

Mendel University in Brno
Faculty of Regional Development and International Studies

**Financial Evaluation of the Company with the Regards to its
Influence on the Region**
Bachelor Thesis

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In Brno, 20. 5. 2015

.....
Jan Smékal, author

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Abstract

The aim of this thesis is the assessment of the financial situation of the company Cafe Fara considering its influence on the region. The thesis is divided on theoretical and practical parts. Theoretical part describes region, discuss different methods and formulas of financial analysis and their use in practical part. Practical part provides information about company's location in Protective Landscape Area Pálava, describes results of financial analysis and comparison with similar competitive companies in local area. The end of thesis depicts the evaluation of main thesis aim including the development recommendations.

Key words

Balance sheet, profit and loss statement, company, financial analysis, region, location.

Abstrakt

Cílem této bakalářské práce je vyhodnocení finanční situace podniku Cafe Fara s ohledem na ovlivnění regionu. Bakalářská práce je rozdělena na teoretickou a praktickou část. Teoretická část popisuje jak region, tak i různé metody, vzorce, způsoby finanční analýzy a jejich použití v praktické části. Praktická část poskytuje informace o lokaci podniku v Chráněné krajiné oblasti Pálava, výsledky finanční analýzy a srovnání s podobnými firmami v místní oblasti. Závěr práce obsahuje vyhodnocení hlavního cíle bakalářské práce s následujícími doporučeními.

Klíčová slova

Rozvaha, výkaz zisku a ztrát, obchodní společnost, finanční analýza, region, lokalita.

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Introduction

During the past times financial analysis were not conducted within the company structure, but nowadays it is inseparable part of successful company's financial management, because it helps to reach better results. Every company is trying to be profitable, attract many customers and reach satisfactory market place. It is important to know past, present and predict future financial situation, because on the basis of those information company can make the best decision to reach those mentioned points.

Financial analysis examine the financial health of the company. It provides the feedback of all financial operations and describes company's achieved financial goals and also current financial obstacles. Financial analysis is closely connected with accounting, because financial analysis is sourcing data from accounting.

Results of financial analysis have wide range of users. Mainly they are used for successful management of company's finance, then it shows to shareholders and investors if the company is worth to invest in, banks require the financial analysis for the decision of lending loan or suppliers need to get to know if the company is paying its liabilities for the imported goods.

Another important aspect affecting the company is its location in the regional point of view. Location is significant factor for the company development, which is affected by the regional attitude towards the companies. Regional and companies development are interconnected with each other. Companies are depended on the positive regional policy towards entrepreneurship. On the other hand regional development is influenced by the companies functioning, because they develop infrastructure and municipality, employ local people and attract tourists in the case of Cafe Fara. Nowadays there is increasing competition between the regions and with the help of regional development there is effort to decrease the negative influence of regional disparities.

It has been chosen to make financial analysis for the young company Cafe Fara. It is unusual enterprise of its kind, due to its café services, nature location and place history. Cafe Fara is specialized on café (coffee preparation and coffee machines museum), offers service of restaurant, accommodation and trade shop with own goods. It is located in the Protected Landscape Area Pálava.

Objective and methodology

The main objective of this thesis is to evaluate the financial situation of Cafe Fara considering its influence on the region.

Partial objectives of this thesis:

1. Evaluation of financial analysis indicators
2. Assess company's strengths, weaknesses, opportunities and threats
3. Find impacts of the company on the region and regional development
4. Compare Cafe Fara with competitors within the region

The main objective of the thesis is achieved by analysis of methods used in partial objectives:

Partial objective 1. - Horizontal and Vertical analysis, Ratio analysis, Altman Z-score and Index IN95

Partial objective 2. - SWOT analysis

Partial objective 3. - Analysis of employment, GDP and company attitude

Partial objective 4. - Comparison method

The thesis is generally divided on two parts, it is theoretical part and practical part. **Theoretical part** describes mainly used methods and formulas for conducting financial analysis, its users and needed data for preparation of analysis. **Practical part** describes the actual counting of results with the help of using methods and formulas described in theoretical part. Results are subsequently depicted by graphs or given in tables. In the end of practical part is described comparison of Cafe Fara with three other companies in local area.

Financial situation evaluation is based on the data from simplified balance sheet and profit and loss statement taken from portal.justice.cz [25], from complete accounting balance sheet and profit and loss statement provided by the company itself and from Czech Statistical Office [20]. Data are taken for the period between years 2009-2013.

THEORETICAL PART OF THESIS

1. Region

There are many different views how to characterize the region. Generally it can be defined like a territory depicted with certain borders according to given characteristics. The term region is considered to be subject of the researched regional science disciplines, including also regional development. [10]

Regionalism is significant term connected with the region. Regionalism is complex approach specialized on interconnection aspects of geography, economy, sociology and culture. The interconnection is meant to be realized within the region or whole country. Regionalism is not only understood to be ideological approach, but it is also direction way and method to resolve economic, political and social-cultural issues of the country. Main objective of regionalism is to research uniqueness of each territory and then to find its way to economic, political and social-cultural increasing development. [8]

The region is delimited according to certain characteristics and intentions of its depiction. The region boundaries can be either stable over the time or they may be changing according to different speed. Various criteria divide many different regions and certain region territory may fall at the same time into more regions. [13]

1.1. Classification of some types of region:

Homogenous and heterogeneous regions

Homogenous regions are gathered units with same or similar characteristics at given territory. Chosen units are able to be compared with each other according to selected criteria (for instance groceries shops) and characteristic (for instance average salary), which are examined. Homogeneous regions can change size of its borders. [13]

Heterogeneous regions are depicted according to certain elements with certain relations between each other. Relations between elements vary differently. It may be flow of grocery goods or transformation of people, because of the school or health center. There is not importance of sameness, homogeneity, of characteristic, but the interconnection of elements relations. [13]

Administrative regions

Administrative regions are territories under the power of the public administrative. Given country is divided on many administrative regional units managed by public administrative bodies. Czech Republic is according to public administration divided on: cohesion regions, regions, counties, municipalities with extended authority, authorized municipalities and municipalities. [6]

Purposive regions

Purposive region is territory gathered together, because of the special purpose or reachable objective. The most common are purposive regions are protective natural area. The depicted purposive area have own borders and is managed by director, who is in charge of it. [13]

NUTS regions

Regional differentiation according to EU. NUTS statistical units were established in the member states of EU, because of the comparison of NUTS units between member states. Comparison evaluates the impact of applied EU regional policies in member states. Czech Republic is divided into NUTS units:

- NUTS 0 – denotes larger states as whole
- NUTS 1 – Czech Republic
- NUTS 2 – cohesion regions
- NUTS 3 – regions
- NUTS 4 – counties
- NUTS 5 – municipalities [6]

Micro-regions

Micro-regions are the smallest units of regional structure. There are more approaches to micro-region definition. It is said they are stablished on the free will of municipalities, which are altogether interested to achieve same objectives. It is also easier to gain subsidy as micro-regions than like a single municipality.

Micro-region is also territory with the high intensiveness of people moving to work or other types of basic services. There is dominant relationships between people dwellings, places of work and basic services. Micro-regions covers between 90 % and 95 % territory of the Czech Republic. [8]

1.2. Regional development

Regional development is science discipline researching different aspects of given territory (region). According to certain territories those aspects might be social, political, special and economic. It is important to study aims of those aspects. The knowledge of those aspects is not only cognitive, but there is also practical use. Aspects are practically used to set up suitable regional policy and regional development strategy. Regional development is dealing with questions such as:

- It is better for regions to support strong or weak regions?
- How much the region or the state should affect regional development?
- What amount of money should be invested to level up regional disparities?

[10]

Main objective of the regional development should be to increase happiness of residents, companies and other groups operating at the certain territory. Regional development is trying to put interest of all mentioned groups together and achieve maximum benefits for everybody. [13] On the other hand, those mentioned groups, should be main actors of regional development.

The term development has to be differentiated from the term growth. The **Growth** is denoted in quantitative approach and it is expressing measurable units such as GDP per capita. The **Development** is denoted in qualitative approach, but the growth is included in the development. Generally speaking development is continuously trying to reach ideal conditions stated by everyone, who is in charge of the certain territory. [13]

1.3. Company in the region

Company location can be consider from the side of regional economic level or company's owner.

Location of the companies from the economic level of region

Companies affect the regional economy. They affect employment, increase local tourism, regional income (GDP per capita) and contributes to well-being of residents. According to regional development policy, companies play significant role and local authoritative bodies should adjust administrative conditions to attract wide range of companies. From the regional point of view it is also recommended to inform potential domestic and foreign companies about suitable conditions for their business, because the region is searching for companies with widely demanded products. [17]

Location of the companies from the view of company's owners

Region, territory, where is company located is important to be taken into account. The acquired knowledge of the territory, where is company located, may help to the company development. Company may use for instance the attractiveness of local nature into its account.

Consumers determine the location of the company. Transportation costs are reflected in the selling goods. Company location is thus depended on the price of final products costumers are willing to pay. [13]

1.4. Regional policy

Regional policy is closely connected and included in the economic policy of every state. It affects economic activities either in the whole country or just regionally. On the first hand, regional policy has effort to improve and increase economic activities in places where is high unemployment and probability of not natural economic increase, on the second hand they control economic activities of regions with excessive increase. [8]

Regional policy is understood as a group of variety conditions and tools, which are helping to remove and diminish regional economic disparities. Exact helping conditions and tolls are dependent on the situation of economic and political level of certain country. General aim of regional policy is stable development of the country and starting to fully use its potential. [17]

1.4.1. Establishment reasons of regional policy

There are many establishment reasons of regional policy, but generally they can be sum up to three causes.

1. Lack of natural resources

Regions with lack of natural resources might be not easy to become economically developed regions. Investors cannot invest money into natural resources. Region could develop with the help of surrounding region, which would provide increase of living condition. [8]

2. Insufficient usage of own resources

Insufficient usage of own resources is usually caused due to lack of regional capital. Long-term increasing development is dependent on the surrounding economic situation and technological development. [8]

3. *Weak and structurally affected regions*

Weak regions are considered to be located away from bigger cities, usually with low population amount. Structurally affected regions are territories with the high industrial level and population, but their general degradation is because of declining demand of their products. [17]

1.5. Tourism

Tourism is defined to be activity of given person, who travels outside of the residential place for some period of time (no longer than one year) and is not making profit at the visited place. [3]

There is differentiated many types of tourism, which are commonly defined according to the purpose of stay. Most common types of tourism:

- Recreational – relaxation aim
- Monumental sightseeing – often visited historical sacral monuments
- Sport-related – common cycle tourism on the provided cycle trail spread around whole Czech Republic
- Nature-exploration – commonly visited nature parks and protective landscape areas [3]

Natural tourism

Tourism development is influenced by the quality of the local environment. Natural resources perform significant role in creating recreation centrum in the given area. There are certain conditions, which affect the tourism process in certain area. It is mainly affected by:

- Relief – such as mountain ranges, which is basic part for recreation centers
- Climatic condition – for instance average precipitation and temperature affect very much seasonality of local tourism
- Water – ponds and lakes attract important amount of tourists [3]

2. Financial analysis

Financial analysis has its significant place in the management of the company. It is used to monitor company's health situation and performance. Current information about the financial structure of the company enables its managers to make a right decision during gaining financial resources, setting optimal financial structure, employing long-term or short-term debt, setting the amount of cash ratios, etc. The knowledge of financial analysis is also important for the estimation and prognosis of future development. [19]

Financial analysis is used to assess the company's activities during the past, the present and recommendations for the future financial management. It is also significant area for conducting business management. Financial analysis is closely connected with instruments of accounting and financial decision making. Those two instruments are interconnect together and their relationship is clearly given. Accounting is the language of the financial operations, because it offers the data for the financial decision making. [4]

2.1. Users of financial analysis

Financial analysis is used by a lot of different subjects and not just by financial managers. For instance according to financial analysis credit managers are deciding whether they should extend the credit to certain company or not, security analyst decide if it is worth to invest into other company's securities and bankers assess if they provide the loan to given company or not. [7]

Financial information of the company are interesting for many subjects, which are in touch with the company. Every subject has own field of interest connected with making of its economic decisions. Subjects are generally divided into two groups:

- Internal users - managers, employees, shareholders.
- External users - investors, banks, creditors, suppliers, customers, state, competitors. [4]

Internal users are directly involved in the company's operations. External users are dependent on financial information included in financial reporting process provided by the management of the company. [7]

2.2. Risks of the financial analysis

There are few types of risks, which may endanger the reliability and truthfulness of the financial analysis:

- Results of the financial analysis are fully dependent on the truthfulness of entrance accounting figures. If the company is recording increasing results of their business, even though the business is declining, then the results of the financial analysis are misinterpreted. [11]
- Second risk of the financial analysis is the missing, not included, the significant figures for conducting the financial analysis. The financial analysis is conducting complex result from many views of the company. [11]
- Third risk of the financial analysis is the financial statement limitation of giving evidence. A company may have in short-term receivables 10 000 CZK recorded in financial statements, but 30 % of short-term receivables are in risk of receiving them. The Company should rightly record in financial statement only 7 000 CZK. [11]

2.3. Sources of financial analysis

It is very significant to have reliable sources of financial analysis to conduct proper financial analysis. The best methods and techniques of analysis will not help to conduct proper financial analysis out of not reliable sources. [12]

The highest amount of data and information for financial analysis is contributed by financial accounting. Accounting offers data for the financial decision making and according to the financial statements it is basic source of information. Accounting is called to be the language of the financial management. Financial statement of accounting depicts the movement, the current state of company's finance and assets. Main financial sources include:

- Balance sheet
- Profit and loss statement
- Supplements (Cash flows) [4]

Financial sources are adjusted for needs of finance management. Accounts and data are put together to give general information about company's working capital, liquidity, profitability, assets turnover, debt employment, overall costs and revenues [4]

2.3.1. The Balance sheet

The Balance sheet provides the review of company's assets at the end of each year and the information how they paid for gained assets. The Balance sheet is not including all the assets of the company. There are not mentioned intangible assets such as qualified labor force, reputation of the company and skilled management. Those type of assets are not easily valued and it is hard for accountants to record those assets in the balance sheet. [2]

Assets side of the balance sheet are resources used for economic activity of the company and are divided into various types of assets. Assets used for economic activity are covered by the claims side. Equity and liabilities are aiming to obtain necessary capital for achieving goals of the enterprise. [18]

Assets division in two main groups:

- Fixed assets – they are used and consumed within the long-term period of enterprise activities, longer than one year
- Currents assets – they are consumed immediately and are used for short-term period of enterprise activity, shorter than one year [19]

Claims division in two main groups:

- Equity – some of them are created in the beginning of the company and then also during the running of the company, equity is also called enterprise's own resources.
- Liabilities – external resources of money, which has to be return at the certain sum and the certain period of the time. [19]

Table 1: The Balance sheet

ASSETS	CLAIMS
<i>Receivables for subscribed registered capital</i>	<i>Equity</i>
<i>Fixed Assets</i>	Registered capital
Intangible fixed assets	Capital contributions
Tangible fixed assets	Reserve funds
Long-term investments	Retained earnings
<i>Current assets</i>	Profit (loss) for current period
Inventories	<i>Liabilities</i>
Long-term receivables	Provisions
Short-term receivables	Long-term liabilities
Short-term financial assets	Short-term liabilities
<i>Accruals and deferrals</i>	Bank loans and overdrafts
	<i>Accrual and deferrals</i>

Source: authors work

2.3.2. The profit and loss account

Profit/loss is the accounting figure, which denotes positive/negative result of the firm for the given accounting period. The process of obtaining the profit/loss is marked in the profit and loss statement. There are assets outflows if there are increases of expenses and assets inflow occur during the increase of revenues. This process is called cash flow. The difference between the assets outflow and assets inflow is accountancy entry marked in the profit and loss statement and also in the balance sheet. [14]

The balance sheet is presumed to be the most important source of accounting, but in the accounting annual report is emphasized the profit and loss statement before the balance sheet. From the economic point of view there is more important to know the profit or the loss. Profit marked in the accounting annual report for given period can express the running quality of the company, but it is not reliable figure to express the success of the company and its level of management. [4]

2.4. Financial analysis methods

Methods of financial analysis are generally divided into three different analysis. It is horizontal analysis, which consist absolute and percentage change. Vertical structural analysis and the last one is comparison ratio analysis.

2.4.1. Horizontal analysis

Horizontal analysis is dealing with changing entries of financial statements during the time period. Entries are put together in rows and due to this comparison of rows in time is called horizontal. There is possibility to derive out of those entries probable development to the future. It has to be done with close attention and caution, because it depends if the company will behave similarly as in the past. [12]

Horizontal analysis uses the absolute change and percentage (differential) change. Percentage change is based on the absolute change. [18] Formulas below, absolute and percentage changes, describe the system of counting.

Absolute change

$$\text{Absolute change} = \text{Current year} - \text{Last year}$$

Percentage change

$$\text{Percentage change} = \frac{\text{Current year} - \text{Last year}}{\text{Last year}} \times 100$$

2.4.2. Vertical analysis

Vertical analysis signifies the percentage proportion of the given figure from financial statements. Different figures express percentage share in assets, claims and profit and loss statement. The usage of vertical analysis is recommended if we want to compare figures in longer time of period with other companies in the same field or with benchmark of the industry. The results of the vertical method are suitable to be used to make financial plans. The disadvantage of vertical analysis is the mere showing of the percentage change during the years and not revealing the causation of the percentage proportional change. [19]

2.5. Net working capital

The amount of net working capital is showing the paying back ability of the company. The higher net working capital expresses the increase ability of paying company's liabilities. The negative net working capital expresses not covered debt, which means the lack of money to pay back current liabilities. [12]

There is difference between net working capital and working capital. Net working capital express the difference between the company's current assets and current liabilities and working capital are the total investments in current assets of the

company. It is crucial to have effective working capital management in the long run, because either the possible future company extension or future sales need to be financed. [7]

$$\text{Net working capital} = \text{Current asstes} - \text{Current liabilities}$$

2.6. Ratio analysis

Ratio is the relationship between two numbers. The advantage of ratio analysis is the bringing data of many different companies on the same level. It enables them to be compared with each other. Ratio analysis is mostly common tool of the financial analysis. It is very used and also misused. Financial ratio derives out the two numbers division in group of numbers. There is interest only about the division of numbers, which are relevant and suitable. The misused of the ration analysis is due giving to much importance on some figures. [1]

2.6.1. Debt ratios

The debt ratios shows the company is using not just own source of money for financing its business. There is employment of the debt into company structure, which affects the revenues from capital assets and also increases the risk. It is recommended to use partly own capital and partly debt. Employing the debt into the company structure is advantage, because revenues out of the used debt and own capital is higher than interest rates paid for the debt. It is important to set the right financial structure of the company, it means right proportion between the debt and own capital in the company. Rightly set up financial structure of the company is significant for healthy development of enterprise. [16]

Total Debt Ratio

The total debt indicator depicts the proportion between the capital structure and the debt.

$$\text{Total debt ratio} = \frac{\text{Total debt}}{\text{Total asset}}$$

- Current debt ratio

The current debt ratio needs to be analyzed by itself, because it is more risky. There is no certainty of future stable interest rate cost. Due to this future riskiness current debt ratio is analyzed separately from long-term debt ratio. [19]

$$\text{Current debt ratio} = \frac{\text{Short-term liabilities} + \text{Short-term bank loans}}{\text{Total assets}}$$

- Long-term debt ratio

The long-term debt is less risky, but it is usually more expensive, because there is secure stable interest rate for long time of debt. [7]

$$\text{Long-term debt ratio} = \frac{\text{Long-term liabilities} + \text{Long-term bank loans}}{\text{Total assets}}$$

Self-financing ratio

The self-financing ratio depicts the amount company's, not borrowed, own money. It also assesses the financial stability and paying ability, which are important information for the company. [19]

$$\text{Self-financing ratio} = \frac{\text{Total asset}}{\text{Equity}}$$

2.6.2. Liquidity ratios

Liquidity is the future paying back ability of the company. Liquidity ratio compares by which assets (numerator) can be paid what needs to be paid (denominator). [9] Liquidity ratios divide assets according to its liquidity ratio on 3 indicators:

Cash ratio

The highest liquid indicator is cash ratio. It is short-term financial asset, which is in the form of cash or can be quickly, without higher loss, turned into the cash. [5]

$$\text{Cash ratio} = \frac{\text{Short-term financial assets}}{\text{Short-term liabilities} + \text{Short-term bank loans}}$$

Quick ratio

The middle liquid indicator is quick ratio. It is short-term receivables and securities with the high probability of turning into cash in the near future. The turning into cash is done with some loss. [5]

$$\text{Quick ratio} = \frac{\text{Current assets} - \text{Inventory}}{\text{Short-term liabilities} + \text{Short-term bank loans}}$$

Current ratio

The lowest liquid indicator is current ratio. Current ratios are inventories and it takes some time to turn it into cash. It is also merchandise, finished products and materials, which can be not easily sold with some money loss. [5]

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Short-term liabilities} + \text{Short-term bank loans}}$$

2.6.3. Turnover (activity ratio) ratios

Turnover ratios express the company's effective usage with their assets. If the company owns more assets than they need for their business activities, they have to pay for not needed assets and it decreases the total revenues. If the company has a lack of assets, the company is losing its revenues. [14]

Turnover ratios evaluate the management of the assets with the help of figures from the balance sheet and the profit and loss statement. [1]

Total asset turnover ratio

The asset turnover measures efficiency of revenues. It denotes the amount of revenues generated by 1 CZK and how effectively is the company using its assets. If revenues are increasing, the company is a good user of its own asset. The result is also stating how many times total assets turn over total sales.

$$\text{Total asset turnover} = \frac{\text{Sales}}{\text{Total assets}}$$

Fixed asset turnover ratio

Measures the effectiveness of using the only fixed assets.

$$\text{Fixed asset turnover} = \frac{\text{Sales}}{\text{Fixed assets}}$$

Inventory turnover ratio

Inventory turnover ratio states effectiveness of inventories. It is significant to compare it with the same ratio of other companies or with a benchmark to know the result.

$$\text{Inventory} = \frac{\text{Sales}}{\text{Inventory}}$$

Average collection period

Average collection period denotes the period between the issuing the invoice and receiving the money for the invoice. For the company it is recommended to shorten this period, due to possibility of another investing with the received money.

$$\text{Average collection period} = \frac{365}{\left(\frac{\text{Sales}}{\text{Receivables}}\right)}$$

Average debt period

Average debt period denotes the period of not repayment the invoice to another company. For the company it is recommended to keep the money as long as it is possible, due to reinvestments into something else.

$$\text{Average debt period} = \frac{365}{\left(\frac{\text{Sales}}{\text{Liabilities}}\right)}$$

2.7. Prediction of financial distress

There are models of predicting financial distress and different ratios of financial analysis can be used for prediction of bankruptcy likelihood. Used models presume the probability of financial distress, which leads company's management to avoid this potential risk and loss. [7]

Mostly used bankruptcy models in Czech Republic are:

- Altman Z-Score - is based on the statistical technique. It is set of multiple financial ratios generating the financial distress. [11]
- Index IN95 – it is a Czech bankruptcy model based on the Czech economic situation and accounting system. There are 6 indicators predicting financial distress. Model is similar to Altman Z-Score. [19]

3. SWOT analysis

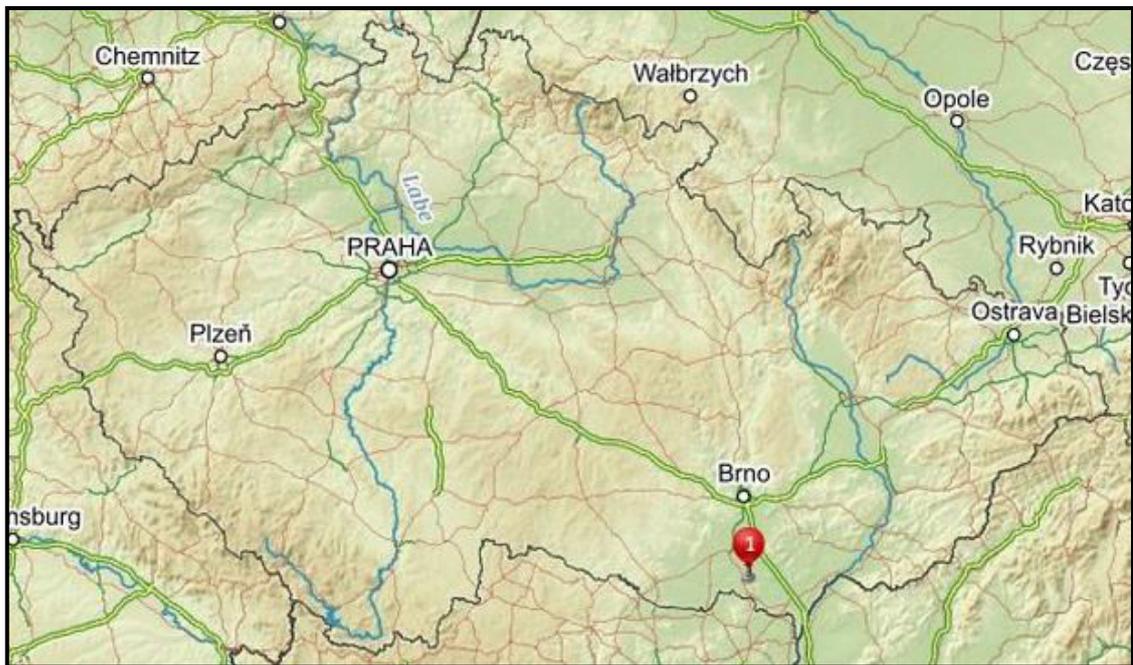
SWOT analysis is applicable easy tool. It states key conditions affecting the strategic company situation interfering with external impacts changes of the company structure. SWOT analysis differentiate two inner company conditions, strength and weakness, and two external conditions, opportunities and threats. The SWOT analysis differentiation implies some limitation, due to division of inner and external company's conditions. It is often not easy to classify the conditions if they are strengths, weaknesses, opportunities or threats and they are interchangeable within definite preconditions. Goals of SWOT analysis are the identification of the impacts, relationships between impacts and prediction of external and internal development trends. [15]

PRACTICAL PART OF THESIS

4. Company localization

Company Cafe Fara is situated in the small municipality Klentnice, located in South Moravian Region, county Břeclav. Cafe Fara is 4 km away from border municipality Mikulov and about 10km away from Austria borders.

Map 1: Location of Cafe Fara



Source: author's preparation from mapy.cz [24]

4.1. South Moravian Region

Cafe Fara location is in the south of South Moravian Region. The center of region is Brno, which is second largest municipality in Czech Republic. There is location of universities, exhibition center and very important jurisdiction courts. The advantage of the region is Brno airport with the second highest traveler's check-in. South Moravian Region takes significant place with the agriculture, especially famous importance of vine planting and production. The region is enriched with plenty historical monuments and natural heritage and some of them are on the list of UNESCO heritage. Protected Landscape Area Pálava and Lednice-Valtice area one of those, which are on the list of UNESCO heritage.

Data are by the date 1.1.2014 taken from Czech Statistical Office.

Table 2: South Moravian Region general data

Area in km ²	7 195
Population	1 172 853
Monthly average salary in CZK	24 883
Share of unemployed population (%)	8,25
Applicants per vacancy	14,6

Source: Czech Statistical Office data [20]

South Moravian Region is the 4th largest region in Czech Republic, combined out of 7 counties and it belongs to NUTS II European classification. With the population amount it is rated to be 3rd most populated region in the country. Main share of population is situated in Brno. Monthly average salary is 3rd highest after Prague and Central Bohemian Region. Indicators such as share of unemployment with its 8,25 % and applicants per vacancy is rated to be between regions with highest unemployment. The average Czech Republic unemployment of is 7,46 % and applicants per vacancy is 9,2.

4.2. County Břeclav

It is located in the South Moravia Region, right on the borders with Austria and Slovakia. The largest towns are Mikulov, Břeclav and Hustopeče. In the county Břeclav live 115 thousands of inhabitants, which is comparable with amount of people in county Znojmo. According to last census in the year 2011, most of the inhabitants, 27 % of population, are employed in the industry sector.

Data are by the date 1.1.2014 taken from Czech Statistical Office.

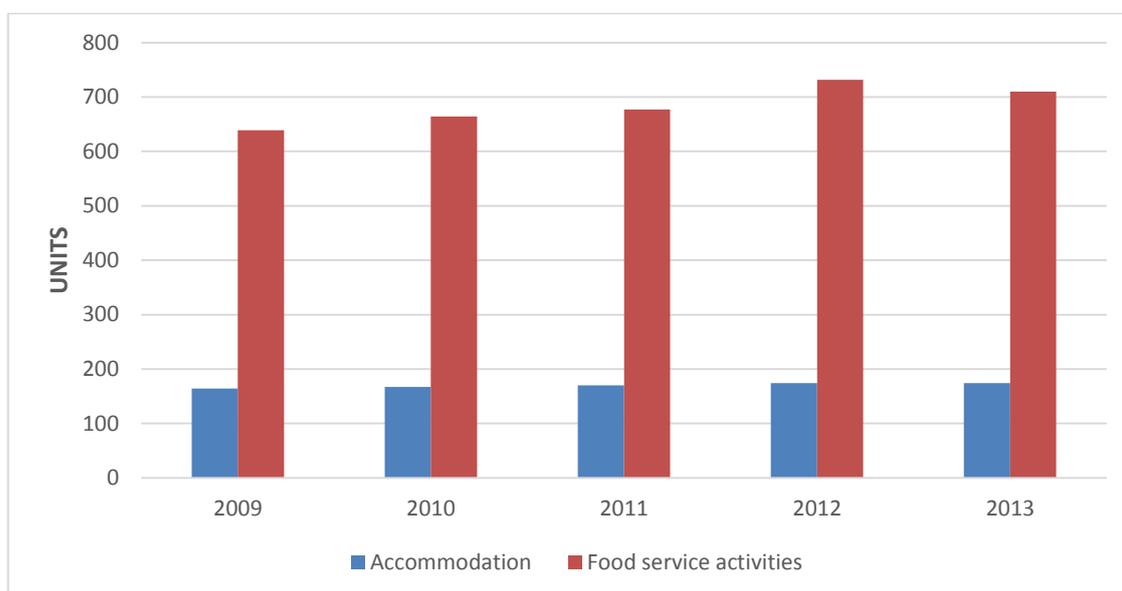
Table 3: County Břeclav general data

Area in km ²	1 038
Population	114 978
Share of unemployed population (%)	9,09
Applicants per vacancy	25

Source: Czech Statistical Office data [20]

Size and population of the county Břeclav is ranked to be right in between of other 6 counties. Share of unemployment and applicants per vacancy is rated between counties with higher unemployment. Unemployment indicators of county Břeclav shows increase disparity compare to average of same indicators in South Moravian Region.

Graph 1: Development of accommodation and restaurants according to CZ-NACE



Source: author's calculation on the base of Czech Statistical Office data

During researched period in the county Břeclav, there is fluctuation between 600 and 700 of food service activities and between 150 and 200 accommodation providers. Fluctuation of accommodations providers is more stable during the time.

The county Břeclav in comparison to surrounding counties Brno-venkov, Znojmo, Hodonín, and Vyškov keeps the highest amount of accommodation providers. The highest food service activities are in the county Brno-venkov and lowest in the county Vyškov. The county Břeclav is on the similar level with counties Znojmo and Hodonín.

5. General characteristic of the company

The business Cafe Fara is working since 2009, but the legal name of the company is KRÁSNÁ PÁLAVA s.r.o. which was established a year earlier in 2008. The subjects of this business are: retail trade with different merchandise, regenerative services, restaurant services and accommodation. Cafe Fara is giving employment to about 30 people and the owner of the business is a small family.

As it is mentioned in the beginning the business itself was founded in 2008 and shortly afterwards they started with reconstruction of the compound. Nowadays there is uniqueness in more things built and brought together at one place. The rarest and oldest is cafe building in the former historical presbytery¹ by the Church in the village, which was originally built in the end of 18th century. Next to the historical presbytery there is modern building for accommodating tourist. The combination of new and old architectonic style is quite unique and was awarded by the architectonic prize. There is also modern large vine cellar, coffee machine museum and small shop with various kinds of souvenirs for instance: books about coffee, different kinds of organic fruit juices from eco farms or special cycle t-shirts with the motives of famous Czech painter Jiří Slíva.

Cafe Fara is mainly interested in coffee and everything what is linked to coffee and its production. At this place there is small coffee world with a coffee spirit. There is a possibility to taste coffee from all over the world or visit library with books about making, preparing, growing and processing coffee. The most remarkable is coffee machine museum. Some machines are more than 60 years old and are mostly products of Italian companies.

Cafe Fara is not only about coffee, but also about wine, “restaurant” food affected by gastronomy skills and there is possibility of accommodation situated in the buildings of former barn and old school. Accommodation consist nine rooms in different style and size. For instance there is apricot room, walnut room or even school room. In the modern vine cellar there is selection of wine from local wine growers, who represents local wine area. The “restaurant” is not typical restaurant. It is more something like home kitchen, where is selection of different meals, sweet cakes and bakery products. The main idea is to prepare food from the ingredients grown on their own field or taken from local farmers. They want to make sure their customers know exactly what they are eating, from which ingredients it is and from which field of farm it is coming. Cafe Fara puts importance on the regional foodstuff. The typical Menu depends on what is able to be grown on the field and it is closely connected with seasonal weather conditions.

¹ Presbytery- It is a building where catholic priest lives

The business Cafe Fara organizes also music concerts and many other events. Every months is planned in different culinary, coffee or wine style, which is linked to whole outlook of compound.

6. Protected Landscape Area Pálava²

6.1. General characteristic of the PLA Pálava

PLA Pálava is located in the South Moravia Region right in the border with Austria. It was declared as the Protected Landscape Area by the Ministry of Culture of the Czechoslovakia in the year 1976. The expanse of this area is 83 Km² and it is the second smallest PLA in the Czech Republic. The smallest one is PLA Blaník, located in Central Bohemia Region, with the expanse of area 40km². In the PLA Pálava there are scattered many small protected landscapes. Most important areas are located on the ridge of Pavlov's hills with its length of 12km throughout the PLA Pálava. The peak of Pavlov's hills is the place called Děvín, 550 MASL. PLA Pálava is partly used also for the agriculture with the prevalence of vineyard, because there is strong connection with viticulture. The name Pálava is coming from the old village called Pavlov.

Ten years later after declaration of PLA Pálava in the year 1986 the area became part of the program The Man and the Biosphere³, which is part of worldwide network UNESCO, and it was accepted to be part of international network of biosphere nature reserves. The network of these rare nature reserves is good for preserving this areas for the scientifically researches. The area is also part of International Ramsar Convention and Natura 2000. Ramsar Convention is about protecting wetlands linked with wise using of their resources and Natura 2000 is connected with conservation of European important areas and bird areas. These memberships are supporting how important is this second smallest area in Czech Republic PLA Pálava.

In the PLA Pálava there are altogether 10 municipalities. They are: Dolní and Horní Věstonice, Perná, Pavlov, Milovice, Klentnice, Bavory, Mikulov, Bulhary and last one is Sedlec. The biggest municipality is Mikulov with highest number of residents. In the last day of 2013 there lived 7 416 people. The smallest is Bavory with the number of resident to the last day of 2013 is 403 people. [22] Municipality Dolní Věstonice is nowadays famous, because of the discovery of the worldwide

² Further in the text is used shortcut PLA Pálava

³ It is an Intergovernmental Scientific Program that is aiming to improve relationship between people and their environment.

famous statue The Venus of Dolní Věstonice, which is nude female figure dated back to 29-25 thousand years BC. It is the oldest ceramic article found in the world.

6.2. Tourism destinations and activities

People have started to come to this area since a long time ago. Nowadays there are many tourism destinations and many things to see and to do. Primarily visited places in PLA Pálava are especially Nové Mlýny dam, the municipality Mikulov, local vineyard villages and Pavlov hills, which are running throughout the PLA. The area offers many kinds of activities how to spend your leisure time. Activities such as foot tourism connected with educational tourist paths, cycling, swimming and bathing, horse riding, climbing, diving and paragliding. According to research, lead to find out reasons of visiting PLA Pálava, resulted to show that primary tourist reason coming to PLA Pálava is to learn something new about locality and then secondary is to relax. [23]

Primarily visited places

Nové Mlýny dam

It is largest water surface in the whole part of Morava and it is divided into 3 reservoirs: Upper, Middle and Lower parts of reservoir. The Upper part is in the Pasohlávky recreational center, where is sandy and grassy beaches with acceptable entrances to the water. The Middle part of reservoir is naturally protected and it is in place of former village Mušov, which was flooded by the reservoir. The only thing what remains from the former village is the roman-gothic church of saint Linhart. The church used to be located on the hill and nowadays it is located on the small island in the middle of Middle part of reservoir. The Lower part is used for water sports and for the fishing.

Mikulov

As it is mention above Mikulov is the biggest municipality in PLA Pálava and it is situated right in the heart of viticulture region. Mikulov is more than eight hundred years old and there can be found many architectonic and sacral monuments. Dominant monument of the municipality is the Mikulov Chateau, which is situated on the elevated ground surface in the center of Mikulov. The Chateau can be seen from further distance away of the municipality. It is linked with the aristocratic family Dietrichstein, which was in charge of this city for about three hundred years since the end of 16th century. Tourists nowadays plentifully visit the Dietrichstein

burial chamber. Mikulov is also connected with Jews and their history. There was huge community of Jews. Tourists can currently visit Jewish quarter and cemetery. Because of the historical shape of the town it is preserved and it is under UNESCO conservation.[23]

Pavlov hills and vineyard

Pavlov hills with their white limestone rocks are dominant in the Pálava PLA. As it is mentioned above there is the highest point and the peak of hills is called Děvín, which is 549 MASL. Hilly area is human dwelling place for already many hundred years and it is proofed by many archeological findings, by castle and ruins of two former castles. It is Sirotčí castle, ruins of Děvičky castle and New castle. The area is surrounded by the fertile vineyards and it offers either foot or cycle wine paths visiting local wine cellar and wine tasting places. During the summer there are held wine festivals and the most internationally famous wine is the Pálava wine.

Possible activities

According to tourism researched, two most attractive activities in this area are foot tourism and cycling. [22]

Foot tourism

There are many different paths leading you with touristic signs and also a number of interesting educational paths. Frequently visited are the touristic paths to Sirotčí castle and ruins of former castle Děvín, Tabulová hill, Kočičí rock and Svatý kopeček (Holly Hill), which is towering itself right by the Mikulov and on the top there is church of saint Sebastian.

Cycling

The area is attractive for cycle tourist, because of the nature and also due to the long network of variety cycling paths marked by signs. Cycle tourists can choose also few long distance paths or to visit educational path where they can learn on the way about the specific features of the place such as beauty of not commonly seen nature and landscape or local architecture and monument. Very often are visited educational viticulture paths.

6.3. Area tourism

Visitors from whole Czech Republic are coming to see the beauty of PLA Pálava. It is mostly visited by the tourist from South Moravian Region. As it is mentioned already before the destination is situated on the border with Austria. Citizens of

Austria are interested to visit this area and because of that there is significant foreign tourism. The usual summer stay of Czech and foreign visitors is between 3 and 7 nights. [22] Seasonal tourism is strongly prevailing and the most frequently visited is during summer months, because of the number of options for how to spend your leisure time. Some of them are mentioned above in paragraph 1.3. Tourism destination and activities. PLA Pálava is partly visited during the fall and spring. During the fall there is held several events about wine and everything what is connected with viticulture is active. Welcoming nature during the spring blooms with its beauty and that is attracting visitors, too. The main seasonal problem for the Pálava is low capacity of tourist during the winter months.

Accommodation in PLA Pálava and Lednice-Valtice area

According latest accommodation research led by the Czech Statistical Office in the year 2013 there was in the Pálava and Lednice - Valtice area 267 collective accommodation establishments, which is altogether 11 057 beds. The highest number is the amount of boarding houses, it is 150. In the same year there were 774 743 Czech and foreign overnight stays. [20]

6.4. Klentnice – Cafe Fara

Klentnice is viticulture and tourist municipality. It is part of the micro-region Mikulovsko, where is altogether included 18 local municipalities. Klentnice is located 4 km away from Mikulov and right by the village is towering Siroťčí castle. It is small village with 538 residents to the last day 2013 according to research of the Czech Statistical Office. Klentnice is also home of Cafe Fara from the year 2008. Cafe Fara is situated in the old presbytery by the catholic church of Saint George. Presbytery and Church were build up in the end of 18th century. Cafe Fara is offering food and accommodation.

7. Lednice–Valtice area

Lednice-Valtice area is neighbouring PLA Pálava and Austria border as well. The area was in accordance with English principles for architecture landscapes put together in between 17th and 20th by Liechtenstein dukes. Nowadays it is one of the largest artificial landscapes in Europe at 283 km² and this cultural and landscape area was in the year 1996 put on the list of world cultural and landscape heritage UNESCO. Dominants of this area are chateaus in municipalities Lednice and Valtice with its beautiful parks. Lednice chateau is the most visited tourist destination in South Moravian Region according to research about the monument turnout of visitors in regions in Czech Republic latest for the year 2012. [23] In between Lednice and Valtice there is very large composed natural park. The municipality Lednice is surrounded by a number of beautiful ponds. Around the Lednice-Valtice area there is also scattered many historical monument and significant archeological locality Pohansko. Locality offers to try and drink wide range of wine brands. Capital winery city for this area is supposed to be Valtice. Visitors can enjoy this tourism destination by doing many activities such as: foot tourism, cycling, horse riding or fishermen are attracted by this territory.

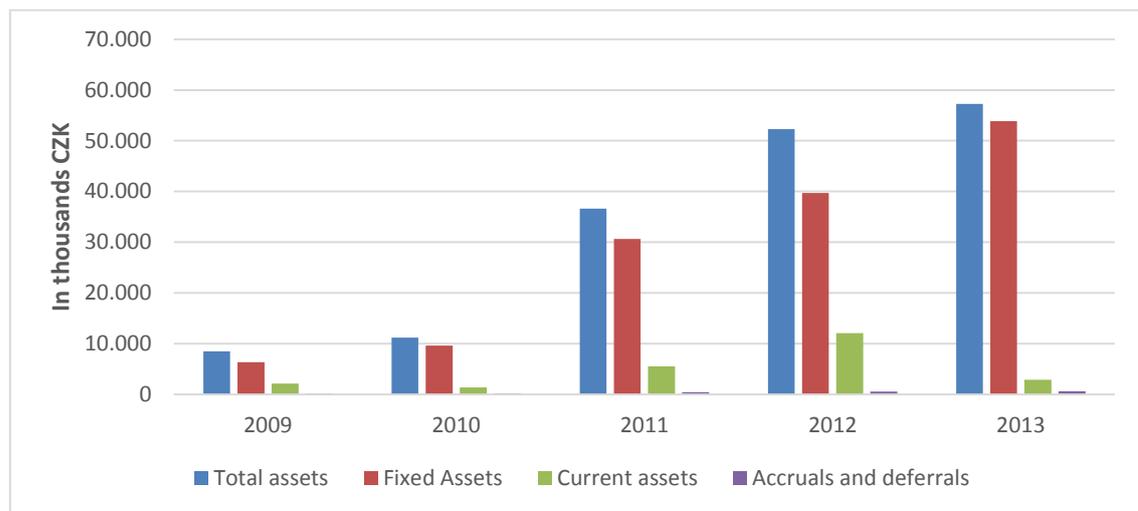
8. Financial analysis of Cafe Fara company

Financial analysis is coming from accounting statement of the company. There are three sources: Balance sheet, Profit and loss statement and Cash-flow statement. Results of those statements are depicted graphically and described.

8.1. Horizontal analysis

Assets

Graph 2: Development of assets in CZK



Source: author's calculation, financial statement

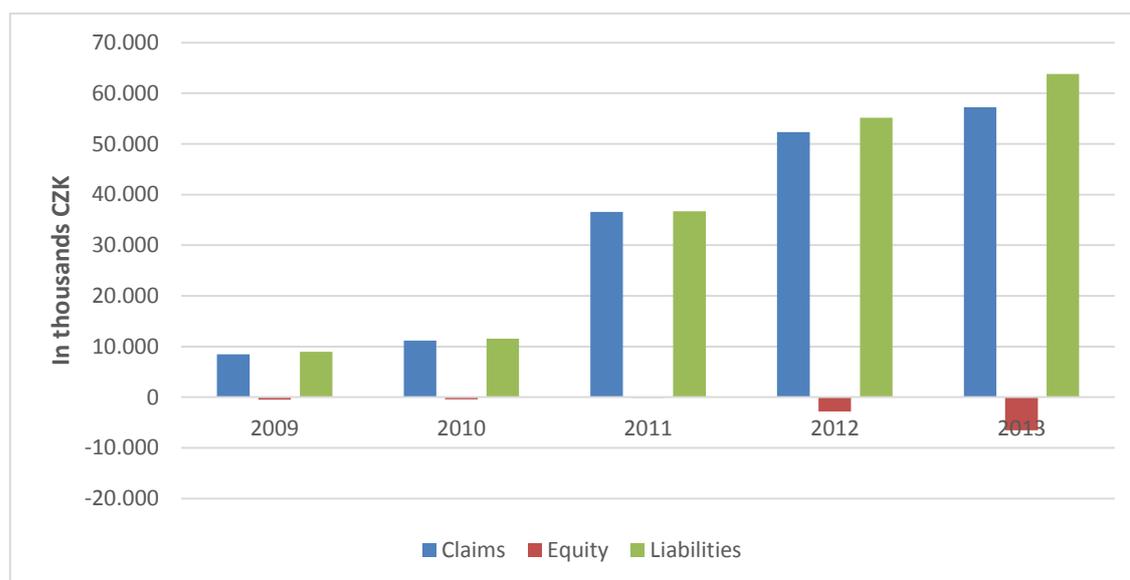
There is increasing development of total assets due to stable development of fixed assets through the researched period. The biggest change occurred between years 2010 and 2011. The fixed assets increased by 21 032 000 CZK by 228 % change from previous year. It was caused by the purchasing of tangible fixed assets, two properties in Klentnice and one land in Pavlov. The significant change occurred also between years 2012 and 2013. The fixed total asset increased about 14 103 000 CZK by 35 %. The increase was due to building construction extension and purchasing movable assets.

The current assets and the accrual and deferral had fluctuating development up and down. Between the years 2011 and 2012 there was a substantial increase about 6 530 000 CZK by 118 %. There was increase mainly by the short-term financial receivables, by paying operational prepayment to suppliers. Between the following years 2012 and 2013 there occurred the biggest change. The current assets decreased about the 9 180 000 CZK by 76 % incurred again by the short-term receivables.

The amount accrual and deferral is negligible compare to fixed and current asset. Its fluctuating is not even at the graphical depiction. The highest increase arouse between years 2010 and 2011, which was about 246 000 CZK by 141 %. During the years 2012 and 2013 the amount of accrual and deferral decreased on the lowest amount of 29 000 CZK.

Claims

Graph 3: Development of claims in CZK



Source: author's calculation, financial statement

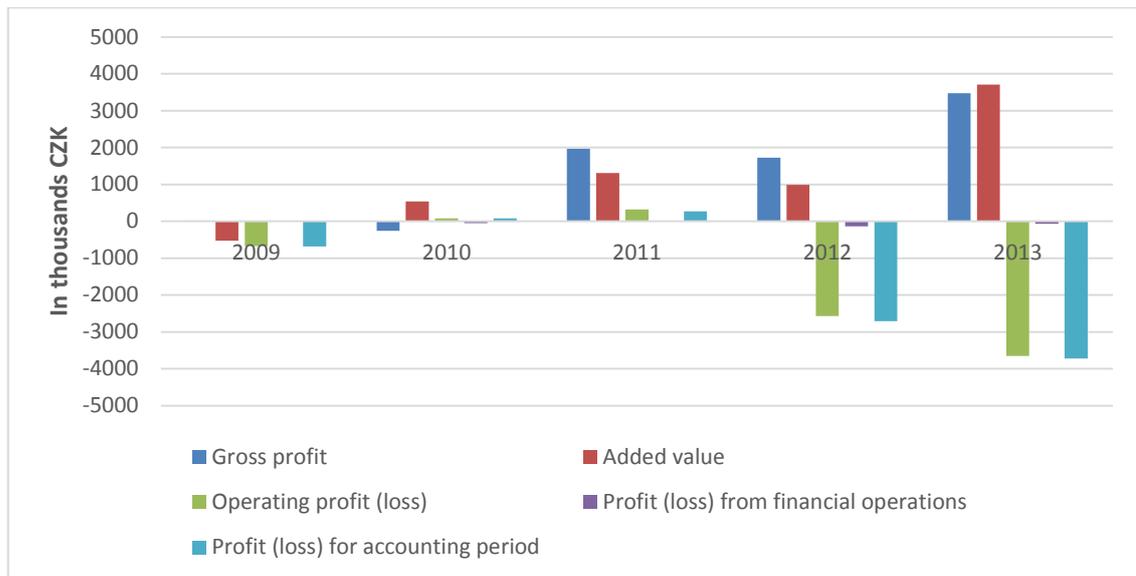
There is positive development of claims, which is due to increasing development of liabilities. During the years 2009 and 2010 there is only slight increase of claims, but continuing year 2013 occurred the biggest increase of whole researched period. The increase change is about 218 %, amount of 25 158 000 CZK, and it is caused by the increase of short-term liabilities – other liabilities to partner.

The next year increase is also due to other liabilities to partner and the last year 2013 is caused due to other long-term liabilities.

The equity is negatively increasing for the whole time of period. The first year 2009 it is -478 000 CZK and last year 2013 it negatively increased down to -6 549 000 CZK. The last year occurred the biggest negative increase. It was caused due to loss for current period and mainly by decrease of retained earnings.

Profit and loss account

Graph 4: Development of profit and loss account in CZK



Source: author's calculation, financial statement

Development of gross profit is dependent on the important indicator the revenue from goods. There is increase from the year 2011 until the last year 2013. The increase change in 2011 is occurred by 2 219 000 CZK due to increase of revenues from goods. Next year there is slight decrease and last year 2013 there is again increase of revenues from goods about 1 753 000 CZK.

Added value started, from negative values, to increase every year except of slight decrease in 2012. The highest increase is last year about 102 %.

Cafe Fara has operating profit only during the years 2010 and 2011. The other years it is operating loss. The biggest negative decrease about 2 886 000 CZK between the years 2012 and 2013 occurred due to increase of indicator personnel expenses and indicator depreciation of intangible and tangible fixed assets. The same reason is applied for the year 2013.

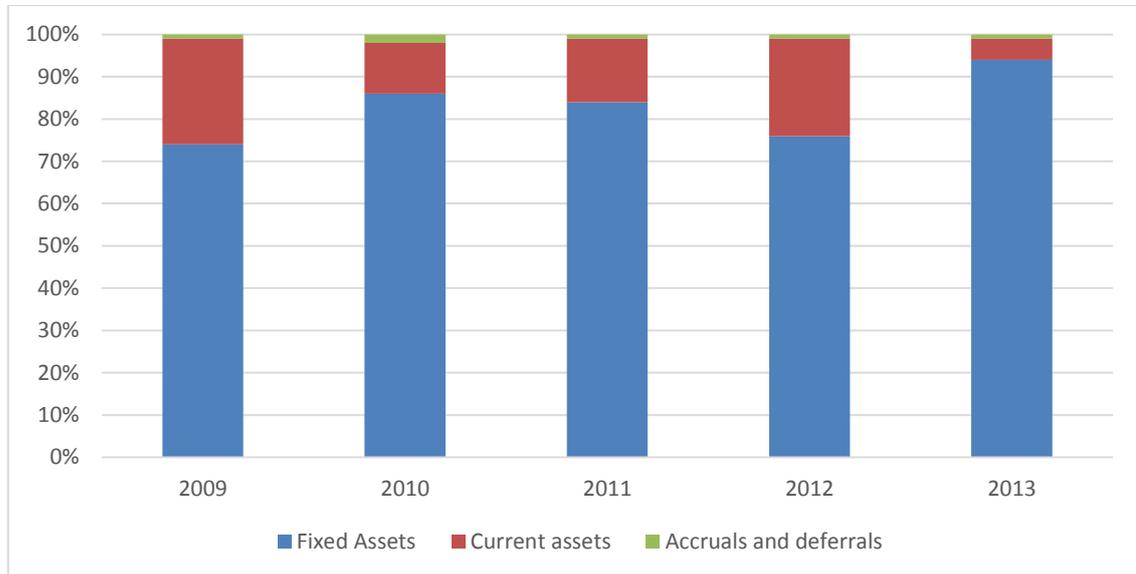
Indicator profit/loss from financial operations has the lowest values of the indicator depicted in the graph. Except of the first year value, which is 0, it has a negative development, which is dependent on the fluctuation of the adjustment to financial revenues.

Profit/loss for accounting period is the result of operating profit/loss minus adjustment to financial revenues. Due to small values of adjustment to financial revenues, the profit/loss for accounting period has same development as the operating profit/loss.

8.2. Vertical analysis

Assets

Graph 5: Share in assets



Source: author's calculation, financial statement

There is fluctuating development in all three mentioned indicators in the graph. The development is in percentage share in assets. The highest proportion of share in assets has fixed assets, as it is seen also from the graph of development of assets in CZK in horizontal analysis. The share of fixed asset is fluctuating during the researched years with increasing development. It starts at lowest 74 %, during whole period and last year it ends with highest share in 94 %. The current assets starts the researched period with the highest amount of 25 % and ends the period with lowest amount of 5 %. The share of accrual and deferral keeps its low value about 1 % during period and it is not even seen in the graph, except of increase up to 2 % percent in the year 2010.

In the year 2010 the 12 % increase share of fixed assets occurred due to acquiring tangible fixed assets, purchasing property, which subsequently led to decrease about half short-term financial assets. The 8 % decrease in share of fixed assets in the year 2012 is mainly because of the increase of current assets short-term receivables by paying operational prepayment to suppliers. The last year 2013 fixed assets share increase is due to increasing tangible fixed assets, purchasing movable assets and building extension, and decreasing short-term receivables and financial assets.

Claims

Graph 6: Development of claims

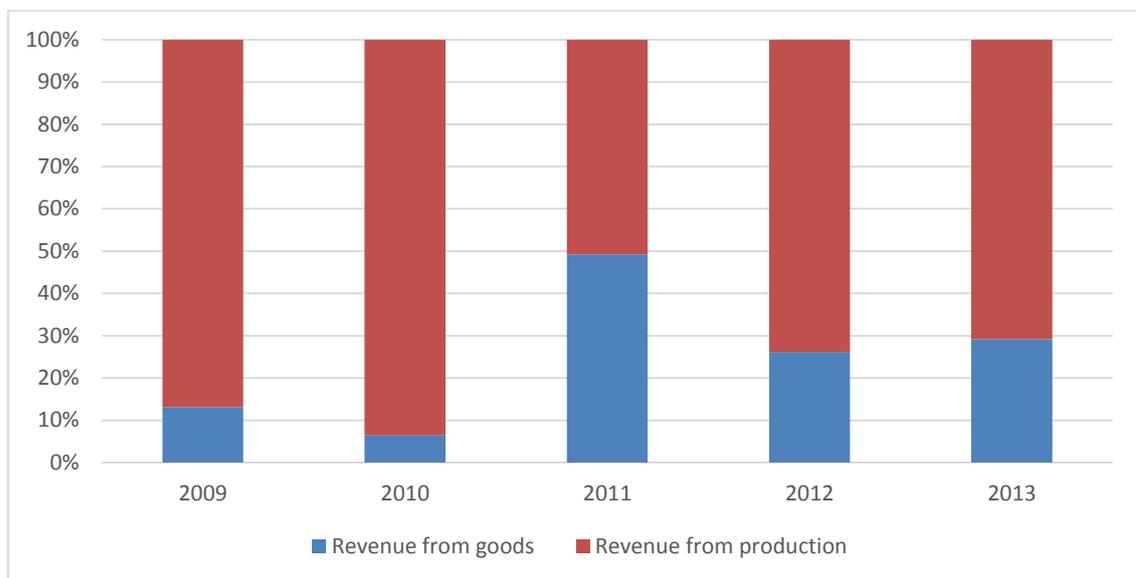


Source: author's calculation, financial statement

During the whole researched period there is majority of liabilities. During the year 2011 it is even over 100 %. Last year there is increase up to 111 %, which is caused by decreasing equity due to loss for current period and retained earnings.

Profit and loss account

Graph 7: Share of revenues in profit and loss account



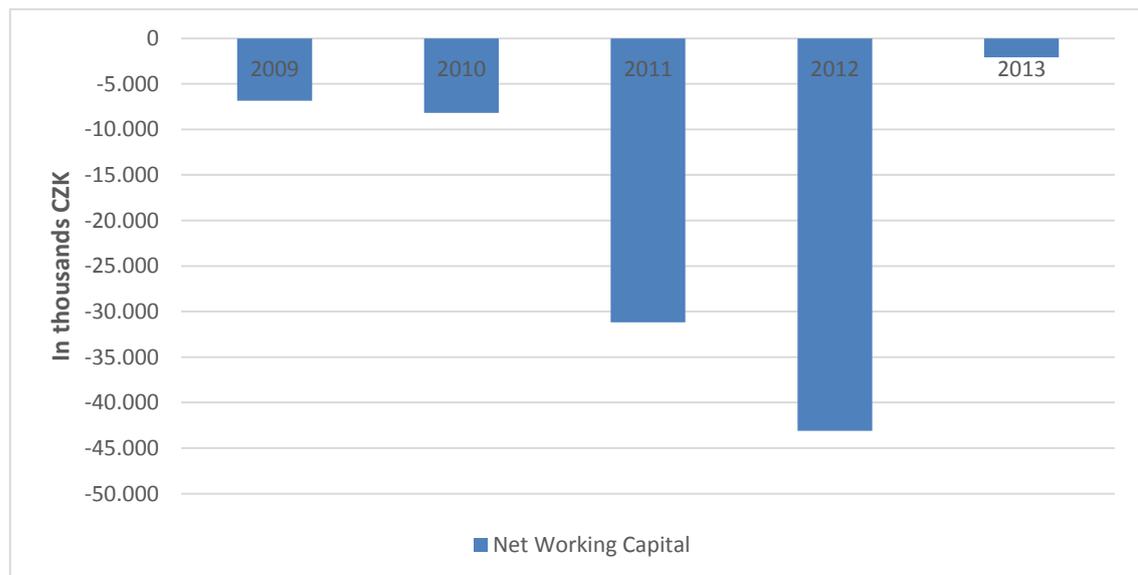
Source: author's calculation, financial statement

Revenues are important indicators for the company. In the graph Share in profit and loss account there are depicted revenues from goods and production. During the whole period it is prevailing share in revenues from production. There is fluctuating development with the highest share of revenues from production in the year 2010 by 94 % and next year 2011 there is lowest share by 52 %. In the year 2011 the share of revenues is almost same. It is due to starting of retail trade with own goods. During the next year 2011 there is employed accommodation service, which is strengthening the revenues from production.

During the whole researched period there is great development increase in revenues from production and from goods. Revenues from goods increased during the 5 years researched period about 3 894 000 CZK and revenues from production about 9 039 000 CZK

8.3. Net working capital analysis

Graph 8: Net working capital



Source: author's calculation, financial statement

Net working capital is related with financing operating activities. It is recommended to keep working capital positive in the long run due to paying its bills in time and survival of the company. According to the graph above, there are negative drops of working capital, which are also connected with the initial development cost of the company. The biggest drop is in the year 2012 down to -43 103 000 CZK. The next year 2013 there is great increase up to -2 071 000 CZK.

The biggest drop between the years 2010 and 2011 was caused due to employing more short-term liabilities than current assets. There was about 31 188 000 CZK more short-term liabilities than current assets. The next year enormous increase of working capital was caused due to incorporating of 58 882 000 CZK of long-term liabilities. Short-term liabilities were interchanged with long-term liabilities.

8.4. Financial ratio analysis

8.4.1. Debt ratios

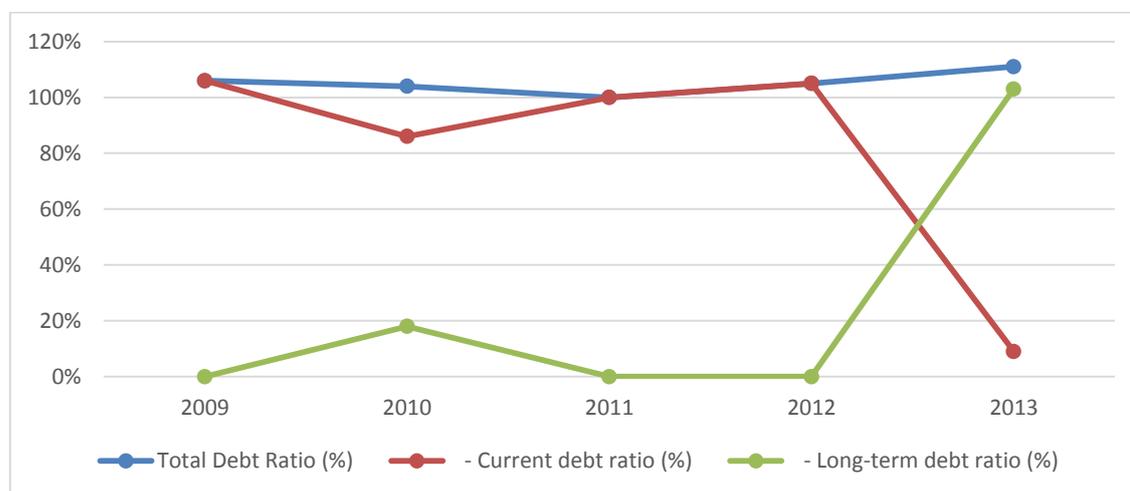
Table 4: Debt ratios

Debt ratios	2009	2010	2011	2012	2013
Total Debt Ratio (%)	106%	104%	100%	105%	111%
- Current debt ratio (%)	106%	86%	100%	105%	9%
- Long-term debt ratio (%)	0%	18%	0%	0%	103%
Self-financing ratio (%)	-5,6%	-3,6%	-0,4%	-5,4%	-11,4%

Source: author's calculation, financial statement

Debt ratios of Cafe Fara are not looking healthy for the company. There is very high debt situation and company is fully financed from liabilities. During the researched period there is very strong development of liabilities.

Graph 9: Development of debt ratios



Source: author's calculation, financial statement

Total debt ratio is keeping stable value between 100 %-111 %, which is considered to be high above recommended maximal value up to 50 %. Total debt ratio is mostly composed from current debt ratio and slightly with long-term debt ratio.

During the year 2009, 2011 and 2012 there is no long-term debt and the total debt ratio was composed only from current liabilities.

The current ratio keeps its value about 100 %, except of the year 2010 and 2013. In the year 2010 there is increase down to 83 %. The last year 2013 is depicted with the great exchange of debt between the current and the long-term debt ratio. The short-term debt decreased from last year 105 %, and highest amount of current debt in whole period, down to 9 %. The long-term debt by the exchange increased from last year zero debt up to 103 % and it resulted in employing the highest amount of debt during whole period. This great exchange might be done, due to reorientation of the future debt strategy on long-term debt, which is connected with constant interest rate cost.

As it is seen in the graph no. 5, the long-term debt is, with slight differences, behaving contrary to the current debt ratio.

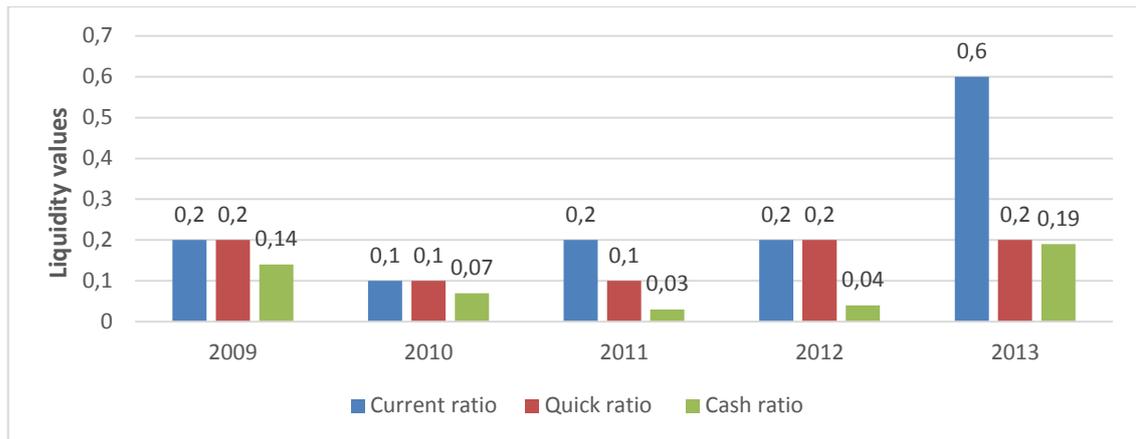
The self-financing ratio depicts during the researched period that none of the company assets are financed by company's equity. Results are even negative during every year, which is caused by the negative equity.

8.4.2. Liquidity ratios

It is important for the business to have at least optimal ratios and not to be too below researched optimal level, because that can put company into difficulties to meet its short-term cash requirements – future obligations. It is not recommended to have liquidity too much over researched optimal level, because it is investment into unproductive asset, which is resulting into decreasing total asset turnover and return on total asset.

Concerning Cafe Fara and its liquidity ratios are very low and it does not really have to mean that in the present situation the company is in bankruptcy. Some business can operate with very low ratios and if the low ratios are going to be constant for longer time it can result in problems.

Graph 10: Development of liquidity ratios



Source: author's calculation, financial statement

The current ratio optimum level for healthy companies is between 1.5 and 3. As I mentioned above the current ratio in my case is very low and under its limit. It is constant about 0.2 except of the last year 2013, there is increase up to 0.6. This increase was caused due to huge decrease of short-term liabilities, which was interchanged with huge increase of long-term liabilities and they are not part of the current ratio. Current ratio is not developing healthy for the future time of company being, there is a probability of trouble paying its bills.

The quick ratios are even more liquid and optimal is between 1-1.5. In this case it is constantly very low for the whole time. It is between 0.1-0.2.

The last cash ratios are the most liquid with almost no waiting period into conversion in useable cash. The optimum is between 0.2-0.5. In my case the optimum was almost reached during the last year 2013.

8.4.3. Turnover (activity) ratios

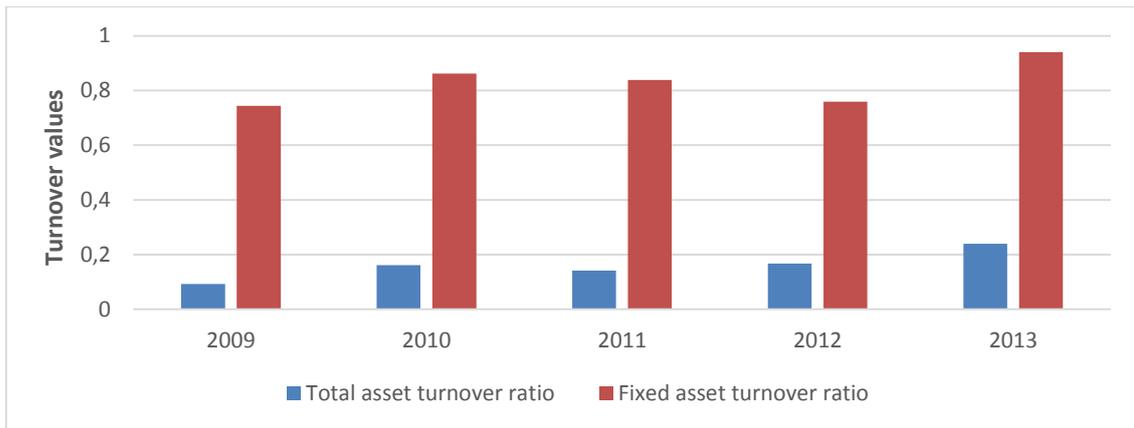
According to turnover ratios it can be seen, that the company is not using well its own assets and not generating enough profit from their available sources.

Table 5: Turnover ratios

Turnover Ratios	2009	2010	2011	2012	2013
Total asset turnover ratio	0,09	0,16	0,14	0,17	0,24
Fixed asset turnover ratio	0,74	0,86	0,84	0,76	0,94
Inventory turnover ratio	0,1	0,3	0,5	0,5	0,5
Average collection period [days]	-	-	8	7	1
Average debt period [days]	477	3	358	22	121

Source: author's calculation, financial statement

Graph 11: Development of Total and Fixed turnover ratio



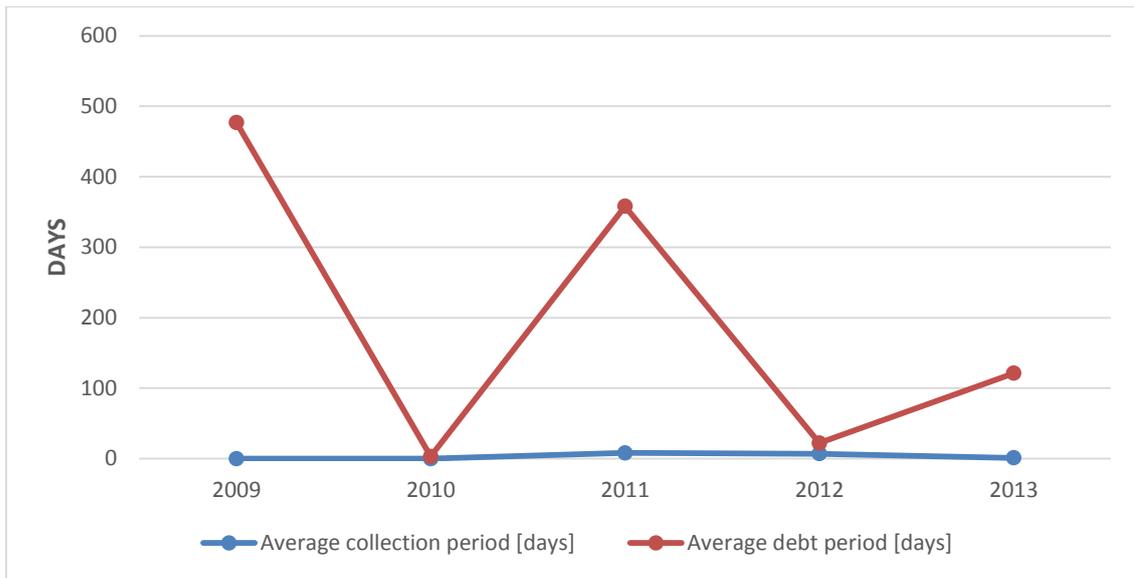
Source: author's calculation, financial statement

Total asset turnover ratio is keeping its value whole time of period under 1, which is saying that the company is not generating well its revenues. The lowest total asset turnover ratio is achieved in the year 2009 with 0,09 and the highest is achieved during the year 2013 with 0,24.

Fixed asset turnover ratio is not positive as well, because it is during the whole researched period not getting over 1. It is stating the company is not utilizing effectively its fixed assets property and equipment to produce high enough revenues. During the period it has positive development. There is the lowest value 0,74 in 2009 and the highest value 0,94 in the year 2013.

Inventory turnover ratio seems to be low se well, but it has to be compared with other companies to state result. Anyway it is telling to us information about amount of generation sales within given period.

Graph 12: Development of average collection and debt periods



Source: author's calculation, financial statement

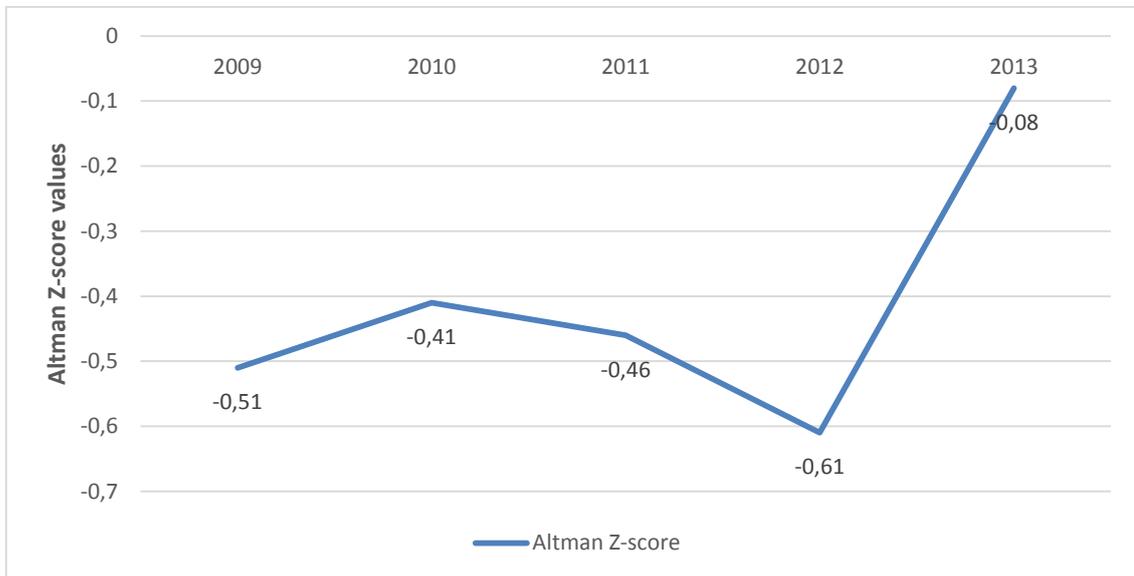
Average collection period could not be measured during first two years, because there were no purchasers of our inventories. It means nobody was owning money to Cafe Fara. Between the years 2011 and 2013 the collection period is very low, which is advantage for Cafe Fara, because early they can reinvest the money to something else.

Average debt period indicator is fluctuating during the period and is generally higher than average collection period. Longer time of money keeping is more profitable for the company, because before they pay the debt liabilities they can use the money for something else what can be profitable.

8.5. Prediction of financial distress

Altman Z-score

Graph 13: Development of Altman Z-score



Source: author's calculation, financial statement

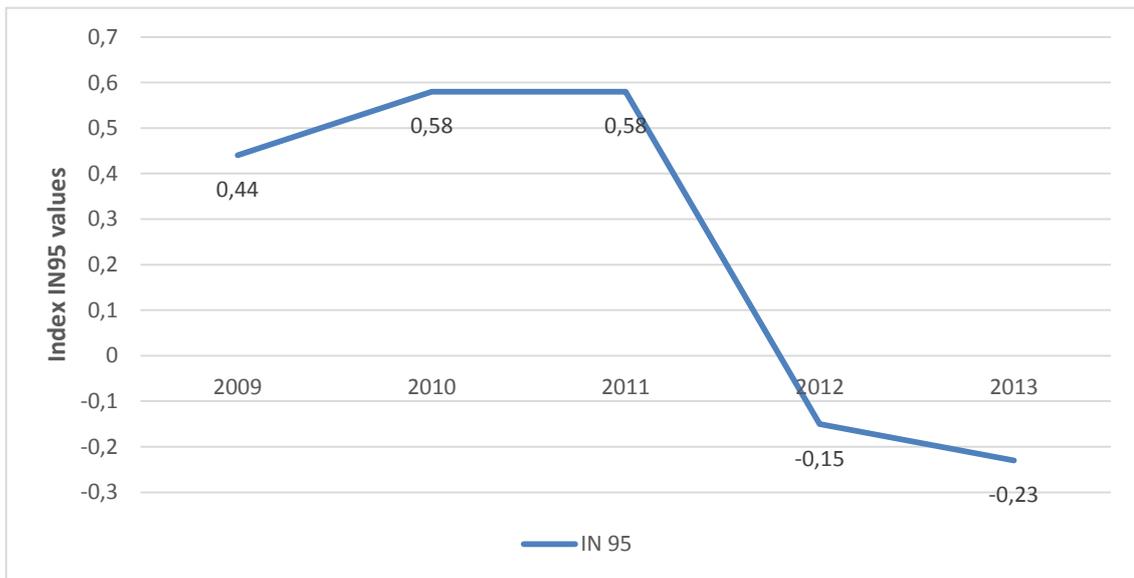
The Altman Z- score bankruptcy model is divided on values:

- above 2,90 = **safe area**
- between 2,90 and 1,20 = **unambiguous area**
- below 1,20 = **area endangered by the bankruptcy**

Cafe Fara is for the whole researched period below 1.20, even in negative numbers. In the last year 2013 there is development increase, but not above 0. According to this model the company is in distress with high probability of bankruptcy.

Index IN95

Graph 14: Development of IN95



Source: author's calculation, financial statement

The index IN95 bankruptcy model is divided on values:

- 2 and above = **positive**
- between 1 and 2 = **neutral**
- below 1 = **negative**

The IN95 is counted with the values for the restaurant and accommodation. The results are during whole period below 1 and even they are developing below 0, which is negative forecast.

9. Impact of the company on the local area

The company Cafe Fara has impact on the local area. Company is naturally and regionally oriented. They prefer to use products naturally grown and to know from where products are coming. This regional approach of Cafe Fara implies their own production of vegetables on local fields, connection with local meat and goat and cheese farmers. Cafe Fare has vine cellar and they import vines from local vine farmers. County Břeclav is strongly oriented on viticulture.

Cafe Fara is developing local municipality Klentnice, because gradually they buy more buildings in Klentnice municipality. They buy old buildings, which used to be place of local dopers, they renew it and use it like coffee museum, guest accommodation or coffee library. From the beginning of company Cafe Fara there is used for every rebuilding and reconstruction one local construction company.

There is seen particular tourism impact. Residents of Brno municipality are during nice summer days coming to visit PLA Pálava. As the name of Cafe Fara is becoming more famous, tourist like to connect their tourist destination in PLA Pálava with Cafe Fara visit. They are also very open to cyclists coming by and they prepare various cyclists events for them.

Cafe Fara has impact on the local social life. Every year in municipality Klentice there is typical Czech funfair, carnival, celebrating anniversary of Saint George and Cafe Fara financially support this event. Saint George is patron of church in Klentnice, which is building right next to the main compound of Cafe Fara. The owner of the company see advantage of Cafe Fara location towards old generation of people, because as the company have already experienced, older generation from Klentnice can come and have a coffee, which can bring to their everyday life positive influence.

Cafe Fara company also decrease local unemployment rate, because they employ 30 staff.

10. SWOT analysis of Cafe Fara

Table 6: SWOT analysis

<p>STRENGTHS</p> <ul style="list-style-type: none"> • Part of the company situation in historical presbytery from 18th century • Using regional products • Coffee museum • Unusual accommodation • Stylish outlook • Wine cellar • Bike renting • Retail sale of own Cafe Fara goods 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> • High prices for some customers • Limit size of compound • Overcrowded during the summer • Further from bigger municipality (center of customers) • Lack of parking spaces • Increasing amount of liabilities • Unskilled management
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> • Location in nature attractive PLA Pálava and close to Austria and Slovakia border • Enlarging its services – bathing service • Attraction of foreign tourists • Reinforce the advertisements in closest big cities 	<p>THREATS</p> <ul style="list-style-type: none"> • Intensive increasing amount of cost compare to revenues amount • Rainy summer weather • Hard to find skilled employees in local area

Source: author's analysis

It is good to highlight few points for better explanation. **Overcrowded during the summer** is weakness directed mainly towards customers, because usually during the summer season if customers have no reservation they have to wait until they are allowed to get in. For the company it is strength, because they do not have lack of customers. **Rainy summer weather** might be threats for lack of customers, because customers will not come to visit PLA Pálava, which is location of Cafe Fara.

11. Competitive companies in the local area

It is important to compare the results of the financial analysis and to see actually how the company is doing in its field of business. Without comparison with other companies some results of financial analysis would not tell us anything.

There are selected three other competitive companies in area. One of them is located in same PLA Pálava as Cafe Fara and two others are from nearby Lednice – Valtice area, which is world cultural and landscape heritage UNESCO. All of mentioned companies are providing accommodation services, additional services of restaurant, wine tasting in wine cellar usage of company gathering rooms.

Hotel Galant – PLA Pálava

Hotel Galant is located in the biggest municipality Mikulov, which is also attracting tourists by its historical monuments and cultural events. It is rated to be First Class four stars hotel.

Hotels in Lednice – Valtice area:

Hotel Hraniční zámek

Hotel Hraniční zámek is located in the half way between Lednice and Valtice, right on the bank of one of the ponds in Lednice – Valtice area. Hotel Hraniční zámek is small chateau, which was built in the beginning of the 19th century. Above all services, which have all mentioned hotels, Hotel Hraniční zámek offers additional Café and Spa. Same as the Hotel Galant, Hotel Hraniční zámek is rated to be First Class four stars hotel.

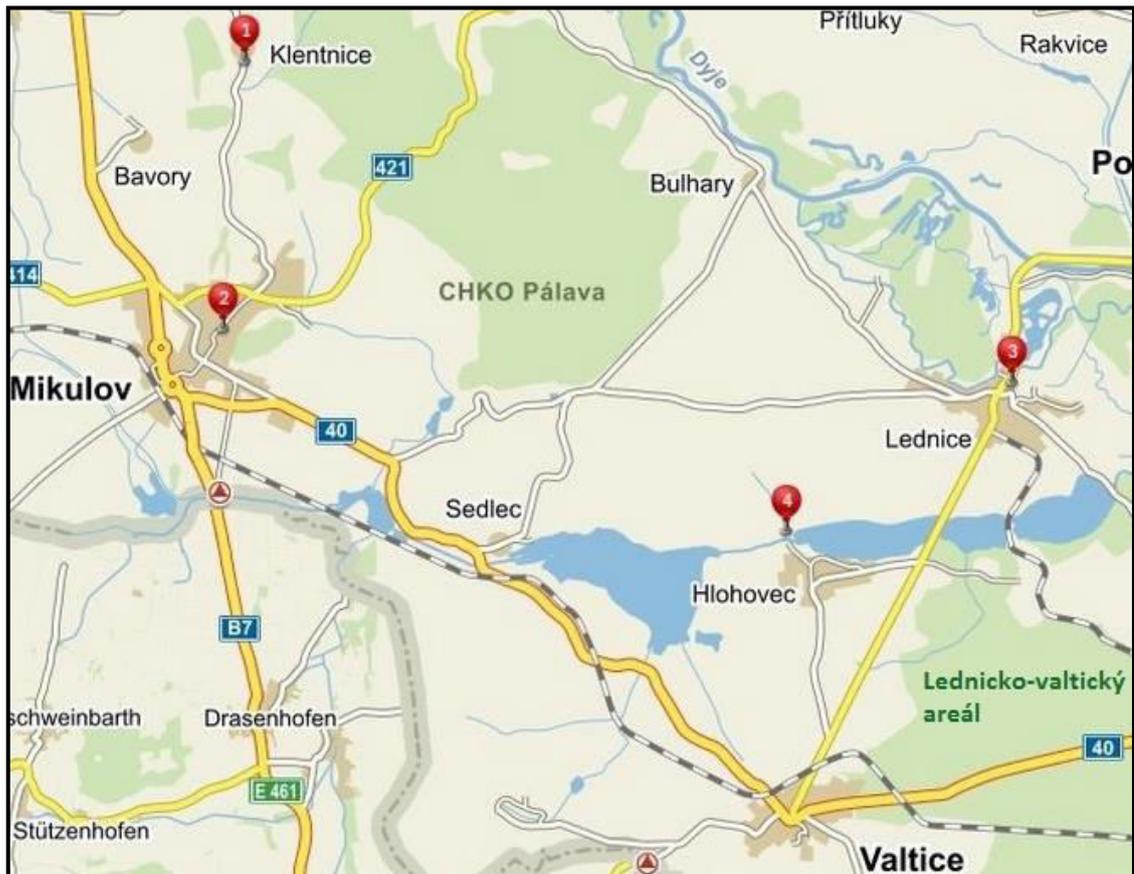
Hotel Mario

Hotel Mario is located in the small municipality Lednice, right next to the tourist well know chateau in the area of cultural and landscape heritage.

11.1. Location of companies:

1. Cafe Fara
2. Hotel Galant
3. Hotel Mario
4. Hotel Hraniční zámek

Map 2: Location of competitive companies



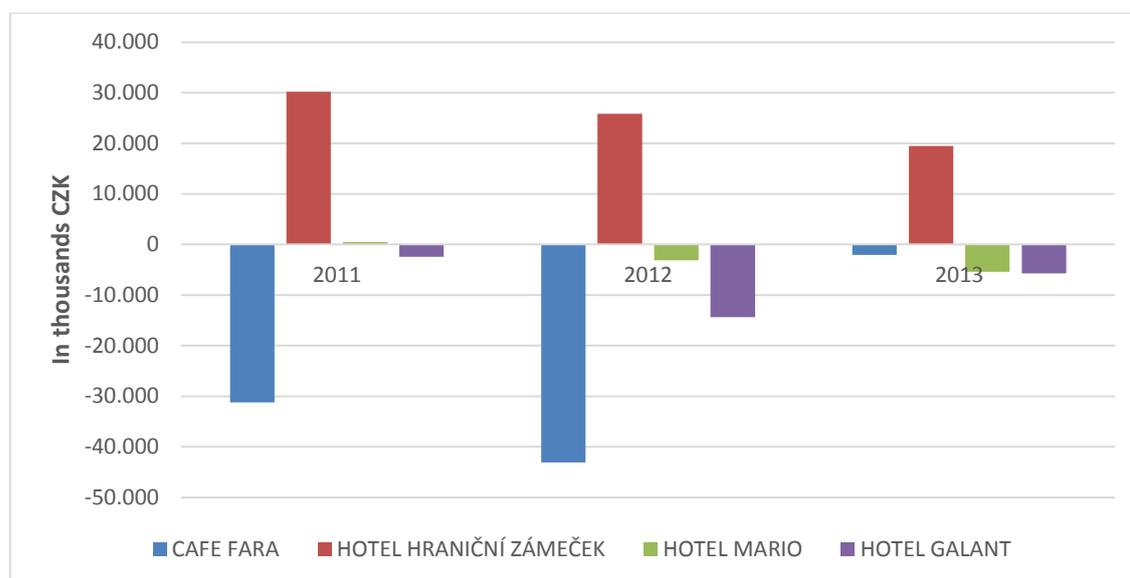
Source: author's preparation from mapy.cz [24]

11.2. Comparison with competitive companies in the local area

In the following part there are companies compared with each other. They are compared between the years 2011-2013.

Net working capital

Graph 16: Development of Net working capital



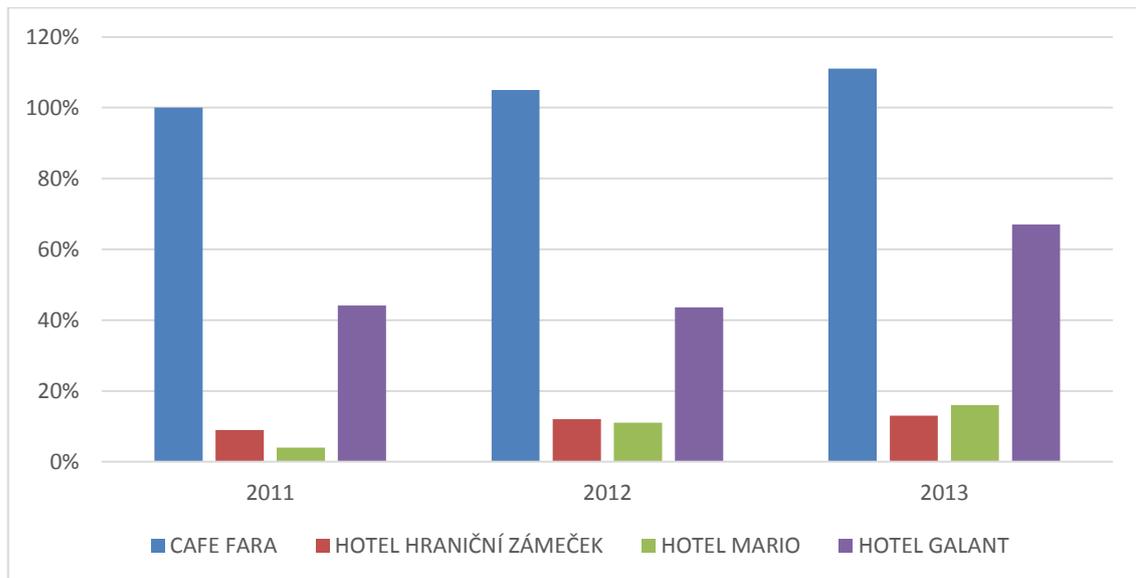
Source: author's calculation, financial statement

Cafe Fara has the most negative Net working capital, except of the last year 2013, because they moved all the short-term liabilities into long-term liabilities booking account for other long-term liabilities. The long-term liabilities are not used for counting the Net working capital.

Hotel Mario and Galant have all depicted years negative Net working capital. It is due to higher amount of short-term liabilities than current asset. Hotel Hraniční zámeček is the only one, which has the positive Net working capital during all depicted years.

Tota debt ratio

Graph 17: Total debt ratio



Source: author's calculation, financial statement

Cafe Fara has much higher debt ratio than other companies, which is saying their total liabilities are same or higher than total assets.

Rest of hotels have suitable amount of debt, because they can fit into the recommended up to 50 % debt. Hotel Galant has only higher increase of debt during the last year 2013, because there is decrease of the amount of fixed assets.

Liquidity ratios

Table 8: Liquidity ratios

	Cafe Fara		Hotel Hraniční zámeček		Hotel Mario		Hotel Galant		optimum
	2012	2013	2012	2013	2012	2013	2012	2013	
Current ratio	0,2	0,6	3,8	2,8	0,5	0,2	0,4	0,7	1,5-3
Quick ratio	0,2	0,2	3,2	2,3	0,5	0,2	0,3	0,7	1-1,5
Cash ratio	0,0	0,2	1,7	1,0	0,2	0,2	0,2	0,4	0,2-0,5

Source: author's calculation, financial statement

Cafe Fara has similar liquidity ratios with Hotel Mario and Hotel Galant. Hotel Hraniční zámeček is the only one, who has much higher values than others and the general optimal.

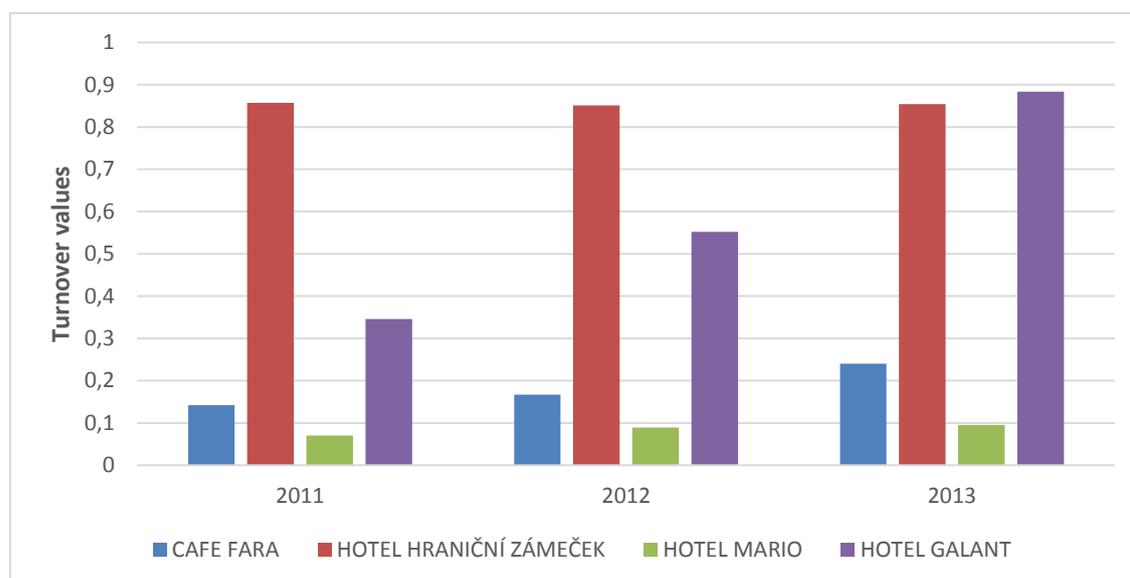
Current ratio was reached only by the Hotel Hraniční zámeček in the year 2013. The others did not reach even the lowest optimum value 1, 5 due to higher short-term liabilities than current assets.

The optimum level of Quick ratio was not reached by anybody. Cafe Fara, Hotel Mario and Galant again did not reach the lowest optimum value 1. Hotel Hraniční zámeček over reached the optimum value, which is also not recommended. It is because the over reached amount of quick ratio assets are not used and they are losing its value by doing nothing.

Cash ratio is reached by Hotel Mario and Galant. During the year 2013 it is reached also by Cafe Fara. Hotel Hraniční zámeček again over reached the optimum value, which is saying that surplus of not used money are losing its value.

Total asset turnover ratio

Graph 18: Development of total asset turnover ratio

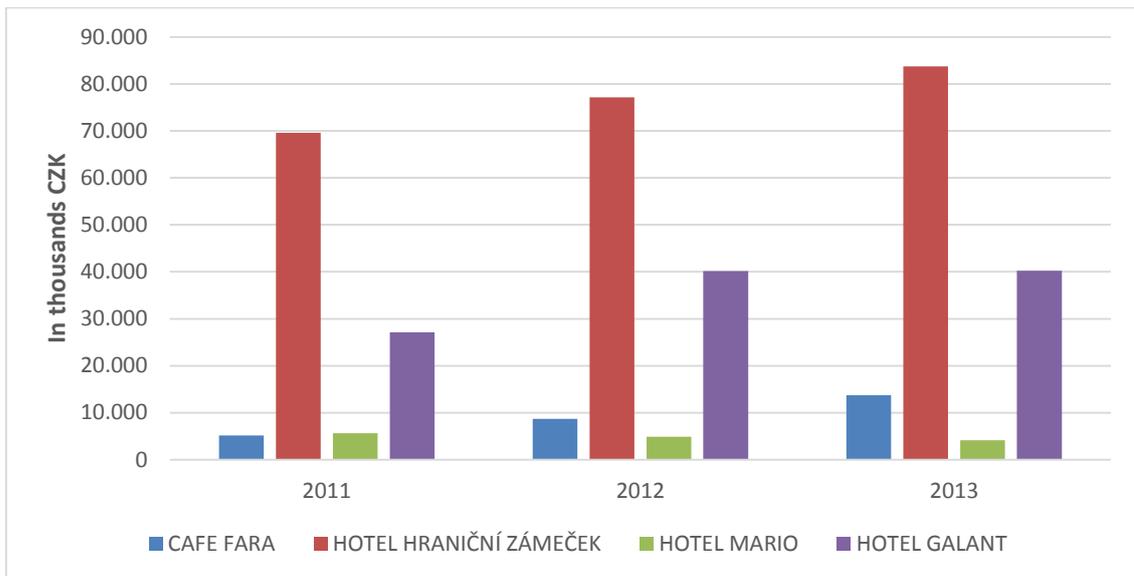


Source: author's calculation, financial statement

Total assets express how effectively are used all assets. Hotel Hraniční zámeček and Hotel Galant during the last year 2013 are closest to get over 1. According to this graph Cafe Fara and Hotel Mario are not using its assets effectively. It is due to the amount of total revenues is lower than total assets and it is not even reaching it.

Revenues

Graph 19: Development of revenues



Source: author's calculation, financial statement

At this graph revenues are combined of revenue form goods and revenues from production. The highest revenues is reaching Hotel Hraniční zámeček, due to offering also varieties of additional services. Hotel Galant has the second highest revenues, then there is Cafe Fara and lowest revenues has Hotel Mario, which offers especially only accommodation service.

12. Cafe Fara and regional GDP

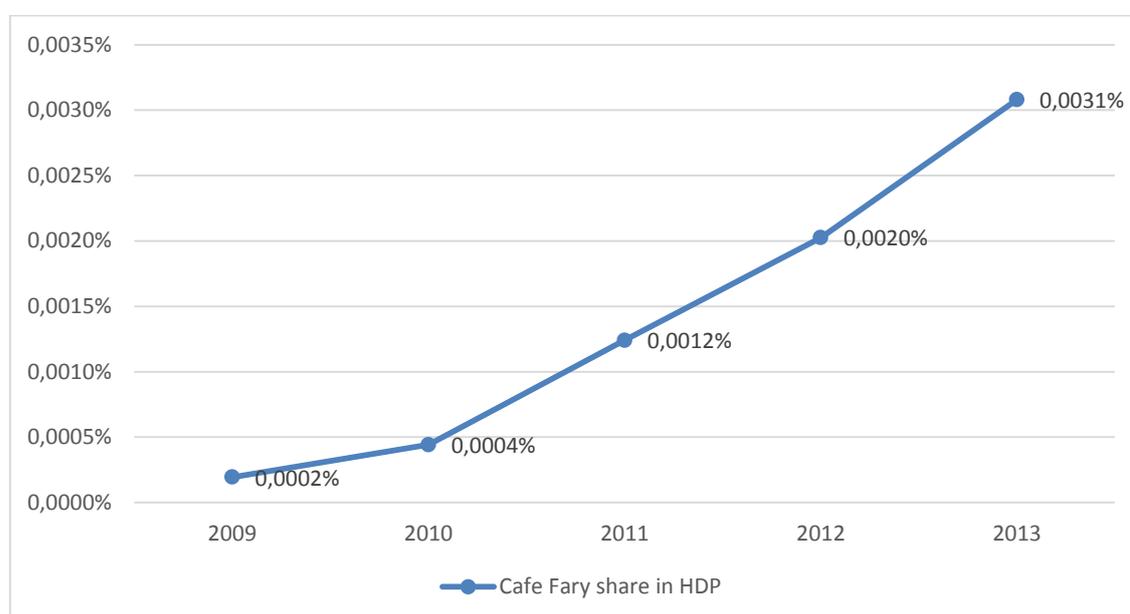
Cafe Fara have an influence on GDP of South Moravian Region. The percentage Cafe Fara share in GDP is depicted in the graph below.

Table 7: South Moravian Region GDP and Cafe Fara total revenues [20]

GDP in millions CZK	2009	2010	2011	2012	2013
Total GDP of South Moravian Region	403 037	407 139	417 751	430 768	445 225
Cafe Fara total revenues	0,781	1,799	5,183	8,726	13,714

Source: Czech Statistical Office data [20] and financial statement

Graph 15: Cafe Fara share in GDP of South Moravian Region [20]



Source: author's calculation, Czech Statistical Office data and financial statement

The share of Cafe Fara in GDP of South Moravian Region has increasingly developing character, which is positive sign for the company. The lowest first year 2009 is connected with the company establishment. The company was established in the year 2008 and it started to run properly in the year 2009. Revenues were increasing year by year and during the last year there is 0,0031 % share in GDP. Last year 2013 share 0.0031 % in GDP is identical with last year 2013 Cafe Fara revenues 13 701 000 CZK.

13. Discussion and recommendation

Generally speaking results of the financial analysis are not stable, decreasing or neither increasing, but they have fluctuating character. According to vertical and horizontal analysis there is prevailing amount of fixed assets opposite to the current assets, claims are compiled only with liabilities and profit and loss statement shows cost increase opposite to important revenues.

Net working capital did not turned to be positive during whole researched period and showed only negative fluctuation. **Debt ratios** compiled mostly out of short-term liabilities is kept high above the recommended average. The **liquidity ratios** are kept during whole period below the optimal values, which implies probable difficulties with paying future obligations. According to the **turnover ratios** it can be seen, that the company is not using well its own assets and they are not generating enough profit from their available resources. **Revenues** of Cafe Fara have increasing development within the researched period, but cost are still higher than revenues during the whole period.

Prediction of financial distress:

- **Altman Z-score** - according to this indicator Cafe Fara is during whole period endangered and is facing bankruptcy
- **Index IN95** - according to this indicator Cafe Fara is facing negative future.

According to SWOT analysis there are found points, which are either threatening the company or propose opportunities for the future company development. The biggest threat is perceived to be negative increasing disparity between the revenues and cost. During the last year 2013 there is almost about 8 000 000 CZK more cost then revenues, which is caused by the employing of liabilities.

Considering Cafe Fara location in the South Moravian Region in county Břeclav, there is seen positive influence on the regional development. County Břeclav is regarded to be the county with the highest unemployment rate and applicants per vacancy. Cafe Fara contributes to positively increase employment in the local area. Company has also positive impact on development of municipality Klentnice, local vine farmers and meat farmers. Regardless of all mentioned impacts above there is also contribution in tourism increase within the given locality.

According to comparison with other local companies, Cafe Fara shows bigger amount of **net working capital** except of the last year change. **Total debt ratio** of Cafe Fara is about 50 % higher than the highest total debt ratio of Hotel Galant. **Liquidity ratios** of Cafe Fara are below optimal values considered to be negative for the company, but in the comparison Cafe Fara is reaching similar values as

Hotel Galant and Mario. Turnover ratios of Cafe Fara are reaching low values, but according to the comparison of **total asset turnover ratio**, Hotel Mario has worse values than Cafe Fara. In the comparison of company's **revenues** Hotel Mario has the lowest revenues and Cafe Fara keeps second lowest revenues.

Suggested recommendations according to results of financial analysis, regional impacts analysis, SWOT analysis and comparison with competitive companies in the local area.

The biggest problem of Cafe Fara, coming out of financial analysis, is large debt. The high amount of debt negatively affects researched indicators.

- Financial analysis shows employment of large debt, which is risky for the company and their investors. I recommend to not increase amount of debt and during the time decrease the sum of liabilities down to 50 %. According to literature sources, suggested amount of company's debt is up to 50 %, because smart debt employing leverages the company's return on equity. My proposal is to increase revenues, which is described in next two points.

Due to the high debt it is needed to increase revenues. My suggestion is to prepare advertisement in the radio transmittal station within South Moravian Region concentrated on Brno municipality. For example 30 seconds advert on the popular Rádio Impuls costs about 2000 CZK. According to my opinion it is worthy to invest this amount of money. The name of the company Cafe Fara is already quite popular between the public and people could more easily get interest about visiting Cafe Fara.

According to analyzed company opportunities it is proposed to concentrate more on the foreign tourist, especially from Austria. Cafe Fara is located not even 10 km away from Austria border. Spreading various advertisements in closest Austria municipalities could bring to Cafe Fara more customers.

- Based on the Cafe Fara comparisons with competitors, it is found out that competitors have low values in liquidity and turnover ratios. Presumably in the field of accommodation with catering is common to keep lower values in liquidity and turnover ratio. However I propose to keep literature recommendation and increase liquidity of assets and improve turnover ratio by increase of revenues described already above.
- Based on the company threats it is hard to find skilled employees in local area. I propose to give good care to employees. If they have to come every

day from further away, arrange them possible accommodation in Klentnice municipality.

- According to the impact analysis on the local area I propose to increase awareness information about Cafe Fara orientation on regional products. Used vegetable is planted by themselves on their fields, wine and meat are from local producers. Nowadays there is general increase about products we know from where they are coming from. I suggest to enforce this regional oriented awareness on their webpages and in the radio transmitted station mentioned already above.
- Because of the good name of the company I recommend them to keep their welcoming attitudes to foot and cycle tourists, which subsequently contribute to regional development.

The aim of this bachelor thesis was to evaluate financial situation of Café Fara, considering its influence on the region.

The aim was fulfilled. The financial situation shows negative results, because of high debt. Large amount of debt negatively affects all indicators and according to SWOT analysis it is evaluated to be threat. Based on the comparison, in two compared indicators other companies tends to not achieve literature recommended values. Considering Cafe Fara location, there is positive impact on the region, because of their orientation on regional approach. There is visible region and regional products support.

14. Conclusion

The aim of this bachelor thesis was to evaluate financial situation of Café Fara, considering its influence on the region. Financial situation is evaluated during the researched period between years 2009-2010. It is based on the data taken from balance sheet and profit and loss statement.

Cafe Fara is perceived to be not old company, because it is working since 2009 and is unusual between other similar enterprises. It is unusual company, because of its location and services offering. Location is not common, due to its rare nature, which belongs to Protective Landscape Area Pálava. It is often visited by visitors from Brno, which is 50 km far away. Cafe Fara compound location is attractive, because the café is placed in the old monument building right next to the church from the end of 18th century. For only one place of Cafe Fara there is availability large range of services such as restaurant, trade shop, accommodation, wine tasting in wine cellar and café.

On the basis of calculation were found out excess amount of liabilities and higher overall cost opposite to revenues. Those negative results endanger company's future running, consequently it is recommended to increase company's revenues. According to counted results and literature recommendations, there are also problems with low liquidity values and turnover ratios values. However comparison with other companies shows their problems with the same indicators.

Overall propose is to keep its regional attitude, pay attention to past and present company's financial strategy and to do smart financial decisions about financial situation. From the outer look the family company Cafe Fara is positively developing very good name and every year they are visited by more and more customers.

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List of abbreviations

NWC	Net Working Capital
ROA	Return on Assets
ROE	Return of Equity
EAT	Earnings for the accounting period
EBIT	Earnings before interests and taxes
s.r.o.	According to Czech law system, in English it is ltd.
MASL	Meters above the sea level
CZSO	Czech Statistical Office

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Annex 1: Balance sheet (in thousands CZK)

BALANCE SHEET (CZK)		2009	2010	2011	2012	2013
	Total assets	8 476	11 153	36 583	52 318	57 270
A.	Receivables for subscribed registered capital	0	0	0	0	0
B.	Fixed Assets	6 305	9 615	30 647	39 728	53 831
B.I.	Intangible fixed assets	0	0	0	0	0
B.II.	Tangible fixed assets	6 305	9 615	30 647	39 728	53 831
B.III.	Long-term investments	0	0	0	0	0
C.	Current assets	2 089	1 364	5 516	12 046	2 866
C.I.	Inventories	547	487	1 098	1 623	1 781
C.II.	Long-term receivables	0	0	0	0	0
C.III.	Short-term receivables	308	237	3 384	8 483	125
C.IV.	Short-term financial assets	1 234	640	1 034	1 940	960
D.I.	Accruals and deferrals	82	174	420	544	573
		2009	2010	2011	2012	2013
	Claims	8476	11153	36583	52318	57270
A.	Equity	-478	-401	-129	-2831	-6549
A.I.	Registered capital	200	200	200	200	200
A.II.	Capital contributions	0	0	0	0	0
A.III.	Reserve funds	0	0	10	10	10
A.IV.	Retained earnings	0	-678	-611	-335	-3041
A.V.	Profit (loss) for current period	-678	77	272	-2706	-3718
B.	Liabilities	8954	11546	36704	55149	63819
B.I.	Provisions	0	0	0	0	0
B.II.	Long-term liabilities	0	2000	0	0	58882
B.III.	Short-term liabilities	8954	9546	36704	55149	4937
B.IV.	Bank loans and overdrafts	0	0	0	0	0
C.	Accrual and deferrals	0	8	8	0	0

Annex 2: Profit and loss statement (in thousands CZK)

PROFIT AND LOSS ACCOUNT (CZK)		2009	2010	2011	2012	2013
I.	Revenue from goods	102	115	2547	2283	3996
A.	Cost of goods sold	80	369	582	560	520
	Gross profit	22	-254	1965	1723	3476
II.	Revenue from production	679	1684	2636	6443	9718
B.	Cost of sales	1223	887	3292	7174	9487
	Added value	-522	543	1309	992	3707
C.	Personnel expenses	151	185	639	1997	4110
D.	Taxes and charges	0	3	4	16	12
E.	Depreciation of intangible and tangible fixed assets	0	275	322	1373	3238
IV.	Other operating revenues	0	0	0	0	17
H.	Other operating expenses	1	0	25	173	18
	Operating profit (loss)	-674	80	319	-2567	-3654
XI.	Other financial expenses	0	0	1	3	0
O.	Adjustments to financial revenues	4	3	48	142	64
*	Profit (loss) from financial operations	0	-47	-3	-139	-64
**	Profit (loss) on ordinary activities after taxation	-678	77	272	-2706	-3718
	Extraordinary profit (loss)	0	0	0	0	0
***	Profit (loss) for accounting period	-678	77	272	-2706	-3718
****	Profit (loss) for accounting period before tax	0	77	272	-2706	-3718
	Total Revenues	781	1799	5183	8726	13714
	Total Cost	410	2530	7136	11734	21543

Annex 3: Horizontal assets, claims and profit and loss statement

ASSETS

absolute change	2009/2010	2010/2011	2011/2012	2012/2013
Total Assets	2 677	25 430	15 735	4 952
Fixed Assets	3 310	21 032	9 081	14 103
Current assets	-725	4 152	6 530	-9 180
Accruals and deferrals	92	246	124	29
percentage change	2009/2010	2010/2011	2011/2012	2012/2013
Total Assets	32%	228%	43%	9%
Fixed Assets	52%	219%	30%	35%
Current assets	-35%	304%	118%	-76%
Accruals and deferrals	112%	141%	30%	5%

CLAIMS

absolute change	2009/2010	2010/2011	2011/2012	2012/2013
Total Claims	2 677	25 430	15 735	4 952
Equity	77	272	-2 702	-3 718
Liabilities	2592	25158	18445	8670
Accruals and deferrals	8	0	-8	0
percentage change	2009/2010	2010/2011	2011/2012	2012/2013
Total Claims	32%	228%	43%	9%
Equity	-16%	-68%	2095%	131%
Liabilities	29%	218%	50%	16%
Accruals and deferrals	-	0%	-100%	-

PROFIT AND LOSS STATEMENT

absolute change	2009/2010	2010/2011	2011/2012	2012/2013
Gross profit	-276	2 219	-242	1 753
Added value	1 065	766	-317	2 715
Operating profit (loss)	754	239	-2886	-1087
Profit (loss) from financial operations	-47	44	-136	75
Profit (loss) for accounting period	755	195	-2978	-1012
percentage change	2009/2010	2010/2011	2011/2012	2012/2013
Gross profit	-1255%	-874%	-12%	102%
Added value	-204%	141%	-24%	274%
Operating profit (loss)	41%	2774%	-76%	-68%
Profit (loss) from financial operations	-	-94%	4533%	-54%
Profit (loss) for accounting period	-111%	253%	-1095%	37%

*Annex 4: Vertical assets, claims and profit and loss statement***ASSETS**

Share in %	2009	2010	2011	2012	2013
Total Assets	100%	100%	100%	100%	100%
Fixed Assets	74%	86%	84%	76%	94%
Current assets	25%	12%	15%	23%	5%
Accruals and deferrals	1%	2%	1%	1%	1%

CLAIMS

Share in %	2009	2010	2011	2012	2013
Total Claims	100%	100%	100%	100%	100%
Equity	-6%	-4%	0%	-5%	-11%
Liabilities	106%	104%	100%	105%	111%

PROFIT AND LOSS STATEMENT

Share in %	2009	2010	2011	2012	2013
Total Revenues	100%	100%	100%	100%	100%
Revenue from goods	13%	6%	49%	26%	29%
Revenue from production	87%	94%	51%	74%	71%

Annex 5: Net working capital

Net Working Capital	2009	2010	2011	2012	2013
	-6 865	-8182	-31188	-43 103	-2071

Annex 6: Ratios analysis

Debt ratios	2009	2010	2011	2012	2013
Total Debt Ratio (%)	106%	104%	100%	105%	111%
- Current debt ratio (%)	106%	86%	100%	105%	9%
- Long-term debt ratio (%)	0%	18%	0%	0%	103%
Self-financing ratio (%)	-5,6%	-3,6%	-0,4%	-5,4%	-11,4%

Liquidity Ratios	2009	2010	2011	2012	2013
Current ratio	0,2	0,1	0,2	0,2	0,6
Quick ratio	0,2	0,1	0,1	0,2	0,2
Cash ratio	0,14	0,07	0,03	0,04	0,19

Turnover Ratios	2009	2010	2011	2012	2013
Total asset turnover ratio	0,09	0,16	0,14	0,17	0,24
Fixed asset turnover ratio	0,74	0,86	0,84	0,76	0,94
Inventory turnover ratio	1	4	5	5	8
Average collection period [days]	-	-	8	7	1
Average debt period [days]	477	3	358	22	121

Rentabilita-profitability ratio	2009	2010	2011	2012	2013
ROA (%)	0%	1%	1%	-5%	-6%
ROA (after tax) (%)	-8%	1%	1%	-5%	-6%
ROE (%)	142%	-19%	-211%	96%	57%
Tax rate (TR)	20%	19%	19%	19%	19%

Annex 7: Prediction of financial distress

Altman Z-score	2009	2010	2011	2012	2013
x ₁	-0,81	-0,73	-0,85	-0,82	-0,04
x ₂	0,00	-0,06	-0,02	-0,01	-0,05
x ₃	0,00	0,01	0,01	-0,05	-0,06
x ₄	-0,05	-0,03	0,00	-0,05	-0,10
x ₅	0,09	0,16	0,14	0,17	0,24
Z-skóre	-0,51	-0,41	-0,46	-0,61	-0,08

Restaurant and accommodation values

Index IN 95	v1	v2	v3	v4	v5
	0,35	0,11	12,57	0,88	0,1

Index IN 95	2009	2010	2011	2012	2013
x ₁	0,95	0,97	1,00	0,95	0,90
x ₂	0	0	0	0	0
x ₃	0,00	0,01	0,01	-0,05	-0,06
x ₄	0,09	0,16	0,14	0,17	0,24
x ₅	0,23	0,14	0,15	0,22	0,58
IN 95	0,44	0,58	0,58	-0,15	-0,23