CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

Department of Economics

BACHELOR THESIS

FINANCIAL ANALYSIS OF LIMITED LIABILITY COMPANY SIBIRSKE DREVO

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

BACHELOR THESIS ASSIGNMENT

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Business Administration

Thesis title

Financial analysis of Limited Liability Company Sibirske Drevo

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Objectives of thesis

The main objective of the bachelor's thesis is to show the main principles of the company's financial analysis using the data of Limited Liability Company Sibirske Drevo.
The following objectives of the study of the financial state of the organization are defined:
- Defining the financial position of the organization, finding and eliminating deficiencies in the company's financial activities, identifying reserves to improve the financial condition of the enterprise and its solvency, monitoring the values of key financial indicators in order to ensure consistency of results with the strategic objectives of the enterprise;
- identification of changes in the financial position compared to previous periods;
- identify the main factors that cause changes in the financial state;
- forecasting of the main trends in the financial situation, justification of the financial strategy, justification of business plan indicators.

Methodology

In the bachelor thesis will be used the methods mentioned below:

- Horizontal (temporary) analysis – comparison of each reporting item with the previous period;

- Vertical (structural) analysis – the identification of the specific gravity of individual articles in the final indicator, taken as 100%;

- Trend analysis – comparison of each reporting position with a number of previous periods and the definition of the trend, i.e. the main trend of the indicator dynamics, 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 forward-looking forecast is conducted;

- Analysis of relative indicators (coefficients) – calculation of the relationship between individual reporting positions, the determination of the interrelations of indicators;

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

- Factor analysis – analysis of the influence of individual factors (causes) on the resulting indicator. Moreover, factor analysis can be either direct (the actual analysis), when the resulting index is divided into constituent parts, and the reverse one (synthesis), when its individual elements are combined into a common indicator.

The proposed extent of the thesis

40 – 60 pages

Keywords

financial state, financial stability, liquidity, profitability

Recommended information sources

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Declaration

I declare under penalty of perjury that I myself elaborated the bachelor thesis "Financial analysis of Limited Liability Company Sibirske drevo independently and all citations and sources are properly marked in the text. All used literature and background materials are cited in the references section. At the same time, I agree that this work may be accessed in the CULS library and used for educational purposes in accordance with copyright.

In Prague on …………………   …………………

                                                                    Vladislav Denisenko

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Financial Analysis of Limited Liability Company Sibirske drevo

Finanční analýza společnosti Sibirske drevo s. r. o.

Abstract

This bachelor thesis looks at the financial analysis of Limited Liability Company Sibirske drevo in the Czech Republic. In order to be the one company on woodworking market which can offer Siberian wood species in high-quality execution.

This Bachelor thesis is aimed at financial assessing of chosen company in the time interval of 2015 – 2017. I as a direct employee of the company very interested in the results of financial analysis to assess the future of the enterprise. Based on the analysis results I will try to make suggestions for improving working capacity of the company.

The company was in total loss of 1 981 000 CZK till 2016 and located on the verge of bankruptcy. Finally, in 2017 company get the small profit of 7 000 CZK. Enterprise payed for 1,78 times more wages to the same amount of workers in total of 1 544 000 CZK what indicates that the company is interested to improve the quality of work within the enterprise.

Keywords: woodworking, financial analysis, financial statement, absolute indicators, ratios, difference indicators.

Abstrakt

Tato bakalářská práce se zabývá finanční analýzou společnosti s ručením omezeným "Sibirské dřevo", v České republice. Aby mohla být nejlepší společností na trhu zpracování dřeva, která může nabídnout sibiřské dřeviny v kvalitním provedení. Tato bakalářská práce je zaměřena na finanční posouzení vybrané společnosti v časovém intervalu 2015 - 2017. Jako přímý zaměstnanec společnosti se velmi zajímám o výsledky finanční analýzy s cílem zhodnotit budoucnost podniku. Na základě výsledků analýzy se pokusím podat návrhy na zlepšení pracovní kapacity společnosti.

Společnost byla v celkové ztrátě 1 981 000 ČK do roku 2016 a nacházela se na pokraji bankrotu. V roce 2017 společnost, konečně, zaznamenala zisk 7 000 ČK. Podnik zaplatil 1,78 krát více na platech stejnému počtu zaměstnanců v celkové výši 1 544 000 ČK, což ukazuje zájem společnosti ve zlepšování pracovních podmínek ve společnosti.

Klíčova slova: zpracování dřeva, finanční analýza, finanční výkaz, absolutní ukazatele, ukazatele, ukazatele rozdílu.

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1. Introduction

The role of the function of the financial state of enterprises is exceptionally great for the purposes of market relations. It's because enterprises acquire independence and bearing full responsibility for the results of their production and economic activities to shareholders, employees, banks and creditors.

The financial condition of an enterprise is a combination of indicators that show its ability to pay off it's debt obligations. Financial activity covers the processes of formation, movement and ensuring the safety of the property of the enterprise. The financial condition becomes a result of the common whole of all elements of the system of financial relations of an enterprise and therefore determined as a combination of economic factors and production.

Financial analysis has become an important means of planned management of the enterprise's economy and helps to identify reserves and increase production efficiency at the present level in the conditions of market relations. The analysis organically fits into the practice of managing the economy at the level of both the enterprise and the whole national economy. As the economy develops, tasks and methods of economic analysis are improving in the same time. The main objective of the analysis is an objective assessment of the enterprise's economy, the identification of opportunities reserves for further economic development. The activity of enterprises can be evaluated by indicators characterizing the final result of the enterprise's performance in implementing the plan for all indicators and economic use of production resources.

Financial analysis as an element of the method of economic management plays an important role in the development and increasing of production efficiency. It promotes the full utilization of production capacities and the selection of optimal options for expanding the enterprise. Analysis improves the use of material, labor and financial resources.

2. Thesis Objectives and Methodology

2.1. Objectives

The objective of the Bachelor thesis is to show the main principles of the company's financial analysis as well as the analysis of the activities of Limited Liability Company Sibirske drevo. Obtaining key informative indicators that give an objective map of the financial position of the organization, the profitability of products and its capital.

The following objective of the study of the financial state of the organization defined: defining the financial position of the organization; identification of changes in the financial position; identification of main factors that cause changes in the financial state.

2.2. Methodology

Financial analysis is a process of studying the financial conditions and main results of company's financial activity in order to identify reserves and to increase its market value. Also, it used to ensure further effective development. The results of financial analysis are the basis for making managerial decisions, developing a strategy for further development of the enterprise. Therefore, financial analysis is an integral part of financial management and its most important component.

My Bachelor thesis would be based on methods such as:

Strategical analysis

- SWOT analysis. Is an essential element of research, an obligatory stage in drawing up any level of strategic and marketing plans. The data which is obtained as a result of analysis serve as basic elements in the development of strategic goals and objectives of the company. [17]

Scheme 1. SWOT Analysis

SWOT Analysis	
Strengths	*Weakness*
Opportunities	*Threats*

Source: own creation

Absolute indicators analysis

The main aim of the horizontal (trend) analysis and vertical analysis of financial statements is to visualize the changes that have occurred in the main balance sheet items, profit and cash reports. It also helps the company's managers to decide how to continue their activities.[11]

- Horizontal analysis (trend analysis). This analysis shows the direction where business is going.

    Trend analysis % = (Any period amount / Base period amount) x 100 [11]

- Vertical analysis (percentage). This analysis shows dependence between some specific item to its base amount using 100% figure. Always reported as a percentage of that base.

    Vertical analysis % = (Specific item / Base amount) x 100 [11]

Balance rules

These rules are made according to the practical experiences in the formation of the capital structure. These are recommended rules for enterprise's management to achieve long-term financial equilibrium.

- Golden balance rule means that long-term resources should cover the fixed assets.
- Risk equalization rule requires that the ratio of own equity should be 1:1 to another sources ratio. Also, own equity can be greater. It's diminishing not only creditor risk but also operation of financial leverage.
- Pari rule shows the relationship between long-term property and own equity. Where long term property should be covered by own equity

Source: [25]

Ratio indicators analysis

It includes all indicators of the state enterprise. It's impossible to perform a correct assessment of the company's work without detailed consideration of the dynamics of liquidity, profitability and solvency. These indicators have a direct relationship and if one of them changes, as a result whole structure can change.

Indicators of Profitability

- Return of Assets. It's a financial ratio which characterizes the return on the use of all the assets of the company. The coefficient shows the company's ability to generate profits without taking into account the structure of its capital. Also known as quality of asset management. [22]

$$ROA = net\ profit\ /\ assets\ [22]$$

- Return of Equity. It's an indicator of net profit in comparison with the own capital of the company. This is the most important financial indicator of the return for any investor. The owner of the business shows how effectively the capital invested in the business was used. [22]

$$ROE = net\ profit\ /\ equity\ [22]$$

- Return of Capital Employed. It's an indicator of the return from the organization's own capital which is involved in the commercial activities of the organization and long-term borrowed funds (long-term loans). [22]

$$ROCE = Earning\ before\ Interests\ and\ Taxes\ /\ Involved\ capital = Earning\ before$$
$$Interests\ and\ Taxes\ /\ (equity + long\ term\ duties)\ [22]$$

- Return on Sales. It shows how productively are resources used for advantage of the market. [22]

$$-\quad ROS = Earnings\ after\ taxes\ /\ Sales\ [22]$$

Indicators of Liquidity

- Current Ratio. It's an indicator which is used to determine the solvency of the company. Recommended value of Current Ratio is 1,5 – 2. [23]

$$Current\ Ratio = current\ assets\ /\ short\ term\ liabilities\ [23]$$

- Quick Ratio. Characterizes the organization's ability to repay its short-term obligations through the sale of liquid assets. [23]

$$Quick\ ratio = (current\ assets - inventories)\ /\ short\text{-}term\ liabilities\ [23]$$

- Cash Ratio. It's the most stringent criterion of liquidity of the company. It shows how much of the short-term loan obligations can be repaid immediately using the expense of available funds. [23]

$$Cash\ Ratio = short\text{-}term\ financial\ assets\ /\ short\text{-}term\ liabilities\ [23]$$

Indicators of Activity

Allows to determine how effectively the enterprise uses its funds. The speed of their transformation into cash. It has a direct impact on the solvency of the enterprise. It reflects the change in the production and technical capacity of the enterprise. [9]

- Total Asset Turnover shows the effectiveness of usage of all available resource independently from the source of their funding.

Total Asset Turnover = assets / sales [9]

- Turnover of Fixed Assets it's a recurring process of the circuit beginning from the moment of advancement and ending with the return of capital in full in monetary form.

Turnover of Fixed assets = fixed assets / sales [9]

- Inventory Turnover Ratio shows how many times in analyzed period organization used the average which is available in stock balance.

Inventory Turnover = sales / Inventories [9]

Indebtedness ratios

Debt ratio.

Indicates how sources of financing assets are external (in %). [13]

DR = liabilities / total assets

Financial leverage

It's an effect of increasing of rentability and own equity by using other sources and the capital structure of enterprise.

Financial leverage = Total assets / equity [13]

Interest coverage

Index shows how much interests are covered by profit

Interest Coverage Ratio = EBIT / Interest Expense [13]

<u>Analysis of differential indicators</u>

Such indicators also known as financial funds. This analysis type consists of calculation of the circulation time of funds, analysis of cash flow and its forecasting. The most important indicator is Net Working Capital which defines as a difference between current assets and current liabilities. [17]

Net Working Capital (NWC) = current assets – short-term liabilities. [17]

<u>Analysis of schemes of indicators</u>

Altman Z-score

Altman Z-score model is a formula which has been proposed by the American economist Edward Altman. It used to predict the probability of bankruptcy of the enterprise. [18]

$$Z = 0,717*x1+0,847*x2+3,107*x3+0,42*x4+0,998*x5$$

$$X1 = \text{working capital / total assets}$$

$$X2 = \text{retained earnings / total assets}$$

$$X3 = \text{earnings before taxation and interest / total assets}$$

$$X4 = \text{market capitalization / total liabilities}$$

$$X5 = \text{sales / total assets}$$

IN05 Index

The IN05 index is an index for assessing the financial state of the company. In addition to the company's near future, IN05 assesses whether it is valuable to its owners. [13]

$$IN05 = 0,13*x1+0,04*x2+3,97*x3+0,21*x4+0,09*x5$$

X1 = total assets / other sources

X2 = EBIT / interest expense

X3 = EBIT / total assets

X4 = revenues / total assets

X5 = current assets / short term payables

3. Literature Review

3.1. History of financial analysis

The history of the development of economic analysis is inextricably linked with the history of the formation and development of accounting since the accounting in the broad sense of the word includes in it accounting data analysis, providing information and analytical conditions for making economic decisions. Economic accounting exists for a minimum of 6 thousand years. Its appearance became possible only when people were able to understand and record economic data. The desire for last many centuries was to reflect in the accounting registers such facts and values that appears as an object of accounting with the greatest possible completeness and accuracy. Such naturalism in accounting has arisen since the time when a person was needed to write down what is happening in his household. Many researchers believe that the needs of economic accounting gave a powerful impetus to the development of writing, mathematics and economics at all. [1] The history of Ancient Egypt shows that Egyptians already knew accounting and pharaohs had court accountants who were called "scribes". In Egypt and Mesopotamia were special schools for the preparation of accountants. The economic accounting in Ancient Greece and ancient Rome was even more developed in that time. The development of crafts and trade had an impact on the development of accounting. Especially accounting was developed in the economy of the offices of bankers of Greece which were carried out various operations on which they kept ledgers. Some methods of economic accounting were known to the entire population such as the state required citizens to inventory their property for collection the taxes. As a result of conscious activity people expanded their relationships with the natural environment thereby enriching their understanding of various objects and phenomena. [1]

The first book about financial analysis which affected people called "Security Analysis" and was published by Benjamin Graham and David Dodd in 1934. The aim of the book was conduction of fundamental analysis which was included company analysis what was the main sphere of financial statement analysis. [2]

3.1.1. Importance of financial analysis in modern conditions

Finance of an enterprise is a such economic category the trait of which lies in the scope of its operation and its proper functions. The modern financial system of the state consists of centralized and decentralized finances. Finance is the aggregate of economic monetary relations arising in the process of production and sale of products including the formation and use of money incomes. Also, it provisions the circulation of funds in the reproduction process, organization of relationships with enterprises, budget and banks. [3]

Since the purpose of the analysis isn't only and not so much to establish and assess the financial condition of the enterprise. But also, to constantly carry out work which was aimed on improving. The analysis of the financial condition shows the direction it's necessary to conduct this work and makes it possible to identify the most important aspects and the weakest position in the financial state of the enterprise. The assessment of the financial condition can be performed with varying of details depending on the purpose of the analysis, available information, software, technical and personnel support. The most expedient is the allocation of procedures for express analysis and in-depth analysis of the financial situation. Financial analysis also provides an opportunity to evaluate the property status of the company as well as degree of entrepreneurial risk. [4]

3.1.2. Goal of financial analysis

The goal of financial analysis is an assessment of the financial condition of the enterprise and the possible increase in the efficiency of the functioning of the enterprise through rational financial policy.

The financial condition of the enterprise is a characteristic of its financial competitiveness, use of financial resources and capital, fulfillment of obligations. In the traditional understanding financial analysis is a method of assessing and forecasting the financial state of an organization on the basis of its financial statements. This type of analysis can be performed by both management personnel and any external analyst. Since it's mainly based on publicly available information. One of the ways to reduce financial and operational risks is a permanent qualitative analysis of the financial condition of the organization. Namely financial analysis allows to determine the optimal structure and

composition of assets, choice of sources of financing and optimize the capital structure, manage financial flows to ensure solvency and financial sustainability. [5]

3.2. Users of financial analysis

The urgency of the study of the financial condition of an enterprise as a part of a general analysis of economic activity is the possibility of early detection of signs of crisis development that are a threat of bankruptcy. The emergence of a crisis situation at the enterprise is possible on any segment of the life cycle of the enterprise. To anticipate the onset of negative influences, its necessary to constantly analyze the financial condition of the enterprise. [6]

Users divided into two groups:

- internal users/analysts;
- external users/analysts.

Internal users: most of time they are employed by the company and amenable for controlling the enterprise. The company's management directly responds for preparation and presentation of financial results of the enterprise. Management has access to financial information on purpose of complete their plans in time, control responsibilities and decision making. [6]

Internal analysis is aimed to study:

- reasons for the current financial situation,
- efficiency of use of fixed and circulating assets
- interrelation of such indicators as cost price and profit

Internal analysis is exclusively the managerial analysis. It uses the full range of economic information. It uses the entire range of economic information as well as operational in nature and is subordinated to the will of the company's management.

External analysis: it belongs to any parties which are having interest or financial interest of the enterprise. Generally, such groups of users don't take part in routinely company management. Analysis which are made by these users also known as external analyses. So

far as external analyst has access only to the limited information which is contained in published financial statements. According to this an external analysis looks to be more cursory than an internal analysis. [6]

3.2.1. Users and their information requirements

The users of financial statement information involve investors, lenders of money, employees, suppliers, customers and government's financial institutions as well as the general public. All of them want to find specific information in which they are interested in. [6]

Marius Koen and Johan Oberholster define the requirements in this way [6]:

Management – is interested in financial statement information to draw up and implement a working plan, decision-making and control workers' duties.

Owners – It includes the profit potential, financial stability and growth potential. It needs them to make a decision when do they need to buy, sell or even retain their invested money.

Potential investors - they are concerned about the present of future profitability of the company. The ability of a company to pay dividends depends on future prospects. They would have more confidence in such company which shows sustained revenue growth

Employees – they are interested in information which confirms the stability and profitability of employers. They are also interested in such fact, that their workers would be rewarded and get employment opportunities.

Lenders of money – are concerned about the firm's long-term solvency and survival, which depends on the profitability and earning capacity.

Customers - they are interested in information for long time existence of a company if they are being involved with enterprise for a long period of time in such situations when they are "chief supplier". They are interested in the stability of supply as consequence of the financial respectability of the enterprise. `

 Government and their agencies – they need an information about company activities. They want to regulate them and determine taxation policies. To make a national income and other statistics types. Because the prosperity of the economic infrastructure of the national depends on the successful operation of the enterprise.

3.3. Sources of financial analysis

Financial reporting is a set of reporting forms compiled on the basis of financial accounting data in order to provide users with generalized information about the financial position during the reporting period in a convenient and understandable manner for the acceptance by certain users of certain business decisions.

The financial statements consist of the balance sheet, income statement and appendices to them. Also, an explanatory note as well as audit reporting confirming the reliability of the financial statements if the organization is subject of mandatory audit. [7]

3.3.1. Balance sheet

Explaining what a balance is you should pay attention to the method that is used to build it. A set of available data is recorded in two-sided table. This method is widely used in economic analysis, accounting and planning. In the system of planned balances there are labor, money and material. The formation and subsequent distribution of certain types of raw materials, goods, finances and also working reserves is forecasted. The reporting form reflects the state of company's funds, expressed in monetary terms on a specific date. [7] Other words it's a system of moment indicators the value of which is so great that it is often singled out as a separate reporting unit. As additions to the balance are various forms of financial reporting. Their task is to decipher information. Speaking of what is the balance of the enterprise it should be said that it's a form in which all the company's funds are reflected. [7]

Scheme 2. Balance sheet structure

Balance sheet			
Assets		Liabilities	
A.	Receivables from subcriptions	A.	Equity
B.	Fixed assets	A. I	Registered capital
B. I	Intangible fixed assets	A. II	Share premium and capital funds
B. II	Tangible fixed assets	A. III	Funds from earnings
B. III	Long-term financial assets	A. IV	Profit/loss previous year
		A. V	Profit/loss current year
C	Current assets	B	Other sources

C. I	Inventory	B. I	Reserves
C. II	Receivables	B. II	Long-term payables
C. III	Short-term financial assets	B. III	Short-term payables
C. IV	Cash and bank accounts	B. IV	Issues bonds
D.	**Accurals**	**C.**	**Accurals**

Source: [11]

Assets

It shows the availability of the enterprise. You can find out how these funds are distributed by balances on the accounts. The qualitative and quantitative characteristics of the property and its value at any time are recorded in the asset (left side of the balance sheet). Often assets are the whole property of the company. [8]

They could be dıvided into:

- Fixed assets
- Current assets

Fixed assets – these are assets that have a useful life of more than one year. In fact, include labor (machinery equipment) which are consumed in the process of use not-immediately (as materials) but for a long period of time and the obligation to receive not earlier than 12 mounts. In their nature they are divided into two different subcategories. [8]

- **Tangible** – such assets which has physical form in nature (buildings, machinery and etc.)
- **Intangible** – such assets which don't appear in physical form in nature (works of science, inventions, secrets of production, trademarks and etc.

Liabilities.

This is a port of the balance sheet of the enterprise which shows the sources of receipt of funds by the enterprise in monetary terms. Their composition and origin. Thus, in the liabilities of the balance sheet are shown resources of financing. [8]

Liabilities in their nature are divided into three sectors:

- Long term
- Current
- Own equity

Long term liabilities – these are all types of borrowed financial resources used by the enterprise with the due of more than one year. (long term bank loans, issues bonds and etc.)

Current liabilities – these are items of the balance sheet that shows liabilities with the due less than one year. (short term bank loans, compensations, account payable and etc.)

Own equity – shows which part of assets is financed by own funds. Its presence and magnitude are one of the most important characteristics of financial stability. It could be divided into four subcategories:

- Registered capital – the capital which is registered in Commercial Registry (according to the Czech Republic law)
- Retained earnings – the comparison of retained profits from previous years and actual year's profit)
- Capital funds – the difference between nominal price of shares and issuing price of shares
- Funds created from profit – funds which are created according to the company charter.

3.3.2. Profit and Loss Account

It's a tabular representation of the financial performance of the enterprise for a certain period. Along with the Balance Sheet the Profit and Loss Account is one of the two most important forms of accounting. The profit and loss account disclose the main financial indicators of the company such as a revenue, cost of sales, commercial and management costs, other incomes and expenses as well as the financial result.

The report consists of a set of indicators which together give the final financial result – net profit or loss. The main indicators of the enterprise's activities are at the very beginning of the report – revenue, cost of sales, commercial and administrative expenses. All this is the financial result (profit or loss) from sales. Other words profit or loss from the main activity of the organization for the sake of which it has been created.

Further there are indicators of other income and expenses such as interest receivable and payable, other income and expenses which in the amount of the previously obtained results

are "profit (loss) before tax". After this ratio is subtracted from the profit tax and added to the change in the deferred tax and assets and liabilities. You get the final financial result – net profit or loss for the period of time.

The Profit and Loss Statement like the Balance Sheet is made up by all organizations that maintain accounting records. These documents show the financial results of the enterprise's work and is used to assess the effectiveness of its activities. The profit and Loss statement is submitted together with the Balance Sheet to the tax authorities, state statistic bodies. Profit and loss account is carefully studied by investors, banks that issue loans for the enterprise. [9]

3.3.3. Cash flow statement

It's a tabular form of financial statements that contains data on cash flow in the context of the articles of their receipt in the organization and payments. It's a valuable source of information for the analysis of actual cash flows. Unlike accounting indicators such as revenue or profit which strongly depend on accounting rules, cash flow allows investors to more accurately determine what the company spend money on and what return can be expected from investing in it. [10]

4. Analysis and Interpretation

4.1. Introduction to the company "Sibirske drevo"

4.1.1. Basic information.

Company name   Sibirske drevo

Company formation   entered into the Commercial register on 13 April 2012

Headquarters   ul. Poděbradská 195/7, 190 00,Praha 9, Vysočany

Identification number   242 92 207

Legal form of the company   Limited Liability Company

Scope of business   Wholesale of wood materials, building materials

Basic capital   200 000 Czech Crowns

Statutory authority   Managing Direcor: Khristsina Khaladzinskaya,
                                          Poznanska 440/23, Bohnice, 181 00 Praha 8

Shareholders: Andrei Kholodinski, business share of 100%

Company's logo:

Web-site: **www.sibmodrin.cz**

Source: [12]

4.1.2 History of the company

The company Sibirske drevo in past was located in Belarus, Minsk. The company was engaged in export of sawn timber to the European Union. In 2000s shareholder Andrei Kholodinski moved with his family to Czech Republic and decided to continue his business in wood sphere. From the very opening and to this day company importing more than 100 cubic meters of exclusive wood Siberian larch monthly and producing planed profiles for floor and wall coverings. Also, company importing massive beams and produce glulam beams. From the end of 2017 company opened a new direction and started to import Caucasian oak and produce massive floorings, parquets and other wood species. Also, company provides such services as importing raw materials from Siberian larch and Caucasian oak to other manufacturing companies in Czech Republic, Germany, Netherlands and Italy.

4.1.3 SWOT analysis

Table 1. SWOT Analysis

SWOT Analysis	
Strengths	**Weakness**
High level of SEO	Limited quantity of workers
Production quality	Limited locality - Prague
Services quality	Communication language
Shop and warehouse location	Seasonal sale
Opportunities	**Threats**
Online store opening	New competitors
New products direction	

Source: own creation

The highest strength of the company is its location. Office and warehouse located quite close to the metro stance and in 100 meters from tram stop. Enterprise tries to provide high quality production for their clients as well as services quality. In modern conditions most of sales are doing through the internet, according to this search engine optimization is developed on high level. The biggest problem of the company is that there are Russian workers there and most of customers doesn't trust. The other problems, that sales occur only in building season, according to this four months in the year company doesn't sell nearly to nothing. Concluding the opportunities during the year 2018 enterprise obstinately

work on their e-shop to increase amount of sales. Also as an opportunity we can mark that the company enter new direction which is Caucasian oak and producing parquet and floating floors. The biggest threat from the company is performing of new competitors on in the market. (table №1)

4.2. Absolute Indicators Analysis

4.2.1 Horizontal analysis of Balance Sheet

Table 2. Horizontal Analysis of Assets (absolute changes in CZK)

Horizontal Analysis of Assets	Absolute (in thousands CZK)	
Period of time	2016-2015	2017-2016
TOTAL Assets	-2267	327
Tangible Fixed Assets	-247	-199
Current assets	-2026	533
Inventory	-2877	1146
Receivables	349	-122
Cash and Bank accounts	502	-491

Source: Own creation

Table 3. Horizontal Analysis of Assets (% changes)

Horizontal Analysis of Assets	% changes	
Period of time	2016-2015	2017-2016
TOTAL Assets	61%	109%
Tangible Fixed Assets	52%	25%
Current assets	61%	117%
Inventory	43%	152%
Receivables	460%	73%
Cash and Bank accounts	778%	15%

Source: Own creation

Tables showed above № 2 and 3, graph №1 are the initial data for horizontal analysis of assets. All data taken from financial results for period 2015-2017. In tables and graph, we can see the development of individual elements of assets.

According to the data it's seen that total assets were decreasing in 2016 (-39%). In 2017 total assets slightly increased (9%)

Fixed assets were continuously decreasing in 2016 (48%) from indexes in 2015. As well as in 2016, in 2017 fixed assets decreased on 75%. All these is caused by reduction of equipment. (table №2, table №3)

Graph 1. Development of Assets (in thousands of CZK)

Development of Assets (in thousands of CZK)

Legend: ■ Total assets ■ Fixed assets ■ Current assets ■ Accurals
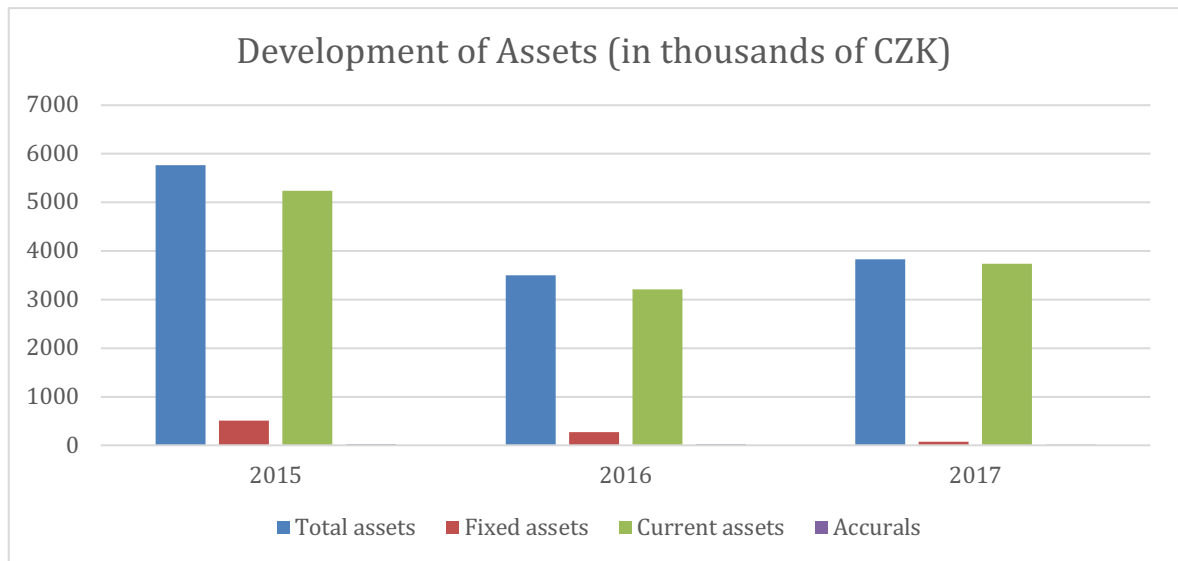
Current assets weren't stable. It's value in 2015-2016 decreased by 39%. As for 2016-2017 it increased by 9%. All these cause by increasing of receivables in 2016 by 460% and 73% in 2017.

In 2016 enterprise reduced it's merchandise by 57% and increased in 2017 by 52%.

Cash and bank accounts occurred serious changes. In 2016 in comparison with 2015 the value increased by 778% and decreased in 2017 in comparison with 2016 by 95%. (table №2, table №3, graph №1)

Table 4. Horizontal Analysis of Liabilities (Absolute changes in thousands CZK)

Horizontal Analysis of Liabilities	Absolute changes (in thousands CZK)	
Period of time	2016-2015	2017-2016
Total Liabilities	-2267	327
Equity	-1981	1202
Registered capital	0	0
Funds from earnings	0	1195
Profit/loss - previous years	-2170	-1981
Profit/loss - current year	189	1988
Other sources	-286	-875
Reserves	0	0
Long-term payables	-767	0
Short term payables	481	-875

Source: own creation

Table 5. Horizontal Analysis of Liabilities (% changes)

Horizontal Analysis	index changes	
Period of time	2016-2015	2017-2016

Total Liabilities	60,7%	109,4%
Equity	-2,0%	-2982,1%
Registered capital	100,0%	100,0%
Funds from earnings	-	-
Profit/loss - previous years	152,6%	131,5%
Profit/loss - current year	91,3%	-0,4%
Other sources	92,5%	75,2%
Reserves	-	-
Long-term payables	72,1%	100,0%
Short term payables	144,9%	43,6%

Source: own creation

Tables showed above № 4 and 5, graph №2 showed below are the initial data for horizontal analysis of assets and development of liabilities. All data taken from financial results for period 2015-2017. In tables and graph, we can see the development of individual elements of liabilities.

Graph 2. Liabilities development
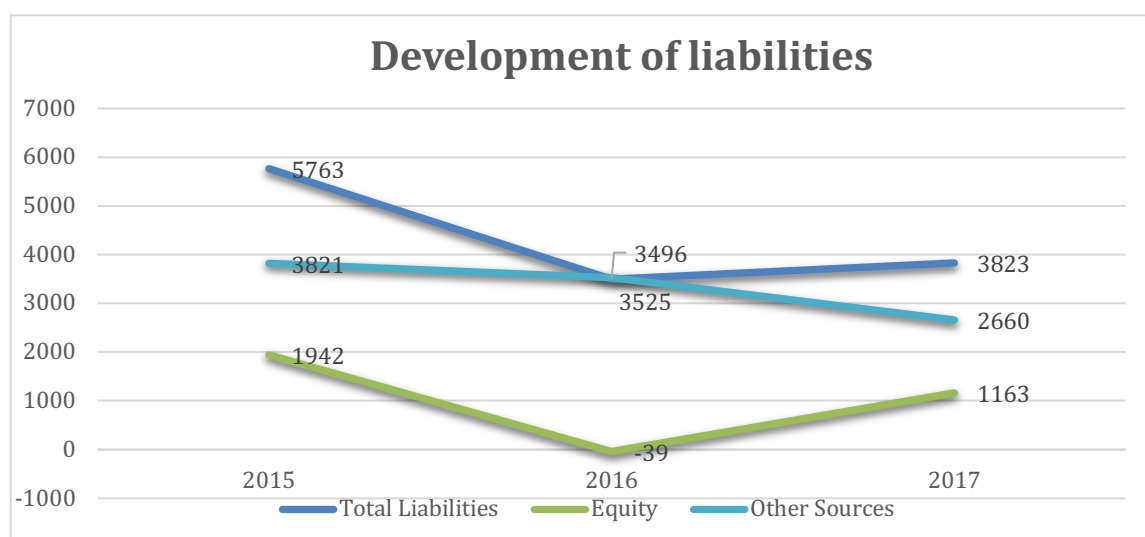
Total liabilities of the enterprise in 2016 in comparison with 2015 decreased by 39,3%. First of all it caused by negative value of equity in 2016. Loss from current year decreased by 8,7%, but the loss from previous years increased by 52,6%. Registered capital in amount of 200 000 CZK and share of premium and capital funds in amount of 8 036 000 doesn't cover losses from current and previous years. According to this equity took a negative value.

Equity in 2017 became positive again in amount of 1 163 000 CZK. Despite the fact that the loss from previous years in 2017 was in amount 8 275 000 CZK, enterprise went into a

small profit of 7 000 CZK in 2017. Capital funds of 2017 were increased by 14,9% in comparison with the value of 2016.

Enterprise's payables are smoothly decreasing during the time period of 2015-2017. Payables value in 2016 decreased by 7% in comparison with 2015. Concerning 2017, payables ratio in 2017 has been reduced additionally by 25%. (table №4, table №5, graph №2)

4.2.2. Vertical analysis of Balance Sheet

Table 6. Vertical analysis of Assets

Vertical Analysis of Assets	2015	2016	2017
TOTAL ASSETS	100%	100%	100%
Fixed Assets	**8,90%**	**7,61%**	**1,75%**
Intangible fixed Assets	0,00%	0,00%	0,00%
Tangible fixed Assets	8,90%	7,61%	1,75%
Long term financial Assets	0,00%	0,00%	0,00%
Current Assets	**90,86%**	**91,82%**	**97,91%**
Inventory	87,89%	62,59%	87,21%
Receivables	1,68%	12,76%	8,48%
Cash and bank accounts	1,28%	16,48%	2,22%
Acruals	**0,24%**	**0,57%**	**0,34%**

Source: own creation

Graph 3. Development of property items
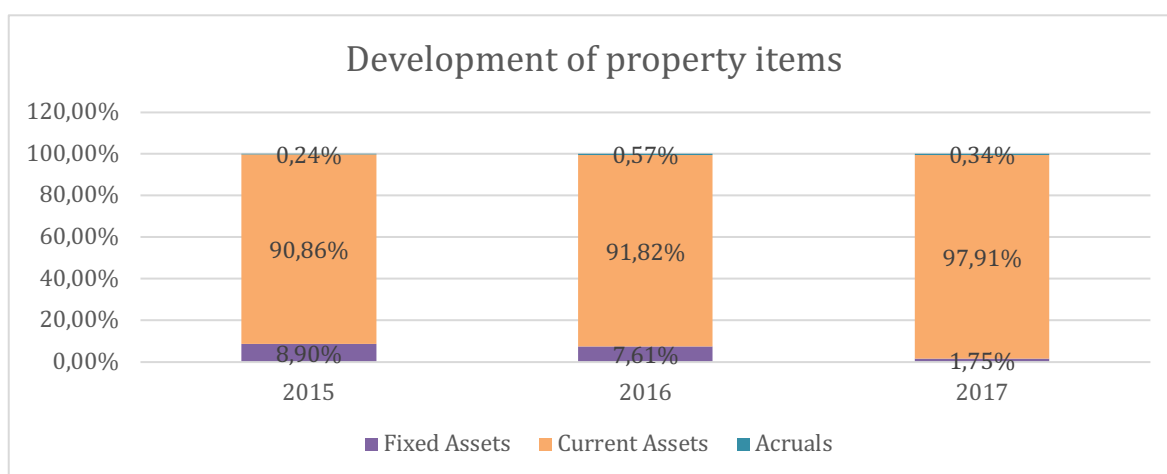
*Source: own creation*

Table №6 and graph №3 are the initial data for vertical analysis of assets. All data taken from financial results for period 2015-2017. In tables and graph, we can see the development of individual elements of assets.

In 2015 assets of the enterprise consisted of 8,9% of fixed assets, 90,86% of current assets and accruals of 0.24%. The most important element of current assets was inventory (87.89% from total assets), receivables (1,68% from total assets) finally cash and bank accounts (1,28% from total assets). Fixed assets were totally consisted of tangible assets (8,9%).

In 2016 assets of the enterprise consisted of 7,61% of fixed assets, 91,82% of current assets and accruals of 0.57% The most important element of current assets still was an inventory (62,59% of total assets), receivables (12,76% of total assets) finally cash and bank accounts (16,48%). Fixed assets were totally consisted of tangible assets (7.61%).

In 2017 assets of the enterprise consisted of 1,75% of fixed assets, 97,91% of current assets and accruals of 0.34%. The most important element of current assets still was an inventory (87,21% of total assets), receivables (8,48% of total assets) finally cash and bank accounts (2,22%). Fixed assets were totally consisted of tangible assets (8,9%). (table №6, graph №3)

Table 7. Vertical analysis of Liabilities

Vertical analysis of Liabilities	2015	2016	2017
Total Liabilities	100%	100%	100%
Equity	**34%**	**-1%**	**30%**
Registered capital	3%	6%	5%
Share premium and capital funds	139%	230%	241%
Funds from earnings	0%	0%	0%
Profit / loss - previous years	-72%	-180%	-216%
Profit / loss - current year	-38%	-57%	0%
Other sources	**66%**	**101%**	**70%**
Reserves	0%	0%	0%
Payables	66%	101%	70%
Long-term payables	48%	57%	52%
Short-term payables	19%	44%	18%
Accurals	**0%**	**0%**	**0%**

Source: own creation

In 2015 liabilities of the enterprise consisted of 34% of equity, 66% of current assets and accruals of 0%. The most important elements of other sources were payables (66% from total liabilities), long-term payables (48% from total assets) and short-term payables (48% of total liabilities). The most important elements of equity were registered capital (3% from total liabilities), share premium and capital funds (139% from total liabilities), loss

from previous years (-72% from total liabilities), loss from current year (38% from total liabilities). (table №7)

Graph 4. Development of capital items
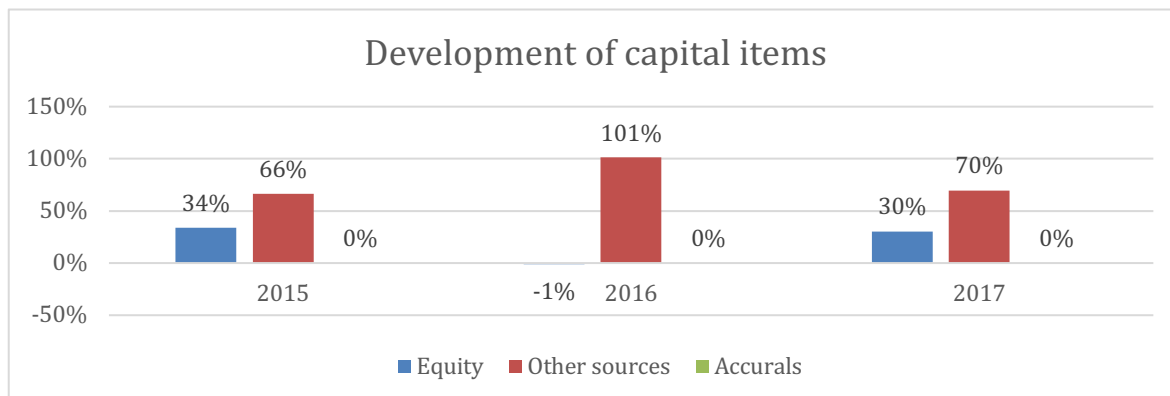
Source: own creation

In 2016 liabilities of the enterprise consisted of -1% of equity, 101% of current assets and accruals of 0%. The most important elements of other sources were payables (101% from total liabilities), long-term payables (57% from total assets) and short-term payables (44% of total liabilities). The most important elements of equity were registered capital (6% from total liabilities), share premium and capital funds (230% from total liabilities), loss from previous years (-180% from total liabilities), loss from current year (-57% from total liabilities).

In 2017 liabilities of the enterprise consisted of 30% of equity, 70% of current assets and accruals of 0%. The most important elements of other sources were payables (70% from total liabilities), long-term payables (52% from total assets) and short-term payables (18% of total liabilities). The most important elements of equity were registered capital (5% from total liabilities), share premium and capital funds (241% from total liabilities), loss from previous years (-216% from total liabilities). (table №7, graph №4)

4.2.3. Horizontal analysis of Profit and Loss Statement

Table 8. Horizontal analysis of Profit and Loss Statement (absolute changes)

Horizontal Analysis	Absolute changes (in thousands CZK)	
Period of time	2016-2015	2017-2016
Revenues from the sale of own products and services	84	-171
Revenues from sold goods	-1611	1358

Production consumption	-1703	-1646
Consumption of material and energy	273	-2
Services	-697	-67
Personal expenses	54	875
Wages and salaries	-195	683
Social security, health insurance and other expenses	249	192
Value adjustments in the operational area	0	0
Other uperating revenues	53	-16
Other operating expenses	-68	-22
Operating profit/loss (+/-)	243	1964
Profit/Loss from financial operations	-54	24
Profit/Loss of current accounting period (+/-)	189	1988
Net turnover for the accounting period	-1558	1253

Source: own creation

Table 9. Horizontal analysis of Profit and Loss Statement (index changes)

Horizontal Analysis	inxex changes (%)	
Period of time	2016-2015	2017-2016
Revenues from the sale of own products and services	194%	1%
Revenues from sold goods	81%	120%
Production consumption	82%	79%
Consumption of material and energy	-	99%
Services	62%	99%
Personal expenses	105%	179%
Wages and salaries	82%	179%
Social security, health insurance and other expenses	-	177%
Value adjustments in the operational area	100%	100%
Other uperating revenues	233%	83%
Other operating expenses	35%	41%
Operating profit/loss (+/-)	89%	0%
Profit/Loss from financial operations	-17%	-200%
Profit/Loss of current accounting period (+/-)	91%	0%
Net turnover for the accounting period	82%	118%

Source: own creation

Graph 5. Development of profit and loss statement

Development of Profit and Loss Statement

Legend:
- Personal expenses
- Expenses on sold goods
- Services
- Revenues from sold goods
- Other operating expenses

Values shown: 8485, 7609, 6874, 6330, 4753, 8232, 1813, 1116, 1985, 10.., 1110, 1049, 105, 37, 15
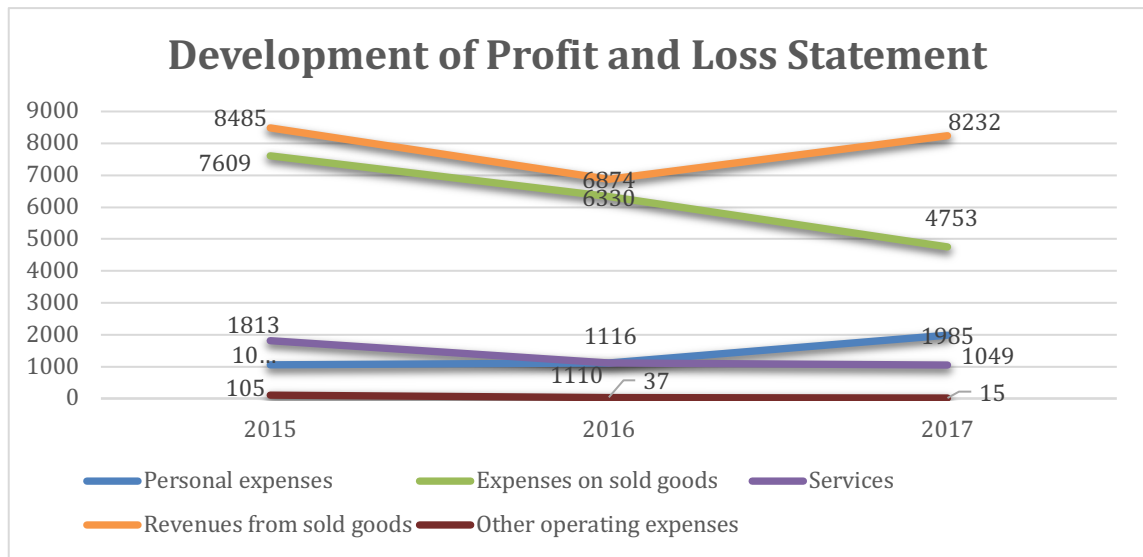
Source: own creation

For the accounting periods 2015 and 2016 the enterprise suffered losses. Loss for period 2015 was 2 170 000 CZK. Accounting year 2016 suffered losses as well as 2015 but in a smaller quantity of 1 981 000 CZK what is 94% from previos accounting year. Finally in 2017 total profit was only 7 000 CZK in a comparison with 2016 it's amount of 1 988 000 CZK. It shows that company got out from the financial pit. (table №8, table №9, graph №5).

Graph 6. Sales and cost elements

SALES AND COST ELEMENTS

Legend:
- Revenues from sold gods
- Consumption of material and energy
- Services
- Personel expenses
- Other financial revenues

2015: 1056, 7609, 1813, 8485, 105
2016: 1110, 6330, 1116, 6874, 37
2017: 1985, 4753, 1049, 8232, 15
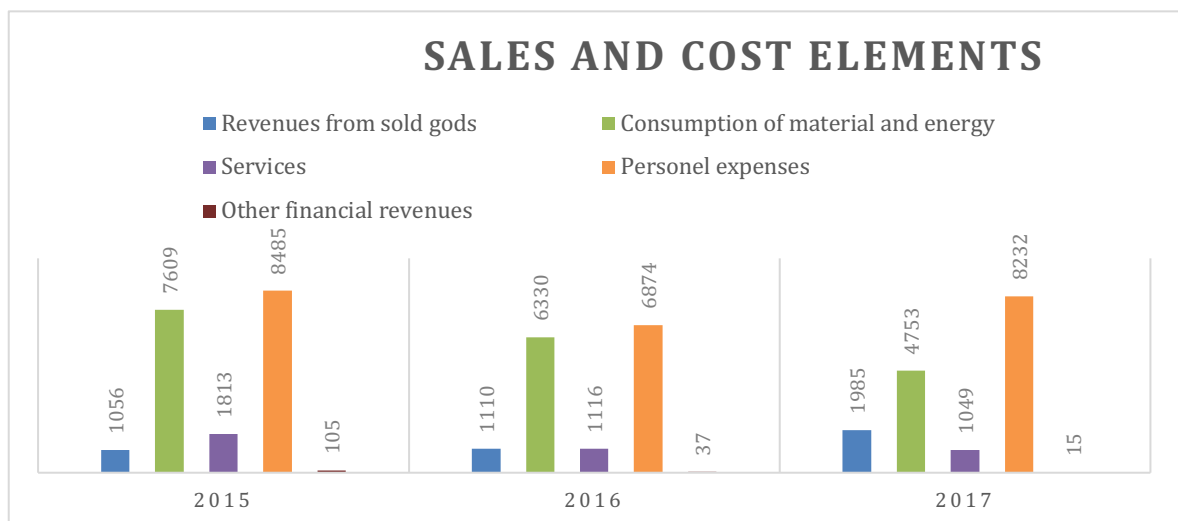
Source: own creation.

Personnel expenses were increasing during whole time-period of 2015-2017. Absloute changes between 15/16 is 54 000 CZK, changes between 2016/2017 is already 875 000 CZK. Highest value of wages reached on 2017 at amount of 1 544 000 CZK what is in comparison with 2016 for 79% greater then the result from previous year.

From 2016 enterprise started to pay social security/ health insurance and other expenses. In 2016 the value was 249 000, but in 2017 the amount was already 441 000 czk what is for 77% greater then in previos period.

Increasing wages and payments for health insurance and social security means that enterprise made the accent on the increasing the promotion of employees to improve the quality of work. (graph №6)

4.2.4 Balance rules

Table 10. Gold balance rule

Gold balance rule	2015	2016	2017
Fixed Assets	513	266	67
Equity	1942	-39	1163
Result	OK	!	OK

Source: own creation

Scheme 3. Gold balance rule
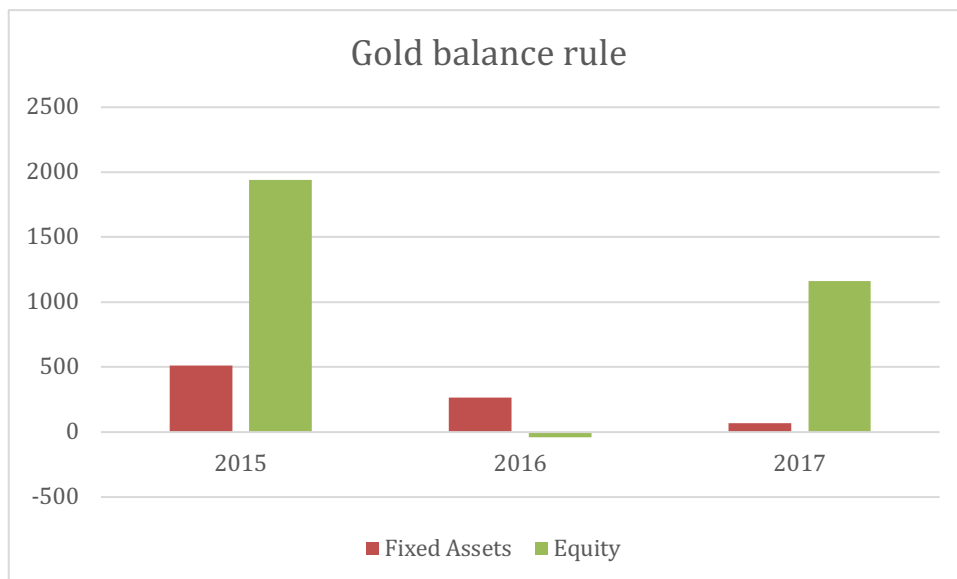
Source: own creation

According to the gold balance rule fixed assets should be covered by equity. The enterprise complies the rule only in 2015 and 2017. The rule doesn't comply in 2016 according to the negative value of equity. (table №10, scheme №3).

Table 11. Risk equalization rule

Risk equalization rule	2015	2016	2017
Fixed Assets	1942	-39	1163
Other sources	3821	3535	2660
Prevalence of own resources	-1879	-3574	-1497
Result	!	!	!

Source: own creation

Graph 7. Risk equalization rule
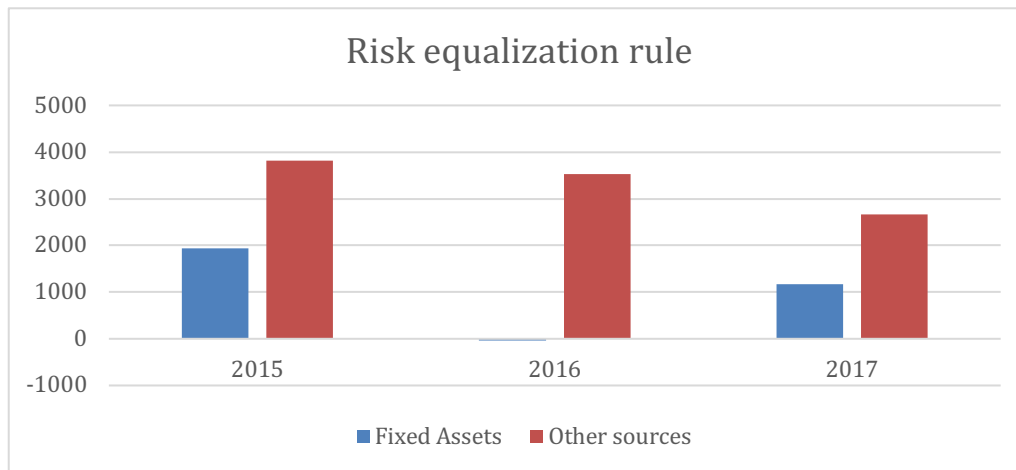
Source: own creation

According to the rule the volume of other sources and equity should be at most 1:1. Mostly fixed assets should prevail. The enterpries doesn't comply the rule in any of accounting years. (table №11, graph №7)

Table 12. Pari rule

Pari rule	2015	2016	2017
Fixed Assets	1942	-39	1163
Equity	513	266	67
Result	!	!	!

Source: own creation

Graph 8. Pari rule

Pari rule
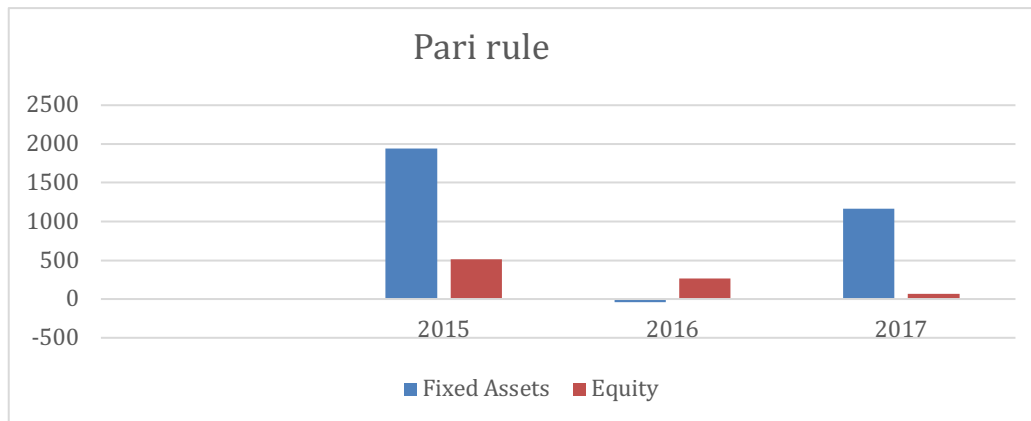
Source: own creation

According to this rule the volume of fixed assets should be roughly equal to the volume of equity. Most of all long-term assets should be financed using long-term capital and long-term foreign capital. (table №12, graph №8)

The enterprise doesn't comply the rule in any of accounting years.

4.3. Ratio indicators analysis

4.3.1 Profitability Ratios

Table 13. Return on Assets

Return on Assets			
year	2015	2016	2017
Profit/Loss of current accounting period (+/-)	-2170	-1981	7
Total Assets	5763	3496	3823
ROA	-38%	-57%	0,2%

Source: own creation

It's seen that Return on Assets in 2015 and 2016 has a negative value. Negative Return on Assets suppose that the enterprise doesn't use its capital rationally. It means that in the same time when the enterprise receiving little income and investing high amount of its capital into production. To increase Return on Assets company management decided to increase their debt to obtain positive value of Return on Assets. As it seen from the table №10, the risk met management's expectations. (table №13)

Table 14. Return on Equity

Return on Equity			
year	2015	2016	2017
Profit/Loss of current accounting period (+/-)	-2170	-1981	7
Fixed Assets	1942	-39	1163
ROE	-112%	5079%	0,6%

Source: own creation

It's visible that in 2015 Return on Equity is negative. In this situation it means that shareholder losing. Probably the negative Return of equity has been shown because of demand in investment into equipment and other assets. The year 2016 showed too high coefficient, it can affect the financial stability of an enterprise what is visible in 2017, where Return on Equity is quite close to zero. (table №14)

Table 15. Return on Sales

Return on Sales			
year	2015	2016	2017

Profit/Loss of current accounting period (+/-)	-2170	-1981	7
Total sales	8574	7047	8234
Return on Sales	**-25%**	**-28%**	**0,1%**

Source: own creation

Negative value of Return on Sales in 2015 and 2016 most of times is hard to think about any changes in an enterprise. Mostly people thinking about its closure. Sale of exclusive wood not one day affair, it needs about five and more years to win one's place in the market. Return on Sales in 2017 is positive, but still close to zero. (table №15)

4.3.2 Liquidity indicators

Table 16. Liquidity indicators

Liquidity indicators	2015	2016	2017
Current	4,89	2,07	5,53
Quick	0,16	0,66	0,60
Cash	0,16	0,66	0,60

Source: own creation

Graph 9. Liquidity indicators
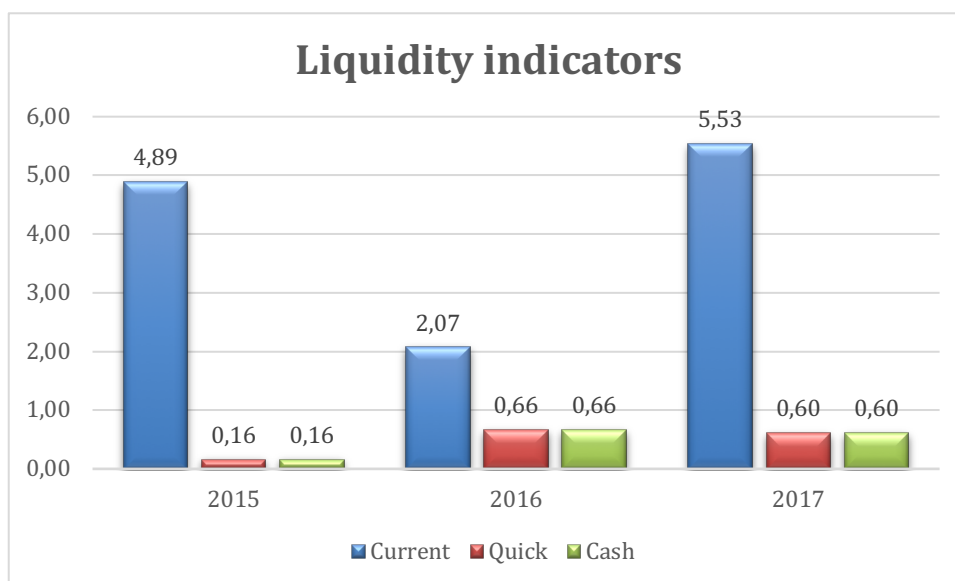
Source: own creation

In the table № 16 and graph №9 are shown liquidity indicators in accounting period of 2015-2017.

Concerning current ratio indicators with recommended value of (1,5) It's seen from the data that in 2015 and 2017 current ratios are more than 3 what means that enterprise uses its capital irrational and management should think over its reorganization. Surprisingly

current ratio of 2016 a little bit crossed the border but still its ratio can be attributed to satisfactory solvency.

Concerning quick ratio, it measures the CZK amount of liquid assets which are accessible for each CZK of current liabilities. Other words in 2015 quick ratio of 0,16 means that the enterprise has 0,16 CZK of liquid assets to cover 1 CZK of current liabilities. Concerning 2016, quick ratio of 0,66 means that the enterprise has 0,66 CZK of liquid assets to cover 1 CZK of current liabilities. Concerning 2017, quick ratio of 0,60 means that the enterprise has 0,60 CZK of liquid assets to cover 1 CZK of current liabilities. Concerning period time of 2015-2017 low value of quick ratio doesn't mean that the enterprise directly going to default or bankruptcy. It means that the company trust its inventory or other assets for paying short term liabilities in future.

Concerning cash ratio with recommended value interval (1 - 1,5) shows the ratio of cash and short-term financial investments to short-term liabilities. The coefficient reflects the adequacy of the most liquid assets for a quick settlement of current liabilities and characterizes the solvency of the enterprise. As we can see from the table №13 and graph №10, the value in was incredibly small (0,16) what is unacceptable. Value in 2016 (0,66) is greater than in 2015 but still less than 1 as well as in 2017 (0,60). All this means that the enterprise is insolvent. (table №16, graph №9)

4.3.3. Activity ratios

Table 17. Activity ratios

Activity ratios			
year	2015	2016	2017
Assets turnover	1,5	2,0	2,2
Inventory turnover	1,7	3,2	2,5
Receivables turnover	88,4	15,8	25,4
Assets turnover (days)	245	181	169
Inventory turnover (days)	216	113	148
Receivables turnover (days)	4	23	14
Payables turnover (days)	163	183	118

Source: own creation

Graph 10. Turnover time indicators

Turnover time indicators

Indicator	2017	2016	2015
Payables turnover (days)	118	183	163
Receivables turnover (days)	14	23	4
Inventory turnover (days)	148	113	216
Assets turnover (days)	169	181	245
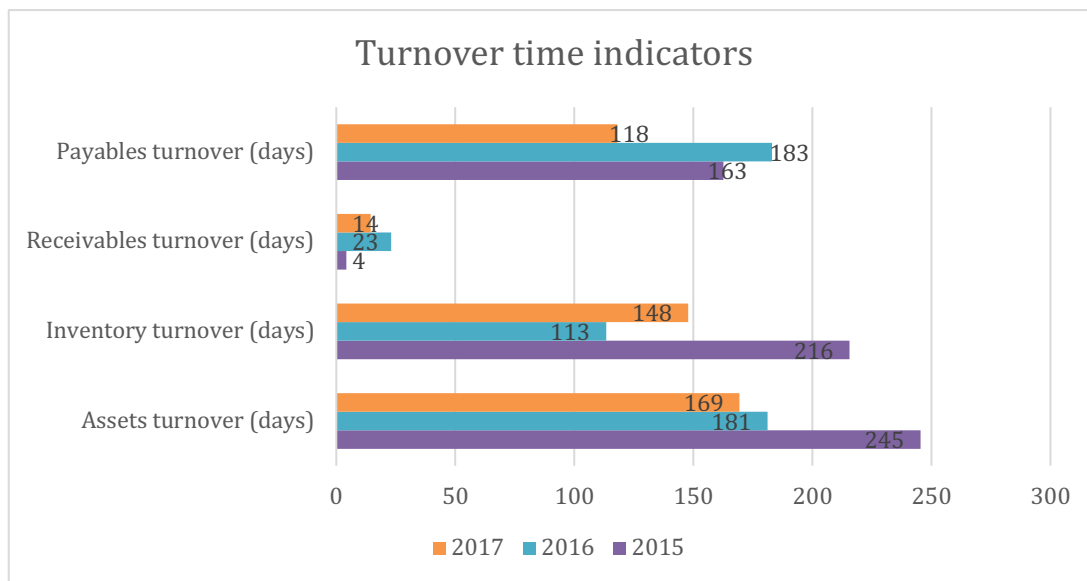
Source: own creation

In the table № 17 and graph № 10 shown above are activity ratios and turnover time indicators.

The first indicator to research is Assets turnover. This indicator shows how many times Total Assets turnover during the year. The lowest value has been recorded in 2015 (1,5) and it took about 245 days to make turnover of Total assets. In 2016 has been the recorded value of (2) It has been needed about 181 days to turnover Total Assets. The best value has been recorded in 2017 (2,2). It has been needed about 169 days to make turnover of Total assets.

The second indicator of research is Inventory turnover. This indicator shows how many times resources has been sold and been loaded again. In 2015 has been recorded the value of (1,7) and it took approximately 216 days to make turnover of the Inventory. In 2016 has been recorded the value of (3,2) and it took only approximately 113 to make turnover of the Inventory. And in 2017 has been recorded the value of (2,5) and it took approximately 148 days to make turnover of Inventory.

The third indicator is Receivables turnover. This indicator shows how effectively the company organized the work to collect payments for its products. In 2015 has been recorded the highest value of 88,4 and it took approximately 4 days to collect payments. In 2016 has been recorded the lowest value of (15,8) and took approximately 23 days to collect payments. And in 2017 has been recorded the medium value of (25,4) and took

approximately 14 days to collect payments. A shar decline of values in time period of 2015-2017 in performance is due to the company's transition to a softer policy of relationships with customers which aims to expand market share.

The last indicator is payables turnover. This indicator shows how many days company waits payments of its short-term payables. Higher means better. According to the table №14 and graph №11 we can see that the results are not stable. The worst result has been fixed in 2015 in amount of 118 days. The result in 2017 was quite better of 163 days. And the best result showed us 2016 with amount of 183 days. (table №17, graph №10)

4.3.4. Indebtedness ratios

Table 18. Indebtedness ratios

Indebtedness ratios	2015	2016	2017
Debt ratio	66%	101%	70%
Financial leverage	297%	-8964%	329%
Interest coverage	0,0	0,0	0,0

Source : own creation

In table №18 are shown indebtedness indicators. They show financial stability of an enterprise by financing of assets from own and foreign sources.

As we can see from the table the debt ratio is incredibly high and most of all in 2016 it's more than 100%. There is no recommended value for these indicators. When the indicator is more than 50% it means that the company in case of need of crediting will have bit problems and, in most cases, would not get it.

Financial leverage is the ratio of the enterprise's borrowed capital to its own funds. It characterizes the degree of risk and the stability of the company. As it is seen from the table in 2015 return on investment is 297%. Concerning year 2017 return on investment is 329%. Concerning year 2016 we can see negative indicators -8964% what shows that the enterprise didn't get anything on investment according to the negative equity. It means that the amount of assets is less than amount of money company has. (table №18)

4.4.Net working capital

Table 19. Net working capital

Net working capital				
Item	№ of row	2015	2016	2017
Current assets	37	5236	3210	3743
Inventory	38	5065	2188	3334
Material	39	0	0	0
Work in progress and semi-products	40	0	0	0
Finished products	42	0	0	0
Merchandise	43	5065	2188	3334
Animals	44	0	0	0
Advanced payments for Inventory	45	0	0	0
Long term receivables	47	0	0	0
Short-term receivables	57	97	446	324
Short term financial assets	68	0	0	0
Cash and bank account	71	74	576	85
Short-term payables	**123**	**1071**	**1552**	**677**
Net working capital		**4165**	**1658**	**3066**

Source: own creation

Graph 11. Net working capital - 1
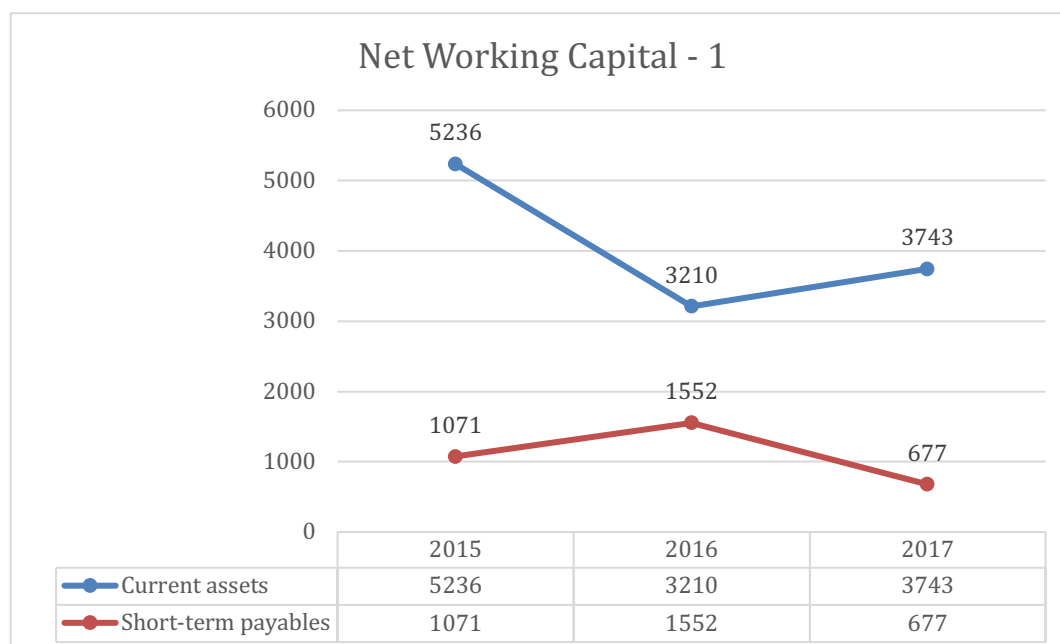
Source: own creation

This indicator showed in table № 16 and graph №12 the amount of working capital which is free from current liabilities. Other words it is the share of current assets of the enterprise which is financed from long term sources and which shouldn't be used to pay off current debt. (table №19, graph №11)

Graph 12. Net working capital - 2
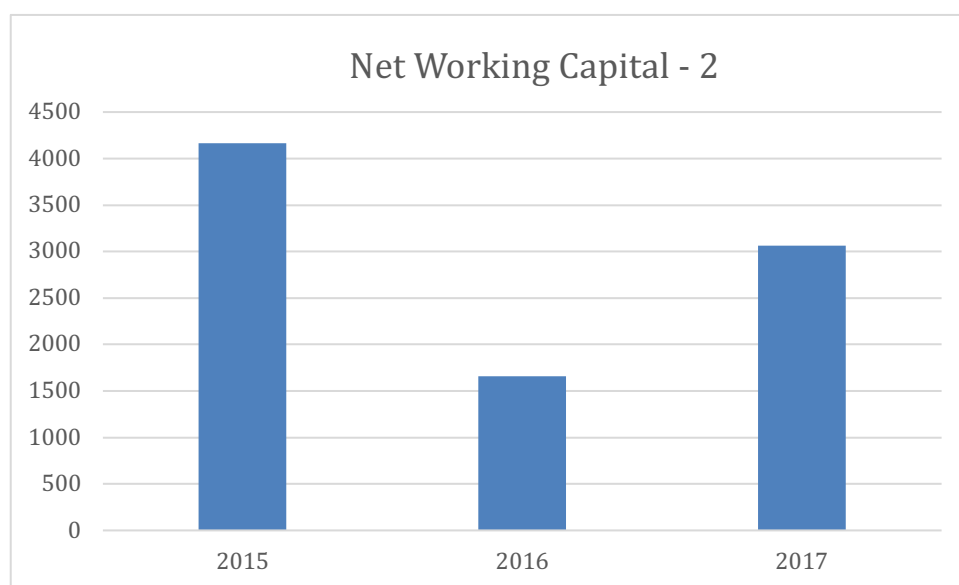
Source: own creation

It's visible that the highest value has been recorded in 2015 and sharply decreased in 2016 more than twice. In that situation the ratio between receivables and payables for commodity transactions also changes. It can be assumed that the enterprise largely finances its current assets through creditors' funds. The value in 2017 grew in 1,84 times. The Net Working Capital growth means an increase in the liquidity of the company and an increase in its creditworthiness. (graph №12)

4.5 Predictive models

Predictive models mean financial report enterprise's forecasting for estimating it's future financial development. They allow to compare actual results of activity of the enterprise with the average of individual branches. Models assume the establishment of standards for each indicator and an analysis of deviations of actual data from standards.

4.5.1. Altman Z score

Let's analyze the Altman model of forecasting the probability of bankruptcy of company.

Table 20. Altman Z score

Altman Z-Score	year		
Altman index	2015	2016	2017
x1	0,723	0,474	0,802
x2	0,00	0,00	0,00
x3	-0,376539997	-0,5666476	0,001831
x4	0,396974652	-0,0076666	0,3485166
x5	1,487766788	2,01573227	2,1538059
Z-Score	1,00	0,59	2,88

Source: own creation

It's seen that in time period of 2015-2016 was in a bad state. Z-scores were less, than 1,23 what means that the company was threatened with bankruptcy. But result of year 2017 in comparison with previous accounting years shows that financially healthy and bankruptcy doesn't threaten. Summing up can be said that financial conditions of enterprise are bouncing back. (table №20)

4.5.2. IN05 index

Index IN05 already for a long time using by Czech economists like a method of rating of Czech enterprises. It aims not only on financial problems of enterprise but if the company creating the value for its owners.

Table 21. IN05 index

Index IN05	year		
IN05	2015	2016	2017
A	1,51	0,99	1,44

B	0	0	0
C	-0,38	-0,57	0,002
D	1,49	2,0157	2,15
E	4,89	2,07	5,53
IN05	-0,5	-1,5	1,1

Source: own creation

In the table №21 are shown IN05 index results

As well as Altman Z-score model, IN05 index shows that the enterprise in time period 2015-2016 is threatened with bankruptcy. But independently from previous predictive model IN05 index in 2017 indicates the likelihood of 50% of a company crash. (table №21)

5. Discussion and Conclusion

In conclusion as a part of the financial analysis of chosen enterprise used balance sheet, profit and loss account and appendix to the financial report for time analyzed time period of 2015-2017. I can say that that goals set in abstract are fully implemented.

In practical part are used methods such as: strategical analysis, absolute indicators analysis, ratio indicators analysis of differential indicators and predictive models.

Based on the analysis of the enterprise, following generalized conclusion can be drown as: the enterprise is at an early stage of financial crisis. Its finance structure isn't optimal and significantly deviates from the norms. The enterprise is poorly profitable from the point of view of sales, available funds in the balance sheet in general particularly as equity and current assets. Also, enterprise differs a medium degree of business activity: operational cycles make about half a year. Enterprise changes the policy of business relations with its customers. However available funds are generally illiquid and financial stability is several times lower than standards are required. Most of all the tendency is going to the direction of improvement the situation according to the reporting period.

As a result of reasons described above were identified specific financial problems in the enterprise:

- More than 80% of assets are hard to implement fixed assets and intangible assets;
- Absence of a reserve of funds in the bank account or at the cash desk in case of force majeure;
- Existence of large accounts payable as a result of which all indicators of the company's liquidity are below the normative values;
- Tendency of reducing the share of equity in the structure of the enterprise's liabilities;
- Lack of equity as a result of which the financial stability of enterprise isn't stable;
- Increase the share of own capital by issuing shares of the enterprise or attaching new co-founders;
- Redeem all short-term liabilities by growth in retained earnings in the next accounting period.

Company needs to adjust the strategy. All we know the proverb "Fish begins to stink at the head". Therefore we need to start with the strategy adjustment. Company mission should stay unchanged, but its vision should be reconsidered, abandoning for a time from achieving large ambitious goals. Although the conditions of the crisis may provoke the appearance of new ambitious goals, for example regarding the capture of the market of ruined companies or the absorption of weak companies. But it's necessary to remember that crisis builds conditions for development if we emerged opportunities are using in correct way. [26]

The company need to continue to work in the direction of increasing sales level. To complete this, enterprise need to seek additional channels of communication with customers, increase value of services, stimulate sales and seek opportunities to increase the number of sales outlets. To ensure stable and positive level of net profit, enterprise need to work in two directions: searching new ways to increase sales level and searching ways to reduce marketing, production and administrative costs.

To do this, enterprise needs attentive analyze of financial, investment and production spheres. The oscillation and decreasing in the return on assets is usually happens mostly not because the production problem, but according the sales problem. Therefore, to ensure a stable increase a stable increase in the turnover of fixed assets it's necessary to work in the direction of stimulating sales. Regarding to the optimization of the policy of stock management it's quite more difficult question. It's necessary to take into account both sides of process. Decrease in the period of storage of stocks leads to reduction of expenses for their storage in a warehouse. However, on the other hand it's necessary to provide the minimum admissible stock which will allow to carry out marketing and production activity continuously. [26]

Because of the low profitability of own capital there is a question of the expediency of further operation of the enterprise. If the enterprise bears a loss for the as It was in period of 2015-2016 accounting years only its closure will solve the problem. If low profitability is a temporary problem, then it's worthwhile to optimize production and marketing policies in such a way as to avoid such a situation in the future and make a bigger profit than in 2017. Attraction of additional borrowed funds can negatively reflect at the level of financial risks of the enterprise. [27]

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Appendix 1. Assets in thousands CZK for Sibirske drevo 2015-2017

a			ASSETS b	Row №	years		
					2015	2016	2017
			TOTAL ASSETS (r. 02 + 03 + 37 + 74)	001	5763	3496	3823
A.			Receivables from subscriptions	002	0	0	0
B.			**Fixed assets (r. 04 + 14 + 28)**	003	513	266	67
B.	I.		**Intagible fixed assets (r. 05 + 06 + 09 to 11)**	004	0	0	0
B.	I.	1	Research and development	005	0	0	0
		2	Valuable rights (r. 07 + 08)	006	0	0	0
		2.1	Software	007	0	0	0
		2.2	Other valuable rights	008	0	0	0
		3	Goodwill (+/-)	009	0	0	0
		4	Other intangible fixed assets	010	0	0	0
		5	Advance payments for intangible fixed assets and intangible fixed assets under construction (r. 12 + 13)	011	0	0	0
		5.1	Advance payments for intangible fixes assets	012	0	0	0
		5.2	Intangible fixed assets under construction	013	0	0	0
B.	II.		**Tangible fixed assets (r. 15 + 18 to 20 +24)**	014	513	266	67
B.	II.	1	Lands and Constructions (r. 16 + 17)	015	0	0	0
		1.1	Lands	016	0	0	0
		1.2	Constructions	017	0	0	0
		2	Equipment	018	513	266	67
		3	Adjustment to acquired assets	019	0	0	0
		4	Other tangible fixed assets (r. 21 + 22 + 23)	020	0	0	0
		4.1	Perennial corps	021	0	0	0
		4.2	Breeding and draught animals	022	0	0	0
		4.3	Other tangible fixed assets	023	0	0	0

				024	0	0	0
		5	Advance payments for tangible fixed assets and tangible fixed assets under construction (r. 25 + 26)	024	0	0	0
		5.1	Advance payments for tangible fixes assets	025	0	0	0
		5.2	Tangible fixed assets under construction	026	0	0	0
B.	III.		**Long-term financial assets (r. 28 to 34)**	027	0	0	0
B.	III.	1	Shares - controlled and controlling organizations	028	0	0	0
		2	Loans - controlled and controlling organizations	029	0	0	0
		3	Shares - substantial influence	030	0	0	0
		4	Loans - substantial influence	031	0	0	0
		5	Other securities and shares	032	0	0	0
		6	Other loans	033	0	0	0
		7	Other financial investments (r. 35 + 36)	034	0	0	0
		7.1	Other financial investments	035	0	0	0
		7.2	Advance payments for long-term financial assets	036	0	0	0
C.			**Current assets (r. 38 + 46 + 68 + 71)**	037	5236	3210	3743
C.	I.		**Inventory (r. 39 + 40 + 41 + 44 + 45)**	038	5065	2188	3334
C.	I.	1	Materials	039	0	0	0
		2	Work in progress and semi-products	040	0	0	0
		3	Finished products and merchandise (r. 42 + 43)	041	5065	2188	3334
		3.1	Finished products	042	0	0	0
		3.2	Merchandise	043	5065	2188	3334
		4	Animals	044	0	0	0
		5	Advance payments for inventory	045	0	0	0
C.	II.		**Receivables (r. 47 + 57)**	046	97	446	324
C.	II.	1	Long-term receivables (r. 48 to 52)	047	0	0	0
		1.1	Trade receivables	048	0	0	0
		1.2	Receivables - controlled and controlling organizations	049	0	0	0
		1.3	Receivables - accounting unist with substantial influence	050	0	0	0
		1.4	Deffered tax receivable	051	0	0	0

				052	0	0	0
	1.5		Other receivables (r. 53 to 56)	052	0	0	0
	1.5.1		Receivables from partners	053	0	0	0
	1.5.2		Long-term deposits given	054	0	0	0
	1.5.3		Estimated receivable	055	0	0	0
	1.5.4		Other receivables	056	0	0	0
	2		Short-term receivables (r. 58 to 61)	057	97	446	324
	2.1		Trade receivables	058	97	428	324
	2.2		Receivables - controlled and controlling organizations	059	0	0	0
	2.3		Receivables - accounting unist with substantial influence	060	0	0	0
	2.4		Other receivables (r. 62 to 67)	061	0	18	0
	2.4.1		Receivables from partners	062	0	0	0
	2.4.2		Recaivables from social security and health insurance	063	0	0	0
	2.4.3		Due from state - tax receivable	064	0	18	0
	2.4.4		Short-term doposits given	065	0	0	0
	2.4.5		Estimated receivable	066	0	0	0
	2.4.6		Other receivable	067	0	0	0
C.	III.		**Short-term financial assets (r. 69 +70)**	068	0	0	0
C.	III.	1	Shares - controlled and controlling organizations	069	0	0	0
		2	Other short-term financial assets	070	0	0	0
C.	IV.		**Cash and bank accounts (r. 72 +73)**	071	74	576	85
C.	IV.	1	Cash	072	71	0	1
		2	Bank accounts	073	3	576	84
D.	I.		**Accruals (r. 75 to 77)**	074	14	20	13
D.	I.		Deferred expenses	075	14	20	13
D.	II.		Complex deferred costs	076	0	0	0
D.	III.		Deferred income	077	0	0	0

Appendix 2. Liabilities in thousands CZK for Sibirske drevo 2015-2017

a			LIABILITIES b	Row №	years 2015	years 2016	years 2017
			TOTAL LIABILITIES (r. 79 + 101 + 141)	078	5763	3496	3823
A.			**Equity (r. 80 + 84 + 92 + 95 + 99 - 100)**	079	1942	-39	1163
A.	I.		**Registered capital (r. 81 to 83)**	080	200	200	200
		1	Registered capital	081	200	200	200
		2	Ownership interests (-)	082	0	0	0
		3	Changes of registered capital (+/-)	083	0	0	0
A.	II.		**Share premium and capital funds (r. 85 + 86)**	084	8036	8036	9231
A.	II.	1	Share premium and capital funds	085	0	0	0
		2	Capital funds (r. 87 to 91)	086	8036	8036	9231
		2.1	Other capital funds	087	8036	8036	9231
		2.2	Differences from revaluation of assets and liabilities (+/-)	088	0	0	0
		2.3	Differences from revaluation in transformation of companies (+/-)	089	0	0	0
		2.4	Differences from transformation of companies (+/-)	090	0	0	0
		2.5	Differences from valuation in transformation of companies (+/-)	091	0	0	0
A.	III.		**Funds from earnings (r. 93 + 94)**	092	0	0	0
A.	III.	1	Other reserve funds	093	0	0	0
		2	Statutory and other funds	094	0	0	0
A.	IV.		**Profit/loss - previous years (+/-) (r. 96 to 98)**	095	-4124	-6294	-8275
A.	IV.	1	Retained earnings from previous years	096	0	0	0
		2	Accumulated losses from previous years	097	-4124	-6294	-8275
		3	Other profit/loss - previous years (+/-)	098	0	0	0
A.	V.		**Profit/loss - current year (+/-) /r. 01 - (+ 80 + 84 + 92 + 95 - 100 + 101 + 141)/**	099	-2170	-1981	7
A.	VI.		**Decided on advance for payment of a profit share (-)**	100	0	0	0

B. + C.			**Other sources (r. 102 + 107)**	101	3821	3535	2660
B.	I.		**Reserves (r. 103 to 106)**	102	0	0	0
B.	I.	1	Reserves for pension and similar payables	103	0	0	0
		2	Income tax reserves	104	0	0	0
		3	Reserves under special statutory regulations	105	0	0	0
		4	Other reserves	106	0	0	0
C.			**Payables (r. 108 + 123)**	107	3821	3535	2660
C.	I.		**Long-term payables (r. 109 + 112 to 119)**	108	2750	1983	1983
C.	I.	1	Issues bonds (r. 110 + 111)	109	0	0	0
		1.1	Exchangeable obligations	110	0	0	0
		1.2	Other bonds	111	0	0	0
		2	Liabilities to credit institutions	112	0	0	0
		3	Long-term advances received	113	0	0	0
		4	Trade payables	114	0	0	0
		5	Long-term notes payables	115	0	0	0
		6	Payables - controlled and controlling organizations	116	0	0	0
		7	Payables - accounting units with substantial influence	117	2750	0	0
		8	Deffered tax liability	118	0	0	0
		9	Other payables (r. 120 - 122)	119	0	1983	1983
		9.1	Payable to partners	120	0	1983	1983
		9.2	Estimated payables	121	0	0	0
		9.3	Other payables	122	0	0	0
C.	II.		**Short-term payables (r. 124 + 127 to 133)**	123	1071	1552	677
C.	II.	1	Issues bonds (r. 125 + 126)	124	0	0	0
		1.1	Exchangeable obligations	125	0	0	0
		1.2	Other bonds	126	0	0	0
		2	Payables to banks	127	0	0	0
		3	Short-term deposits received	128	0	27	0

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	4	Trade payables	129	623	1426	228
	5	Short-term notes payables	130	0	0	0
	6	Payables - controlled and controlling organizations	131	0	0	0
	7	Payables - accounting units with substantial influence	132	0	0	0
	8	Other payables (r. 134 to 140)	133	448	99	449
	8.1	Payable to partners	134	0	0	97
	8.2	Short-term accomodations	135	0	0	0
	8.3	Payroll	136	65	64	90
	8.4	Payables to social securities and health insurance	137	33	29	52
	8.5	Due from state - tax liabilities and subsidies	138	333	6	210
	8.6	Estimated payables	139	17	0	0
	8.7	Other payables	140	0	0	0
D.		**Accruals (r. 142 + 143)**	141	0	0	0
D. I.		Accrued expenses	142	0	0	0
D. II.		Deffered revenues	143	0	0	0

Appendix 3. **Profit and loss in thousands CZK for Sibirske drevo 2015-2017**

a		Profit / Loss b	Row №	years		
				2015	2016	2017
I.		**Revenues from the sale of own products and services**	01	89	173	2
II.		**Revenues from sold goods**	02	**8485**	6874	8232
A.		**Production consumption (r. 04 + 05 + 06)**	03	9422	7719	6073
1.		Expenses on sold goods	04	7609	6330	4753
2.		Consumption of material and energy	05	0	273	271
3.		Services	06	1813	1116	1049
B.		**Change in inventory of own products (+/-)**	07	**0**	0	0
C.		**Capitalisation (-)**	08	**0**	0	0
D.		**Personal expenses (r. 10 + 11)**	09	1056	1110	1985
1.		Wages and salaries	10	1056	861	1544
2.		Social security, health insurance and other expenses (r. 12 + 13)	11	0	249	441
2.	1	Social security and healt insurance expenses	12	0	249	441
2.	2	Other expenses	13	0	0	0
E.		**Value adjustments in the operational area (r. 15 + 18 + 19)**	14	247	247	247
1.		Value adjustments of intagible and tangible fixed assets (r. 16 + 17)	15	247	247	247
1.	1	Value adjustments of intagible and tangible fixed assets - permanent	16	247	247	247
1.	2	Value adjustments of intagible and tangible fixed assets - temporary	17	0	0	0
2.		Stock value adjustments	18	0	0	0
3.		Receivable value adjustments	19	0	0	0
III.		**Other operating revenues (r. 21 + 22 + 23)**	20	40	93	77
III.	1	Revenues from disposals of fixed assets	21	0	0	0
	2	Revenues from disposals of materials	22	0	0	0
	3	Other operating revenues	23	40	93	77
F.		**Other operating expenses (r. 25 to 29)**	24	105	37	15
1.		Net book value of sold fixed assets	25	0	0	0
2.		Net book value of sold material	26	0	0	0
3.		Taxes and fees	27	2	2	0
4.		Reserves and complex deferred costs	28	0	0	0

				29	103	35	15
5.		Other operating expenses		29	103	35	15
*		**Operating profit/loss (+/-) (r. 01 + 02 - 03 - 07 - 08 - 09 - 14 + 20 - 24)**		30	-2216	-1973	-9
IV.		**Revenues from long-term financial assets - shares (r. 32 + 33)**		31	0	0	0
IV.	1	Revenues from shares - controlled and controlling organizations		32	0	0	0
	2	Other revenues from shares		33	0	0	0
G.		**Costs spent for sold shares**		34	0	0	0
V.		**Revenues from other long-term financial assets (r. 36 + 37)**		35	0	0	0
V.	1	Revenues from other long-term financial assets - controlled and controlling organizations		36	0	0	0
	2	Revenues from other long-term financial assets		37	0	0	0
H.		**Costs related to other fixed financial assets**		38	0	0	0
VI.		**Interest revenues (r. 40 + 41)**		39	0	0	0
VI.	1	Interest revenues - controlled and controlling organizations		40	0	0	0
	2	Other interest revenues		41	0	0	0
I.		**Value adjustments and reserves in the financial area**		42	0	0	I. 0
J.		**Interest expenses (r. 44 + 45)**		43	0	0	J. 0
	1.	Interest expenses - controlled and controlling organizations		44	0	0	0
	2.	Other interest expenses		45	0	0	0
VII.		**Other financial reveneus**		46	86	2	84
K.		**Other financial expenses**		47	40	10	68
*		**Profit/Loss from financial operations (+/-)(r. 31 - 34 + 35 - 38 + 39 - 42 - 43 +46 - 47)**		48	46	-8	16
**		**Profit/Loss before tax (+/-) (r. 30 + 48)**		49	-2170	-1981	7
L.		**Income tax (r. 51 + 52)**		50	0	0	L. 0
	1.	Income tax - due tax		51	0	0	0
	2.	Income tax - tax deferred		52	0	0	0
**		**Profit/Loss after tax (+/-) (r. 49 - 50)**		53	-2170	-1981	7
M.		Transfer profit (loss) to partners (+/-)		54	0	0	0
***		**Profit/Loss of current accounting period (+/-) (r. 53 - 54)**		55	-2170	-1981	7
*		**Net turnover for the accounting period = I. + II. + III. + IV. + V. + VI. + VII**		56	8700	7142	8395

Appendix 4. Cash flow in thousands CZK for Sibirske drevo 2015-2017

			Cash Flow	years		
				2015	2016	2017
	a		b	2015	2016	2017
Balance of cash on hand and financial equivalents as at the beginning of reporting period				-	74	576
			Cash flow from running activities			
Z.			Accounting profit/loss from running activities before taxation	-2170	-1981	7
A.	1		Adjustments by non-cash operations	0	0	0
A.	1	1	Depreciation of fixed assets and amortization of adjustments to acquired assets	0	0	0
A.	1	2	Change in balance of adjustments, reserves	0	0	0
A.	1	3	Profit from sales of fixed assets	0	0	0
A.	1	4	Revenue from shares in profit	0	0	0
A.	1	5	Accounted for interest expense, exclusive of interest capitalization and accounted for credit interest	0	0	0
A.	1	6	Possible adjustments by other non-cash operations	0	0	0
A.	*		**Net cash flow from running activities before taxation, changes in working capital**	**-2170**	**-1981**	**7**
A.	2		Change in non-cash items of working capital	0	-1190	-471
A.	2	1	Change in balance of receivables from running activities, temporary assets accounts	0	355	-129
A.	2	2	Change in balance of short-term payables from running activities, temporary liability accounts	0	481	-875
A.	2	3	Change in balance of inventory	0	-2026	533
A.	2	4	Change in balance of current liquid assets not included in cash or equivalents	0	0	0
A.	**		**Net cash flow from running activities before taxation**	**-2170**	**-3171**	**-464**
A.	3		Paid interest with the exception of interest included in fixed assets pricing	0	0	0
A.	4		Interests received	0	0	0
A.	5		Income tax for running activities and additional tax assessments for previous periods	0	0	0
A.	6		Income and expense on unusual and/or extraordinary items, including income tax	0	0	0
A.	***		*Net cash flow from running activities*	0	0	0
			Cash flows from investing activities			
B.	1		Expense on fixed assets acquisition	0	-494	-446
B.	2		Income from fixed assets sales	40	93	77
B.	3		Loans to related parties	0	0	0

B.	***		*Net cash flow from investing activities*	40	-401	-369
Cash flows from financing activities						
C.	1		Change in balance of long-term or short-term payables	0	-767	0
C.	2		Impact of changes in equity on cash on hand and financial equivalents	0	0	1195
C.	2	1	Increase in cash on hand as a result of increased registered capital, share premium etc.	0	0	0
C.	2	2	Payment of share in equity to partners	0	0	0
C.	2	3	Other contributions of cash by partners and shareholders	0	0	0
C.	2	4	Loss coverage by partners	0	0	0
C.	2	5	Direct debit fund payments	0	0	1195
C.	2	6	Paid shares in profit, including taxes paid	0	0	0
C.	***		*Net cash flow from financing activities*	0	-767	1195
F.			*Net increase/decrease in cash on hand*	40	-1168	826
R.			**Balance of cash on hand and financial equivalents as at the end of reporting period**	-	-1094	1402