-177).

4. **Accruals and deferrals** (Temporary assets)

Accrual-basis accounting requires recognition of the financial effects of transactions and events when money is received or paid out.

All types of temporary accounts of assets and liabilities have to be cleared in accounting period to which factually relate (CAS, §017– 3.11.1, p. 332).

Accruals are expenses or revenues occurred during the accounting period but not paid or received yet. They reflect transactions where cash is paid or received after a related expense or revenue is recognized.

Deferrals also known as prepayments are expenses or revenues paid for or received before they are really used or provided. The recognition of expenses or revenues is deferred until after related cash payment is used or received.

Expenses and payments relating to future periods must be booked as deferred expenses or accrued expenses in appropriate accounts of account group 38 – Temporary accounts of assets and liabilities (CAS, §019 – 6.1. (d), p. 360).

Revenues and receipts relating to future periods must be booked as deferred revenues or accrued revenues in appropriate accounts of account group 38 – Temporary accounts of assets and liabilities (CAS, §019 – 6.1. (e), p. 360).

Accrual accounts are subject to inventory-taking and at the time of inventory-taking their amounts and necessity shall be considered (CAS, §019 – 6.3., p. 360).

Accrual accounting need not be employed in respect of: a) negligible amounts where their booking in the appropriate revenues or expense account (without applying accrual concept) will not affect the purpose of the accrual concept and where it is evident that the accounting does not aim thereby to misrepresent its trading result b) recurrent expenses or revenues provided that this has no significant impact on factual and timing relationship of expenses and revenues. (CAS, §019 – 6.4., pp. 360-361) Fines, penalties, shortages and damage cannot be accrued (CAS, §017– 3.11., p. 332).

The accounting entity shall regulate the procedure used with regard to accrual concept in its internal rules. The accounting entity may no change the procedure every year (CAS, §019– 6.5, p. 361).

Examples of accounting procedures of temporary accounts of assets and liabilities

Deferred expenses (asset account No. 381) are used for entries of expenses incurred in the current accounting period if such expenses also relate to the following periods, e.g. prepaid rent and prepayments (CAS, §017– 3.11.1, p. 332).

Expenses that are related to the current accounting period but whose payment has not yet been settled shall be entered into account No. 383 - Accrued expenses, which is recorded as an liability. This account is used to book rents paid in arrears, bonuses and remuneration paid after the year-end (CAS, §017– 3.11.3, p. 332).

Appropriate account shown in liability account No. 384 - Deferred revenues shall be kept to book revenues received in the current accounting period but which factually belong to revenues of future periods, e.g. rents received in advance, payments for services and subscriptions (CAS, §017– 3.11.4, p. 332).

Asset account No. 385 - Accrued revenues shall be employed to book amounts not yet received by the accounting entity although they belong, in factual and timing relationship, to the current accounting period and are not directly entered in the accounts of receivables from legal entities or individuals. This account shall be mainly used to book sales commission, for services that have been supplied or received but have not yet been billed (CAS, §017– 3.11.5, p. 333).

5. Exchange rate differences

Assets and liabilities expressed in a foreign currency shall be translated by accounting entities into Czech currency at the foreign exchange market rate declared by the Czech National Bank:

a) at the time of valuation pursuant to subsection

b) at the time of valuation pursuant to subsection, but only in case of receivables and liabilities, ownership interests in business companies, securities and derivative instruments, stamps and vouchers, which are denominated in a foreign currency, or in case of foreign currencies.

In case of purchase or sale of a foreign currency for Czech currency, the rate of exchange for which such currency was purchased or sold can be used at the time of valuation (Accounting Act §24, 6, p. 70).

When translating a foreign currency to Czech currency, an accounting entity can apply a fixed rate of exchange by which is meant the rate laid won in the accounting entity´s internal regulation and fixed on the basis of the exchange rate declared by the Czech National

Bank and used by the accounting entity for a predetermined period. Such a predetermined period may not exceed the length of one accounting period. When applying a fixed rate of exchange, the accounting entity may alter this rate by its internal regulation even in the course of the predetermined period; in case that the devaluation or revaluation of the Czech crown is promulgated; the said fixed rate must always be altered (Accounting Act §24, 7, p. 70-71).

6. Provisions

Provisions are determined to cover future liabilities or expenses where the purpose of such liabilities or expenses is known and it is likely they will occur, but as a rule their amount or the date when they will arise is uncertain. An accounting entity that will apply component method of depreciation shall not account for a reserve for repairs of tangible assets (Decree No. 500/2002 Coll., §57, (1), p. 182).

The creation of provisions shall be debited to expenses and their use, reduction or cancellation, when they become unnecessary, shall be credited to expenses (Decree No. 500/2002 Coll., §57, (2), p. 182).

The balances of provisions shall be brought forward to the subsequent accounting period. Provisions may not have a debit balance. Provisions may not be used for the adjustment of the value of assets. The amount of reserves having been created and reasons for having such reserves shall be checked by the accounting entity at least on each stocktaking (Decree No. 500/2002 Coll., §57, (3-6), p. 182).

Provisions shall not be created on expenditure on the retraining or relocation of employees whose employment relationship with the accounting entity will be maintained or expenditure on marketing. (CAS, No.004, 3.3, page 245).

Provisions shall include reserves for pensions and similar commitments, a reserve for income tax and other reserves such as specifically reserves for warranty repairs and a reserve for restructuring which can be created and used only for covering costs which are necessary for the implementation of the restructuring programme (Decree No. 500/2002 Coll., §16 (1, 4), pp. 138-139).

Provisions shall be subject to book inventory when the level and necessity of provisions shall be evaluated (CAS, No.004, 3.5, p. 246).

Accounting entities shall specify in their internal regulations the title for which reserves are created, their level and the procedure for their creation and use (CAS, No.004, 3.5, p. 246).

7. Estimated receivables and payables

Estimated receivables shall be used for entries of receivables, where the date and purpose is known, but the amount is uncertain, such as a receivable from an insurance company arising from an event covered by insurance policy in cases where the insurance indemnity has not yet been paid and the insurance company has not advised the final amount of indemnification by the close of the balance-sheet day (CAS, §017– 3.11.6, p. 333).

Estimated payables shall be kept for entries of estimated payables that cannot be booked as a common debt, e.g. uninvoiced supplies. This group is also used for accounting for reimbursement of a wage or salary for untaken annual leave if an employee becomes entitled thereto under other statutory provisions and such reimbursement is going to be paid only in subsequent year (CAS, §017– 3.11.7, pp. 333-334).

8. Income Tax and Deferred Tax

Corporate Taxable Income

"There are many areas in which companies are permitted to use different methods of accounting for financial statements and tax purposes. These differences may arise from mandated methods of accounting for tax purposes (e.g. depreciation) or from the deductibility of certain expenses for the determination of income for one but not the other (e.g. goodwill)" (Fabozzi 2003, p. 110).

Taxable income is computed on basis of the accounting profit (i.e. differences between revenues and expenses) and it is adjusted by items described in the Income Tax Act. No. 586/1992 in latest amendments.

Deferred tax

"The result of these differences is a timing difference between reported tax expense and actual tax expense. If the reported tax expense exceeds the actual tax expense, the difference is a deferred tax liability and if the reported tax expense is less than the actual tax expense, the difference is a deferred tax asset. The deferred tax asset or liability therefore reflects a temporary difference between expense and revenue recognition for an accounting period" (Fabozzi, 2003, p. 110).

A deferred tax liability results from differences which arise at the time reported tax expense in accounting is different from actual tax expense according tax legislation. (CAS, §003, p. 239).

Deferred tax shall be computed on all temporary differences resulting from a different accounting and tax treatment of items shown in the accounting, that is not only on differences between the book value and the tax value of depreciable tangible and intangible fixed assets, but also on other differences (e.g. value adjustments to inventory, reserves exceeding the statutory limits, adjustments to receivables and unrealized tax loss carried forward from previous years) (Czech Accounting Standard, No. 003, p. 240).

The computation of the tax base (taxable income) for the income tax purposes, and the tax liability payable, or deferred, of the accounting entity for the accounting period, or charging for the appropriate income tax reserve (Czech Accounting Standard, §002, p. 237).

The calculation of deferred tax shall be based on the liability method arising from the balance-sheet aspect. The liability method shall be the procedure when deferred tax in relation a profit or loss ascertained in accounting records shall be claimed in a future period, and therefore the tax rate in effect in such a future period shall be used for the tax calculation when the tax liability or tax asset is going to be claimed. Where this future tax rate is not known, the tax rate is effect in the subsequent period shall be used (Decree No. 500/202 Coll., §59, (2), p. 184).

Deferred tax receivable or deferred tax liability shall be calculated as follows: the resulting difference shall be multiplied by the income tax rate, as prescribed by the Income Taxes Act. When the tax rate is amended, the balance in the deferred tax account must be recalculated and the difference established must be booked by means of an account in account group 59 - Income tax expense, transfer accounts and income tax reserves (Decree No. 500/202 Coll., §59, (4), p.184).

Corporate Income Tax rate is 19 % from year 2010 to 2014.

3.3 Closing the books of accounts

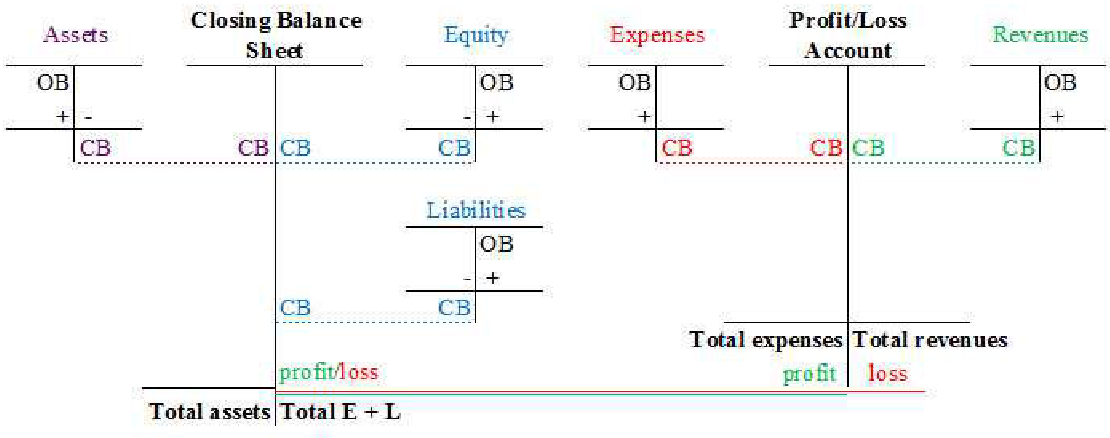
Aim of following paragraphs is to set out general procedures for opening and closing books of account with a view to harmonizing fundamental procedures applied by accounting entities

Closing-the-books is a procedure which involves:

- the ascertainment of total credits and total debits of individual ledger accounts, or in the case of accounting records in abbreviated format, the ascertainment of turnovers of account groups;
- the ascertainment of the closing balances of asset accounts and liability accounts, and the ascertainment of closing balances of expense accounts and revenue accounts, or in the case of using accounting records in abridged format, the ascertainment of balances in account groups;
- the closing of the accounting entity´s books by posting the balances of the balance sheet accounts and the balance of the appropriate account of group 71 – Profit and loss account to the closing balance sheet account (Czech Accounting Standard, No. 002 (3.2), pp. 237-238).

At the Chart 1 you can see graphic representation of closing process.

Chart 1: Closing process



Explanatory Note: OB = opening balance, CB = closing balance

Own processing based on HORNGREN, 2012, pp. 208-209

3.4 Financial Statements preparation and their assessment

Accounting entities shall draw up their financial statements in the instances laid down in the Accounting Act No. 563/191 Coll., as amended. Financial statements in their integral entirety shall comprise: balance sheet, profit and loss account, notes (Accounting Act, § 18, p. 51).

Financial statements (annual accounts) shall be drawn up in units of the Czech currency and individual items shall be shown in full thousands (CZK).

Financial statements of accounting entities shall comprise balance sheet, profit and loss account and notes; financial statements may further include cash-flow statement and statement of changes in equity (Decree No. 500/2002 §3 (1), p. 118).

Accounting entities shall draw up their financial statements in full format or in abridged format (Decree No. 500/2002 §3 (5), p. 119).

Balance Sheet

One of the financial statements is balance sheet, also called the statement of financial position. Balance sheet comprises property items and items of other assets, equity and liabilities at one point in time (Decree No. 500/2002 §3 (2), p. 118).

The figures shown in “TOTAL ASSETS” AND “TOTAL LIABILITIES AND EQUITY” must be equal (Decree No. 500/2002 §4 (11), p. 121). Accounting system in the Czech Republic is based on the balance sheet equation; it means each transaction is recorded on two records. Usually transaction which changes assets continuously changes also liability or equity. Assets are ordered according liquidity.

The balance sheet is usually prepared at the beginning of the period, in this case is called opening balance sheet, and at the end of the reporting period so called as closing balance sheet.

We can consider the Balance sheet as a basic snapshot of a company´s financial position. Format of the balance sheet basically could be in two layouts horizontal and vertical. There are shown basic elements of a horizontal layout of the balance sheet in the Chart 2, where assets total is equal to total liabilities and equity.

Chart 2: Example of the horizontal form of balance sheet:

Balance Sheet

ASSETS	LIABILITIES + EQUITY
1. Short-term assets	1. Liabilities
- inventory (products)	- payables
- receivables	- provisions
- financial assets (cash, BA)	- bank credits
2. Long-term fixed assets	2. Accruals and deferrals
- intangible (software)	3. Own Equity
- tangible (buildings)	- registered capital
- financial assets (bonds)	- funds
3. Accruals and deferrals	- profit/loss
TOTAL ASSETS	TOTAL LIABILITIES + EQUITY

Own processing based on Decree No. 500/2002 Coll.

The horizontal layout of balance sheet is used in the Czech Republic. According to Decree vertical layout of balance sheet is not allowed in the CR.

Profit and loss account

Profit and loss account is also called Income statement and comprises items of expenses and revenues and at the bottom of Profit and Loss Account companies report net income.

Operating expenses and revenues arise from main activity of company such as providing services and selling goods, managing the business. Financial expenses and revenues are connected with financial activities of the company. Extraordinary expenses and revenues could be caused by changing of accounting method. There are allowed two formats 1. by nature 2. by function - of Income Statement according to Decree. Income statement by nature is mainly used by most Czech companies. Income statement by function is used mainly for management purposes internally rather than for public reporting and expenses and revenues are divided to operating, financial and extraordinary expenses and revenues. Example of Income statement by nature is at Chart 3.

Chart 3: Example of Profit/ Loss Account by nature

EXPENSES	REVENUES
Operating expenses	**Operating revenues**
Material consumption	Revenues from sold products
Energy consumption	Revenues from sold merchandise
Repair and maintains	Revenues from sold services
Travel expenses, Services	Change in own inventory
Wages and salaries	Capitalization of own services
Social and health insurance	Revenues from sold fixed assets
Taxes and fees	Revenues from sold material
Book value of sold fixed assets	Other operating revenues
Material Sold	
Operating profit or loss	
Financial expenses	**Financial revenues**
Sold securities	Revenues from sold securities
Interest paid	Interest received
Exchange losses	Exchange gains
Other financial expenses	Revenues from long-term securities
Financial profit or loss	
Profit or loss from ordinary activity (operating profit or loss + financial profit or loss)	
Extraordinary expenses	Extraordinary revenues
Profit or loss from extraordinary activity	
Income tax	
Net profit or loss	

Own processing based on Accounting and Management, Decree No. 500/2002 Coll.)

Notes on financial statements (Decree No. 500/2002, §39, p. 149)

The accounting entity shall disclose in the notes the information as the date of accounting entity´s incorporation or the date of commencement of its activity, the information about natural persons and legal persons either controlling this accounting entity or exercising significant influence over it, stating percentages of their investment contributions, description of amendments and supplements entered in the Commercial Register in the accounting period under review and description of the accounting entity´s organizational structure and any material changes in such structure in the accounting period under review. The accounting entity shall further disclose full names of members of the statutory and supervisory bodies at the balance-sheet date (Decree No. 500/2002, §39 – (1)).

The accounting entity shall state the amount of its equity in accounting entitles which it controls or over which it exercises significant influence and the amount of trading result of these entities. The accounting entity shall further provide information whether any controlling agreements or profit transfer agreements have been concluded, and if so, it shall specify the obligations resulting therefrom (Decree No. 500/2002, §39 – (2)).

The accounting entity shall state the average number of its employees during the accounting period under review, specifying the number of management members in such overall average number and disclosing the sum of all personnel expenses as a whole, and specifically the sum of all personnel expenses expended on management members (Decree No. 500/2002, §39 – (3)).

The accounting entity must disclose in the notes the total sum of loans and credits, guarantees and other fringe benefits, both in cash and in kind, provided to persons who form the accounting entity´s statutory or other management body or supervisory body, and to former members of such bodies, and these sums must be subdivided according to individual categories of these persons (Decree No. 500/2002, §39 – (4)).

The accounting entity shall provide in the notes information on the application of general accounting principles and accounting methods, valuation and depreciation methods, where such information is material for assessment of its financial and equity position, its trading result, and for the analysis of the figures shown in the balance sheet and profit and loss account, information on departures from the methods pursuant to the Accounting Act, disclosing their influence on assets and liabilities, financial position and trading result. Next entity should provide information on the method used for calculating adjustments and depreciation accumulation in accordance with the principle of materiality, giving the information source for calculating adjustments and accumulated depreciation, the method used for translating foreign currency to Czech crowns, and the method for calculating the fair value of relevant assets and liabilities pursuant to the Act, the disclosure of the valuation formula used for computing the fair value, the disclosure of variations in the value of its ownership interests by the equity method according to individual classes of financial assets and the manner of their posting, the details of individual classes of derivatives and their underlying assets (Decree No. 500/2002, §39 – (5)).

The accounting entity shall also disclose in the notes supplementary information concerning the balance sheet and profit and loss account (Decree No. 500/2002, §39 – (6)).

The accounting entity shall also provide in the notes the information not shown in the balance sheet (Decree No. 500/2002, §39 – (9)).

Accounting entities shall further disclose in the notes separate information on the total expenses incurred on fees to the statutory auditor or auditor firm for the accounting period (Decree No. 500/2002, §39 – (11)).

3.5 Responsibilities

Responsibilities after compiling financial statements required by Accounting Act No. 563/1991 Coll. are summarized in following paragraphs.

Statutory audit of Financial Statements (Accounting Act, §20, pp. 58-59)

Ordinary or extraordinary financial statements have to be audited for following accounting entities:

- join stock companies if at the close of the balance-sheet day of the accounting period for which their financial statements are audited and the immediately preceding accounting period at least one of the following three criteria have been exceeded or attained:

    - total assets of CZK 40 million (brutto)
    - net turnover of CZK 80 million per annum
    - average number of employees of 50 for the accounting period
- other business companies and cooperatives (e.g. limited company) provided that at the close of the balance-sheet date of the accounting period for which their financial statements are audited and for the immediately preceding accounting period such companies or cooperatives exceed or attained at least two of the three criteria mentioned above.

<u>Annual report</u>

All accounting entities, which are mandatory audited or just registered in Commercial Register shall prepare their annual report in order to provide overall, well-balanced and comprehensive information on their performance, activity and current economic position (Accounting Act, §21, (1), pp. 60-61).

In addition to the information required for compliance with the purpose of an annual report, such report must further contain at least the financial and non-financial information:

- on the events which occurred after the balance-sheet date and are material with regard to compliance with the purpose of an annual report pursuant to subsection;
- on the expected development of the accounting entity s activity;
- on the activity in the field of the environmental protection and on labour relations;
- on the fact whether the accounting entity has an organizational element abroad (Accounting Act, §21, (2), pp. 60-61).

Where it is material for the assessment of a certain accounting entity´s property and other assets, equity and liabilities, its financial position and trading result, the accounting entity using investment instruments, or other similar assets and liabilities, must disclose in its annual report also the information on:

- the objectives and methods of the company´s risks management, including its policy for hedging all main types of planned transactions for which hedging derivatives are used;
- the pricing, credit and liquidity risks and also cash-flow risks faced by the accounting entity (Accounting Act, §21, (3), pp. 60-61).

An annual report shall also include financial statements and the auditor´s report and appropriate, other documents and data required by other stator provisions. An annual report includes information about the expected development of the company, about the activities in the field of research and development, about the connected parties in foreign countries, etc. (Accounting Act, §21, (4), pp. 60-61).

<u>Method of Publication</u>

Obligation to disclose financial statements and annual report shall apply to those accounting entities which are entered in the Commercial Register. They shall make public their financial statements and their annual report in the scope in which these were drawn up (Accounting Act, §21a, (1), pp. 61-62).

Accounting entities shall make public their financial statements and annual report after these have been audited and approved by the competent body pursuant to other statutory provisions and they shall do so within 30 days of fulfilling both these conditions unless other statutory provisions lay down another time-limit, but no later than the end of the immediately following accounting period, irrespective of whether the financial statements were approved in the above-mentioned manner (Accounting Act, §21a, (2), pp. 61-62).

Accounting entities entered in the Commercial Register shall also make public their financial statements and annual report by filing them in the registry of documents of the Commercial Register in accordance with other statutory provisions; financial statements may be filed as part of the annual report (Accounting Act, §21a, (4), pp. 61-62).

3.6 Retention periods for Accounting Records

Accounting record used for the accounting purposes must be retained by accounting entities for a period set out in Accounting Act. Financial statements and annual reports have to be kept for a period of ten years as of the end of the accounting period to which they relate. Accounting vouchers, books of account, depreciation plans, inventory lists, lists of accounts and summaries shall be kept for a period of five years as of the end of the accounting period to which they relate (Accounting Act, §31 pp. 86-87).

3.7 Financial analysis

Investors and creditors cannot evaluate a company health just from one year´s data. That is why almost each company does financial analysis covers trends at least of three to five years.

The core of financial analysis is common-size analysis which expresses comparisons mostly in percentages and includes vertical and horizontal analyses and ratio analysis which evaluates company by using ratios.

Vertical analysis

One of the techniques how to compare different companies is called vertical analyses. Vertical analysis of financial statements indicates the relationship of each item to its base amount, which is the 100% figure. Every other item on the statement is then reported as a percentage of that base. The base amount is usually revenues on the income statement and total assets on the balance sheet. All other items are reported as a percentage of the 100% total assets line on the balance sheet or the 100% revenues line on the income statement. Disadvantage of these analyses is that data could be applied only to one business.

$$\text{Vertical analyses \%} = \frac{Each\ income\ statement\ item}{Revenues\ from\ sold\ material\ and\ services}\ x\ 100$$

Own processing based on HORNGREN, 2012, p. 727

Horizontal analysis

Horizontal analysis is also known as trend analysis and allows a company to see the percentage change from one year to the next.

Trend analyses is percentage change in years, percentage are computed by selecting a base year (amount of base year is set equal to 100%) and the amounts for each subsequent year are expressed as a percentage of the base amount. For computing trend analysis percentage is used following formula:

$$\text{Trend \%} = \frac{Any\ year\ in\ CZK\ (t)}{Base\ year\ in\ CZK\ (t-1)}\ x\ 100$$

Own processing based on HORNGREN, 2012, p. 726

Horizontal analysis is mainly used for time comparison of the balance sheet and the Income statement (HORNGREN, 2012, p. 723-726).

Financial Ratio Analysis

Second option how to evaluate company´s performance is using ratios. However, no single ratio tells the whole picture of any company´s performance. Different ratios explain different aspects of an enterprise. The ratios could be divided into following groups:

1. Liquidity ratios (Quick ratio, Current ratio)
2. Leverage ratios (Debt ratio, Debt/Equity ratio)
3. Profitability ratios (ROS, ROA, ROE)
4. Efficiency ratio (Asset turnover ratio, Receivable turnover ratio, Days dates outstanding ratio)

1. Liquidity ratio

Working capital measures the ability to meet short-term obligations with current assets. Two decision tools based on working-capital data are the acid-test ratio and the current ratio.

<u>The acid-test (quick) ratio</u> is alternative to the current ratio and tells us whether the entity could pay all its current liabilities if they came due immediately. We can say that some assets are closer to cash than others. Formula for the acid-test ratio:

$$\text{Acid} - \text{test ratio} = \frac{Cash + Short - term\ investments + Current\ receivables}{Current\ liabilites}$$

Prepaid expenses and inventory are not included in the acid test because they are the least-liquid current assets (Brealey, 2001, p. 141).

Current Ratio is the most widely used ratio for measuring of liquidity, which is current assets divided by current liabilities. There is described firm´s ability to cover its current liabilities using its current assets, hence:

$$\text{Current ratio} = \frac{Current\ assets}{Current\ liabilites}$$

Own processing based on HORNGREN, 2012, p. 733

Company´s ability to pay current liabilities with its current assets is measured by this ratio.

2. **Leverage ratios**

Financial leverage is usually measured by the total debt ratio.
The debt ratio helps to measure an organization´s overall ability to pay its total liabilities. The ratio is computed as follows:

$$\text{Total debt ratio} = \frac{Total\ debt\ (other\ sources)}{Total\ assets}\ x\ 100$$

Ratio shows the proportion of company´s assets that are financed with debt.

Own processing based on HORNGREN, 2012, p. 737

Debt to equity ratio shows measure of a company's financial leverage calculated by dividing its total liabilities by registered equity. It indicates what proportion of equity and debt the company is using to finance its assets.

$$\text{Debt/Equity ratio} = \frac{Total\ liabilites}{Registered\ capital}$$

Own processing based on www.investopedia.com

3. **Profitability ratios**

The main goal of business is to earn a profit. Ratios that measure profitability are often reported in the business magazines. Ratios are carefully watched by investors, lenders and analysts.

Rate of return on sales (ROS)

Rate or return on sales is sometimes also called Net profit margin and shows the percentage of each net sales crown earned as net income. This is commonly defined as:

$$\text{Rate of return on net sales} = \frac{Net\ Income + Interest\ expense}{Sales}\ x\ 100$$

Own processing based on HORNGREN, 2012, p. 739

Rate on return on total assets (ROA)

The rate on return on total assets measures a company´s success in using assets to earn a profit. It is better to calculate ROA with using net income plus interest because we are measuring the return on all the firm´s assets, not just the equity investment.

$$\text{ROA} = \frac{Income + Interest\ expense}{Average\ total\ assets}\ x\ 100$$

Own processing based on HORNGREN, 2012, p. 739

Rate on return on equity (ROE)

This ratio shows efficiency of using invested money to generate earnings growth.

$$\text{ROE} = \frac{Net\ profit}{Equity}\ x\ 100$$

Own processing based on BREALEY, 2001, p. 146

4. Efficiency ratios

Efficiency ratios show effectiveness of company.

Assets turnover ratio

Asset turnover ratio measures amount of sales generated for each average crown of total assets by the asset turnover ratio. It shows how well a company is using its assets to generate sales revenues.

$$\text{Asset turnover ratio} = \frac{Sales}{Total\ assets}$$

Own processing based on HORNGREN, 2012, p. 740

A high ratio compared with other companies in the same industry could indicate that the firm is working close to capacity. It may prove difficult to generate further business without other investments.

Accounts receivable turnover ratio

The accounts receivable turnover ratio shows the ability to collect cash from credit customers. The higher the ratio, the faster the collection of cash (HORNGREN, 2012, p. 736).

*"*In the same way we evaluated inventory turnover, we can *evaluate a firm's management* of its accounts receivable and its credit policy. The accounts receivable turnover ratio measures how *effectively a firm is using credit extended to customers. The reason for* extending credit is to increase sales. The downside to extending credit is the possibility of default—cust*omers not paying when promised."*

Formula:

$$\text{Receivables turover ratio} = \frac{Sales}{Trade\ receivables}$$

Own processing based on Fabozzi, 2003, p. 740

Day's sales outstanding ratio

Company can get a view of how quickly collects their accounts receivable by calculating the Number of Days of Credit, which is the ratio of balance in trade receivable account at a point in time (say, at the end of a year) to the credit sales per day: where credit sales per day is the ratio of credit sales over a period, divided by the number of days in the year.

$$\text{Days sales outstanding ratio} = \frac{Trade\ receivables}{Sales\ per\ day\ (= \frac{Sales}{365})}$$

Own processing based on Fabozzi, 2003, p. 657

4 Practical part – Case Study

4.1 Introduction of the chosen company ABC

A fictional name Company ABC, Ltd. is used rather than the official name of the selected enterprise as agreed with the management of the company. Company ABC was established in accordance with § 172 of the Commercial Code and began its operations on 3th June, 2010 as limited company with registered capital in amount of 35 million CZK. ABC was founded by earmarking of department of design centre from company operating in the Czech market for more than 50 years. ABC Company follows a long tradition of designing of constructions and electricity. Company deals with projecting activity in the electricity industry. Projecting department received an international certificate of quality management system according to ISO 9001:2008 for the field of design of electrical distribution equipment of low voltage, medium voltage and high voltage and ground structures including supervision and consultancy in September 2010 (ABC´s Annual reports).

The subject of enterprise activities according to the business register is: Advisory and consultancy, expert studies and reports; Design of electrical equipment and constructions; Testing, measurement, analysis and control and services in the field of administration and organizational services and economic character. According to Statistical classification of economic activities in the European Community NACE the company´s activities are included in the section M - Professional, scientific and technical activities and subsections M71.1 - Architectural and engineering activities and related technical consultancy, M71.1.2 - Engineering activities and related technical consultancy and M71.2 - Technical testing and analysis (Justice.cz).

Company ranks among small enterprise according to European Commission classification of small and medium-sized enterprises. Small enterprises are defined as enterprises which employ fewer than 50 people and whose annual balance sheet total does not exceed 10 million Euro. (The new SME definition, 2005, p. 14).

Vision: We want to be the most searched designer´s company
Mission: Customer satisfaction – it is our primary mission. & Everything we do, we are constantly improving.
Each employee is responsible for quality.

Location:

Company´s affiliates are located in the following towns: Ústí nad Labem, Louny and Děčín (where the main branch is). The company is stated in the Ústí nad Labem Region. Number of inhabitants was 825,646; the average age of population was 40.6 years; general rate of unemployment 9.5 %, the average monthly wage in the industry was 27,054 CZK/month in this region in the year 2013(Czech Statistical Office Report, 2013).

The company is one of the largest providers of services in design projects of electrical distribution equipment in this region. The biggest competitor in Ústí nad Labem region is company Martia, a. s.

Property, Plant and Equipment

The company owns one administrative building. The administrative building is equipped with new IT technologies, which are needed to work of project plannerse.g. screens, PC´s with special designers software, servers, office printers and plot printer. Repairing and providing functionality of IT equipment are outsourced to company JEKL, s. r. o. (ABC´s Annual reports).

At the end of year 2012 company owns three cars. One car is used by CEO, second car by sales manager and third car is for project planners. The company has two other rental cars from ČEZ Distribuce; these cars are also used by project planners.

Customers

A dominant customer is ČEZ Distribuce located in Děčín (80 % of total sales), 5 % Alpmont, 5 % Vama and 10 % other small size construction firms. Company doesn´t provide its services to any international costumer (ABC´s Annual reports).

Industry in which the company operates

Generally, the company operates in the L 7.1. Architectural and engineering activities and related technical consultancy field according to NACE classification. This activity is closely connected with L-Real estate activities and D-Electricity, gas, steam and air conditioning supply. In Table 2 below you see development of chosen indicators in those sections; complete table could be found in the Appendix 11.

Table 2: Development of chosen indicators in years 2010-2012

Indicator \ Sector+year	D 2012	L 2012	**L 7.1. 2012**	D 2011	L 2011	**L 7.1 2011**	D 2010	L 2010	**L 7.1. 2010**
Profit (in millions of CZK)	120,382	73,722	**52,891**	4,018	-424	**3,508**	887	353	**2,868**
EVA (in millions of CZK)	45,637	1,650	**-7,965**	-16,564	-22,080	**-19,169**	-348	-1,429	**-112**
Liabilities (= Assets) (in thous. of CZK)	14,154	13,604	**11,731**	1,529	1,575	**1,265**	1,879	1,937	**2,555**
Short-term financial assets (share of assets	6.6%	4.6%	**16.1%**	5.3%	4.3%	**12.2%**	4.4%	6.9%	**10.52%**
Current assets (share of total assets)	29.8%	12.0%	**69.6%**	28.7%	11.4%	**73.0%**	12.8%	32.5%	**74.34%**
Receivables (share of total assets)	20.5%	7.4%	**45.7%**	20.6%	7.0%	**53.7%**	8.0%	23.1%	**48.58%**

Source: Own processing based on reports from Ministry of Industry and Trade of the CR

It is obvious that the industry L 7.1 in the year 2010 had not been affected by the coming financial and economic crises yet. In 2011 profit increased; however not significantly as in 2012.

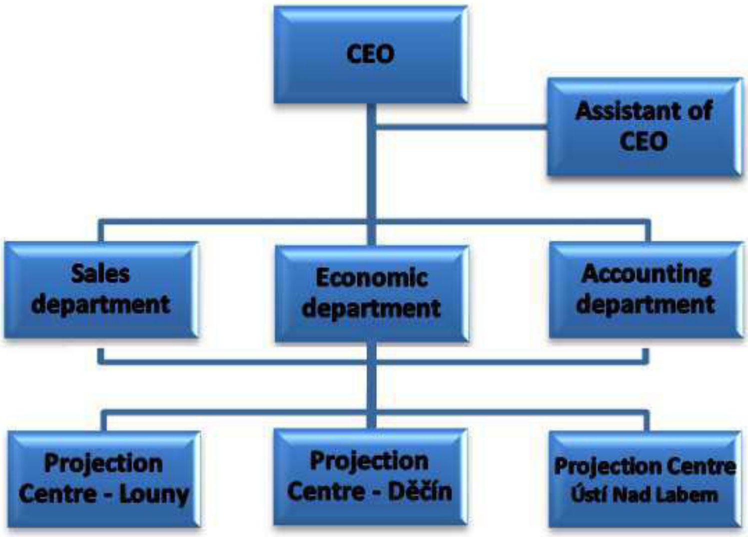
Future perspectives

According to The Ministry of Industry and Trade of the Czech Republic 2013, the Czech business in the sector NACE 7.1 to be more competitive has to continue in adapting processes related to various certificates such as quality management ISO 9001, environmental management systems and safety management system OHSAS 18001. In the year 2012 the sector NACE 7.1 has been showing growth. However, the economic crisis hit construction industry as well as the whole economy. This sector is mainly dependent on the construction industry. Therefore, companies will have to focus on traditional qualities of the Czech engineers to be able to stay competitive.

4.2 Organizational structure of company

ABC Company is a small company with a simple organizational structure, which can be seen in Scheme 2.

Scheme 2: Organizational Structure of Company ABC Ltd.



Source: Own processing based on *ABC´s reports*

ABC employed in average 67.5 employees during year 2010, 61 in year 2011 and 59 in year 2012. Number of employees in individual departments during a year 2012 was as follows: Director, assistant of director, 2 Sales Manager, Economists, Accountant, 53 project planners and assistant project planners. There are 8 offices located in the projection centre for 22 project planners and their assistants, 9 offices for 20 project planners and assistants in Ústí nad Labem and 6 offices for 11 project planners and assistants in Louny.

4.3 Preparation of financial statements in the company

Company ABC prepares its financial statements in accordance with the Czech accounting legislation.

Book-keeping in this company is governed by Czech accounting standards and Czech Accounting legislation. The accounting department uses accounting software programme "BYZNYS Win and BYZNYS VR from company J.K.R. Ltd."

Accounting data is processed on computer, using accounting software BYZNYS Win. This software has several basic modules, like General Ledger, Accounts Payable and Accounts Receivable, Bank Operations, Fixed Assets, Cash Register, Inventory, Payroll, etc. It also contains specialized models for Production, Transport, Customer Relationship Management, etc. The system fully supports e-communication with governmental offices (e-entries, e-signature).

The company uses the following accounting books: Journal, Ledger and Sub-ledgers. The company prepares and updates its chart of accounts on a yearly basis. ABC Company applies Chart of Accounts according to Czech accounting regulations:

- account group 0 – Fixed assets (tangible, intangible)
- account group 1 – Inventory (material, unfinished- products, products,)
- account group 2 – Short-term financial assets (bank account, cash)
- account group 3 – Receivables and short –term liabilities (customers, suppliers, employees, state receivables and liabilities – taxes)
- account group 4 – Equity and long-term liabilities (registered capital, funds, profit and loss)
- account group 5 – Expenses (by nature, Material consumption, Wages, Services, Depreciation)
- account group 6 – Revenues (Revenues from sold products, Changes in own inventory)
- account group 7 and 8 – Internal accounts for management purposes

Fixed Assets

Intangible non-current assets in the company include assets whose useful lifetime is more than 1 year and its acquisition cost is more than 60,000 CZK. Intangible assets in the balance sheet include software and goodwill. Software used in the company is such as Windows Office (Excel, Word and Outlook), BYZNYS VR and WIN, SW Pluto for the calculation of easements, Microstacion Powerdraft for design projects, antivirus ESET NOD32, etc. Software is gradually amortized over 36 months by straight-line method.

Goodwill is related to a business combination, which took place in 2010. The amount of initial goodwill is a difference between the valuation of the investment contribution and the value of its individually revalued asset items (reduced by assigned liabilities). Goodwill is amortized gradually over 60 months.

Table 3: Intangible assets in ABC Company (in thousands of CZK)

Intangible assets	at 31.12.2012	at 31.12.2011	at 31.12.2010
Software	114	233	178
Goodwill	2,687	3,761	4,836

Source: Own processing based on *ABC´s reports*

Tangible non-current assets in the company include assets whose useful lifetime is more than 1 year and its acquisition cost is more than 40,000 CZK. Tangible fixed assets with lower acquisition cost than 40,000 CZK are recorded as expenses of the current accounting period and later on are monitored in operational records of the company. Items with lower cost than 1,000 CZK are recorded as expenses and aren´t longer monitored. Tangible assets in the balance sheet include structures (office building) and separate movable items, such as servers, vehicles, copy machines, printers, computers and laptops. Because of the nature of the projects and a need for a precision, these copy machines and printers are high quality and expensive. Depreciation of the tangible assets is based on their useful lifetime. IT Equipment and vehicles are gradually amortized over 3 years monthly. First depreciation category is amortized over 4 years and second depreciation category over 6 years. Buildings are amortized over 30 years.

Table 4: Intangible assets in ABC Company (in thousands of CZK)

Tangible fixed assets	at 31.12.2012	at 31.12.2011	at 31.12.2010
Constructions	7,580	7,738	7,896
Equipment	194	553	997

Source: Own processing based on *ABC´s reports*

Current Assets

Current assets are consisting of Short-term receivables, financial assets and inventory. Receivables are valued at a nominal value. Schedule of adjustments for doubtful accounts is visible in Table 5.

Table 5: Schedule of Adjustments for Doubtful Accounts

Maturity	Accounting adjustments	Tax adjustments	Total adjustments
overdue within 3 months	0%	0%	0%
overdue 3 - 6 months	20%	0%	20%
overdue 6-12 months	30%	20%	50%
overdue 12-18 months	60%	20%	80%
overdue 18-48 months	80%	20%	100%
overdue 48 the statute of limitations	67%	33%	100%
defendant from 18 to 24 months	50%	50%	100%
defendant from 24 to 30 months	34%	66%	100%
defendant from 30 to 36 months	20%	80%	100%
defendant over 36 months	0%	100%	100%

Source: Own processing based on *ABC´s reports*

Receivables of the company are divided into categories according to their age. The structure of short-term receivables is shown in Table 6.

Table 6: Short-term receivables in ABC Company (in thousands of CZK)

Receivables netto	at 31.12.2012	at 31.12.2011	at 31.12.2010
Trade receivables	5,672	7,364	7,242
Tax receivables due from state	1,990	52	-
Short- term advance payments	150	225	150
Other receivables	245	711	-1
Total	**8,057**	**8,352**	**7,391**

Source: Own processing based on *ABC´s reports*

Standard maturity of invoices is 14 days, ČEZ Distribuce has 21 days and in special cases maximum maturity could be 60 days.

Inventory in the company includes material and work-in-progress. Material is operating expense and office material and the work-in-progress represent unfinished projects.

Material is valued at the level of its acquisition cost, which includes the actual purchase price, transportation costs, insurance and commissions. Unfinished projects are valued by total direct expenses, which include direct material consumption, direct wages and related social and health insurance and other direct expenses (mainly services and supplies directly related to a specific project). The structure of inventory is shown in Table 7.

Table 7: Structure of inventory in ABC Company (in thousands of CZK)

Inventory	at 31.12.2012	at 31.12.2011	at 31.12.2010
Material	1,457	1,446	1,602
Work-in progress	9,753	13,602	15,106

Source: Own processing based on *ABC´s reports*

Equity

Equity is composed by registered capital, funds, retained earnings, accumulated losses and profit/loss for current year. In Table 8 results of these items at the end of year 2010-2012 are shown.

Table 8: Structure of equity in ABC Company (in thousands of CZK)

Equity	at 31.12.2012	at 31.12.2011	at 31.12.2010
Registered capital	35,000	35,000	35,000
Legal reserve fund	574	298	-
Statutory and other funds	500	-	-
Retained earnings from previous years	1,160	524	-
Accumulated losses from previous years	-132	-132	-132
Profit/loss for current year	- 6,160	5,512	2,982
Total	**30,941**	**41,201**	**9,702**

Source: Own processing based on *ABC´s reports*

The main item of Equity is created by registered capital which is 35 million CZK. Commercial Code requires registered capital in the amount more than 1 CZK, but because of public contracts requirements ABC Company has capital in value of 35 million CZK.

Provisions

The company creates provisions for bonuses of employees and for outstanding vacations. The amounts of provisions in thousands of CZK are shown in Table 9. The Company records the creation of provisions as an expense and a current liability. These provisions are not recognized by the Czech Income Tax Act.

Table 9: Amounts of provisions in ABC Company (in thousands of CZK)

Provisions	Amount 2011	Creation	Use	Amount at 31.12. 2012
Bonuses	168	134	166	134
Vacation	498	377	498	377
Total	**666**	**511**	**666**	**511**

Source: Own processing based on *ABC´s reports*

Liabilities

Trade payables are related to suppliers. Liability to employees and liability to institutions of social security and health insurance is calculated according to the payroll. Legal social security and health insurance is 34 % of gross wages in the Czech Republic. Some of the insurance was paid; some part remains unpaid at the balance sheet date. Other payables include fees from the company's mobile phones and pension insurance. Tax liabilities include income tax duty and liability to pay direct taxes deducted from employees' wages and a road tax.

Table 10: Structure of short-term liabilities in ABC Company (in thousands of CZK)

Short-term liabilities - payables	**at 31.12.2012**	**at 31.12.2011**	**at 31.12.2010**
Trade payables	1,652	1,519	3,448
Payroll	2,158	3,611	2,052
Due to social securities and health insurance	1,252	2,175	1,226
Due from state - tax liabilities	629	2,415	2,279
Other payables	59	45	44
Total	**5,749**	**9,765**	**9,049**

Source: Own processing based on *ABC´s reports*

At the end of year 2012 not all liabilities are overdue as Table 11 shows.

Table 11: ABC´s overdue short-term payables (in thousands of CZK)

Short-term payables	at 31.12.2012
not yet overdue	3,066
overdue up to 6 months	37

Source: Own processing based on *ABC´s reports*

Accruals and deferrals

The accrual principle of accounting is observed at the company, and expenses and revenues are recorded and reported in accounting periods, when they occur.

In the company, only deferred expenses are used, which represents prepaid expenses, such as rent for offices and vehicles rent from ČEZ. Deferred expenses are reported in the balance sheet as assets.

Closing the books procedures and financial statements preparation

Company ABC prepares its financial statements in accordance with the Czech accounting legal frame, mainly in accordance with the Accounting Act, Decree 500/2002 Coll. and Czech accounting standards.

Inventory- taking

Inventory-taking at the company is ongoing for 2 months, from December to January. The beginning and schedule of inventory-taking is ordered by the Director´s Instruction. The company has no written policy regarding the inventory count process (inventory plan, inventory instructions). In this policy a date of conducting the physical inventory, assign responsible persons and describe the methods to be used should be determined.

Physical inventory-taking is applied in case of fixed intangible assets (software); fixed tangible assets, which include servers, vehicles, copy machines, printers, computers and laptops; inventory, which include unfinished production, work-in-progress and cash

Book inventory-taking (documents) is applied in case of trade receivables, trade payables, non-current intangible assets (goodwill), bank account settlements, state receivables and liabilities and accruals and deferrals. The results of inventory taking are recorded before the book-closing.

Value adjustments of assets

As a part of book-closing procedures, the value of assets should be adjusted and recorded. Permanent reduction of value is recorded as amortization in case of intangible assets and depreciation in case of tangible assets. The company has an amortization and depreciation plan for all its non-current assets, which is based on their useful lifetime. Accounting depreciation is not affected by tax depreciation.

Temporary reduction of value is recorded for receivables, which are overdue. The amount of this temporary reduction is affected by tax requirements and there is no other (accounting) reduction of the value of assets, which would reflect the true and fair view of economic reality.

Recording provisions

Creation and use of provisions is recorded according to accounting requirements.

Accruals and deferrals

Accruals and deferrals are recorded in the company in accordance with the accrual basis of accounting.

Exchange rate gains and losses

Company ABC is not in business with foreign trade partners, so has no bank accounts in foreign currency.

Estimated receivables and liabilities

Estimated amounts at the end of accounting period should be recorded. Company ABC records expenses, which occur in the accounting period, even if there is no received invoice. This is a case of energy consumption, where the company has not billed the consumption yet, and other unbilled expenses, where the amount of liability is only estimated.

Tax payable and deferred tax

Tax payable is calculated from tax base. Tax base is calculated by transformation of accounting profit to tax base. Table 12 shows, how this transformation is carried out.

For the year 2012, there is an accounting loss, but it does not mean, that the tax base is necessarily negative as well. It depends on specific expenses, which are recognized in accounting but not recognized for tax purposes.

Deferred tax is only an accounting method, the company does not pay it, and it only has an effect on the amount of net profit/loss. It is calculated from temporary differences between the accounting book value and tax book value and is related to depreciation of assets and creation of provisions and bad debt adjustments.

Table 12: Income tax calculation in ABC Company

Income Tax calculation	**2012 ABC**	**2011* Own calculation**	**2011 ABC**
Total accounting revenues	33,675,000	56,116,000	56,116,000
- Total accounting expenses	39,777,000	49,013,000	49,013,000
= Accounting profit/loss	-6,102,000	7,103,000	7,103,000
+ Expenses not recognised as necessary	**466,262**	**1,502,263**	**1,403,000**
Accounting depreciation (above tax depreciation)	27,560	14,560	14,560
Gifts	0	0	0
Representation expenses	42,014	25,813	25,813
Fines and penalties	0	0	0
Travel expenses (above limit)	4,800	5,100	5,100
Provisions (other than legal)	- 154,556	13,379	13,379
Adjustments (above tax adjustments)	- 78,180	14,728	14,728
Shortages (above compensation)	0	0	0
Unpaid social insurance	463,284	1,252,000	1,252,000
Other	161,340	176,683	77,420
- Revenues which are not a part of tax base	**0**	**0**	**0**
Received dividends	0	0	0
Other	0	0	0
= Tax base	-5,635,738	8,605,263	8,506,000
- Deductible items:	**0**	**0**	**0**
Research and development	0	0	0
Tax loss from previous years	0	0	0
Reinvestment	0	0	0
Gifts	0	0	0
= Tax base	-5,635,738	8,605,263	8,506,000
Tax base (rounded down to full thousands)	0	8,605,000	8,506,000
Income Tax	0	1,634,950	1,616,000
- Tax credits (disabled employees)	0	0	
Income Tax to be paid	**0**	**1,634,950***	**1,616,000**
Additional Income Tax to be paid for year 2011	19,050		

Source: Own processing based on *ABC´s reports*

*Note: The amount of income tax is the authors own calculation, based on an interview with the company ABC´s accountant and on own study of the Income Taxes Act. Company ABC calculated its income tax for 2011 at 1,616,000 CZK, but the auditor pointed out, that it should be 19,000 CZK more. Company ABC had to record and pay the additional income tax 19,050 CZK, in year 2012.

Other expenses, which are not recognized by the Income Taxes Act, are remunerations to board members and other social expenses related to employees, like lunch vouchers (above the recognized limit), contribution of ABC to its employees retirement and life insurance (savings). Statutory social and health insurance is recognized as a necessary expense only if it's paid. Accounting depreciation is equal to tax depreciation. Adjustments are made to doubtful debt receivables.

In 2012, the company had duty to submit an additional tax return for year 2011 because of a wrong employee severance payment. Company paid an extra 100,000 CZK to the employee by mistake. The additional tax assessment was therefore 19,050 CZK lower. There are 'Provisions and Adjustments' items in minus because they used this sources. Income tax in Table 13 includes income tax to be paid and deferred tax as well.

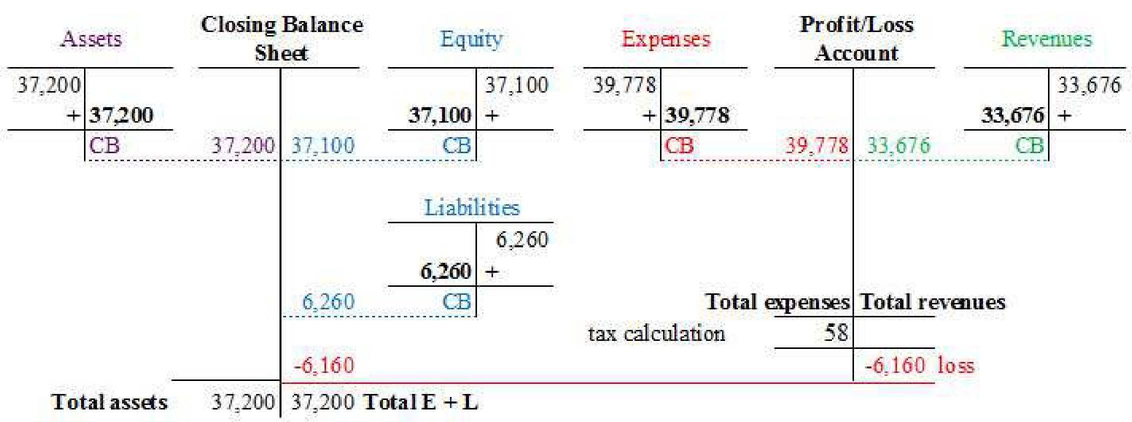
Table 13: Net profit calculation

Item	2012	2011	2010
Accounting profit	-6,160	5,512	4,126
- income tax	58	1,592	1,144
Net profit (after taxation)	-6,102	7,103	2,982

Source: Own processing based on *ABC´s reports*

Closing the books in Chart 4 is visible graphic representation of closing process in ABC Company for year 2012. There is equality between total assets and total equity plus total liabilities and visible transfer loss from Profit/Loss account to Closing Balance Sheet.

Chart 4: Closing process in ABC Company for year 2012



Source: Own processing based on *ABC´s reports*

Financial statements preparation

Company ABC prepares Balance sheet and Income Statement (see appendix 1 and 2). The company does not prepare Cash-flow statement and Statement of Changes in own Equity.

The financial statements are prepared in full format. Number of finished projects was 458 projects in 2010, 701 projects in 2011, 582 projects in 2012.

Responsibilities related to reporting

Company ABC is a limited liability company. Audit is legally required, if a company exceeds in two consequent years 2 of the minimum limits. In the table 14 results for years 2010-2012 are shown.

Table 14: Summary of indicators for assessment to have mandatory audit

Criteria for audit	Criteria limits	2010	2011	2012
Value of long-term assets	>40 mil. CZK	7,774,000	8,291,000	8,893,000
Net turnover	>80 mil. CZK	32,415,000	56,110,000	33,668,000
Number of employees	>50	67,5	61	59

Source: Own processing based on *ABC´s reports*

There is visible that statements of the enterprise are voluntarily audited annually by a statutory auditor because it exceed limit only in one criteria and it is number of employees.

There is obligation to publish financial statements for each company sign in Commercial Register. ABC Company fulfils this requirement. Annual report compiles compulsorily audited entity in accordance to law. ABC Company compiles also this Annual report voluntarily.

4.4 Analysis of financial statements

4.4.1 Horizontal analysis of balance sheet

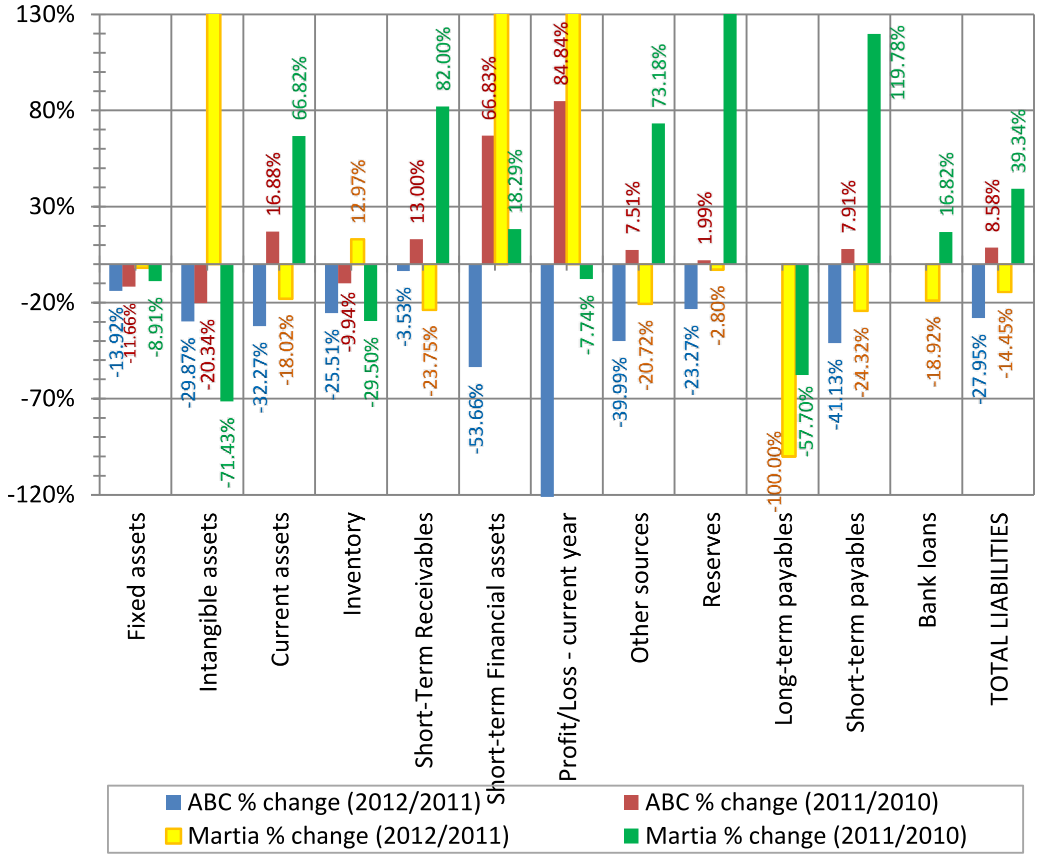
Results of horizontal analysis of the balance sheet are showed in the Graph 1 are based on data in an Appendix 9. The absolute and relative changes in assets and liabilities of ABC Company as well as Martia Company are displayed in this Appendix.

There is displayed development of chosen balance sheet´s items for years 2010-2012 for better imagination. Blue columns symbolize change in items of ABC between years 2012 and 211, yellow are items of Martia 2012/2011, red ABC 2011/2010 and green Martia´s changes in items for years 2011/2010.

Next part is focused on fixed assets. Both companies record in this category Tangible fixed assets as buildings and equipment, Martia has extra lands; and intangible assets include software, company ABC records in this items goodwill. All these items had decreasing tendency in years 2011 and 2012 except software in case of Martia in 2012. In year 2012 Martia increased software by 61,000 CZK what means 190.63% in comparison with year 2011.

Next chosen item of balance sheet is current assets that include inventory, short-term receivables and short-term assets as money in cash and in bank account. It is visible that both companies increased their current assets through year 2011 and decreased them through year 2012. There is enormous increase in value of 2,114.63% in case of Martia´s money at bank account in year 2012. There is no explanation for it without internal information from Martia for decision to have a more than 6,000,000 CZK at bank account.

Graph 1. Development of balance sheet´s items for years 2010-2012



Source: Own processing based on Financial Statements

Year 2012 wasn´t good for ABC Company and it is also visible at loss for this year in relative number in amount of -211.76% in comparison with previous year. On the other hand for the same period of time Martia had increase in amount of 189%. There is increase by 279% of not obligatory reserves for year 2011 in case of Martia Company.

Item “Other sources” includes reserves (provisions), long-term payables, short-term payables and bank loans. Columns for long-term payables and bank loans aren´t visible at the graph for Company ABC because it doesn´t have any. Total liabilities (or assets) were increasing in year 2011 and decreasing year 2012.

4.4.2 Vertical analysis of balance sheet

Table No. 13 shows chosen results of the vertical analysis of balance sheet (full analysis can be found in Appendixes No. 5, 7 and 9). Vertical analysis demonstrates percent of the individual items in balance sheet to total assets.

As was mentioned in previous chapters company is engaged in providing services in the field of design project´s documentation. The highest proportion of assets include current assets (inventory and short-term receivables), and on the other hand consists of equity.

There is higher share of Intangible assets (ABC 7.53% in 2012, 7.74% in 2011 and 10.54% in 2010) this percentage is higher in comparison with Martia because ABC company records goodwill under this item. Inventory also report higher percentages than in case of Martia, there is higher proportion of Work in progress specifically projects in progress, this means higher future profit. On the other hand we can see that percentage of trade receivables is lower more than 30% in comparison with Martia and with industry average as well. It is good sign of good politics of debt collection and good relationships with customers.

Item Short-term financial assets are in turn lower than in Martia or industry average. ABC Company has a lot of money at bank-accounts almost 20% of assets in year 2012 and 2010 and 30% of assets in year 2011. Company should invest that money. Low value of investment is also shown up in item other source where value around 20% of total assets is in comparison with values around 65% in case of Martia and Industry average really low. Company is obviously slows down with lack of innovation and investments. Equity reaches higher values but only in percentages real Equity is 37.2 million CZK in case of ABC and 50.874 million CZK in case of Martia. The largest part of the base of equity consists of registered capital. Although there is mandatory registered capital in the amount of 1 CZK regarding to Commercial Code, for reason of public contracts requirements both companies have capital of more than 25 million CZK.

As can be seen from a comparison with a competitive firm Martia and available values given by the Ministry of Trade and Industry, the distribution of items in the balance sheet of ABC is in general comparable with Martia and whole industry in section L 7.1. with a few reservations.

Table 15: Chosen results of vertical analyses of balance sheets for years 2010-2012

Company + year / Item of BS	ABC	Martia	Sector L 7.1	ABC	Martia	Sector L 7.1	ABC	Martia	Sector L 7.1
	2012	**2012**	**2012**	**2011**	**2011**	**2011**	**2010**	**2010**	**2010**
Fixed assets	**28.43%**	**25.59%**	**29.92%**	**23.79%**	**22.56%**	**26.46%**	**29.25%**	**35.23%**	**25.04%**
Intangible assets	**7.53%**	**0.07%**	**X**	**7.74%**	**0.02%**	**X**	**10.54%**	**0.10%**	**X**
Tangible fixed assets	**20.90%**	**25.52%**	**X**	**16.06%**	**22.33%**	**X**	**18.70%**	**34.83%**	**X**
Current assets	**71.53%**	**73.31%**	**69.56%**	**76.09%**	**77.37%**	**73.04%**	**70.69%**	**65.95%**	**74.34%**
Inventory	**30.13%**	**4.21%**	**7.82%**	**29.15%**	**3.23%**	**7.08%**	**35.14%**	**6.51%**	**15.23%**
Short-Term Receivables	**21.66%**	**64.37%**	**X**	**16.18%**	**73.04%**	**X**	**15.54%**	**57.07%**	**X**
Trade receivables	15.25%	58.72%	45.69%	14.26%	68.64%	53.69%	15.23%	51.69%	48.58%
Short-term Financial assets	**19.74%**	**4.60%**	**16.05%**	**30.69%**	**0.18%**	**12.27%**	**19.98%**	**0.22%**	**10.52%**
Equity	**83.17%**	**36.30%**	**27.67%**	**79.80%**	**29.02%**	**29.51%**	**79.60%**	**39.88%**	**29.32%**
Registered capital	**94.09%**	**19.62%**	**6.48%**	**67.79%**	**16.98%**	**6.28%**	**73.61%**	**24.14%**	**9.22%**
Other sources	**16.83%**	**63.17%**	**70.92%**	**20.20%**	**68.94%**	**68.82%**	**20.40%**	**56.61%**	**67.56%**
Reserves	**1.37%**	**6.55%**	**X**	**1.29%**	**5.83%**	**X**	**1.37%**	**2.19%**	**X**
Short-term payables	**15.46%**	**35.25%**	**39.49%**	**18.91%**	**40.30%**	**49.27%**	**19.03%**	**26.08%**	**50.51%**
Bank loans	**0.00%**	**21.37%**	**X**	**0.00%**	**22.80%**	**X**	**0.00%**	**27.76%**	**X**
Total liabilities / Total assets	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

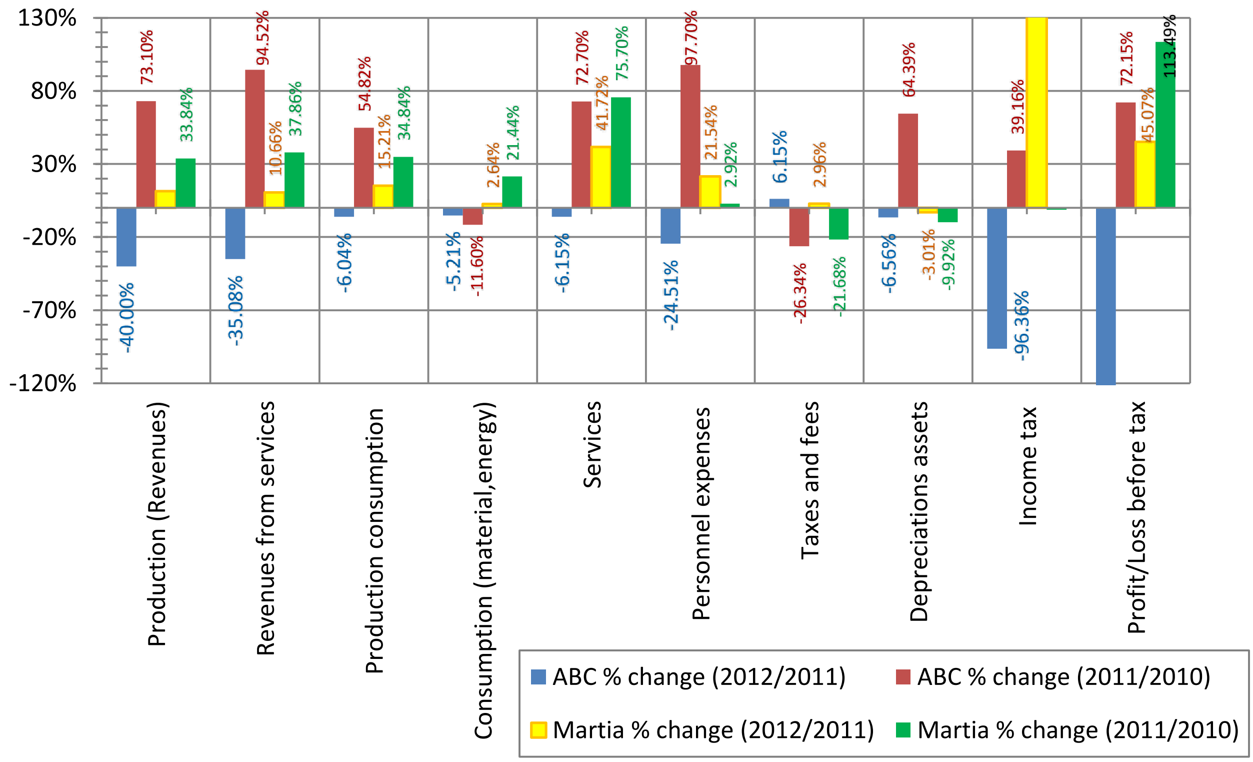
Source: Own processing based on Financial Statements and Ministry of Industry

4.4.3 Horizontal analysis of income statements

Horizontal analysis of Income Statement is based on Appendix 10. The most significant elements in the graph 2 are blue columns mainly located at the negative side of graph. Those columns show poor management especially in field of fall of production that includes of revenues from services, change in inventory and capitalisation.

It was already said in chapter horizontal analysis of balance sheet the development of Profit/Loss before tax was growth each year except year 2012 in case of ABC, when not enough contracts caused costs were higher than revenues. ABC´s item Profit/Loss before tax in year 2012 was by 185.91% lower than previous year; with this is connected fact that tax in the same year was lower by 96.36%, too.

Graph 2. Development of income statement´s items for years 2010-2012



Source: Own processing based on Financial Statements

Increase of almost all of the items of ABC company for year 2011 (red columns) in comparison with previous year is caused because company operates just half a year during year 2010. Company was established in June of 2010.

4.4.4 Vertical analysis of the income statement

Table No. 14 shows chosen results of the vertical analysis of income statement (full analysis can be found in Appendixes No. 6 and 8). Vertical analysis demonstrates percent of the individual items in income statement to revenues from sold goods and own products.

Table 16: Chosen results of vertical analyses of income statement for years 2010-2012

Company + year / Item of IS	ABC 2012	Martia 2012	ABC 2011	Martia 2011	ABC 2010	Martia 2010
Revenues from own prod-	100.00	98.88%	100.00	98.81%	100.00	95.33%
Production consumption	33.73%	75.29%	23.30%	72.27%	29.28%	71.28%
Consumption of material	4.12%	45.50%	2.82%	49.02%	6.21%	53.68%
Personnel expenses	66.03%	20.20%	56.79%	18.38%	55.87%	23.75%
Wages and salaries	46.60%	14.60%	40.53%	13.22%	39.59%	17.07%
Social security expenses and	15.77%	5.01%	13.60%	4.53%	13.39%	5.88%
Other social expenses	3.50%	0.30%	2.57%	0.31%	2.89%	0.38%
Depreciations of assets	4.37%	1.10%	3.04%	1.26%	3.59%	1.86%
Income tax on ordinary income	0.15%	0.52%	2.76%	0.09%	3.85%	0.13%
Profit/loss of current account-	-16.42%	1.60%	9.54%	1.29%	10.04%	0.88%
Profit/loss before tax (+/-)	-16.27%	2.12%	12.30%	1.62%	13.89%	1.01%

Source: Own processing based on Financial Statements

The comparison of vertical analyses of Income Statement of Company ABC and Martia doesn´t make sense much, because there is big difference in turnover of each company. Martia has higher revenues as well as expenses.

Personnel expenses were the largest share of total revenues in amount of 66.03% in year 2012, 56.79% in 2011 and 55.87% in 2010 with personnel expenses are contacted wages and security expenses that are higher than as well in comparison with Marti. . Martia´s the largest share was production consumption in amount of 75.29% in year 2012, 72.27% in 2011 and 71.28% in 2010. This difference is caused by different size of company and distribution of expenses. Item depreciation of assets is also higher in ABC Company. In absolute values both companies has similar net profit but in percentage it is much higher in case of ABC as a share of Revenues from sold services. Again we can see negative accounting result in 2012 in case of ABC Company. Net profit according to Ministry of Industry and trade for whole Industry in section L 7.1. was in 2012 2.48%, in 2011 0.96% and 5.91% 2012. We can deduce from these values that the whole industry was in 2011 and 2012 too favourable (all information about selected industries can be found in Appendix 9).

4.4.5 Ratio analysis

Different types of ratios based on information in the financial statements of ABC Company and its competitor Martia have not been calculated. Output of calculations is summarized in the Table 13.

Table 17: Results of Ratio analysis in ABC and Martia Company for years 2010-2012

	ABC			Martia		
	2012	2011	2010	2012	2011	2010
Return on Sales	-16.42%	9.54%	10.04%	1.71%	1.44%	1.22%
Return on Assets	-16.40%	13.76%	8.68%	5.12%	3.14%	2.45%
Return on Equity	-17.60%	15.75%	8.52%	18.74%	13.67%	7.00%
Asset turnover ratio	1.01 CZK	1.12 CZK	0.62 CZK	2.27 CZK	1.75 CZK	1.77 CZK
Receivables turnover ratio	6.61 times	7.80 times	4.09 times	3.90 times	2.63 times	3.63 times
Days sales outstanding	55.20 days	46.77 days	89.18 days	94.54 days	141.36 days	103.19 days
Current ratio	4.63 times	4.02 times	3.71 times	2.08 times	1.92 times	2.28 times
Quick Ratio	2.68 times	2.48 times	1.87 times	1.96 times	1.84 times	2.28 times
Total debt ratio	16.83%	20.20%	20.40%	63.17%	68.94%	56.61%
Debt-equity ratio	106.29%	147.52%	135.86%	509.67%	589.06%	414.21%

Own processing

Return on sales shows relations of net income to sales in way how much crowns brings each crown of sales. ABC Company in 2010 has had the results of 10.4%, in 2011 9.54% and in 2012 this ratio fell to negative result -16.42%. Martia has through years 2010-2012 more stable results of this ratio with slightly increasing profitability from 1.22% in 2010 to 1.71% in 2012.

Return on Assets ratio for ABC Company was 8.68% in 2010, and then it increased up to 13.76% in 2011 when was the highest effectiveness usage of assets for generation of profit.

This very good result was followed by negative result -16.4% in 2012. Martia has had slightly increasing results of this ratio from 2.45% in 2010 to 5.12% in 2012.

Return on Equity of ABC Company in 2010 was 8.52% and increased at the level of 15.75% in 2011 when the efficiency of using invested money to generate earnings was 15.75 crowns. Because of loss in the year 2012 there was again negative result in ROE i.e. -17.6%. Martia´s ROE was 7.00% in 2010, 13.67% in 2011 and 18.74% in 2012.

Asset turnover ratio says about asset turnover of a company. ABC Company has had increasing of the Sales to total assets from 0.6 in 2010 to 1.1 in 2011, this means that for every crown of Company ABC´s assets, company generated 1.1 crown in revenue in year 2011. There was small decrease of this ratio in 2012 to the value of 1. While Martia has again better results in this ratio 1.8 in 2010 and 2011 and 2.3 in 2012.

Receivable turnover ratio & Day sales outstanding ratio

ABC´s receivable turnover ratio reached values 8.61 times per year in 2010, 38.03 times per year in 2011 and 22.7 times per year in 2012. Martia´s receivable turnover ratio reached values 3.63 times per year in 2010, 2.63 times per year in 2011 and 3.9 times per year in 2012. Days sales outstanding ratio shows the same result but in days. It means that ABC´s subscribers pay their receivables within 89.18 days in 2010, 46.77 days in 2011 and within 55.2 days in 2012. Subscribers of Martia needed more time to pay invoices from Martia, i. e. 103.19 days in 2010, 141.36 days in 2011 and 94.54 days in 2012.

Current ratio of ABC Company was 3.71 in 2010, 4.02 in 2011, and it increased in 2013 up to 4.63 times. Martia did not have so big changes and the ratio 2.53 in 2010, 1.92 in 2011 and 2.08 in 2012.

Quick Ratio of ABC Company was 1.87 in 2010, 2.48 in 2011 and still increased up to value 2.68 in 2012. In case of Martia we can say that results of this ratio is comparable, i. e. 2.28 in 2010, 1.84 in 2011 and 1.96 in 2012.

Total debt ratio for ABC Company was 20.404% in 2010, 20.203% in 2011 and 16.828% in 2012; therefor ABC Company is financed less than 21% with debts. Martia was financed by debt in following shares 56.610% in 2010, 68.938% in 2011 and 56.610% in 2012.

Debt to Equity ratio for ABC Company has changed significant during this period: from 135.86% in 2010, 147.52% in 2011 and then slump to 106.29% in 2012. Martia group had various trends as well, from 120% in 2009 it declined to 101% in 2010 and 86% in 2011 and then it increased up to 130% in 2012. Martia has much more higher share 414.21% in 2010, 589.06% in 2011 and 509.67% in 2012 where the proportion of debt to equity is extremely high.

4.5 Income Statement by function

The company compiles Income statement by nature. For more information, it would be useful to compile Income statement by function, even if only for management purposes.

The company records its expenses by nature, so the information about expenses by function cannot be found at the ledgers. For the compilation of income statement by function, the information has to be calculated from the sub-ledger accounts.

To compile the Income Statement by function, the following aggregate expenses have to be calculated:

- expenses on sold products and services
- administrative expenses
- distribution expenses

Table 18 shows the proposed division of expenses by nature, according to the information on the sub-ledger accounts (operating expenses only, as the financial part is identical at both Income statements by nature and by function).

Table 18: Proposed division of expenses by nature

Expenses	Direct expenses of projects	Operating overhead	Administrative overhead	Distribution overhead
Material consumption	398,209			
Office material			17,182	
Literature			670	
Fuel consumption	166,463		55,488	55,488
Promotional items				42,014
Energy consumption		636,678	135,294	23,876
Total	**564,672**	**636,678**	**208,634**	**121,378**

Source: Own processing based on *ABC´s reports*

Energy consumption includes energy, water and heating expenses. Fuel consumption is divided according to the estimated use of cars.

Table 19: Proposed division of expenses for services by nature

Expenses	Direct expenses of projects	Operating overhead	Administrative overhead	Distribution overhead
Repairs, maintenance		173,616	34,974	
Travel expenses	12,981		17,857	17,856
Representation			24,220	
Mobile phones		67,570	21,443	21,443
Internet, land phones		246,835	105,956	58,600
Postage	220,176		33,027	11,009
Rent of offices		2,134,796		
Rent of cars		243,101	81,034	81,034
Training		43,559	12,445	6,223
Other services		268,800		
Legal services			493,096	
IT services	1,220,804			
Subcontracts	5,300,677			
Other services			139,894	
Total	**6754638**	**3,178,277**	**963,946**	**196,165**

Source: Own processing based on *ABC´s reports*

Offices are rented in Usti nad Labem and Louny. Subcontracts include Geodetic Survey of Construction, static expert calculations, and fire safety reports.

Table 20: Proposed division of payrolls by nature

Expenses	Direct expenses of projects	Operating overhead	Administrative overhead	Distribution overhead
Wages	15,030,899		1,897,202	734,881
Legal social insurance	5,110,506		624,649	249,860
Other social expenses			1,313,552	
Total	**20,141,405**		**3,835,403**	**984,741**

Source: Own processing based on *ABC´s reports*

Wages of project planners and their assistants are direct expenses of the individual projects. Administrative wages include wages of director, secretary, economist, accountant, and receptionist. Other social expenses include contributions to private life and retirement insurances and meal vouchers. Project planners use vehicles for visiting teren and measure there GPS points and later supervise place of construction.

Table 21: Proposed division of taxes and fees by nature

Expenses	Direct expenses of projects	Operating overhead	Administrative overhead	Distribution overhead	Expenses
Road tax		4,773	1,591	1,591	
Other taxes and fees	728,201				
Insurance			193,380		
Depreciation		529 982	1,091,688	17,064	
Provisions					-232,736
Bank fees					20,870
Total	**728,201**	**534,755**	**1,286,659**	**18,655**	

Source: Own processing based on *ABC´s reports*

Other taxes and fees are paid to authorities and are related directly to the individual projects. Insurance includes the insurance of assets and accident insurance. Depreciation includes depreciation of the office building, individual moveable items, cars and goodwill. Provisions were created the previous years and in 2012 were used for the intended purpose.

Income statement by function in simplified version is shown in table Expenses on sold projects and services include expenses on projects, which started the previous years and were finished in 2012.

Table 22: Profit/Loss by function for year 2012

Profit/loss by function	Amounts in CZK
Revenues from projects and services	37,506,202
Expenses on sold projects and services	- 36,376,626
Gross profit	1,129,576
Administrative expenses	- 6,294,642
Distribution expenses	- 1,320,939
Other operating expenses	+ 232,736
Other operating revenues	0
Operating profit/loss	- 6,253,269
Financial expenses	- 20,870
Financial revenues	5,000
Profit/loss from financial activity	- 15,870
Profit/loss before tax	- 6,269,139

Source: Own processing based on *ABC´s reports*

Other operating expenses are reducing the amount of total operating expenses, because according to Czech accounting regulations, use or cancellation of provisions are credited to the expense accounts, on which they were debited in previous years, when they were created. Profit or loss should be always the same in Income statement by nature and by function.

The reason, why there is a slight difference between the operating loss in the Income statement by function shown in table 22 and Income statement by nature shown in the Appendix 2 is firstly due to the decision to include insurance in operating activity (rather than in financial activity, which is how the company is reporting it) and secondly due to using real amounts from ledgers and sub ledgers, without rounding to full thousands, as is required for the official Income statement by nature, where the amounts are reported in full thousands CZK.

The valuation of own projects include direct expenses, such as material consumption, wages and social and health insurance to these wages and then services related to projects, such as subcontracts for geodetic survey of construction, static expert calculations, and fire safety reports. It does not include operating overheads, which are usually fixed expenses, such as energy consumption in offices, depreciation, rent, repairs and other services.

Table 23: Expenses on sold projects for year 2012

Expenses on sold projects	**Amount in CZK**
Material consumption	564,674
Travel expenses	12,981
Postage	220,176
IT services	1,220,804
Subcontracts	5,300,677
Wages	15,030,899
Social insurance to wages	5,110,506
Other taxes and fees	728,201
Total direct expenses	**28,188,918**
Total operating overhead	4,349,710
Finished projects from previous years	3,838,000
Total expenses on sold projects 2012	36,376,626

Source: Own processing based on *ABC´s reports*

Expenses on sold projects in the Income statement by function, as shown in table 23, the total expenses include operating overhead as well. If the expense on sold products would include only direct expenses (and expenses on finished projects from previous years), the gross profit would be higher (as shown in table 24), but the total operating profit would be the same loss, because operating overhead would have to be included in other expenses.

Table 24: Profit/Loss in ABC Company in year 2012

Profit/loss by function	Amounts in CZK
Revenues from projects and services	37,506,202
Expenses on sold projects and services (direct expenses only)	- 32,026,918
Gross profit	5,479,284

Source: Own processing based on *ABC´s reports*

By not including operating overhead in the project expenses, there is higher profit from projects, but this profit is not enough to cover the most fixed overhead expenses. The result is loss.

The company should include the operating overhead in the expenses of the project and set the price accordingly, so higher revenues would cover all expenses, variable expenses on projects but also administrative and distribution overhead as well.

By dividing the expenses to direct expenses, operating overhead, administrative overhead and distribution overhead, it is easier to identify the problematic expenses, such as too high rent for offices or land phone use. The company should find cheaper offices and restrict the use of landline phone use and set a limit.

5 Results and Discussion

This chapter is dealing with assessment of accounting procedures used in the company ABC and comparison with legal requirements, Assessment of financial analysis and comparison with the theoretical background and with the results of the main competitor and identification of problematic issues in both areas.

Assessment of accounting procedures

A) Internal directives for accounting methods and procedures

Company ABC has several internal directives for different areas of accounting. These directives should serve as a guideline and internal regulation for recording specific accounting events. Internal directives of the company are too general, no real guidelines for specific problems (schedules for inventory-taking, ways of physical inventory-taking, training of the inventory-taking staff, etc.) Table 25 shows a summary assessment of the company´s directives.

Table 25: Summary of using Internal directives in the company ABC

Internal directives	Existence	Sufficient details	Updated
Long-term assets, depreciation plan	yes	no	no
Inventory taking	yes	no	no
Accounting for inventory	yes	yes	yes
Organizational rules	yes	yes	yes
Chart of Accounts	yes	yes	yes
Closing the books procedures	no	no	no
Accounting documents and signatures	yes	yes	yes
Accruals and deferrals	yes	yes	yes
Exchange rate differences	yes	yes	yes
Adjustments to doubtful accounts	yes	no	no
Provisions	yes	yes	yes
Valuation of own products	yes	yes	yes

Source: Own processing based on *ABC´s reports*

In most cases, the internal directives of the company are only citations from the Accounting Act of Czech accounting standards, without any specific details, for example in case of determining the useful lifetime of long-term assets or the accounting procedure for recording allowances to doubtful debts. There are no guidelines, how to assess the unfinished production (construction at the end of the year).

Chosen company doesn´t have well defined process of inventory-taking in the internal directive. The problem could arise from a conflict of interest with the person responsible for the property and the person responsible for the inventory-taking. In an internal directive, it must be defined who is responsible for each part. The person conducting the inspection should be independent from the person who takes care of property during the year.

Chosen company doesn´t have a drawn-up schedule of closing the books precedures. Although the compilation is not required by law, it is appropriate to dispose of it. The company should establish a specific schema that considers specific requirements of company. The use of the outputs of the financial statements is wide. Company management need them for strategic decision making, but also as information about the status of operations, market position, the financial position of the company and its performance, and also for the needs of external users. It is obvious that financial statements are often used because ABC Company are voluntarily audited each year and financial statements are held in full compliance with legal standards and give a true and fair view of the accounts.

Another inaccuracy was found in accounting adjustments for doubtful accounts, which do not fully respect the principle of prudence. The company has default accounting adjustments defined by a certain percentage of receivables according to their age structure. However, there is no consideration of individual assessment of claims and the likelihood of their payment. When accounting adjustments, it is recommended to assess the company's receivables from customers individually and create an individual plan for making accounting adjustments in terms of creditworthiness of the customer.

Proposed improvements:

1.) Long-term assets and depreciation plan include estimated useful lifetime for individual assets used in the company and specify the date, from which the depreciation will be calculated

Physical inventory can be time and resource consuming that is why good planning is required. Planning and good internal directives help company to make annual inventory more effectively.There should be written about the process of inventory (inventory plans in operation) and determined who is responsible and explain how directive could be used.It is beneficial to plan and prepare a physical inventory in advance: To manage and maintain the inventory properly management should follow these advices:

- establish the date and time of the inventory and notify their employees about this.
- make the team at this stage to focus on the experience of the employee's understanding of the process and the necessary calculations and notes.
- randomly inspect both the process and the resulting documentation

2.) Prepare Income statement by function - for more information about the expenses, it would be useful to compile Income statement by function, even if only for management purposes. The company records its expenses by nature, so the information about expenses by function cannot be sufficient. The proposed classification of expenses by function is given in chapter 4.5.

The financial analysis coved the years 2010-2012. The main trends and conclusions are repeated and presented again together. Ratio analysis was based on comparison with the closest and biggest competitor named Martia. We can say that ABC was better in **profitability** ratios for years 2010 and 2011, but Martia was of course better in year 2012 because of ABC´s loss in 2012. In case of **efficiency** specifically in case of receivables, turnover ratio and days sales outstanding better in collection of receivables in ABC Company where this ratio varies from 46.77 to 89.18 days, in contrast with Martia where this ratio was from 94.54 days to 141.36 days. Results of **liquidity** ratios are better in ABC Company and additionally it has to be said that Martia has extremely high amount of receivables that positively influence values of current assets with respectively to the result of ratio. For **lenders** ABC Company is unambiguously more confident with current ratio 4.63. Ratio is a little bit higher, required value is mostly 2, but it could be signal for management to use more effectively resources.

6 Conclusions and Recommendation

The aim of this diploma thesis was to analyse accounting procedures during a year that are used in the company. Then apply methods of financial analysis to determine the financial health of the business and discover weaknesses, which could cause the business problems. The selected enterprise does not represent a classical manufacturing company but a service-providing company and at the beginning of the practical part it was characterised the market in which company operates.

In comparison with the strongest competitor, Martia, the analysis showed that ABC is pretty much similar and competitive in the market. Finally, the financial performance of ABC is in a good position. The company´s credibility is still high.

In comparison with information from Ministry of industry and trade, year 2012 wasn´t bad and company in average achieved profit in industry of architectural and engineering activities therefore loss in year 2012 couldn´t be explained by overall situation in the market.

Loss in year 2012 was caused by insufficient performance from the CEO and sales managers' sides, which didn´t provide enough work and company wasn´t able to achieve planned sales to cover costs. Lack of tenders from ČEZ Distribuce caused a large drop where orders declined from 60 million CZK per year to 20 million CZK per year in 2012. Work in progress, which was in time of profit around 2.5 million CZK in black numbers, was in 2012 around 4 million CZK in red numbers. Company is obliged to pay income tax in two first analysed years. Because of loss, the company was not obliged to pay income tax for the year 2012. Over the years, indicators of profitability (ROS, ROA, and ROE) showed a large variance in terms of the creation of profit for each year.

Project valuation

Table 26 shows the influence of valuation on the profit and income tax. The level of valuation matters in case, if there are unfinished projects in the company. According to the Czech accounting legislation, Changes in unfinished production are reported as part of Revenues in the Income Statement by nature. For the demonstration of the effect of valuation on the profit and income tax, table 26 assumes that half of the projects were finished. All the other amounts (Revenues from sold projects, Total expenses, Expenses not recognized for tax purposes) are the same amounts.

Table 26: The effect of valuation on profit and income tax (in CZK)

Project valuation	**Direct expenses**	**Direct expenses + operating overhead**	**Direct expenses + operating and administrative overhead**
Direct expenses	28,188,916	28,188,916	28,188,916
Operating overhead	x	4,349,710	4,349,710
Administrative overhead	x	x	6,294,642
Valuation of projects (increase of Changes in unfinished projects)	28,188,916	32,538,626	38,833,268
50 % of projects are finished	14,094,458	16,269,313	19,416,634
Closing balance of Changes in unfinished products (reported in Revenues)	14,094,458	16,269,313	19,416,634
Revenues from sold projects	37,506,202	37,506,202	37,506,202
Total reported revenues	51,600,660	53,775,515	56,922,836
Total reported expenses	39,777,000	39,777,000	39,777,000
Profit before tax	**11,823,660**	**13,998,515**	**17,145,836**
Expenses not recognized for tax	466,262	466,262	466,262
Tax base	12,289,922	14,464,777	17,612,098
Tax base rounded down	12,289,000	14,464,000	17,612,000
Income tax	**2,334,910**	**2,748,160**	**3,346,280**
Profit after tax	**9,488,750**	**11,250,355**	**13,799,556**

Source: Own processing based on *ABC´s reports*

The more expenses are included in the valuation of own projects, the higher is the reported profit, but also the income tax, which has to be paid. However, it only affects the actual year´s profit and income tax, as it would be balanced out the following years, when the projects are finished.

Conclusion based on the research question, "There Could Be an Increase of tax savings by implementing a different level of valuation of projects” demonstrated in Table 26 shows, that the resulting tax base and calculated income tax to be paid is higher when overhead expenses are included in the valuation.

The number of orders declined, the amount of short-term trade receivables is aslo declining but just due to the application of provisions for overdue receivables. The company also creates provisions for unused vacation and bonuses. The Company has no problem with the payment obligations. The success of the management to overcome this bad year is dependent primarily on their effort, their commitment to meeting the goals and the degree of preparedness. If the company manages to handle the current crisis and return to the profitable area, management should focus in the future on the following recommendations:

1.) It is important to set goals and an ongoing inspection to conduct periodic evaluation of the performance of business activities. The company has never prepared a financial analysis. Therefore it can be assumed that the results will be beneficial for the company and could serve underlying material for the company management on the future operation of the company in business.

2.) The company should try to decrease expenses by using factoring in case of bad debts, using video conferences instead of travelling to place appointments and decrease of rents for offices. There are too many offices and their rents are too high.

3.) Update internal dirctives especially following parts: depreciation plan of long-term assets, inventory-taking, closing the books procedures and adjustments to doubtful accounts.

The sustain trend is when profit rose faster than the value of assets and revenues are significantly higher than costs. More often evaluate consumption expenditures. Companies should not underestimate compliance with payment of invoices.

Throughout acitivity tracking it operated without bank loans. The creditor banks and the company should appear in a positive light. Every bank most probably gives a loan to coampany ABC without any problems. Business after all three years showed a high balance on their accounts. Because of this, management should consider the resources available to continue to invest to achieve higher profit, especially in strengthening the sales department.

After the analysis of financial statements and finding deficiencies, a solution has been proposed. These proposals were forwarded to management. However, it is up to management decision whether they respect them or not in the next financial year.

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8 Appendices

List of Appendices

Apendix 1: Balance Sheets of ABC Company for years 2010-2012

Balance sheet of ABC Company (in thousands CZK)			
	31.12.2012	31.12.2011	31.12.2010
Fixed assets	**10,575**	**12,285**	**13,907**
Intangible assets	**2,801**	**3,994**	**5,014**
Software	114	233	178
Goodwill	2,687	3,761	4,836
Tangible fixed assets	**7,774**	**8,291**	**8,893**
Lands	-	-	-
Constructions	7,580	7,738	7,896
Equipment	194	553	997
Long-term financial assets	**-**	**-**	**-**
Current assets	**26,610**	**39,286**	**33,612**
Inventory	**11,210**	**15,048**	**16,708**
Materials	1,457	1,446	1,602
Work in progress and semi-products	9,753	13,602	15,106
Long-term receivables	**-**	**39**	**14**
Deferred tax receivables	-	39	14
Short-Term Receivables	**8,057**	**8,352**	**7,391**
Trade receivables	5,672	7,364	7,242
Due from State-tax receivables	1,990	52	-
Short-term deposits given	150	225	150
Other receivables	245	711	- 1
Short-term Financial assets	**7,343**	**15,847**	**9,499**
Cash	86	142	151
Bank Accounts	7,257	15,705	9,338
Accruals	**18**	**61**	**34**
Deferred expenses	18	61	34
Deferred income	-	-	-
TOTAL ASSETS	**37,200**	**51,631**	**47,550**
Equity	**30,941**	**41,201**	**37,850**
Registered capital	**35,000**	**35,000**	**35,000**
Capital Funds	**-**	**-**	**-**
Reserves funds, statutory reserve account for cooperatives, and other	**1,074**	**298**	**-**
Legal reserve fund/indivisible fund	574	298	-
Statutory and other funds	500	-	-
Profit/Loss - previous year	**1,027**	**391**	**- 132**
Retained earnings from previous years	1,160	524	-
Accumulated losses from previous years	- 132	- 132	- 132
Profit/Loss - current year	**- 6,160**	**5,512**	**2,982**
Other sources	**6,260**	**10,431**	**9,702**
Reserves	**511**	**666**	**653**
Income tax reserves	-	-	-
Other reserves	511	666	653
Long-term payables	**-**	**-**	**-**
Short-term payables	**5,749**	**9,765**	**9,049**
Trade payables	1,652	1,519	3,448
Payroll	2,158	3,611	2,052
Payables to social and health insurance	1,252	2,175	1,226
Due from state - tax liabilities and subsidies	629	2,415	2,279
Other payables	59	45	44
Bank loans and financial accommod.	**-**	**-**	**-**
Accruals	**-**	**-**	**-**
TOTAL LIABILITIES	**37,200**	**51,631**	**47,550**

Own processing based on Financial Statements of ABC Company

Apendix 2: Income Statements of ABC Company for years 2010-2012 1st part

PROFIT/LOSS ACCOUNT

to 31st December

(in thousands CZK)

Name of Company

ABC

a	TEXT b	row c	Period Jan-Dec 2012	Jan-Dec 2011	June-Dec 2010
I.	Revenues from sold goods	1	0	0	0
A.	Expenses on sold goods	2	0	0	0
+	Sale margin (r. 01-02)	3	0	0	0
II.	Production (r. 05+06+07)	4	33,668	56,110	32,415
1	Revenues from own products and services	5	37,506	57,770	29,699
2	Change in inventory of own products	6	-3,838	-1,660	2,716
3	Capitalisation	7	0	0	0
B.	Production consumption (r. 09+10)	8	12,650	13,463	8,696
B. 1	Consumption of material and energy	9	1,546	1,631	1,845
B. 2	Services	10	11,104	11,832	6,851
+	Added value (r. 03+04-08)	11	21,018	42,647	23,719
C.	Personnel expenses (r. 12 to 16)	12	24,764	32,805	16,593
C. 1	Wages and salaries	13	17,477	23,417	11,759
C. 2	Remuneration of board members	14	60	45	0
C. 3	Social security expenses and health insurance	15	5,913	7,859	3,977
C. 4	Other social expenses	16	1,314	1,484	857
D.	Taxes and fees	17	742	699	949
E.	Depreciations of intangible and tangible assets	18	1,639	1,754	1,067
III.	Revenues from disposals of fixed assets and materials (r. 20+21)	19	0	0	61
1	Revenues from disposals of fixed assets	20	0	0	61
2	Revenues from disposals of materials	21	0	0	0
F.	Net book value of disposed fixed A. and mat.	22	0	0	64
F. 1	Net book value of disposed fixed assets	23	0	0	64
F. 2	Net book value of sold material	24	0	0	0
G.	Change in opening reserves and adjustments and complex deterred costs (+/-)	25	-233	28	792
IV.	Other operating revenues	26	1	2	7
H.	Other operating expenses	27	113	144	137
V.	Transfer of operating revenues	28	0	0	0
I.	Transfer of operating expenses	29	0	0	0
*	Operating profit / loss	30	-6,004	7,219	4,184

Income Statements of ABC Company for years 2010-2012 2nd part

a	TEXT b	row c	Period		
			Jan-Dec 2012	Jan-Dec 2011	June-Dec 2010
VI	Revenues from sales of securities and ownership interests	31	0	0	0
J.	Sold securities and ownership interests	32	0	0	0
VII.	Revenues from long-term financial assets (r. 34+35+36)	33	0	0	0
1.	Revenues from shares in controlled and managed organi-zations and accounting units with substantial influence	34	0	0	0
2.	Revenues from others securities and ownership interests	35	0	0	0
3.	Revenues from other long-term financial assets	36	0	0	0
VIII.	Revenues from short-term financial assets	37	0	0	0
K.	Expenses associated with financial assets	38	0	0	0
IX.	Revenues from revaluation of securities and derivate	39	0	0	0
L.	Cost of revaluation of securities and derivatives	40	0	0	0
M.	Change in financial reserves and adjustments (+/-)	41	0	0	0
X.	Interest revenues	42	5	4	1
N.	Interest expenses	43	0	0	0
XI.	Other financial revenues	44	0	0	0
O.	Other financial expenses	45	102	120	59
XII.	Transfer of financial revenues	46	0	0	0
P.	Transfer of financial expenses	47	0	0	0
*	Profit / loss from financial operations (transactions) /(r.31-32+33+37-38+39-40-41+42-43+44-45-(-46)+(-47))/	48	-97	-116	-59
Q.	Income tax on ordinary income (r. 50 + 51)	49	58	1,592	1,144
Q. 1	- Due Tax	50	19	1,616	1,291
Q. 2	- Tax deferred	51	39	-25	-147
**	Operating profit / loss ordinary activity (r. 30 + 48 - 49)	52	-6,160	5,512	2,982
XIII.	Extraordinary revenues	53	0	0	0
R.	Extraordinary expenses	54	0	0	0
S.	Income tax on extraordinary Income (r. 56 + 57)	55	0	0	0
S. 1	- Due Tax	56	0	0	0
S. 2	- Tax deferred	57		0	0
*	Operating profit / loss extraordinary activity (r. 53 - 54 -55)	58	0	0	0
T.	Transfer profit (loss) to partners (+/-)	59	0	0	0
***	Profit / loss of current accounting period (+/-) (r. 52 + 58 - 59)	60	-6,160	5,512	2,982
****	Profit / loss before tax (+/-) (r. 30 + 48 + 53 - 54)	61	-6,102	7,103	4,126

Own processing based on Financial Statements of ABC Company

Apendix 3: Balance Sheets of Martia Company for years 2010-2012

Balance sheet Martia (in thousands CZK)			
	31.12.2012	31.12.2011	31.12.2010
Fixed assets	**35,860**	**36,549**	**40,126**
Intangible assets	**93**	**32**	**112**
Software	93	32	112
Tangible fixed assets	**35,767**	**36,180**	**39,677**
Lands	4,864	4,864	4,864
Constructions	19,797	20,197	20,837
Equipment	11,106	11,109	13,976
Long-term financial assets	**-**	**337**	**337**
res in accounting units with substantial influence	-	337	337
Current assets	**102,748**	**125,326**	**75,127**
Inventory	**5,906**	**5,228**	**7,416**
Materials	736	298	643
Work in progress and semi-products	5,170	4,930	6,773
Long-term receivables	**175**	**1,489**	**2,454**
Trade receivables	175	1,489	2,454
Deferred tax receivables	-	-	-
Short-Term Receivables	**90,223**	**118,318**	**65,011**
Trade receivables	82,296	111,194	58,875
Due from State-tax receivables	485	-	680
Short-term deposits given	6,717	6,509	5,151
Estimated receivable	544	615	305
Other receivables	181	-	
Short-term Financial assets	**6,444**	**291**	**246**
Cash	289	222	193
Bank Accounts	6,155	69	53
Accruals	**1,550**	**1,953**	**2,328**
Deferred expenses	1,550	1,943	2,275
Deferred income	-	10	53
TOTAL ASSETS	**140,158**	**163,828**	**117,578**
Equity	**50,874**	**47,015**	**45,423**
Registered capital	**27,500**	**27,500**	**27,500**
Capital Funds	**1,455**	**1,455**	**1,455**
Share premium	1,218	1,218	1,218
ces from revaluation of assets and liabilities(+/-)	237	237	237
Reserves funds, statutory reserve account for cooperatives, and other retained earnings	**2,132**	**2,037**	**1,786**
Legal reserve fund/indivisible fund	1,957	1,868	1,772
Statutory and other funds	175	169	14
Profit/Loss - previous year	**14,634**	**14,246**	**12,756**
Retained earnings from previous years	14,634	14,246	12,756
Profit/Loss - current year	**5,153**	**1,777**	**1,926**
Other sources	**88,540**	**111,674**	**64,483**
Reserves	**9,185**	**9,450**	**2,490**
Reserves under special statutory regulations	245	-	-
Other reserves	8,940	9,450	2,490
Long-term payables	**-**	**1,836**	**4,340**
yables to controlled and managed organizations	-	1,836	3,672
Deferred tax liability	-	-	668
Short-term payables	**49,408**	**65,289**	**29,707**
Trade payables	32,512	46,382	17,335
Payroll	4,331	3,909	2,486
ayables to social securities and health insurance	2,553	2,232	1,440
Due from state - tax liabilities and subsidies	937	5,129	3,475
Short-term deposits received	225	1,980	11
Estimated payables	8,068	5,657	4,960
Other payables	782	-	-
Bank loans and financial acommodations	**29,947**	**36,935**	**31,618**
Short-term bank loans	29,947	36,935	31,618
Accruals	**744**	**3,303**	**4,003**
Accrued expenses	744	1,741	3,120
Deferred revenues	-	1,562	883
TOTAL LIABILITIES	**140,158**	**161,992**	**113,907**

Own processing based on Financial Statements of Martia Company

Apendix 4: Income Statements of Martia Company for years 2010-2012 1st part

PROFIT/LOSS ACCOUNT to 31st December (in thousands CZK)			Name of Company: Martia		
a	TEXT b	row c	Period		
			Jan-Dec 2012	Jan-Dec 2011	June-Dec 2010
I.	Revenues from sold goods	1	3,618	5,289	5,319
A.	Expenses on sold goods	2	3,249	4,630	4,251
+	Sale margin (r. 01-02)	3	369	659	1,068
II.	Production (r. 05+06+07)	4	317,688	285,267	213,145
1	Revenues from own products and services	5	317,723	287,110	208,259
2	Change in inventory of own products	6	-35	-1,843	2,153
3	Capitalisation	7	0	0	2,733
B.	Production consumption (r. 09+10)	8	241,917	209,977	155,725
B. 1	Consumption of material and energy	9	146,195	142,432	117,282
B. 2	Services	10	95,722	67,545	38,443
+	Added value (r. 03+04-08)	11	76,140	75,949	58,488
C.	Personnel expenses (r. 12 to 16)	12	64,909	53,406	51,890
C. 1	Wages and salaries	13	46,923	38,410	37,294
C. 2	Remuneration of board members	14	927	936	936
C. 3	Social security expenses and health insurance	15	16,110	13,156	12,838
C. 4	Other social expenses	16	949	904	822
D.	Taxes and fees	17	383	372	475
E.	Depreciations of intangible and tangible assets	18	3,541	3,651	4,053
III.	Revenues from disposals of fixed assets and materials (r. 20+21)	19	107	867	538
1	Revenues from disposals of fixed assets	20	103	867	538
2	Revenues from disposals of materials	21	4	0	0
F.	Net book value of disposed fixed A. and mat.	22	0	370	455
F. 1	Net book value of disposed fixed assets	23	0	370	455
F. 2	Net book value of sold material	24	0	0	0
G.	Change in opening reserves and adjustments and complex deterred costs (+/-)	25	-2,065	12,212	-118
IV.	Other operating revenues	26	1,104	619	664
H.	Other operating expenses	27	3,283	1,971	1,109
V.	Transfer of operating revenues	28	0	0	0
I.	Transfer of operating expenses	29	0	0	0
*	Operating profit / loss	30	7,300	5,453	1,826

Income Statements of Martia Company for years 2010-2012 2nd part

a	TEXT b	row c	Period		
			Jan-Dec 2012	Jan-Dec 2011	June-Dec 2010
VI	Revenues from sales of securities and ownership interests	31	0	0	30
J.	Sold securities and ownership interests	32	0	0	1,949
VII.	Revenues from long-term financial assets (r. 34+35+36)	33	0	0	0
1.	Revenues from shares in controlled and managed organizations and accounting units with substantial influence	34	0	0	0
2.	Revenues from others securities and ownership interests	35	0	0	0
3.	Revenues from other long-term financial assets	36	0	0	0
VIII.	Revenues from short-term financial assets	37	0	0	0
K.	Expenses associated with financial assets	38	0	0	0
IX.	Revenues from revaluation of securities and derivate	39	0	0	0
L.	Cost of revaluation of securities and derivatives	40	0	0	0
M.	Change in financial reserves and adjustments (+/-)	41	337	0	-1,549
X.	Interest revenues	42	3	4	9
N.	Interest expenses	43	355	441	685
XI.	Other financial revenues	44	649	146	1,617
O.	Other financial expenses	45	443	463	196
XII.	Transfer of financial revenues	46			
P.	Transfer of financial expenses	47			
*	Profit / loss from financial operations (transactions)/(r.31-32+33+37-38+39-40-41+42-43+44-45-(-46)+(-47))/	48	-483	-754	375
Q.	Income tax on ordinary income (r. 50 + 51)	49	1,664	272	275
Q. 1	- Due Tax	50	1,664	940	329
Q. 2	- Tax deferred	51	0	-668	-54
**	Operating profit / loss ordinary activity (r. 30 + 48 - 49)	52	5,153	4,427	1,926
XIII.	Extraordinary revenues	53	0	0	0
R.	Extraordinary expenses	54	0	0	0
S.	Income tax on extraordinary Income (r. 56 + 57)	55	0	0	0
S. 1	- Due Tax	56	0	0	0
S. 2	- Tax deferred	57		0	0
*	Operating profit / loss extraordinary activity (r. 53 - 54 -55)	58	0	0	0
T.	Transfer profit (loss) to partners (+/-)	59	0	0	0
***	Profit / loss of current accounting period (+/-) (r. 52 + 58 - 59)	60	5,153	3,759	1,926
****	Profit / loss before tax (+/-) (r. 30 + 48 + 53 - 54)	61	6,817	4,699	2,201

Source: Own processing based on Financial Statements of MARTIA Company

Apendix 5: Vertical analysis: Balance Sheets of ABC Company (2010-2012)

Vertical analysis - Balance sheet of ABC Company (percentage of total asset)			
	31.12.2	31.12.2	31.12.2
Fixed assets	**28.43%**	**23.79%**	**29.25%**
Intangible assets	**7.53%**	**7.74%**	**10.54%**
Software	0.31%	0.45%	0.37%
Goodwill	7.22%	7.28%	10.17%
Tangible fixed assets	**20.90%**	**16.06%**	**18.70%**
Constructions	20.38%	14.99%	16.61%
Equipment	0.52%	1.07%	2.10%
Long-term financial assets	**0.00%**	**0.00%**	**0.00%**
Current assets	**71.53%**	**76.09%**	**70.69%**
Inventory	**30.13%**	**29.15%**	**35.14%**
Materials	3.92%	2.80%	3.37%
Work in progress and semi-products	26.22%	26.34%	31.77%
Long-term receivables	**0.00%**	**0.08%**	**0.03%**
Short-Term Receivables	**21.66%**	**16.18%**	**15.54%**
Trade receivables	15.25%	14.26%	15.23%
Due from State-tax receivables	5.35%	0.10%	0.00%
Short-term deposits given	0.40%	0.44%	0.32%
Other receivables	0.66%	1.38%	0.00%
Short-term Financial assets	**19.74%**	**30.69%**	**19.98%**
Cash	0.23%	0.28%	0.32%
Bank Accounts	19.51%	30.42%	19.64%
Accruals	**0.05%**	**0.12%**	**0.07%**
Deferred expenses	0.05%	0.12%	0.07%
TOTAL ASSETS	**100.00%**	**100.00%**	**100.00%**
Equity	**83.17%**	**79.80%**	**79.60%**
Registered capital	**94.09%**	**67.79%**	**73.61%**
Capital Funds	**0.00%**	**0.00%**	**0.00%**
Reserves funds, statutory reserve account for cooperatives, and	**2.89%**	**0.58%**	**0.00%**
Legal reserve fund/indivisible fund	1.54%	0.58%	0.00%
Statutory and other funds	1.34%	0.00%	0.00%
Profit/Loss - previous year	**2.76%**	**0.76%**	**-0.28%**
Retained earnings from previous years	3.12%	1.01%	0.00%
Accumulated losses from previous years	-0.35%	-0.26%	-0.28%
Profit/Loss - current year	**-**	**10.68%**	**6.27%**
Other sources	**16.83%**	**20.20%**	**20.40%**
Reserves	**1.37%**	**1.29%**	**1.37%**
Other reserves	1.37%	1.29%	1.37%
Long-term payables	**0.00%**	**0.00%**	**0.00%**
Short-term payables	**15.46%**	**18.91%**	**19.03%**
Trade payables	4.44%	2.94%	7.25%
Payroll	5.80%	6.99%	4.32%
Payables to social securities and health insurance	3.36%	4.21%	2.58%
Due from state - tax liabilities and subsidies	1.69%	4.68%	4.79%
Other payables	0.16%	0.09%	0.09%
Bank loans and financial accommodations	**0.00%**	**0.00%**	**0.00%**
Accruals	**0.00%**	**0.00%**	**0.00%**
TOTAL LIABILITIES	**100.00%**	**100.00%**	**100.00%**

*There were excluded rows with none results

Source: Own processing

Apendix 6: Vertical analysis: Income Statement of ABC Company (2010-2012)

TEXT	row c	Period		
		Jan-Dec 2012	Jan-Dec 2011	June-Dec 2010
Production	4	89.77%	97.13%	109.15%
Revenues from own products and services	5	100.00%	100.00%	100.00%
Change in inventory of own products	6	-10.23%	-2.87%	9.15%
Capitalisation	7	0.00%	0.00%	0.00%
Production consumption	8	33.73%	23.30%	29.28%
Consumption of material and energy	9	4.12%	2.82%	6.21%
Services	10	29.61%	20.48%	23.07%
Added value	11	56.04%	73.82%	79.86%
Personnel expenses	12	66.03%	56.79%	55.87%
Wages and salaries	13	46.60%	40.53%	39.59%
Remuneration of board members	14	0.16%	0.08%	0.00%
Social security expenses and health insurance	15	15.77%	13.60%	13.39%
Other social expenses	16	3.50%	2.57%	2.89%
Taxes and fees	17	1.98%	1.21%	3.20%
Depreciations of intangible and tangible assets	18	4.37%	3.04%	3.59%
Change in opening reserves and adjustments and complex deterred costs (+/-)	25	-0.62%	0.05%	2.67%
Other operating expenses	27	0.30%	0.25%	0.46%
Operating profit / loss	30	-16.01%	12.50%	14.09%
Interest revenues	42	0.01%	0.01%	0.00%
Other financial expenses	45	0.27%	0.21%	0.20%
Profit / loss from financial operations (transactions)	48	-0.26%	-0.20%	-0.20%
Income tax on ordinary income (r. 50 + 51)	49	0.15%	2.76%	3.85%
- Due Tax	50	0.05%	2.80%	4.35%
- Tax deferred	51	0.10%	-0.04%	-0.49%
Operating profit / loss ordinary activity	52	-16.42%	9.54%	10.04%
Profit / loss of current accounting period	60	-16.42%	9.54%	10.04%
Profit / loss before tax (+/-)	61	-16.27%	12.30%	13.89%

*There were excluded rows with none results Source: Own processing

Apendix 7: Vertical analysis: Balance Sheets of Martia Company (2010-2012)

Vertical analysis - Balance sheet of Martia Company (percentage of total asset)			
	31.12.2012	31.12.2011	31.12.2010
Fixed assets	**25.59%**	**22.56%**	**35.23%**
Intangible assets (Software)	**0.07%**	**0.02%**	**0.10%**
Tangible fixed assets	**25.52%**	**22.33%**	**34.83%**
Lands	3.47%	3.00%	4.27%
Constructions	14.12%	12.47%	18.29%
Equipment	7.92%	6.86%	12.27%
Long-term financial assets (Shares – substantial influence)	**0.00%**	**0.21%**	**0.30%**
Current assets	**73.31%**	**77.37%**	**65.95%**
Inventory	**4.21%**	**3.23%**	**6.51%**
Materials	0.53%	0.18%	0.56%
Work in progress and semi-products	3.69%	3.04%	5.95%
Long-term receivables	**0.12%**	**0.92%**	**2.15%**
Trade receivables	0.12%	0.92%	2.15%
Short-Term Receivables	**64.37%**	**73.04%**	**57.07%**
Trade receivables	58.72%	68.64%	51.69%
Due from State-tax receivables	0.35%	0.00%	0.60%
Short-term deposits given	4.79%	4.02%	4.52%
Estimated receivable	0.39%	0.38%	0.27%
Short-term Financial assets	**4.60%**	**0.18%**	**0.22%**
Cash	0.21%	0.14%	0.17%
Bank Accounts	4.39%	0.04%	0.05%
Accruals	**1.11%**	**1.21%**	**2.04%**
TOTAL ASSETS	**100.00%**	**101.13%**	**103.22%**
Equity	**36.30%**	**29.02%**	**39.88%**
Registered capital	**19.62%**	**16.98%**	**24.14%**
Capital Funds	**1.04%**	**0.90%**	**1.28%**
Share premium	0.87%	0.75%	1.07%
Differences from revaluation of assets and liabilities(+/-)	0.17%	0.15%	0.21%
Reserves funds, statutory reserve account for	**1.52%**	**1.26%**	**1.57%**
Legal reserve fund/indivisible fund	1.40%	1.15%	1.56%
Statutory and other funds	0.12%	0.10%	0.01%
Profit/Loss - previous year	**10.44%**	**8.79%**	**11.20%**
Retained earnings from previous years	10.44%	8.79%	11.20%
Profit/Loss - current year	**3.68%**	**1.10%**	**1.69%**
Other sources	**63.17%**	**68.94%**	**56.61%**
Reserves (Other reserves)	**6.55%**	**5.83%**	**2.19%**
Long-term payables (Payables to controlled organiz.)	**0.00%**	**1.13%**	**3.81%**
Short-term payables	**35.25%**	**40.30%**	**26.08%**
Trade payables	23.20%	28.63%	15.22%
Payroll	3.09%	2.41%	2.18%
Payables to social securities and health insurance	1.82%	1.38%	1.26%
Due from state - tax liabilities and subsidies	0.67%	3.17%	3.05%
Short-term deposits received	0.16%	1.22%	0.01%
Estimated payables	5.76%	3.49%	4.35%
Bank loans (Short-term)	**21.37%**	**22.80%**	**27.76%**
Accruals expenses	**0.53%**	**2.04%**	**3.51%**
TOTAL LIABILITIES	**100.00%**	**100.00%**	**100.00%**

*There were excluded rows with none results Source: Own processing

Apendix 8: Vertical analysis: Income Statement of Martia Company (2010-2012)

TEXT	row c	Period		
		Jan-Dec 2012	Jan-Dec 2011	June-Dec 2010
Revenues from sold goods	1	**1.13%**	**1.81%**	**2.49%**
Expenses on sold goods	2	1.01%	1.59%	1.95%
Sale margin (r. 01-02)	3	0.11%	0.23%	0.49%
Production (r. 05+06+07)	4	98.87%	98.18%	97.57%
Revenues from own products and services	5	**98.88%**	**98.81%**	**95.33%**
Change in inventory of own products	6	-0.01%	-0.63%	0.99%
Capitalisation	7	0.00%	0.00%	1.25%
Production consumption (r. 09+10)	8	75.29%	72.27%	71.28%
Consumption of material and energy	9	45.50%	49.02%	53.68%
Services	10	29.79%	23.25%	17.60%
Added value (r. 03+04-08)	11	23.70%	26.14%	26.77%
Personnel expenses (r. 12 to 16)	12	20.20%	18.38%	23.75%
Wages and salaries	13	14.60%	13.22%	17.07%
Remuneration of board members	14	0.29%	0.32%	0.43%
Social security expenses and health insurance	15	5.01%	4.53%	5.88%
Other social expenses	16	0.30%	0.31%	0.38%
Taxes and fees	17	0.12%	0.13%	0.22%
Depreciations of intangible and tangible assets	18	1.10%	1.26%	1.86%
Revenues from disposals of fixed assets and materials	19	0.03%	0.30%	0.25%
Revenues from disposals of fixed assets	20	0.03%	0.30%	0.25%
Net book value of disposed fixed assets and materials	22	0.00%	0.13%	0.21%
Net book value of disposed fixed assets	23	0.00%	0.13%	0.21%
Change in opening reserves and adjustments and	25	-0.64%	4.20%	-0.05%
Other operating revenues	26	0.34%	0.21%	0.30%
Other operating expenses	27	1.02%	0.68%	0.51%
Operating profit / loss	30	2.27%	1.88%	0.84%
Revenues from sales of securities and ownership in-	31	0.00%	0.00%	0.01%
Sold securities and ownership interests	32	0.00%	0.00%	0.89%
Change in financial reserves and adjustments (+/-)	41	0.10%	0.00%	-0.71%
Interest expenses	43	0.11%	0.15%	0.31%
Other financial revenues	44	0.20%	0.05%	0.74%
Other financial expenses	45	0.14%	0.16%	0.09%
Profit / loss from financial operations (transactions)/	48	-0.15%	-0.26%	0.17%
Income tax on ordinary income (r. 50 + 51)	49	0.52%	0.09%	0.13%
- Due Tax	50	0.52%	0.32%	0.15%
- Tax deferred	51	0.00%	-0.23%	-0.02%
Operating profit / loss ordinary activity	52	1.60%	1.52%	0.88%
Profit / loss of current accounting period (+/-)	60	1.60%	1.29%	0.88%
Profit / loss before tax (+/-)	61	2.12%	1.62%	1.01%

*There were excluded rows with none results

Source: Own processing

Apendix 9: Horizontal analysis: Balance Sheet of ABC and Martia Company

Company + year / Item of IS	ABC Absolute change in thous. of CZK		ABC Relative Change in %		Martia Absolute change in thous. of CZK		Martia Relative Change in %	
	2012/ 2011	2011/ 2010	2012/ 2011	2011/ 2010	2012/ 2011	2011/ 2010	2012/ 2011	2011/ 2010
Fixed assets	**-1,710**	**-1,622**	**-13.92**	**-11.66**	**-689**	**-3,577**	**-1.89**	**-8.91**
Intangible assets	**-1,193**	**-1,020**	**-29.87**	**-20.34**	**61**	**-80**	**190.63**	**-71.43**
Tangible fixed assets	**-517**	**-602**	**-6.23**	**-6.77**	**-413**	**-3,497**	**-1.14**	**-8.81**
Constructions	-158	-158	-2.04	-2.00	-400	-640	-1.98	-3.07
Equipment	-359	-444	-64.92	-44.53	-3	-2,867	-0.03	-20.51
Current assets	**-12,676**	**5,674**	**-32.27**	**16.88**	**-22,578**	**50,199**	**-18.02**	**66.82**
Inventory	**-3,838**	**-1,660**	**-25.51**	**-9.94**	**678**	**-2,188**	**12.97**	**-29.50**
Materials	11	-156	0.76	-9.74	438	-345	146.98	-53.65
Work in progress	-3,849	-1,504	-28.30	-9.96	240	-1,843	4.87	-27.21
Short-Term Receivables	**-295**	**961**	**-3.53**	**13.00**	**-28,095**	**53,307**	**-23.75**	**82.00**
Trade receivables	-1,692	122	-22.98	1.68	-28,898	52,319	-25.99	88.86
Short-term deposits given	-75	75	-33.33	50.00	208	1,358	3.20	26.36
Short-term Financial assets	**-8,504**	**6,348**	**-53.66**	**66.83**	**6,153**	**45**	**2114.43**	**18.29**
Cash	-56	-9	-39.44	-5.96	67	29	30.18	15.03
Bank Accounts	-8,448	6,367	-53.79	68.18	6,086	16	8820.29	30.19
Accruals	**-43**	**27**	**-70.49**	**79.41**	**-403**	**-375**	**-20.63**	**-16.11**
TOTAL ASSETS	**-14,431**	**4,081**	**-27.95**	**8.58**	**-23,670**	**46,250**	**-14.45**	**39.34**
Equity	**-10,260**	**3,351**	**-24.90**	**8.85**	**3,859**	**1,592**	**8.21**	**3.50**
Registered capital	**0**	**0**	**0.00**	**0.00**	**0**	**0**	**0.00**	**0.00**
Profit/Loss - previous year	**636**	**523**	**162.66**	**-396.21**	**388**	**1,490**	**2.72**	**11.68**
Profit/Loss - current year	**-11,672**	**2,530**	**-211.76**	**84.84**	**3,376**	**-149**	**189.98**	**-7.74**
Other sources	**-4,171**	**729**	**-39.99**	**7.51**	**-23,134**	**47,191**	**-20.72**	**73.18**
Reserves	**-155**	**13**	**-23.27**	**1.99**	**-265**	**6,960**	**-2.80**	**279.52**
Long-term payables	**0**	**0**	**0.00**	**0.00**	**-1,836**	**-2,504**	**-100.00**	**-57.70**
Short-term payables	**-4,016**	**716**	**-41.13**	**7.91**	**-15,881**	**35,582**	**-24.32**	**119.78**
Trade payables	133	-1,929	8.76	-55.95	-13,870	29,047	-29.90	167.56
Payroll	-1,453	1,559	-40.25	75.97	422	1,423	10.80	57.24
Social, health insurance	-924	949	-42.46	77.39	321	792	14.38	55.00
Bank loans and financial accommodations	**0**	**0**	**0.00**	**0.00**	**-6,988**	**5,317**	**-18.92**	**16.82**
TOTAL LIABILITIES	**-14,431**	**4,081**	**-27.95**	**8.58**	**-23,670**	**46,250**	**-14.45**	**39.34**

Source: Own processing based on reports

Apendix 10: Horizontal analysis: Income Statement of ABC and Martia Company

Item of IS \ Company + year	ABC		ABC		Martia		Martia	
	Absolute Change in thous. of CZK		Absolute Change in %		Absolute Change in thous. of CZK		Absolute Change in %	
	2012/ 2011	2011/ 2010	2012/ 2011	2011/ 2010	2012/ 2011	2011/ 2010	2012/ 2011	2011/ 2010
Production	-22,442	23,695	-40.00	73.10	32,421	72,122	11.37	33.84
Revenues from services	-20,264	28,071	-35.08	94.52	30,613	78,851	10.66	37.86
Production	-813	4,767	-6.04	54.82	31,940	54,252	15.21	34.84
Consumption of material and energy	-85	-214	-5.21	-11.60	3,763	25,150	2.64	21.44
Services	-728	4,981	-6.15	72.70	28,177	29,102	41.72	75.70
Added value	-21,629	18,928	-50.72	79.80	191	17,461	0.25	29.85
Personnel expenses	-8,041	16,212	-24.51	97.70	11,503	1,516	21.54	2.92
Wages and salaries	-5,940	11,658	-25.37	99.14	8,513	1,116	22.16	2.99
Social security expenses	-1,946	3,882	-24.76	97.61	2,954	318	22.45	2.48
Other social expenses	-170	627	-11.46	73.16	45	82	4.98	9.98
Taxes and fees	43	-250	6.15	-26.34	11	-103	2.96	-21.68
Depreciations of assets	-115	687	-6.56	64.39	-110	-402	-3.01	-9.92
Operating profit / loss	-13,223	3,035	-183.17	72.54	1,847	3,627	33.87	198.63
Interest revenues	1	3	25.00	300.00	-1	-5	-25.00	-55.56
Other finan. expenses	-18	61	-15.00	103.39	-20	267	-4.32	136.22
Profit / loss from financial operations	19	-57	-16.38	96.61	271	-1,129	-35.94	-301.07
Income tax on ordinary income	-1,534	448	-96.36	39.16	1,392	-3	512.21	-1.16
- Due Tax	-1,597	325	-98.82	25.17	724	611	77.06	185.65
Operating profit / loss ordinary activity	-11,672	2,530	-211.76	84.84	726	2,501	16.39	129.87
Profit / loss of current accounting period	-11,672	2,530	-211.76	84.84	1,394	1,833	37.08	95.18
Profit / loss before tax	-13,205	2,977	-185.91	72.15	2,118	2,498	45.07	113.49

Source: Own processing based on reports

Apendix 11: Sectorial comparison over the period 2010-2012

Indicator	D-Electricity, gas, steam and air conditioning supply			L-Real estate activities			L 7.1.Architectural and engineering activities and related technical consultancy		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Profit (in thous. of CZK)	**120,381,643**	**73,722,181**	**52,891,129**	**4,018,271**	**-423,522**	**3,508,126**	**887,102**	**353,091**	**2,868,287**
EVA (1,000 CZK)	**45,637,028**	**1,649,840**	**-7,965,353**	**-16,563,937**	**-22,080,301**	**-19,168,906**	**-347,567**	**-1,428,697**	**-112,233**
Liabilities (= Assets) (in thous. of CZK)	**14,153,715**	**13,604,418**	**11,731,363**	**1,528,631**	**1,574,985**	**1,264,994**	**1,879,388**	**1,936,909**	**2,555,379**
ROE	**19.30**	**12.43**	**10.63**	**3.06**	**-0.33**	**2.81**	**8.98**	**3.25**	**20.15**
Liabilities (share of total assets)	**48.17**	**48.57**	**50.07**	**66.66**	**68.69**	**62.36**	**70.92**	**68.82**	**67.56**
Net profit (share of total assets)	**9.24**	**5.89**	**4.90**	**0.97**	**-0.10**	**1.02**	**2.48**	**0.96**	**5.91**
Fixed assets (share of total assets)	**67.63**	**68.52**	**64.43**	**87.32**	**87.93**	**86.68**	**29.92**	**26.46**	**25.04**
Short-term liabilities (share of total assets)	**21.07**	**20.26**	**21.58**	**6.43**	**6.19**	**5.36**	**39.49**	**49.27**	**50.51**
Short-term financial assets (share of t. ass.)	**6.56**	**5.25**	**6.86**	**4.57**	**4.33**	**4.35**	**16.05**	**12.27**	**10.52**
Current assets (share of total assets)	**29.82**	**28.71**	**32.45**	**11.98**	**11.35**	**12.75**	**69.56**	**73.04**	**74.34**
Receivables (share of total assets)	**20.49**	**20.58**	**23.05**	**7.35**	**6.93**	**7.95**	**45.69**	**53.69**	**48.58**
Equity (share of total assets)	**47.91**	**47.39**	**46.11**	**31.67**	**30.38**	**36.43**	**27.67**	**29.51**	**29.32**
Registered capital (share of total assets)	**22.72**	**20.66**	**18.47**	**18.16**	**17.42**	**18.57**	**6.48**	**6.28**	**9.22**
Inventory (share of total assets)	**2.77**	**2.88**	**2.55**	**0.06**	**0.08**	**0.44**	**7.82**	**7.08**	**15.23**

Source: Own processing based on reports from Ministry of Industry and Trade of the Czech Republic