

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Economics**



**Bachelor Thesis**

**Financial analysis of chosen company**

**Madlen Jugaj**

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

## BACHELOR THESIS ASSIGNMENT

Madlen Jugaj

Economics and Management

Thesis title

**Financial Analysis of a Selected Company**

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### Objectives of thesis

The main aim of this thesis is to conduct a financial analysis of the selected company in order to assess the financial condition of the company and look at this issue from the side of external users of financial statements. An assessment of the overall stability and financial stability will also be carried out. Such analysis will show and identify trends and patterns in the development of the enterprise during the chosen period, determine the factors that affect the financial condition of the enterprise and also help develop recommendations that will be aimed at improving the financial condition of the enterprise

### Methodology

All the methods used in this bachelor's thesis will allow to fully solve all the tasks and achieve the designated goals of this study.

During the bachelor thesis, both practical and theoretical methods were used, which are also widely used in the research process. The practical method presents a consistent analysis and description and allows you to record and describe the facts as well as fix the connection between them. In this context, methods of analysis, measurement, description were applied.

As part of the theoretical part of this work, a descriptive analysis of various facts was carried out, and factual material on the topic of financial analysis was systematized. All theoretical data were classified, analyzed and structured.

In the course of practical research, methods of financial analysis and methods of economic functions were used

**The proposed extent of the thesis**

30 – 40 pages

**Keywords**

Financial analysis, financial statements, financial ratios, liquidity, rentability, cash flow, quick test

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**Recommended information sources**

Garrison, R. H. a kol.: Managerial Accounting. McGraw-Hill/Irwin, 2004

Gitman, J.: Essentials of Managerial Finance. 4th edition, Boston: Pearson International Edition, 2006. 580 s. ISBN: 0-321-35648-9

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Siddiqui, S. A.: Managerial Economics and Financial Analysis. New Age International Limited, New Dheli. ISBN: 81-224-1609-8

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### **Declaration**

I declare that I have worked on my bachelor thesis titled "Financial analysis of chosen company." by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break any copyrights.

In Prague on 30.11.2022

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## **Acknowledgement**

I would like to thank Prof.Ing. Karel Tomšik, Ph.D. for his advice and support during my work on this thesis.

## **Financial analysis of Alza a.s.**

### **Abstract**

Based on data on the past activities of the enterprise, financial analysis is aimed at reducing uncertainty about its future state.

The results of the analysis of the financial condition of the enterprise is of paramount importance for a wide range of users, both internal and external to the enterprise - managers, partners, investors and creditors.

The results of the analysis of the financial condition of the enterprise are of paramount importance for a wide range of users. This paper provides a financial analysis of Alza a.s. A detailed analysis of the annual accounting report for a period of 5 years was carried out. The conclusion is that the company occupies a fairly stable position in the market and is successfully expanding

**Keywords:** Financial analysis, financial statements, financial ratios, liquidity, rentability, cash flow, quick test

## **Finanční analýza Alza a.s.**

### **Abstrakt**

Na základě údajů o minulých činnostech podniku je cílem finanční analýzy snížit nejistotu o jeho budoucím stavu.

Výsledky analýzy finanční situace podniku mají prvořadý význam pro široké spektrum uživatelů, interních i externích vůči podniku – manažery, společníky, investory a věřitele. Výsledky analýzy finanční situace podniku mají prvořadý význam pro široké spektrum uživatelů. Tento příspěvek poskytuje finanční analýzu společnosti Alza as. Byla provedena podrobná analýza výroční účetní zprávy za období 5 let. Závěrem je, že společnost zaujímá poměrně stabilní pozici na trhu a úspěšně expanduje.

**Klíčová slova:** Finanční analýza, finanční výkazy, finanční ukazatele, likvidita, rentabilita, cash flow, quick test





## **Table of contents**

<b>1</b>	<b><i>Introduction</i></b>	<b>11</b>
<b>2</b>	<b><i>Aim and Methodology</i></b>	<b>12</b>
2.1	<b>Aims</b>	<b>12</b>
2.2	<b>Methodology</b>	<b>12</b>
<b>3</b>	<b><i>Theoretical part</i></b>	<b>13</b>
3.1	<b>Financial analysis</b>	<b>13</b>
3.1.1	Information sources	13
3.1.2	External information	14
3.1.3	Internal information	15
3.1.4	Users of financial analysis	15
3.1.5	Data sources	17
3.1.6	Methods of financial analysis	18
3.1.7	Analysis of absolute indicators	20
3.1.8	Analysis of ratios	21
3.1.8.1	Liquidity ratio	22
3.1.8.2	Profitability indicator	23
3.1.8.3	Stability ratio	24
3.2	<b>Analysis of differential indicators</b>	<b>24</b>
<b>4</b>	<b><i>Practical Part</i></b>	<b>26</b>
4.1	<b>Analysis of absolute indicators</b>	<b>26</b>
4.2	<b>Horizontal analysis</b>	<b>27</b>
4.2	<b>Vertical analysis</b>	<b>32</b>
4.4	<b>Analysis of ratios</b>	<b>36</b>
4.4.1	Liquidity ratio	36
4.4.2	Profitability	37
4.4.3	Stability	38
4.5	<b>Analysis of differential indicators</b>	<b>39</b>
<b>5</b>	<b><i>Results and Discussion</i></b>	<b>40</b>
<b>6</b>	<b><i>Conclusion</i></b>	<b>41</b>
<b>7</b>	<b><i>References</i></b>	<b>42</b>
<b>8</b>	<b><i>List of tables</i></b>	<b>43</b>

# 1 Introduction

Nowadays enterprises are becoming more independent and fully responsible for the results of their activities to shareholders, banks and other authorities, the importance of analyzing the financial condition of the company has increased.

“The financial condition depends on all aspects of the enterprise's activities: the implementation of production plans, reducing the cost of production and increasing profits, increasing production efficiency, as well as on operating factors in the sphere of circulation and related to the organization of trade. Commodity and cash, improving relationships with suppliers of raw materials and materials, buyers of products, improving the processes of implementation and settlements.” (<https://umi-kumi.ru/en/business-plan/analiz-finansovogo-sostoyaniya-predpriyatiya-finansovoe-sostoyanie>, 2022)

The financial condition of the enterprise is characterized by a set of indicators that also reflect the process of formation and use of its financial resources. In a market economy, the financial condition of an enterprise essentially reflects the final results of its activities, contributes to survival and development in a competitive environment, maintaining constant solvency, financial stability, which determines the relevance of the dissertation topic.

Financial analysis is a set of tools designed to solve this problem and allow companies to effectively monitor their financial performance, track their dynamics and understand where they have room to improve their business results. This thesis will explore the importance of financial analysis in the company. The main objective of the dissertation is to carry out a financial analysis of Alza a.s. one of the largest retailers in the Czech Republic market, and to understand where the company is not performing effectively and what measures it should take.

The research question to be answered based on the results of this dissertation is: based on the results of the financial analysis, how can Alza a.s. improve its financial performance. The methods used to conduct this study will include secondary research, namely the study of information provided in bibliographic sources; quantitative research, namely the elements of the financial ratio and trend analysis to study the activities of Alza a.s.; and deductive thinking. The conclusions of this dissertation should emphasize the role of financial analysis in doing business.

## **2 Aim and Methodology**

### **2.1 Aims**

**Aim of the Bachelor Thesis** conducts a financial analysis of the enterprise and assesses the financial condition of the enterprise.

**The objectives of the Bachelor Thesis** are as follows:

- consider theoretical and methodological approaches to assessing the financial condition of an enterprise;
- assess the financial condition of the Alza a.s.
- based on the results of the assessment, propose recommendations for improving the financial condition of the Alza a.s..

The object is the financial activity of Alza a.s. The subject of the study is a set of theoretical and methodological issues of assessing the financial condition of the organization.

**The object of Bachelor Thesis** is the financial analysis of the company.

### **2.2 Methodology**

**The research methodology used** in the bachelor's thesis are methods of a systematic approach, methods of statistical, economic and financial analysis, methods of quantitative and structural analysis.

The theoretical significance of the work lies in the fact that the results of the study systematize the general theoretical, methodological and methodological base for developing more effective measures to form and improve the financial management system of an enterprise. The practical significance of the work lies in the fact that the methodological principles and approaches proposed in the work can be used in the formation and improvement of the functioning of the financial management system at the enterprise.

## **3 Theoretical part**

### **3.1 Financial analysis**

Financial analysis is a type of economic analysis associated with the study of financial results and the financial condition of the organization. Using the analysis of the financial condition, it is possible to determine the strengths and weaknesses of the enterprise, the optimal management decision, forecasting individual indicators of the enterprise and financial activity as a whole, which, in turn, allows you to control the efficiency of the movement of financial flows, check compliance with the norms and standards for spending financial, material resources and cost-benefit.

The main goal of a manufacturing company in modern conditions is to maximize profits, which is impossible without effective capital management. The search for reserves to increase the profitability of the enterprise is the main task of the manager. It is obvious that the result of the enterprise as a whole depends entirely on the effectiveness of managing financial resources and the enterprise. If the affairs of the enterprise go by gravity, and the style of management in the new market conditions does not change, then the struggle for survival becomes continuous.

(<https://umi-kumi.ru/en/business-plan/analiz-finansovogo-sostoyaniya-predpriyatiya-finansovoe-sostoyanie>, 2022)

To manage production, you need to have an idea not only about the progress of the plan, the results of economic activity, but also about the trends and nature of the ongoing changes in the economy of the enterprise. Comprehension, understanding of information is achieved with the help of economic analysis.

Analysis of the financial and economic activities of an enterprise is one of the most effective methods of management, the main element in the justification of management decisions. In the conditions of the formation of market relations, it aims to ensure the sustainable development of profitable, competitive production and includes various areas - legal, economic, production, financial, etc.

#### **3.1.1 Information sources**

Based on data on the past activities of the enterprise, financial analysis is aimed at reducing uncertainty about its future state.

The results of the analysis of the financial condition of the enterprise is of paramount importance for a wide range of users, both internal and external to the enterprise - managers, partners, investors and creditors.

For internal users, which primarily include the heads of the enterprise, the results of financial analysis are necessary to assess the activities of the enterprise and prepare decisions on adjusting the financial policy of the enterprise.

For external users - partners, investors and creditors - information about the enterprise is necessary for making decisions on the implementation of specific plans for this enterprise (acquisition, investment, conclusion of long-term contracts). (Knápková, 2016)

### **3.1.2 External information**

External financial analysis is reduced to determining the financial condition of a commercial bank. The users of its results are institutions of the Central Bank, tax authorities, statistical authorities, audit firms, potential and significant investors and creditors. The target setting of external financial analysis is to predict the development of the bank as a whole in the banking services market in the future. The bank's development prospects have the same horizontal levels as when conducting internal financial analysis - up to one year, 2 - 3 years and 3 - 5 years ahead. Analytical indicators and reporting forms developed by state regulatory bodies include a balance sheet in the form of a turnover sheet, a profit and loss statement, and reporting intended for the Central Bank also includes the calculation of economic standards for the bank's activities, which is the basis for external analysis. (Růčková, 2021)

External financial analysis is a process of studying the financial condition of a business entity in order to predict the degree of risk of investing capital and the level of its profitability.

Subjects of external financial analysis can use, as a rule, only the data of published financial statements on the activities of the enterprise. Standardization of financial accounting and statistical financial reporting ensures that the interests of external users of information are respected, while at the same time preserving the commercial secret of the enterprise.

The palette of subjects of external financial analysis is very diverse. But all these subjects of analysis can, as a rule, use only public financial reporting data on the activities of the enterprise. Standardization of financial accounting and public financial reporting is

designed to protect the interests of all partners (correspondents) of the enterprise, while at the same time preserving the commercial secret of the enterprise.

The information base for external financial analysis is the public accounting statements of open joint-stock companies, prospectuses for the issue of shares and bonds, reports on the results of the issuance of securities and quarterly reports on securities submitted to the registering state bodies, as well as statistical reports submitted to the statistical authorities.

The palette of subjects of external financial analysis is very diverse. But all these subjects of analysis can, as a rule, use only public financial reporting data on the activities of the enterprise. Standardization of financial accounting and public financial reporting is designed to protect the interests of all partners (correspondents) of the enterprise, while at the same time preserving the commercial secret of the enterprise. (Vlček, 2016)

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### **3.1.3 Internal information**

Internal financial analysis is more demanding on the source information. In most cases, the information contained in standard accounting reports is not enough for him, and it becomes necessary to use internal management accounting data.

In the process of analysis, the greatest emphasis is placed on understanding the causes of the ongoing changes in the financial condition of the enterprise and the search for solutions aimed at improving this condition. At the same time, it does not matter at all whether the goal is achieved by using standard or original methods. (Vlček, 2016)

Unlike external, internal analysis is not limited to consideration of the enterprise as a whole, but almost always goes down to the analysis of individual divisions and activities of the enterprise, as well as types of products.

### **3.1.4 Users of financial analysis**

The users of the results of financial analysis are all participants in financial and economic activities:

Buyers and customers who need information indicating the reliability of existing business relations with the enterprise, the degree of stability and continuity of the enterprise's economic activities, especially in cases of long-term agreements.

Suppliers and contractors interested in obtaining information about the company's capabilities to pay them for obligations within the terms established by the contracts;  
Employees of the enterprise for whom information about the profitability and stability of the enterprise is important in order to guarantee the availability of a job and wages at the present time;

Shareholders and owners who are interested in the profitability of the enterprise and its stability in the future, since these data are associated with the presence and size of dividends, as well as the degree of risk when buying shares;

Managers and managers of the enterprise who need information about the efficiency of the use of property, equity capital, the profitability of products, the rate of return received on invested capital. The analysis of this information allows them to develop management decisions to further improve the efficiency of the enterprise;

Public authorities interested in information for the implementation of the management functions assigned to them, conducting systematic monitoring, regulating activities, developing a taxation policy.

Tax authorities that control the receipt of relevant taxes and fees from the enterprise to the budget;

The public (the press, various public organizations), which is interested in information to assess the contribution of the enterprise to the economy of the region, country, the prospects for employment of the population, its investments in environmental programs and projects for the development of social infrastructure;

Auditors who determine the correctness of the financial statements presented by the enterprise, which reflect the financial conditions and results of the enterprise;

Lenders, which also include commercial banks, are primarily interested in information that allows them to determine the risk of non-repayment of loans and credits, as well as the full fulfillment of all obligations under the terms of loan agreements within the appropriate time frame;

Investors who represent the interests of capital. They are interested in the degree of profitability of investments in the enterprise, as well as the potential risk of losing investments. The more stable the financial position of the enterprise, the less risky and more profitable investments in it. (Knápková, 2016)



### **3.1.5 Data sources**

Very often, stakeholders do not have access to the internal data of the organization, therefore, the public accounting statements of the organization act as the main source of information for financial analysis. The main reporting forms - the Balance Sheet and the Profit and Loss Statement - make it possible to calculate all the main financial indicators and ratios. For a deeper analysis, you can use the statements of cash flows and capital of the organization, which are compiled at the end of the financial year. An even more detailed analysis of certain aspects of the enterprise's activities, for example, the calculation of the break-even point, requires initial data that lie outside the reporting area. (data from current accounting and production accounting)

#### **Balance sheet**

The balance sheet is form No. 1 of financial statements. In accordance with international financial reporting rules, the balance sheet contains data on assets, liabilities and equity. The balance sheet is compiled in the form of a table and can have a full and abbreviated form. The balance sheet is one of the main documents, based on which you can analyze the results of the company's work, since it reflects all information about property and debts in monetary terms.

The balance sheet is needed by the enterprise itself, as well as for shareholders and the Federal Tax Service. The bank will also require a balance if the company plans to take out a loan.

The balance sheet consists of two parts: the left side is called "Asset", the right side is called "Liabilities". The asset of the balance sheet reflects all the property of the company, including real estate, financial investments, cars, debts of debtors, equipment, etc.

The liabilities of the balance sheet indicate the sources of formation of the company's assets, that is, all of its property. In the annual balance sheet of an organization, this can be equity capital (authorized or additional), borrowed funds and external liabilities.

The totals for the asset and liability of the balance sheet should always be equal to each other.

#### **Profit and loss statement**

The profit and loss statement are the main document of the enterprise, reflecting its efficiency and effectiveness. It is from this report that analysts and investors can find out what the revenue and costs of the enterprise are and what net profit this company earned as a result.

The profit and loss statement show the amounts (quantitatively and qualitatively) that make up the financial result of work for the reporting period. The form of this document

assumes the simultaneous reflection in it of similar data for the same period of the previous year.

Thus, it initially laid down the prerequisites not only for analyzing the figures obtained in the reporting year, but also for comparing them with the result of at least 1 other similar period. In addition, these data can be compared with other reporting forms of the same legal entity, reports of other legal entities and any suitable non-reporting data. Profit and loss statement are an obligatory part of official reporting.

“The basic division of items of the Profit and Loss Statement by type is:

- Operating profit (difference between operating costs and revenues)
- Financial result (difference between income and expenses from financial activities)
- Profit before tax (sum of operating and financial income)

economic result)

- Profit after tax (profit before tax)

reduced by corporate income tax)

- Profit or loss for the accounting period (after tax and transfer of the lecturers)”

(Sedláček, 2012)

### **3.1.6 Methods of financial analysis**

There are several basic methods of financial analysis:

*horizontal (temporal) analysis* - comparison of each reporting position with the previous period;

*vertical (structural) analysis* - identification of the share of individual articles in the final indicator, taken as 100%;

*trend analysis* - comparing each reporting position with a number of previous periods and determining the trend, i.e. the main trend in the dynamics of the indicator, cleared of random influences and individual characteristics of individual periods. With the help of the trend, possible values of indicators are formed in the future, and therefore, a prospective predictive analysis is carried out;

*analysis of relative indicators (coefficients)* - calculation of ratios between individual reporting positions, determination of interrelations of indicators;

*comparative (spatial) analysis* - on the one hand, this is an analysis of the reporting indicators of subsidiaries, structural divisions, on the other hand, a comparative analysis with the indicators of competitors, industry averages, etc.

*factor analysis* - analysis of the influence of individual factors (reasons) on the resulting indicator. Moreover, factor analysis can be both direct (analysis itself), when the resulting indicator is divided into its component parts, and reverse (synthesis), when its individual elements are combined into a common indicator.

The main methods of financial analysis carried out at the company:

*Vertical (structural) analysis* - determining the structure of the final financial indicators (the amounts for individual items are taken as a percentage of the balance sheet currency) and identifying the impact of each of them on the overall result of economic activity. The transition to relative indicators allows for inter-firm comparisons of the economic potential and performance of enterprises that differ in the amount of resources used, and also soothes out the negative impact of inflationary processes that distort the absolute indicators of financial statements.

*Horizontal (dynamic) analysis* is based on the study of the dynamics of individual financial indicators over time.

The analysis of financial ratios is based on the calculation of the ratio of various absolute indicators of financial activity among themselves. The source of information is the financial statements of the enterprise.

The most important groups of financial indicators:

*Liquidity indicators.*

*Indicators of financial stability and solvency.*

*Profitability indicators.*

*Turnover indicators (business activity).*

*Market Activity Indicators*

When analyzing financial ratios, the following points should be kept in mind:  
the value of financial ratios is greatly influenced by the accounting policy of the enterprise;  
diversification of activities makes it difficult to compare coefficients by industry, since the standard values can vary significantly for different industries;  
normative coefficients chosen as a basis for comparison may not be optimal and may not correspond to short-term objectives of the period under review.

### 3.1.7 Analysis of absolute indicators

There will be mentioned about the analysis of absolute indicators that are based directly on the data of the financial statements, namely on the balance sheet and income statement. This chapter includes a detailed description of both vertical and horizontal analysis.

#### Horizontal analysis

Horizontal analysis is a method of financial analysis that involves comparing indicators for different periods. Based on the study of the dynamics of individual financial indicators over time. As financial indicators, data of financial reporting items (revenue, profit, balance sheet items) and financial performance indicators (for example, EBITDA), financial ratios (profitability, liquidity, Debt / EBITDA, etc.) can be used. Any identical time intervals (month, quarter, year) are used as periods.

In a horizontal analysis of reporting (for example, a balance sheet), an indicator (line) is taken and its change is traced over two or more periods. Any identical time intervals can be taken as periods, but usually quarterly analysis or analysis of data by years is used for financial statements. The number of analyzed periods may vary depending on the specific task ,however, a qualitative analysis is usually possible when there are more than 3 periods in the analyzed series.

In terms of financial statements, the most common horizontal analysis of the balance sheet, income statement; less often - a statement of cash flows, changes in capital. When analyzing the balance track the change in the value of certain types of property and liabilities during the period under review. When analyzing the income statement, they consider the change in revenue, costs, and financial results.

In horizontal analysis, two approaches are used:

Comparison change in absolute values

Comparison of changes in relative (percentage) values

The formula for horizontal analysis can be deducted the amount in the base year from the amount in the comparison year.

**Horizontal analysis %**

$$= \frac{\text{Amount in Comparison} - \text{Amount in the base year}}{\text{Amount in a base year}} * 100$$

Also exist horizontal formula absolute

### **Horizontal Analysis (absolute)**

$$= \text{Amount in Comparison Year} - \text{Amount in Base Year}$$

### **Vertical analysis**

Vertical analysis of financial statements, also known as Common-size Analysis, involves the presentation of data not in absolute terms, but as a percentage of the base value. This transformation of financial statements simplifies the comparison of financial information about the company for different reporting periods, and also allows you to compare it with similar financial information about other companies. In addition, the use of vertical analysis allows you to identify trends that are not always obvious when analyzing financial statements in the traditional view. In a vertical analysis of the balance sheet, the total amount for the “Assets” section and the amount for the “equity and liabilities” section are selected as the base value. Therefore, all individual positions under the "Assets" section are presented as a percentage of its total amount. Similar calculations are carried out under the section "Capital and liabilities".

In a vertical analysis of the profit and loss statement, as a base value, as a rule, sales proceeds are used. All other items in this report (eg, cost of goods sold, gross profit, operating costs, interest expense, income tax, net income) are expressed as a percentage of it. As in the case of the income statement, when analyzing the cash flow statement, the value of sales proceeds is used as the base value. This makes it possible to get an idea of such positions as CAPEX, share issue, share buyback, attraction and repayment of credits and loans, etc. Presenting these positions in relative terms allows one to assess the extent to which they influence the generation of sales proceeds.

This method allows you to analyze data for a separate reporting period, however, in order to increase the reliability of the results, it is recommended to conduct a comparative analysis with previous periods.

### **3.1.8 Analysis of ratios**

The use of financial ratios is a time-tested method of analyzing a business. Wall Street investment firms, bank loan officers and knowledgeable business owners all use financial ratio analysis to learn more about a company’s current financial health as well as its potential. (Kubíčková, 2015)

Analysis of the ratios of income received helps to obtain reverse financial indicators of the company's activities and health. This involves evaluating the ability to tap into the exceptional features of profit and growth: market commodity and financial strategies. The financial ratio can be obtained from the share of two or more absolute indicators of the balance sheet or income statement. These are indicators that are directly related to a specific task.

In practice, there are several of the most commonly used coefficients, namely:

- Profitability indicators
- Activity indicators
- Liquidity indicators
- Debt ratios
- Market value indicators

The basic indicators of financial analysis are the first four groups of the listed indicators. Market value indicators are mainly intended for companies that trade shares in the capital markets.

### **3.1.8.1 Liquidity ratio**

Liquidity ratio - an indicator of the company's ability to repay current debts at the expense of the company's turnover funds within a specified period of time.

There are usually three main types of liquidity

#### ***The current liquidity ratio***

was introduced to assess the speed of asset conversion, reflecting the units of the currency of the company's current assets, correlating to one unit of the currency of current agreements. The essence of calculating the current liquidity ratio is based on the fact that the company fulfills short-term agreements in most cases at the expense of these assets. If the present assets exceeded the current agreements, the enterprise can be considered successfully existing.

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

### ***The absolute (cash) liquidity ratio (cash ratio)***

shows the ratio of the organization's most liquid assets - cash and short-term financial investments - to short-term liabilities. The ratio reflects the sufficiency of the most liquid assets for quick settlement of current liabilities, characterizes the "instant" solvency of the organization.

The absolute liquidity ratio is a variation of two other more common liquidity ratios: the current ratio and the quick ratio. At the same time, only the fastest-selling (liquid) assets are used in the calculation of this indicator.

$$\text{Cash ratio} = \frac{\text{Cash} + \text{cash inventories}}{\text{Current liabilities}}$$

### ***Quick liquidity ratio***

The purpose of the quick liquidity indicator is similar to the current ratio. In this indicator, the range of current assets is narrowed and inventories are excluded from the calculation.

$$\text{Quick ratio} = \frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}}$$

### **3.1.8.2 Profitability indicator**

The ratio analysis is based on the financial statements, namely the balance sheet and the profit and loss statement. It arises from the interrelationship of indicators, where their absolute values are put into relation to each other in order to be able to analyze them.

(Sedláček, 2012)

The indicators are usually grouped together, each of which relates to an aspect of the financial condition of the enterprise. As a rule, the division into five basic groups is given, according to the assessed property of the object, or the fact on which it focuses.

Profitability indicators are in practice one of the most monitored indicators. Return on invested capital is a measure of a company's ability to create new resources and make a profit with invested capital. These ratios are based on financial statements such as the balance sheet and profit and loss account. (Vlček, 2016) All profitability indicators work on the same basis, as they indicate how much CZK of profit per CZK 1 denominator. (Vochozka, 2011)

### ***Return on total assets (ROA)***

The return on assets shortly ROA is a ratio that is appraising the performance of a company. It is the net profit divided by total assets. It is used to measure company's efficiency of using its assets to generate profit. (Kislingerová, 2008)

$$ROA = \frac{\text{Net profit}}{\text{Total assets}}$$

### ***Return on equity (ROE)***

The return on equity indicator is one of the key indicators, which is focused mainly on shareholders, partners and other investors. The indicator is a measure that consists in measuring how much net profit per CZK 1 of invested capital by a shareholder or partner. (Kislingerová, 2008)

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

### ***Return on Sales (ROS)***

The indicator expresses the profit margin, which is a very important factor for evaluating the success of the company's activities. It is good to compare the value of the profit margin with companies that engage in the same or similar activities. (Knápková, 2016)

$$ROS = \frac{\text{Operating profit}}{\text{Net sales}}$$

### ***Return on capital employed (ROI)***

The return on invested capital indicator expresses the ratio of profit to the amount of total capital. It expresses the degree of affect of the total capital invested in the company, regardless of the source of financing. (Sedláček, 2012)

$$ROI = \frac{\text{Net income}}{\text{Total assets}}$$

#### **3.1.8.3 Stability ratio**

Stability ratio is situation when company fulfills their functions without any major failures and undesirable development of the company as a whole and at the same time shows a high degree of resistance to shocks. (ČNB.CZ, 2022)

## **3.2 Analysis of differential indicators**

Differential indicators are a tool for analyzing and managing a company's liquidity. This indicator is also referred to as a fund of funds, or working capital analysis. The data



used for the difference calculation are included in the financial statements and always consist of a part of current assets, which is adjusted for short-term liabilities.

The basic difference indicators include:

Net working capital,

Net emergency funds,

Net cash receivables fund.

(Kubíčková, 2015)

### **Net working capital**

This indicator characterizes the amount of working capital, free from short-term (current) liabilities, i.e. the proportion of companies' working capital that is financed from major sources and that cannot be used to eliminate massive debt. An increase in NWC means an increase in the liquidity of the company and an increase in its creditworthiness. At the same time, too high values of working capital indicate inefficient financial statements of the company, which leads to a decrease in income (for example, the choice of reliable, but more expensive funds; unjustified reduction in overall financial statements, etc.).

$$\text{Net working capital} = \text{Total current assets} - \text{Total current liabilities}$$

## 4 Practical Part

In this practical part I use formulas and different analysis that are discussed in the theoretical part so I can show you Alza a.s. in numbers.

### 4.1 Analysis of absolute indicators

In this table are shown values that are taken from the balance sheet, the profit and loss statement of Alza a.s. from year 2016 to 2020. This table figures in vertical and horizontal analysis in later part of the practical part of the thesis.

*Table 1 Analysis of absolute indicators*

	2016	2017	2018	2019	2020
<b>TOTAL ASSETS</b>	4 396 462	5 385 901	6 816 090	7 723 183	9 788 716
Receivables for the subscribed capital stock	0	0	0	0	0
Fixed assets	214 146	233 994	274 237	367 062	650 579
Intangible fixed assets	54 488	75 141	81 914	108 474	187 303
Tangible fixed assets	158 541	156 904	183 956	250 514	455 442
Financial fixed assets	1 117	1 949	8 367	8 074	7 834
Current assets	4 029 998	4 925 644	6 192 363	7 187 284	8 968 904
Inventories	2 720 638	3 174 299	3 293 168	4 464 476	5 453 219
Long-term receivables	0	8 854	18 389	20 313	24 318
Short-term receivables	1 006 275	1 395 864	1 691 263	1 852 945	2 483 680
Cash flow	303 085	346 627	1 189 543	849 550	1 007 687
Cash on hand	101 531	159 945	85 803	72 707	305 922
Funds in accounts	201 554	186 682	1 103 740	776 843	701 765
Accrued assets	152 318	226 263	349 490	168 837	169 233

	2016	2017	2018	2019	2020
<b>TOTAL EQUITY AND LIABILITIES</b>	4 396 462	5 385 901	6 816 090	7 723 183	9 788 716
Equity	699 721	864 088	1 024 078	1 110 219	2 195 148
Owner's capital	2 000	2 000	2 000	2 000	2 000
Profit from previous years	53 284	53 283	53 283	53 283	53 283
The result of economic activities during standard financial period	644 016	808 498	968 582	1 055 016	2 140 285
Liabilities	3 434 425	4 283 073	5 474 514	6 194 036	7 065 960
Reserve	17 477	12 465	4 500	28 500	27 500

Long-term liabilities	65 267	308 370	0	0	0
Short-term liabilities	3 351 681	3 962 238	5 470 014	6 165 536	7 038 460
Accrued liabilities	262 316	238 740	317 498	418 928	527 608

Source: own calculations based on data from annual report

## 4.2 Horizontal analysis

As I mentioned in theoretical part we can calculate horizontal analysis in two ways: in absolute numbers and in percentage. I analyze horizontal analysis for period of 5 years, from 2016 to 2020. All numbers are taken from table 1.

### Horizontal analysis of asset

Table 2 Horizontal analysis of asset

	Absolute changes			
	2016/2017	2017/2018	2018/2019	2019/2020
<b>TOTAL ASSETS</b>	989 439	1 430 189	907 093	2 065 533
Receivables for subscribed share capital	0	0	0	0
Fixed assets	19 848	40 243	92 825	283 517
Intangible Assets	20 653	6 773	26 560	78 829
Tangible Assets	-1 637	27 052	66 558	204 928
Long Term Investments	832	6 418	-293	- 240
Current Assets	895 646	1 266 719	994 921	1 781 620
Inventories	453 661	118 869	1 171 308	988 743
Long-term receivables	8 854	9 535	1 924	4 005
Short-term receivables	389 589	295 399	161 682	630 735
Cash flow	43 542	842 916	-339 993	158 137
Cash on hand	58 414	-74 142	-13 096	233 215
Funds in accounts	-14 872	917 058	-326 897	75 078
Accrued assets	73 945	123 227	-180 653	396

	Relative changes			
	2016/2017	2017/2018	2018/2019	2019/2020
<b>TOTAL ASSETS</b>	22,51 %	26,55 %	13,31 %	26,74%
Fixed assets	9,27 %	17,20 %	33,85 %	77,24
Intangible Assets	37,90 %	9,01 %	32,42 %	72,67
Tangible Assets	-1,03 %	17,24 %	36,18 %	81,80

Long Term Investments	74,49 %	329,30 %	-3,50 %	-2,97
Current Assets	22,22 %	25,72 %	16,07 %	24,78
Inventories	16,67 %	3,74 %	35,57 %	22,15
Long-term receivables	---	107,69 %	10,46 %	19,72
Short-term receivables	38,72 %	21,16 %	9,56 %	34,04
Cash flow	14,4 %	243,2 %	-28,6 %	18,62
Cash on hand	57,53 %	-46,35 %	-15,26 %	320,76
Funds in accounts	-7,38 %	491,24 %	-29,62 %	-9,66
Accrued assets	48,55 %	54,46 %	-51,69 %	0,23

*Source: own calculations based on data from annual report*

The total value of the company's total assets has been steadily growing and has shown good growth especially in the last year. On average, there was an increase of 26.74% For the first pandemic year 2020, this is more than doubling the profit compared to 2019, when the profit. Compared to 2018, when assets were at the level of 6.8 million, the company's assets increased by 43.61%. (<https://www.alza.cz/historie-a-soucasnost-art141.htm>, 2022)

The value of the company's assets is growing at about 20% per year. In 2019, the growth of the company's assets slowed down and amounted to an increase of only 13 percent. In 2015, the company joined Publer, but such a merger did not bring great results and did not affect the company's assets as a whole.

2016 was marked as a record year for the company with revenues of 17.4 billion crowns without VAT (21 billion CZK incl. VAT). Year-on-year growth was 22% percent.

The company is constantly expanding and is currently increasing the number of stores throughout the EU. The company is also successful thanks to Alzaboxes, which allow you to pick up goods at any time of the day in multiple convenient locations throughout the city. This trend is growing and the number of Alzaboxes is increasing not only in the EU, but throughout the Czech Republic. In 2016, Alza opened access for buyers from Hungary, and soon the first store of the company was opened on the territory of Hungary, all this is also reflected in the company's assets.

The main activity of the company is the sale of various goods via the Internet. The ratio of short-term receivables for the current study period amounted to 2.48 billion, that is, it increased from the amount of 1,006,276 billion, by an average of 146.8% for the period, this situation has developed due to unpaid loans from suppliers.

## Horizontal analysis of liabilities

Table 3 Horizontal analysis of liabilities

	Absolute changes			
	2016/2017	2017/2018	2018/2019	2019/2020
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>989 439</b>	<b>1 430 189</b>	<b>907 093</b>	<b>2 065 533</b>
Equity	164 367	159 990	86 141	1 084 929
Owner's capital	0	0	0	0
Profit from previous years	-1	0	0	0
Profit or loss for the current accounting period	164 482	160 084	86 434	1 085 269
Liabilities	848 648	1 191 441	719 522	871 924
Reserves	-5 012	-7 965	24 000	-1000
Long-term liabilities	243 103	-308 370	0	0
Short-term liabilities	610 557	1 507 776	695 522	872 924
Accrued liabilities	-23 576	78 758	101 430	108 680
	Relative changes			
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>22,5 %</b>	<b>26,6 %</b>	<b>13,3 %</b>	<b>26,74%</b>
Equity	23,5 %	18,5 %	8,4 %	26,74%
Owner's capital	0,0 %	0,0 %	0,0 %	0,0 %
Profit from previous years	0,0 %	0,0 %	0,0 %	0,0 %
Profit or loss for the current accounting period	25,5 %	19,8 %	8,9 %	102,86%
Liabilities	24,7 %	27,8 %	13,1 %	14,07%
Reserves	-28,7 %	-63,9 %	533,3 %	-3,50%
Long-term liabilities	372,5 %	-100,0 %	---	---
Short-term liabilities	18,2 %	38,1 %	12,7 %	14,16%
Accrued liabilities	-9,0 %	33,0 %	31,9 %	25,94%

Source: own calculations based on data from annual report

Since there was an increase in total assets, there were changes in total liabilities and they increased. For the selected period of time, the increase was 108.75% over the period 2016-2020.

Most of the changes in liabilities are provided mainly by external sources, which increased by an average of 140%.

Such growth occurred in the area of short-term liabilities, especially trade payables and government accounts payable.

Long-term liabilities decreased in 2016 from CZK 392.2 million to CZK 61.5 million. Czech crowns (83.8%). These were long-term obligations to the controlling organization, which were subsequently fully repaid, and for the current period of time this line remains empty.

Also in 2017, a loan was made, thus from the 2017 current investment increased to 308.4 million CZK.

In 2018, this loan was fully repaid for, and it can be observed that next year Alza no longer has any long-term obligations. Current liabilities consisted mainly of trade payables, mainly for undelivered goods.

Accrued liability is a significant item for Alza, this is due to the fact that deferred expenses, as well as future repayments themselves, are only written off in the next month. The biggest growth was recorded in 2016, when the company also managed to set several records: December 19 is the day of record sales of 200 million CZK and the billionth week (the company itself called this year the year of "Records and Innovations").

(<https://www.alza.cz/historie-a-soucasnost-art141.htm>, 2022)

### Horizontal analysis of the Profit and Loss Statement

Table 4 Horizontal analysis of the profit and loss statement

	2016/2017	2017/2018	2018/2019	2019/2020
Revenues from sales of own products and services	51,82 %	25,87 %	15,03 %	31,4 %
Revenues from sales of goods	19,28 %	18,49 %	17,20 %	28,04 %
Power consumption	19,37 %	18,27 %	17,92 %	24 %
Change in inventories of own activities	---	---	---	---
Activation	82,75 %	9,30 %	-15,33 %	-73,13 %
Personal expenses	37,16 %	30,45 %	20,72 %	39,17 %
Adjustments of values in the operating area	226,60 %	36,19 %	-14,81 %	-13,29 %
Other operating income	14,94 %	22,53 %	21,18 %	-17,5 %
Other operating expenses	46,30 %	5,17 %	-10,38 %	49,08 %
<b>Operating profit</b>	<b>24,16 %</b>	<b>23,90 %</b>	<b>7,83 %</b>	<b>98,18 %</b>
Revenues from long - term financial assets –	8,81 %	56,44 %	97,31 %	47,03 %

shares				
Cost of shares sold	---	---	---	---
Income from other long-term financial assets	---	---	918,58 %	256 %
Costs related to other long-term financial assets	---	---	285,06 %	493,3 %
Interest income and similar income	-47,37 %	28,57 %	148,89 %	78,8 %
Value adjustments and provisions in the financial area	150,99 %	20,83 %	-46,50 %	134,3 %
Interest expense and similar expenses	271,57 %	-19,28 %	25,15 %	278,9 %
Other financial income	56,65 %	25,04 %	27,99 %	125,2 %
Other financial costs	10,81 %	70,56 %	-19,90 %	-80,3 %
Financial profit or loss	25,21 %	20,65 %	10,55 %	99,5 %
Profit before tax	23,77 %	24,47 %	17,55 %	85,9 %
Income tax	25,54 %	19,80 %	8,92 %	102,9 %
Profit after tax	---	---	---	---
Transfer of share in profit or loss to shareholders	25,54 %	19,80 %	8,92 %	102,9 %

*Source: own calculations based on data from annual report*

The figures in the table show that the company's sales and operating profit are growing year on year. Total revenue increased by 116% over the observed period from 17.3 million crowns in 2016 to 37.4 million crowns in 2020. It can be noted that the company is the market leader in the Czech Republic in terms of sales of goods from the category of equipment, it manages to maintain a leading position and increase turnover. Every year the number of customers is growing and new customers have appeared outside the Czech Republic, the total sales of the company increases by 31.4% year-to-year. Such growth can be called quite rapid.

The rapid growth of the company implies an increase in the number of employees as well as an increase in wages due to the rapid growth of inflation.

Alza.sk, s.r.o. makes a profit and this is certainly reflected in the annual increase in income from the company's shares. Income and expenses on other long-term financial assets changed year-to-year.

Interest expenses are based on long - term loans from the parent company.

The remaining income of the company is made up of exchange rate differences.

It can be noted that the company's costs consist mainly of foreign exchange losses and commissions for card payments.

The company also bears financial expenses for card transactions and fees associated with card payments, in 2020 these payments increased by 23.9%.

## 4.2 Vertical analysis

As I mentioned in theoretical part we can calculate vertical analysis in two ways: in absolute numbers and in percentage. I analyze vertical analysis for period of 5 years, from 2016 to 2020. All numbers are taken from table 1.

### Vertical analysis of liabilities

Table 5 Vertical analysis of liabilities

	2016	2017	2018	2019	2020
<b>TOTAL EQUITY AND LIABILITIES</b>	100 %	100 %	100 %	100 %	100 %
Equity	15,92 %	16,04 %	15,02 %	14,38 %	22,43%
Owner's capital	0,05 %	0,04 %	0,03 %	0,03 %	0,02%
Profit from previous years	1,21 %	0,99 %	0,78 %	0,69 %	0,54%
Profit or loss for the current accounting period	14,65 %	15,01 %	14,21 %	13,66 %	21,86%
<b>Lialabilities</b>	78,12 %	79,52 %	80,32 %	80,20 %	72,18%
Reserves	0,40 %	0,23 %	0,07 %	0,37 %	0,28%
Long-term liabilities	1,48 %	5,73 %	0,00 %	0,00 %	0,00 %
Short-term liabilities	76,24 %	73,57 %	80,25 %	79,83 %	71,9%
Accrued liabilities	5,97 %	4,43 %	4,66 %	5,42 %	5,38%

Source: own calculations based on data from annual report

The value of total liabilities is significantly affected by the steadily growing liabilities. From the period of 2016, when this ratio was 78.12% in 2016, it is 72% in 2020. Their main component is Short-term liabilities, which decreased by an average of 5%.

Trade payables make up the majority of short-term accounts payable and in most cases

The second important indicator is the profit or loss for the current reporting period, the lowest indicator is fashionable to observe in 2019, the highest falls in 2020 and is 21.86%.

Long-term liabilities in 2016 were 1.4%, the second value was 5.73% in 2017. In the remaining years, there are no long-term liabilities, and their value is zero.



## Vertical analysis of assets

Table 6 Vertical analysis of assets

	2016	2017	2018	2019	2020
<b>TOTAL ASSETS</b>	100 %	100 %	100 %	100 %	100 %
Receivables for subscribed share capital	0,00 %	0,00 %	0,00 %	0,00 %	0,00 %
Fixed assets	4,87 %	4,34 %	4,02 %	4,75 %	6,64%
Intangible Assets	1,24 %	1,40 %	1,20 %	1,40 %	1,92%
Tangible Assets	3,61 %	2,91 %	2,70 %	3,24 %	4,65%
Long Term Investments	0,03 %	0,04 %	0,12 %	0,10 %	0,08%
Current Assets	91,66 %	91,45 %	90,85 %	93,06 %	91,62%
Inventories	61,88 %	58,94 %	48,31 %	57,81 %	55,71%
Long-term receivables	0,00 %	0,16 %	0,27 %	0,26 %	0,25%
Short-term receivables	22,89 %	25,92 %	24,81 %	23,99 %	25,37%
Cash flow	6,89 %	6,44 %	17,45 %	11,00 %	10,29%
Cash available	2,31 %	2,97 %	1,26 %	0,94 %	3,13%
Funds in accounts	4,58 %	3,47 %	16,19 %	10,06 %	7,17%
Accrued assets	3,46 %	4,20 %	5,13 %	2,19 %	1,73%

Source: own calculations based on data from annual report

The main activity of the company is retail trade, in connection with this, the main parameter in this table is stocks.

During the study period, the stocks in the company changed insignificantly, the largest percentage of stocks was 93.6% and fell on 2019. The difference from 2020 was 11%.

The second ratio worth paying attention to is Short-term receivables, a fairly high ratio can be observed in 2017 and its decrease for the period of 2020, which is 0.25%.

The ratio of fixed assets from 2016 to 2019 practically did not change, the value always fluctuated around 5%. But over the past year there has been an increase of 1.75%. The main part of the assets are tangible assets owned by the company, as an intangible part may be computer and software that are part of the company's activities.

## Vertical analysis of the profit and loss statement

Table 7 Vertical analysis of the profit and loss statement

	2016	2017	2018	2019	2020
Revenues from sales of own products and services	728 334	1 105 744	1 391 819	1 601 047	2 103 612
Revenues from sales of goods	16 640 473	19 848 199	23 518 340	27 564 288	35 293 531
Power consumption	16 167 572	19 298 463	22 823 513	26 913 031	33 368 091
Change in inventories of own activities	0	0	0	0	0
Activation	-17 027	-31 116	-34 010	-28 795	-7 737
Personal expenses	417 418	572 526	746 855	901 629	1 254 826
Adjustments of values in the operating area	40 428	132 039	179 822	153 190	132 826
Other operating income	185 750	213 494	261 599	317 003	261 599
Other operating expenses	93 660	137 022	144 109	129 151	192 542
<b>Operating profit</b>	<b>852 506</b>	<b>1 058 503</b>	<b>1 311 469</b>	<b>1 414 132</b>	<b>2 802 641</b>
Revenues from long - term financial assets - shares	11 910	12 959	20 273	40 000	58 810
Cost of shares sold	0	0	0	0	0
Income from other long-term financial assets	0	0	4 393	44 746	159 677
Costs related to other long-term financial assets	0	0	7 142	27 501	163 153
Interest income and similar income	266	140	180	448	95
Value adjustments and provisions in the financial area	0	0	0	0	0
Interest expense and similar expenses	10 142	25 455	30 758	16 457	38 550
Other financial income	20 476	76 082	61 414	76 861	291 297
Other financial costs	84 598	132 526	165 705	212 092	477 647
<b>Financial profit or loss</b>	<b>-62 088</b>	<b>-68 800</b>	<b>-117 345</b>	<b>-93 995</b>	<b>-169 471</b>
<b>Profit before tax</b>	<b>790 418</b>	<b>989 703</b>	<b>1 194 124</b>	<b>1 320 137</b>	<b>2 633 170</b>
Income tax	146 402	181 205	225 542	265 121	492 885
<b>Profit after tax</b>	<b>644 016</b>	<b>808 498</b>	<b>968 582</b>	<b>1 055 016</b>	<b>2 140 285</b>
Transfer of share in profit or loss to shareholders	0	0	0	0	0
<b>Profit or loss for the accounting period</b>	<b>644 016</b>	<b>808 498</b>	<b>968 582</b>	<b>1 055 016</b>	<b>2 140 285</b>

Source: own calculations based on data from annual report

## Vertical analysis of the profit and loss statement

Table 8 Vertical analysis of the profit and loss statement

	2016	2017	2018	2019	2020
Revenues from sales of own products and services	4 %	5 %	6 %	5 %	6%
Revenues from sales of goods	96 %	95 %	94 %	95 %	94%
Power consumption	93 %	92 %	92 %	92 %	89%
Change in inventories of own activities	0 %	0 %	0 %	0 %	0 %
Activation	0 %	0 %	0 %	0 %	0 %
Personal expenses	2 %	3 %	3 %	3 %	3 %
Adjustments of values in the operating area	0 %	1 %	1 %	1 %	1 %
Other operating income	1 %	1 %	1 %	1 %	1 %
Other operating expenses	1 %	1 %	1 %	0 %	1 %
<b>Operating profit</b>	<b>5 %</b>	<b>5 %</b>	<b>5 %</b>	<b>5 %</b>	<b>7,5</b>
Revenues from long - term financial assets - shares	0 %	0 %	0 %	0 %	0 %
Cost of shares sold	0 %	0 %	0 %	0 %	0 %
Income from other long-term financial assets	0 %	0 %	0 %	0 %	0 %
Costs related to other long-term financial assets	0 %	1 %	1 %	1 %	1 %
Interest income and similar income	0 %	0 %	0 %	0 %	0 %
Value adjustments and provisions in the financial area	5 %	5 %	5 %	5 %	5 %
Interest expense and similar expenses	1 %	1 %	1 %	1 %	1 %
Other financial income	4 %	4 %	4 %	4 %	4 %
Other financial costs	0 %	0 %	0 %	0 %	0 %
<b>Financial profit or loss</b>	<b>4 %</b>	<b>4 %</b>	<b>4 %</b>	<b>4 %</b>	<b>4 %</b>

Source: own calculations based on data from annual report

A vertical profit and loss analysis of the report shows that the company's sales average 95 percent. Over the past 2020, income from the sale of goods and services has increased to 6% of total revenue.

During the last quarter, power consumption fell, it accounted for 89% of total sales.

Services has increased quite a lot in comparison with 2019 and amounted to an increase of 20%, this is due to an increase in the provision of space, various sites and warehouses for rent.

The operating result each year averages about 5% per year, but in 2020 this result was 6%. Between 2016 and 2020, the economic result increased markedly from 5.0% to 7.5%, in line with the increase in operating profit.

## 4.4 Analysis of ratios

### 4.4.1 Liquidity ratio

Liquidity ratio shows us the ability of the company to pay their short-term obligations.

In this part are calculated three indicators of liquidity - current, operational and immediate. The interpretation of these pointers is described below, which are calculated based on formulas in the theoretical part of the thesis.

*Table 9 Development of the company's liquidity indicators in 2016-2020*

<b>Liquidity ratio</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Current ratio</b>	<b>1,20</b>	<b>1,24</b>	<b>1,13</b>	<b>1,17</b>	<b>1,27</b>
<b>Quick ratio</b>	<b>0,39</b>	<b>0,44</b>	<b>0,53</b>	<b>0,44</b>	<b>0,49</b>
<b>Cash ratio</b>	<b>0,09</b>	<b>0,09</b>	<b>0,22</b>	<b>0,14</b>	<b>0,001</b>

*Source: own calculations based on data from annual report*

#### **Current ratio**

The value of the current liquidity ratio tends to decrease until 2019, but in 2020, as can be seen from the table, it increased by 1.27. A downward trend was observed from 1.20 in 2016 to 1.13 in 2018. Then there was a smooth increase to 1.17 in 2019.

The coefficient had its lowest value in 2018, when it was at around 1.13, and working capital increased by approximately 30%. At the same time, current liabilities increased.

The value of the current dividend is not within the recommended limits but may be due to the peculiarities of the business industry.

As a good sign, it can be noted that liquidity for the entire period did not fall below 1, which indicates that the company has funds to cover short-term obligations.

### Quick ratio

The recommended value of liquidity is about 1, but most often this indicator depends on the business sector. The indicator indicates the company's ability to meet its short-term obligations with the help of the most liquid assets. Such assets include cash and cash equivalents, short-term accounts receivable and short-term financial investments up to 12 months. It can be seen from the tables that the company's liquidity ratios are acceptable.

### Cash ratio

This ratio shows what proportion of short - term debt obligations a company can cover with cash and cash equivalents.

In the table you can see that this indicator is decreasing every year. The recommended value of immediate liquidity is in the range of 0.2-0.5. The company reached the highest given indicator in 2018, when there was the highest cash flow.

Liquidity ratio is lower than generally recommended but consider the specific company such as Alza a.s. we can not say that it is a negative result.

### 4.4.2 Profitability

Profitability measures and show us how effectively the firm can use their assets to generate income. In this part are calculated ROA, ROE, ROS, Total asset turnover and Fixed asset turnover. The interpretation of these pointers is described below, which are calculated based on formulas in the theoretical part of the thesis.

*Table 10 Development of the company's profitability indicators in 2016-2020*

	2016	2017	2018	2019	2020
ROA	19,39%	19,65%	19,24%	18,31%	28,63%
ROE	92,04%	93,57%	94,58%	95,03%	97,50%
ROS	3,71%	3,86%	3,89%	3,62%	5,72%
Total asset turnover	3,95	3,89	3,65	3,78	3,82
Fixed assets turnover	81,12	89,55	90,83	79,46	57,48

*Source: own calculations based on data from annual report*

As we can see the lowest result was in the year 2019 (18,31%) and the highest was in the year 2020 (28,63%). The asset profitability indicator (ROA) is based on operating profit, which means that no financial changes (exchange rate differences, taxes etc.) affect the indicator. Compared with EBIT we can see that EBIT was increasing year by year, so we can say that decreasing and increasing indicator is within the normal range.

### **ROE**

Based on the results in the period of 2016 to 2020 the lowest result was in the year 2016 (92,04%) and the highest result was in the year 2020 (97,5%). So we can say that in the last year net operating profit increased in comparison with previous years. It had the highest influence on the growth of equity. Profitability values of equity reached 90%-95%, which indicates a good appreciation of the invested capital. This result can seem really high, but because their equity is very small compared to their total assets, the result is correct.

### **ROS**

As we can see the lowest profit margin was in the year 2019 (3,62%) and highest result was in the year 2020 (5,72%). In comparison to development of the sales of the observed period the mild decrease in ROS is acceptable.

### **Total asset turnover**

In total asset turnover we can see decreasing indicator up until 2019 when it started to increase again. Even if the indicator is decreasing in the beginning it is still above the recommended minimum which is 1. It indicates that company uses their assets effectively.

### **Fixed asset turnover**

We can indicate enormous growth in sales, where fixed asset turnover is around 80-90. In year 2020 we may say that company overinvested into fixed assets which indicates low worse management of fixed assets.

## **4.4.3 Stability**

Stability ratio provides us the information of the financial situation of the company and its ability to satisfy obligations in the long term. In this part are calculated debt to assets ratio, debt to equity ratio, equity multiplier and equity ratio. The interpretation of these pointers is described below, which are calculated based on formulas in the theoretical part of the thesis.

Table 11 Development of the company's stability indicators in 2016-2020

	2016	2017	2018	2019	2020
Debt to assets ratio	0,78	0,79	0,80	0,80	0,72
Debt to equity ratio	4,88	4,94	5,34	5,55	3,21
Equity multiplier	6,28	6,23	6,66	6,96	4,46
Equity ratio	0,16	0,16	0,15	0,14	0,22

Source: own calculations based on data from annual report

We can see here that in the year 2016 had adapt to total assets ratio of 15,92%. It means that 15,92% of companies assets were financed by creditors and 84,8% were financed by share holders. It means that the company has high proportion of liabilities. In the year 2019 was the best year with 14,38% of the financed assets by creditors. On the other hand the worst result we can see in the year 2020 with 22,43%. Alza a.s. has large proportion of liabilities as we can see in Table 1. Proportion of assets is higher but proportion of the assets and equity can not be evaluated negatively because of the specific form of the enterprise such as Alza a.s..

### **Equity multiplier**

Equity multiplier estimates how company uses equity to pay for all types of assets. According to the table above we can say that the equity multiplier in 2016 was 6.28. In 2017 it has decreased to 6.23 and raised in 2018 to 6.66. In the year 2019 the indicator was 6.96, it shows us that company was relying on debt to finance it's asset base. In the year 2020 equity multiplier was 4.46. It means that the company was avoiding to use of debt. I consider that the company's indicators are acceptable.

## **4.5 Analysis of differential indicators**

### **Net working capital**

*Net working capital* = Total current assets -Total current liabilities

*Net working capital* = (5 453 219 +2507998+7834 )-7 038 460= 930 591

This result indicates that the company in the short term, the company already has assets from which its liabilities can be paid. While not all of these assets will necessarily be converted into cash and used to pay off liabilities, the company's position as a whole looks stable.

## **5 Results and Discussion**

The results of the analysis show that the company is at a fairly high financial level and has stability. The chosen development strategy of the company is quite effective and has a good result.

At the moment, the only area that seems to be problematic is the cost of spreads, i.e. net cash and net cash receivable. The results are affected by the way short-term liabilities are financed and the lower need for resources. As we mentioned the cash ratio is low and Alza a.s. has no need to increase or improve cash ratio because of the business character of the company so it is not even considered as a bad sign.

If we take into account the total debt of the company, then we can say that it is not necessary to increase the cost of external resources and it is not necessary to count on financing assets solely from foreign capital. At present, the local market no longer has such a strong company as Alza a.s.

The company has the advantage and is able to respond very quickly to all events in the market and in the world. In 2020, when the pandemic began, the company quickly responded and was able to build momentum to move customers online.

I selected specific form of the enterprise therefore if you going to analyze it you can not use generally recommended standards for it.



## **6 Conclusion**

The purpose of the thesis was to analyze the financial situation of Alza a.s. and based on the results of the analysis, recommendations were given on how to improve the company's efficiency.

Analysis of Alza a.s. was conducted between 2016 and 2020 using the company's financial statements, available news and databases.

The theoretical part was divided into several chapters, in the first part, the characteristics of users of financial analysis and sources of financial analysis were given. The following is a description of the main tools that are commonly used in the analysis.

In the practical part, some of these tools were applied to the analysis of the company. Next, a detailed horizontal and vertical analysis of the company was carried out.

Alza a.s. is quite successful in its performance. The company was successful in almost every way, and some numbers were extremely high. It also cannot be said that any of the indicators were at a critical level. Based on the results, it can be concluded that the company has an accounting value.

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## 8 List of tables

Table 1 Analysis of absolute indicators .....	26
Table 2 Horizontal analysis of asset .....	27
Table 3 Horizontal analysis of liabilities .....	29
Table 4 Horizontal analysis of the profit and loss statement .....	30
Table 5 Vertical analysis of liabilities .....	32
Table 6 Vertical analysis of assets .....	33
Table 7 Vertical analysis of the profit and loss statement .....	34
Table 8 Vertical analysis of the profit and loss statement .....	35
Table 9 Development of the company's liquidity indicators in 2016-2020 .....	36
Table 10 Development of the company's profitability indicators in 2016-2020.....	37
Table 11 Development of the compan's stability indicators in 2016-2020.....	39

## **Attachment**

### **Alza a.s.**

Basic information about Alza.cz, a.s. (Complete extract from the Commercial Register).

**Date of registration:** 26 August 2003

**Id number:** 27082440

**Legal form:** Joint stock company Registered capital: CZK 2,000,000

**Shares:** 100 registered ordinary shares in paper form fully subscribed and paid up in the nominal value of CZK 20,000

**Investments:** The sole shareholder of L.S. INVESTMENTS LIMITED with its registered office at Nicosia, CHAPO CENTRAL, Spyrou Kyprianou 20, Republic of Cyprus

**Head office:** Jankovcova 1522/53, Holešovice, 170 00 Prague 7

**Statutory persons:** Aleš Zavoral (Chairman of the Board of Directors), Ing. Tomáš Havryluk (Deputy Chairman of the Board of Directors), Ing. Petr Bena (Deputy Chairman of the Board of Directors)

**Supervisory Board:** Petr Hošek (member), Ing. Hana Žáková Petrová (member), Mgr. Štěpán Kmoch (member)

### **Scope of business**

**Main NACE CZ:** 479110 - Online retail trade

**Secondary NACE CZ:** 263000 - Manufacture of communication equipment, 279000 - Manufacture of other electrical equipment, 261100 - Manufacture of electronic components, 461000 - Wholesale on a fee or contract basis, 494100 - Freight transport by road (other NACE CZ: 331400, 469000, 471000, 561000, 620000, 649200, 731000)

The company Alza.cz, a.s holds first place in sales of goods via the Internet - in 2019, sales amounted to CZK 29.3 billion. This is followed by Notino with revenues of CZK 9.8 billion and Mall with revenues of CZK 1.7 billion.

Alza was founded on November 29, 1994 by Aleš Zavoral as Alzasoft. In 1998, the first store was opened in Prague's Holešovice, and in 2000 the first version of the e-shop was launched. Since 2014, the company has been gradually expanding to other European Union countries. Karak Investment Limited, later renamed L. S. Investments Limited, took over

the ownership of the company in 2008. However, founder Aleš Zavoral still holds the position of Chairman of the Board of Directors.

(<https://www.alza.cz/historie-a-soucasnost-art141.htm>, 2022)

Today, Alza has 54 branches in the Czech Republic, Slovakia, Hungary and Austria and 918 self-service Alza Boxes. The company employs more than 3,000 people and at the end of 2020 it had about 330,000 items in its range, the number of which should continue to grow. The number of the company's employees is growing year-on-year, and the company also receives temporary work assistance during the season. An example could be a record December 14, 2020, when the turnover of the e-shop reached 295.5 million crowns with 119,715 orders. Financial analysis of the company Alza a.s..

Appendix 1: Simplified Income Statement of Alza a.s. 2016-2020 (page 10-11)

In thousands of CZK	2016	2017	2018	2019	2020
Revenue from sales of own products and services	728 334 Kč	1 105 744 Kč	1 391 819 Kč	1 601 047 Kč	2 103 612 Kč
Revenue from sales of good	17 368 807 Kč	20 953 943 Kč	24 910 159 Kč	29 165 335 Kč	37 397 143 Kč
Revenue from a long time financial assets	11 910 Kč	12 959 Kč	20 273 Kč	40 000 Kč	58 810 Kč
Revenue	18 109 051 Kč	22 072 646 Kč	26 322 251 Kč	30 806 382 Kč	39 559 565 Kč
Cost of sales	14 556 885 Kč	17 217 333 Kč	20 221 583 Kč	23 493 842 Kč	29 300 746 Kč
Gross profit	2 811 922 Kč	3 736 610 Kč	4 688 576 Kč	5 671 493 Kč	8 096 397 Kč
Other operating expenses	93 660 Kč	137 022 Kč	144 109 Kč	129 151 Kč	192 542 Kč
Operating profit	2 718 262 Kč	3 599 588 Kč	4 544 467 Kč	5 542 342 Kč	7 903 855 Kč
Other non-operating expenses	84 598 Kč	132 526 Kč	165 705 Kč	212 092 Kč	477 647 Kč
Other operating income	185 750 Kč	213 494 Kč	261 599 Kč	317 003 Kč	346 046 Kč

EBIT	852 506 Kč	1 058 503 Kč	1 311 469 Kč	1 414 132 Kč	2 802 641 Kč
EBT	790 418 Kč	989 703 Kč	1 194 124 Kč	1 320 137 Kč	2 633 170 Kč
Interest expense	10 142 Kč	25 455 Kč	30 758 Kč	16 457 Kč	38 550 Kč
Income Taxes	146 402 Kč	181 205 Kč	225 542 Kč	265 121 Kč	492 885 Kč
EAT	644 016 Kč	808 498 Kč	968 582 Kč	1 055 016 Kč	2 140 285 Kč

Appendix 2: Simplified Balance Sheet of Alza a.s. 2016-2020 (page 7-9)

In thousands of CZK	2016	2017	2018	2019	2020
Total assets	4 396 462 Kč	5 385 901 Kč	6 816 090 Kč	7 723 183 Kč	9 788 716 Kč
Current assets	4 029 998 Kč	4 925 644 Kč	6 192 363 Kč	7 187 284 Kč	8 968 904 Kč
Cash and cash equivalents	303 085 Kč	346 627 Kč	1 189 543 Kč	829 550 Kč	1 007 687 Kč
Account receivable	1 006 275 Kč	1 404 718 Kč	1 709 652 Kč	1 873 258 Kč	2 507 998 Kč
Inventory	2 720 638 Kč	3 174 299 Kč	3 293 168 Kč	4 464 476 Kč	5 453 219 Kč
Other assets	0 Kč	0 Kč	0 Kč	0 Kč	0 Kč
Noncurrent assets	214 146 Kč	233 994 Kč	274 237 Kč	367 062 Kč	650 579 Kč
Tangible assets	158 541 Kč	156 904 Kč	183 956 Kč	250 514 Kč	455 442 Kč
Intangible assets	54 488 Kč	75 141 Kč	81 914 Kč	108 474 Kč	187 303 Kč
Financial assets	1 117 Kč	1 949 Kč	8 367 Kč	8 074 Kč	7 834 Kč
Other assets	0 Kč	0 Kč	0 Kč	0 Kč	0 Kč
Total Liabilities and Equity	4 396 462 Kč	5 385 901 Kč	6 816 090 Kč	7 723 183 Kč	9 788 716 Kč



Total liabilities	3 416 948 Kč	4 270 608 Kč	5 470 014 Kč	6 165 536 Kč	7 038 460 Kč
Non-current liabilities	65 267 Kč	308 370 Kč	0 Kč	0 Kč	0 Kč
Provisions	17 477 Kč	12 465 Kč	4 500 Kč	28 500 Kč	27 500 Kč
Deferred expenses	82 793 Kč	96 579 Kč	129 392 Kč	189 516 Kč	223 353 Kč
Deferred income	179 523 Kč	142 161 Kč	188 106 Kč	229 412 Kč	304 255 Kč
Other non-current liabilities	0 Kč	0 Kč	0 Kč	0 Kč	0 Kč
Current liabilities	3 351 681 Kč	3 962 238 Kč	5 470 014 Kč	6 165 536 Kč	7 038 460 Kč
Total equity	699 721 Kč	864 088 Kč	1 024 078 Kč	1 110 219 Kč	2 195 148 Kč
Share capital	2 000 Kč	2 000 Kč	2 000 Kč	2 000 Kč	2 000 Kč
Retained earnings	69 180 Kč	53 283 Kč	53 283 Kč	53 283 Kč	53 283 Kč
Other reserves	17 477 Kč	12 465 Kč	4 500 Kč	28 500 Kč	27 500 Kč

1.