Reporting ability of financial statements on the background of financial analysis of the Válcovny Plechu BESS, Ltd.

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ZADÁNÍ BAKALÁŘSKÉ PRÁCE

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Zásady pro vypracování:

Zpracovat literární rešerši zaměřenou na účetní výkazy a jejich vypovídací schopnost pro management.
Vypracovat zkrácenou finanční analýzu se zaměřením na ukazatele významné pro manažerské rozhodování.
Zhodnotit výsledky finanční analýzy a porovnat je v rámci odvětví.
Doporučit postupy ke zlepšení finančního řízení a k posílení jeho postavení na trhu.

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Wild, John J.. 2008. **Financial accounting: information for decisions. Boston: McGraw-Hill**

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ABSTRAKT

Účelem této bakalářská práce je přiblížit vypovídací schopnost účetních výkazů na pozadí finanční analýzy.

Teoretická část poskytne čtenáři nezbytné informace pro správnou interpretaci výstupů finanční analýzy. Cílem teoretické části je odpovědět na otázky: co vyjadřují jednotlivé ukazatele a kdo by jím měl věnovat pozornost.

Praktická část obsahuje finanční analýzu společnosti Válcovny Plechu BESS, s.r.o. Výsledky jsou demonstrovány v mnoha grafech a tabulkách. Finanční analýza také stopuje reálné příčiny daných výsledků.

Klíčová slova: finanční analýza, účetní výkazy, ukazatele, poměrové ukazatele, vypovídací schopnost

ABSTRACT

The present bachelor theses aims to explain the reporting ability of financial statements on the background of financial analysis.

The theoretical part provides reader with the information necessary for correct interpretation of outputs of financial analysis. The goal of theoretical part is to answer the questions what each particular indicator denotes and who should be concerned about it.

Practical part comprises of financial analysis of Válcovny Plechu BESS, Ltd. The outputs are demonstrated in many graphs and tables. Financial analysis also traces the causes of given results.

Keywords: financial analysis, financial statements, indicators, ratios, reporting ability

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DECLARATION OF ORIGINALITY

I hereby declare that the work presented in this thesis is my own and certify that any secondary material used has been acknowledged in the text and listed in the bibliography.

March 23, 2009

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CONTENTS

INTRODUCTION

Accountancy is inherent part of today´s business activities. It would be impossible to do business without accountancy, since it works as a meter of business. We would not be able to decide whether a business is profitable or going to bankruptcy. We would not even be able to find out how much capital company owns. All in all we would have no idea what has been happening in the business.

Accountancy provides us with the information in the form of financial statements, in other words financial statements are outputs of accountancy. In my bachelor theses I am going to treat the reporting ability of the financial statements on the background of financial analysis. To illustrate the function and reporting ability of financial statements I would compare them to extensive Curriculum Vitae. It provides reader with overall information about company´s past and presence.

It is vital for each manager or businessman to understand financial statements, since they provide them with information necessary for operating and strategic decision making. Furthermore financial statements are of certain interest to all persons and bodies related to a company, since they report on credibility, stability and many other aspects. Nevertheless the reporting ability of financial statements themselves is limited by their static character therefore I am going to use financial analysis. Financial analysis is a tool used for analysis and evaluation of financial health of a company. It extends reporting ability of financial statements by compiling their items into ratios and indicators. Subsequently we compare them among each other and in time.

Financial analysis has many advantages for example:

- informs about past, presence and can even predict future development
- measures effectiveness of management of assets and liabilities
- reveals links between real events in the company and their reflections in accountancy
- reveals weaknesses and strengths of a company

Financial analysis in the bachelor theses is focused on Válcovny Plechu BESS, Ltd. Therefore the second goal of the work is to evaluate financial health of the company. Financial analysis is elaborated for the period from 2003 to 2007. Data were acquired from annual reports elaborated by Ing. Vladimír Černý and audited by FINAUDIT Třinec, Ltd.

I. THEORY

1 THEORY OF FINANCIAL ANALYSIS

1.1 Definition

“Financial analysis (FA) can be understood as set of activities, which aim to find out and fully evaluate financial situation of a given company.” (Kislinigerová, 2007)

Key point of the definition is the expression “fully evaluate”, which frequently appears in specialized literature. Nevertheless in my opinion, it is not always necessary to evaluate all ratios, as their reporting ability varies according to target group of users. Each group (see paragraph 2.2) is concerned about the data, which have direct impact on their relationship with a company. On top of that, the usefulness of FA outputs for management varies according to the field of enterprise. For example, for the companies on Ltd. basis, it is impossible to count ratios including shares and consequently the financial analysis can not be in it´s full form in all cases.

To summarize, it depends on company´s decision whether to elaborate full FA and produce it to all target groups in such form, or to provide particular target groups only with the information they are concerned about.

1.2 Target groups of financial analysis

There are several groups which might be interested in outputs of financial analysis. Nevertheless there is one condition common for members of all of them. They have to be able to understand the results of measured ratios and also be able to interpret them in appropriate way. Therefore knowledge of basic principles of accountancy as well as of the process of financial analysis is necessary. Furthermore the familiarity with the realities within the company and with the field of enterprise also might extent the reporting ability of financial analysis.

There are several divisions of FA users. I find the division suggested by Dr. Dluhošová as the most appropriate. She divided the users as follows:

1. According to source of financial resources:
   - Owners (investors)
   - Creditors (banks)
   - Business creditors (suppliers)
2. According to authority in management:

- Owners
- Company management
- Internal bodies (unions)

3. According to share to company´s output:

- Employees
- Business suppliers
- Banks
- State
- Investors
- Management (Dluhošová, 2006)

1.2.1 Owners (shareholders, business partners)

They are considered primary users of FA, since they provide the company with capital. There are two sides of their interest:

1. Investment side represents the usage of information for decision-making about future investments. Capital holders consider financial analysis of other companies to find out whether they meet their requirements for investment. They are interested in risks, capital valorization, rate of return on dividends, liquidity etc.

2. Monitoring side represents owners in the role of supervisors of managers. They are interested in stability and liquidity of the company or disposable profit respectively amount of their dividends. (Bařinová and Vozňáková, 2005)

1.2.2 Managers

Managers use information provided in FA predominantly for strategic and operational financial management. FA helps managers to make right decision, to acquire financial resources, to find the best balance of capital including its coverage by equity or liabilities, to allocate free financial resources or disposable profit. (Bařinová and Vozňáková, 2005)

1.2.3 Creditors (Banks and other creditors)

Creditors are interested in financial state of current or potential debtor, in order to decide whether to borrow capital, how much and under what conditions. When giving a credit, banks often use a clause in contract, which ties credit conditions to values of particular indexes such as debt ratio. Bond holders are concerned about financial stability and liquidity. (Bařinová and Vozňáková, 2005)

1.2.4 State

There are many reasons for state authorities to follow outputs of FA, namely: statistics, checking of tax levies, checking of companies with state share, distribution of subsidy, finding out financial situation of a company with state order etc… (Bařinová and Vozňáková, 2005)

1.2.5 Business partners (suppliers, customers)

The key point for suppliers is company´s ability to pay its liabilities therefore they are concerned about solvency, liquidity or debt ratio. On the other hand the financial stability is of great concern for certain customers as well. Potential bankrupt of supplier could limit or endanger customers with limited choice of suppliers (Kislingerová, 2007)

1.2.6 Employees

Employees are naturally interested in sound and stable financial situation of the company, respectively in social and salary facilities and possible benefits provided. On top of that, prospects and stability of employment are among key factors for employee satisfaction and motivation (Kislingerová, 2007)

1.3 Sources for financial analysis

Basic source of FA is the annual final account, which includes balance sheet, income statement and cash-flow statement as well as appendix, which reveals additional information to final account and may also analytically develop some of its parts.

There are many more sources of information which are necessary for thorough FA, such as company´s internal statistics and accountancy, official economic statistics, information about macroeconomic development in the field of enterprise (www.mpo.cz), media monitoring etc.

Nevertheless, I presume that the key factor for quality FA is personal knowledge of the company or internal information from managers from within the company. In order to be able to understand the possible changes in figures, it is necessary to find out what caused them.

High value of current liquidity ratio might indicate high liquidity as well as great number of due accounts payable. Furthermore companies can deliberately improve proportional ratios by certain steps known under the term *"creative accounting"*. It is caused by the fact that sources of data for the ratios are of static character. Consequently usage of leasing can affect ratios including assets as well as adjust profit. (Růčková, 2008) Therefore in order not to interpret the output of financial analysis incorrectly, it is crucial to consult certain peculiarities with managers.

1.3.1 Balance sheet

Balance sheet is a static overview of state and structure of assets and liabilities. *"It resembles a snapshot"* (Brealey, Mayers, 2003), since it indicates the state at certain point, usually 31st of December. It doesn´t characterize company´s economy development in time. If we want to trace the development, we have to use more balance sheets in time order as well as other data. Nonetheless we have to take into account that despite using more subsequent balance sheets, it is still static overview.

The reporting ability of balance sheet is limited by:

1 – Usage of historical prices - balance sheet doesn´t take into account inflation

2 – Depreciation method – straight-line depreciation or accelerated depreciation method affect the value of noncurrent assets

3 – Valuation of supplies – valuation in real or average prices affects value of all supplies

4 – Valuation of receivables – depreciation of receivables according to their rate of return

(Bařinová and Vozňáková, 2005)

1.3.2 Income statement

Income statement allows us to follow the creation of net income and serves as a tool for evaluation of company´s ability to valorize it´s capital. Furthermore it records relations between revenues of a certain period and expenses used to create them. Amounts, which are acquired from all business activities in given accounting period with no regards to whether they were paid off in the period, are considered as revenues. On the other hand expanses represent amounts used in given accounting period to acquire revenues with no regards to whether they were paid off in the same period.

Above mentioned definitions suggest important fact, that revenues and expanses items are not based on real cash flows (income x expenditure) therefore the final net profit doesn´t reflect net amount of money acquired by company´s business activities. (Kislingerová, 2007)

1.3.3 Cash flow statement

Cash flow statement is used to avoid the possible disparity between accounting profit/loss and real state of money resources. CF statement records all money transfers (income, expenditure) at the time of their realization. Therefore it allows finding out the current amount of money at any point.

Advantages of CF:

1 – CF is not affected by depreciation method, as depreciation is not related to any cash flow.

2 – CF is not distorted by accrual deferring. Accrual basis of accountancy has an impact on net income, but doesn´t have to influence cash flows.

3 – CF is not affected by anticipated losses recorded in accountancy, since they don´t represent any real cash flow. It is a matter of for example creation of provisions or rectifying items (Bařinová and Vozňáková, 2005)

1.4 Methods of financial analysis

Accountancy is regulated by national and international standards and directives, on the other hand FA is not standardized by any official instructions. Therefore there are disparities in used procedures and indexes. As the FA is elaborated for specific purposes of particular target user, it doesn´t have to have exactly same form each time.

1.4.1 Absolute indicators

There are two basic analysis techniques usually applied in practice, namely horizontal analysis and vertical analysis. Inputs for both analyses are absolute indicators. Absolute indicators can be either status quantities (balance sheet) or flow quantities (income statement, cash flow statement).

1.4.1.1 Horizontal analysis

Horizontal analysis monitors and compares development of quantities in time, usually between years. Horizontal analysis should bring answers to two basic questions:

1 – How many units were added or taken from the particular item in time?

2 – How big was the change of units in %? (Kislingerová, 2007)

1.4.1.2 Vertical analysis

The aim of vertical analysis is to find out the percentage proportion of a particular quantity to a total quantity. As for balance sheet, the percentage proportion of particular quantity to superordinate quantity is measured, whereas the proportion of particular quantity to total sales is measured in income statement. When more than one accounting period is analyzed, it is possible to find out alterations in capital portfolio or equity portfolio.

1.4.2 Subtractive indicators

Subtractive indicator (also known as financial resources funds) can be calculated as a difference between particular items of assets and liabilities. The most important of them is the Net Working Capital (NWC). NWC can be understood as a fund, which belongs to current assets and is covered by long-term capital. Thus it represents a relatively free source, which can be used to secure a smooth course of business activities. Furthermore NWC has a strong reporting ability about company´s solvency. The higher NWC is, the better should be company´s ability to pay its liabilities. If NWC has a negative value, part of long-term assets is covered by short-term sources and company becomes highly instable. (Bařinová and Vozňáková, 2004)

NWC is calculated as a difference between total current assets and total short-term liabilities:

NWC = Current Assets – Short-term liabilities

or

NWC = (Long-term liabilities + Equity) – Non Current Assets

1.4.3 Ratios analysis

Below mentioned ratios examine economic stability and financial health of a company and are considered to be the core of whole FA. There are many ratios, nevertheless usually only some of them are selected according to the aim of FA and the target group of users. In practice we can usually come across bloc of ratios as follows:

- Profitability ratios
- Liquidity ratios

- Assets utilization ratios
- Leverage ratios
- Ratios of capital market

These ratios are arranged into two types of structures – parallel or pyramid.

In parallel structure ratios stand on the same level and are considered equal. Thus company should be not only profitable, but also proportionately indebted and liquid to stay in business for a long time.

Pyramid structure is set to analyze one syntactic ratio, which is selected according to the aim of the analysis. The exact purpose of the pyramid is to explain changes of the top syntactic ratio caused by alterations of analytic indicators as well as to measure the intensity of the effect of such alterations on the top indicator. (Kislingerová, 2007)

1.4.3.1 Profitability ratios

Profitability ratios compare the final output of business activity (net income) to one of the inputs (assets, liabilities etc.) Results inform about positive or negative effect of assets management, finance management and effect of liquidity on profitability. Results of all ratios can be interpreted alike as they show how much CZK of profit was generated by 1 unit of the item in denominator. (Kislingerová, 2007)

ROE – Return on Equity

The ratio has crucial reporting ability for shareholders, business partners and investors, since it informs them how many CZK a company can generate from 1 CZK of invested capital. The crucial fact is that the ROE value has to be higher than safe state interest rates, otherwise it would mean outflow of investors.

$$ROE = \frac{Net\ income}{Equity}$$

ROA – Return on Assets

This ratio can be also interpreted as basic earning power. It compares profit (usually in the form of EBIT) to total assets and measures the ability of company to use effectively its assets. EBIT = Earnings before interest and tax

$$ROA = \frac{EBIT}{Total\ assets}$$

ROS – Return on Sales

ROS is crucial for measuring company´s effectiveness. The ratio states how much CZK of net income was acquired from sales.

$$ROS = \frac{Net.income}{Sales}$$

Operating expenses to sales

According to my experience, operating expenses to sales ratio is one of the most monitored ratio in most of the industries, especially in the time of current economic recession. It compares operating expenses to sales, and states how much CZK of expenses company has to use to generate 1 CZK of sales.

$$Operating\ \exp enses\ to\ sales\ ratio = \frac{Operating\ \exp enses}{Sales}$$

1.4.3.2 Liquidity ratios

"Liquidity ratios measure company´s ability to settle up its due liabilities. They should answer the question, whether a company will be able to pay its debts when they are due." (Synek M. a kol., 2007)

Reporting ability of liquidity ratios varies according to target group of FA users, as each group prefers different value of liquidity. Management prefers high values of liquidity as the lack of it may consequently cause decrease of profitability, partial or complete lost of capital investments or lost of control over the company. On the other hand, owners would prefer low value of liquidity, as current assets represent ineffective mean of keeping financial resources, which can consequently lead to decrease of profitability of equity. Creditors as well as customers and suppliers prefer high value, as the opposite would mean delay or loss of interests and principal payments, respectively inability to perform a contract. (Růčková, 2008)

Cash ratio

Cash ratio compares due liabilities to presently available financial resources. Financial resources include not only cash and money on current account, but also cheques and current negotiable securities. According to Czech ministry of trade the recommended value is around 0.2.

$$Cash\ ratio = \frac{Short\ term\ \ financial\ assets}{Short\ term\ \ payables}$$

Quick assets ratio (Acid test)

It is not always possible to transform supplies into cash or its equivalents quickly, therefore inventory is not included in the ratio to identify instant solvency of a company. Optimal value is within <0.7; 1.0>. If the result is around 1.0 the company should be able to settle up its liabilities without having to sell supplies.

$$Quick\ assets\ ratio = \frac{Current\ assets - Inventory}{Short\ term\ \ payables}$$

Current ratio

Current ratio compares total current assets to short term accounts payable. The value indicates how many times is a company able to satisfy its creditors if it would transform all its present current assets into cash. Recommended values are within <1.5; 2>, nevertheless there are different approaches to the values according to management preference of either high revenues or low risk. Conservative strategy (low risk) recommends values above 2.5. On the other hand aggressive strategy recommends values within <1; 1.6>.

$$Current\ ratio = \frac{Current\ assets}{Short\ term\ \ payables}$$

1.4.3.3 Assets utilization ratios

Assets utilization ratios compare balance sheet items (supplies, assets) to income statement item (sales) and measure the management of assets in a company. In other words they state how many assets a company had to use to produce sales. Generally can be said, that the higher the ratio value is the better, on the other hand, if we measure the ratio in time as for example inventory turnover period, the rule is opposite (the lower the better).

Inventory turnover ratio

"States how many times is each item of inventory sold and stocked up again." (Kislingerová, 2007)

$$Inventory\ turnover\ ratio = \frac{Sales}{Inventory}$$

Inventory turnover period

Inventory turnover period is deduced from previous ratio and indicates the period from stocking up of inventory item until the time of its usage or sale. In other words the ratio measures the period (in days) needed to transform inventory into cash.

$$Inventory\ turnover\ period = \frac{Inventory}{\frac{Sales}{360}}$$

Total assets turnover ratio

It is a complex ratio which measures the effectiveness of total assets. Recommended value is 1.5 or at least above 1.

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

1.4.3.4 Leverage ratios

"The term leverage denotes the fact that company uses liabilities to finance its assets." (Růčková, 2008) Leverage ratios provide us with the necessary information for finding the best capital structure of a company – the optimal balance between equity and liabilities The advantage of usage of liabilities is in the principle of leverage effect (tax shield) which lowers the price of liabilities by putting the interest expanses among tax deductible items. On the other hand it is impossible to use only liabilities as law sets a minimal equity and high leverage also means low stability. Therefore the leverage ratios are used to find the appropriate balance of liabilities and equity.

Debt ratio

Debt ratio indicates to what extent a company uses liabilities to cover its assets. Ratio represents the number of liabilities on 1 CZK of assets. The output of ratio should not exceed 0.5, since coverage of more than 50% of assets by liabilities may be risky. Thus creditors prefer low results of the ratio, since it means better stability. On the other hand owners prefer higher proportion of liabilities since it increases profitability by leverage effect. (Bařinová and Vozňáková, 2004)

$$Debt\ ratio = \frac{Total\ liabilities}{Total\ assets}$$

Time interest earning ratio (TIE)

TIE ratio measures ability of a company to pay its interests. Values around 1 are considered dangerous. Recommended value is 3.

$$TIE\ ratio = \frac{EBIT}{Interest\ Expenses}$$

1.4.4 Cumulative indicators

"Cumulative indicators aim to indicate overall characteristics of financial and economic health of the company by a single number. On that account their reporting ability is lower and they should be used merely for quick and global comparison among companies or they can serve as a background for further evaluation." (Růčková, 2008)

1.4.4.1 DuPont analysis

"DuPont analysis extents the reporting ability of the Return on Equity ratio (ROE) by breaking it into three main components: profit margin, asset turnover and leverage factor. By breaking the ROE into distinct parts, investors can examine how effectively a company is using equity, since poorly performing components will drag down the overall figure. To calculate a firm's ROE through Du Pont analysis, we have to multiply the profit margin (net income divided by sales), asset turnover (sales divided by assets) and leverage factor (total assets divided by shareholders' equity) together. The higher is the result, the higher is the return on equity."

(http://www.investorwords.com)

In practice we can usually come across the analysis of either ROA or ROE ratio:

$$ROA = \frac{EBIT}{Total\ assets} = \frac{EBIT}{Sales} * \frac{Sales}{Total\ assets}$$

$$ROE = ROA * Leverage\ effect$$

$$ROE = \frac{EBIT}{Equity} = \frac{EBIT}{Sales} * \frac{Sales}{Total\ assets} * \frac{Total\ assets}{Equity}$$

1.4.4.2 Altman model (Z score)

Altman´s analysis measures overall financial health of a company and on account of that it is able to predict possible bankruptcy. The main advantage of the analysis is that the result is a single number which provides us with simple and useful tool for comparison. Easy interpretation of the output of Altman model caused its frequent usage.

On the other hand a single number can not inform completely about overall financial health and therefore it is to be considered only as crude information and should be further analyzed.

The final version of Altman model combines 5 ratios (originally 22) and connects them to particular values according to their reporting ability.

There are more versions of Altman model according to the form of enterprise. For our purpose the version private firms would serve the best.

Z' Score Bankruptcy Model:

$$Z' = .717T_1 + .847T_2 + 3.107T_3 + .420T_4 + .998T_5$$

T_1 = (Current Assets-Current Liabilities) / Total Assets

T_2 = Retained Earnings / Total Assets

T_3 = Earnings Before Interest and Taxes / Total Assets

T_4 = Book Value of Equity / Total Liabilities

T_5 = Sales/ Total Assets

Zones of Discrimination:

Z' > 2.9 -“Safe” Zone

1.23 < Z' < 2.9 -“Grey” Zone

Z' < 1.23 -“Distress” Zone

(http://en.wikipedia.org)

1.4.4.3 Kralicek quick test

Kralicek quick test was created by economist P. Kralicek in 1990 as a simple and quick tool for comparison of company performances. Quick test consist of four ratios and evaluation marks for the result of each.

Table 1 Kralicek Quick test – Evaluation chart

Ratio	**Excellent**	**Very well**	**Well**	**Poor**	**Danger**
	1	**2**	**3**	**4**	**5**
Debt settlement period	< 3 years	< 5 years	< 12 years	> 12 years	> 30 years
Equity / Total assets	> 30%	> 20%	> 10%	> 0%	Negative
Operating CF / Sales	> 10%	> 8%	> 5%	> 0%	Negative
ROA	> 15%	> 12%	> 8%	> 0%	Negative

Source: KISLINGEROVÁ, E., HNILICA, J., Finanční analýza: krok za krokem, Praha: C.H. Beck, 2005

II. FINANCIAL ANALYSIS OF THE VÁLCOVNY PLECHU BESS, LTD.

2 COMPANY CHARACTERISTICS

2.1 Basic information

Full name:	Válcovny plechu BESS, Ltd.
Date of establishment:	4th of April 1995
Way of establishment:	The company was established by Válcovny plechu, a.s.[1] the only partner.
Address:	Křižíková 1377, 738 02 Frýdek - Místek
CIN	623 62 411
Legal form:	Limited liability company
Statutory body:	
Executives:	Ing. Miroslav Svoboda, PIN 520729/290 Frýdek-Místek, 1. máje 1798, PSČ 738 01 Position established: 7th of September 2001 Ing. Zdeněk Fluxa, PIN 500713/013 Ostrava, Krásné Pole, Vodárenská 617, PSČ 725 26 Position established: 10th of March 2004 Zdeněk Michenka, PIN 551118/0510 Frýdek-Místek, Lískovecká 294, PSČ 738 01 Position established: 3rd of April 2006
Partners:	VÁLCOVNY PLECHU, a.s. Frýdek-Místek, Křižíkova 1377 CIN: 146 13 581
Registered capital:	33 400 000,- CZK
Paid off:	100%

Source: Register of Companies (http://www.justice.cz)

[1] Czech abbreviation for Joint stock company (there is no equivalent of the abbreviation in English)

2.2 Characteristic of the company:

Válcovny plechu BESS, Ltd. (VP BESS, Ltd.) officially begun its business activities on the 1st of May 1999 as a subsidiary of Válcovny Plechu, a.s. The company belongs among the most important producers and repair providers in the Frýdek – Místek district. The core of production lies in production, assembly and repair of the metal processing assembly lines as well as in production and treatment of weldments.

Company´s strategic plans are to consolidate its domestic and foreign market positions as the producer of single-purpose machines and metal-processing assembly lines. On top of that the company intends to foster its relationship and cooperation with its business partner – DISA Industries, Herlev (Denmark).

Válcovny plechu BESS, Ltd. owns several significant certificates such as:

- ISO 9001:2000 Management of production, assembly and repair of single-purpose machines, metal processing assembly lines and electrical devices.
- Certificate of competency for welded constructions and construction parts with the extension for welding of metal construction of cranes.
- License from ITI Ostrava for production, assembly and repair of particular pressure, gas, lifting and electrical devices.

2.2.1 Market position of the company

Trend of previous years has been in stabilization of the repair and other activities realized for Válcovny Plechu, a.s. at 18% of production. The rest of the company´s production is determined for domestic and foreign markets.

Division of sales according to market of their generation:

Sales of the company in 2007 were 107.146.000 CZK

Válcovny plechu, a.s. ……….................................18%

Domestic market (except of VP, a.s.)………………..43%

Foreign markets(export)………………………………39%

Significant domestic customers are:

DISA INDUSTRIES, a.s.

HUISMAN KONSTRUKCE, Ltd.

KOFING, a.s.

ITS BENDA, Ltd.

ARCELORMITTAL STEEL OSTRAVA, a.s.

BONATRANS, a.s.

Significant foreign customers are:

DISA INDUSTRIES, A./S.

OY MECLIFT, Ltd.

Source: Annual report VPBESS, Ltd. 2007

Table 2 SWOT analysis – VP BESS, Ltd.

Strengths	**Weaknesses**
• History, tradition, experience • Qualified employees • Strong background (as the subsidiary company of Válcovny plechu, Inc.) • Wide product range • Member of ArcelorMittal group	• Competition in the region • Lack of own premises • Necessity of investments into new technologies • Partial dependency on its proprietor.
Opportunities	**Threats**
• Cooperation with Disa Industries – exploration of new markets + technology • Eastern markets • Specialization in particular technologies	• Economic crisis • Consolidation of Czech currency • Unreliable customers • Economic problems of controlling company

Table 3 Number of employees – VP BESS, Ltd.

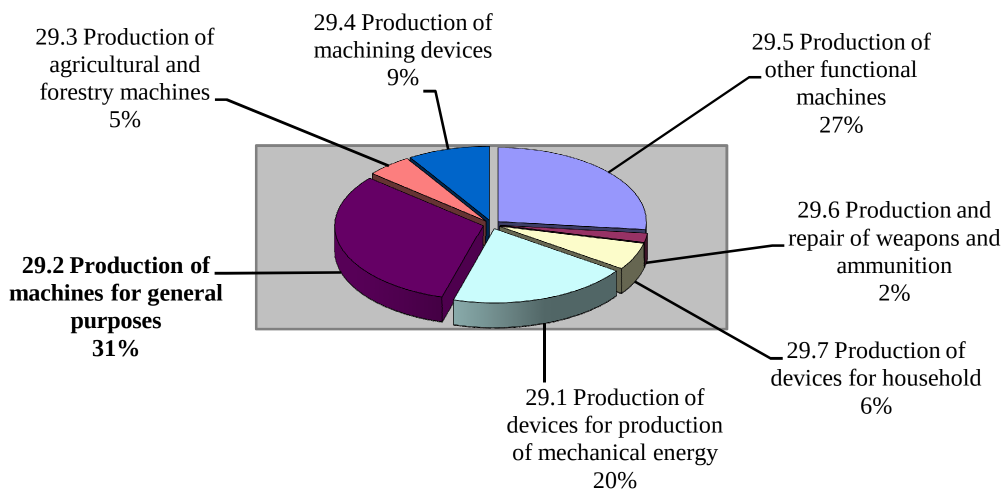
	2003	**2004**	**2005**	**2006**	**2007**
Number of employees	140	133	126	125	133

2.3 Characteristics of the field of enterprise

According to OKEČ (Industry division of economic activities) core of the company´s production lies in the group 28 – Production of metal constructions and metal products. Nevertheless in order to increase the products´ added value VP BESS, Ltd. also subsequently assembles its metal products into engineering devices, and on that account the company gains the character of engineering industry. Thus VP BESS, Ltd. should be classified into the group 29 – Production and repair of machines and devices.

There are several subdivisions according to the product range. As VP BESS, Ltd. is not specialized in machines for a particular industry I would classify it into subdivision 29.2 – Production of machines for general purposes. Below you can find a graph showing the structure of the whole OKEČ 29 according to the subdivisions´ share to entire industry annual sales.

Graph 1 Subdivisions of the OKEČ 29 according to the sales of products and services in 2007



Source: www.mpo.cz

2.3.1 Basic production characteristics of the OKEČ 29

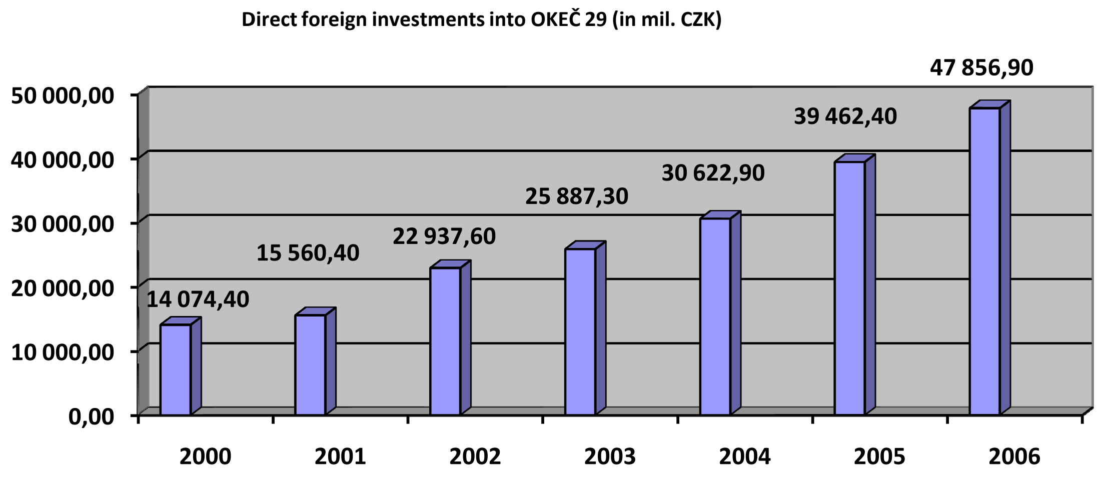
Sales of products and services as well as the added value showed steady increase within 2000 and 2007. This positive trend was caused by many factors, for example Czech republic´s joining the EU or more significantly completion of transformations and reconstructions of many subjects in the field.

On the other hand the field also witnessed a growth of costs in the period. Especially in the second half, when there was a dramatic increase of 15%. Crucial aspect of this development is the price of raw materials and energy.

International trade reported negative balance up to 2002. Nevertheless the competitiveness of the OKEČ 29 products grew afterwards due to foreign investments, implementation of new know-how and effective technologies. Czech republic´s joining the EU meant a significant stimulus for improvement of the balance due to improved export conditions. The positive growth continued because of investments into research, increasing qualification of employees and companies´ adjustment to competitive environment. Nonetheless towards the end of the period a negative affect of consolidation of Czech currency was witnessed. Consequently the balance growth was reduced.

Important contribution to the growth of entire industry is the system of investments stimulae introduced by Czech government. Overlook of foreign investments into the industry is shown below in the graph.

Graph 2 Foreign investments into OKEČ 29



Source: www.mpo.cz

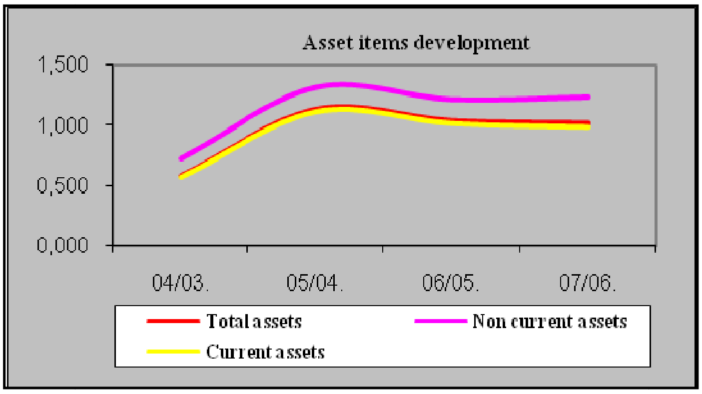
OKEČ 29 is a traditional and one of the most significant industries in Czech Republic. It can be stated, that general engineering – as this division is also called – has been consolidating and has proved steady growth. Positive feature is the regaining of traditional export territories. (www.mpo.cz)

3 FINANCIAL ANALYSIS

Financial analysis begins with horizontal and vertical analysis of items of balance sheet and income statement. The analyses inform us about development of the items in time and about their percentage share to the structure of the statements.

3.1 Horizontal analysis of the balance sheet

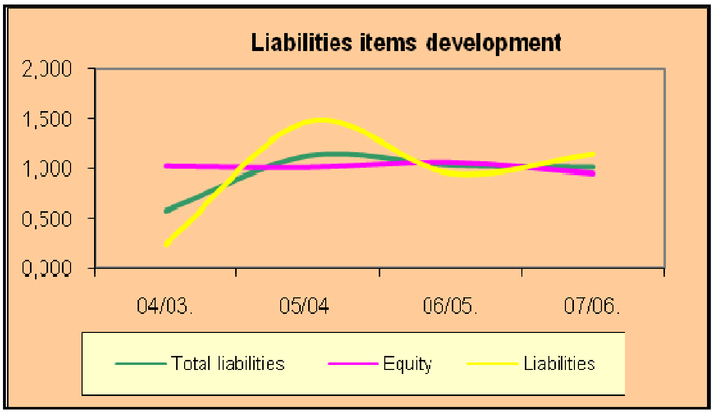
Graph 3 Asset items development – VP BESS, Ltd. 2003 – 2004



Source: own calculation

In the period under consideration VP BESS, Ltd. showed consolidation and steady development of assets. It is noticeable that all asset items underwent similar development. There was a drop of current assets (-43.2%) and non current assets (- 28.2%) at the beginning of the period, which was caused mainly by a decrease of merchandise (-100%) and decrease of short term receivables (-53.9%) respectively by sell out and depreciation of tangible assets. This downturn was compensated by decrease in short term payables. Nevertheless it is only reflected in the graph as the growth in the subsequent period. Towards the end of the period assets tend to level off.

Graph 4 Liabilities items development – VP BESS, Ltd. 2003 - 2007

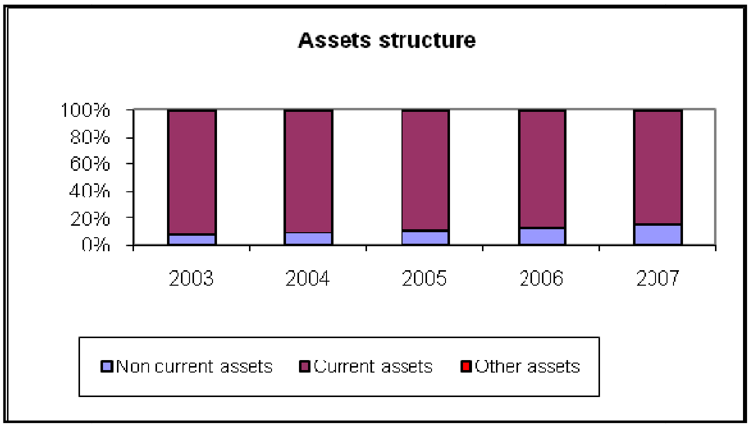


Source: own calculation

Liabilities underwent similar process of stabilization as assets. At the beginning of the period liabilities, especially short terms payables, plunged down (-78.8%). The process was caused by paying off the short term payables from commercial relations. Consequently this fluctuation affected development of total liabilities. On the other hand the fluctuation of total liabilities was decreased by even development of the equity. Therefore the curve of total liabilities & equity resembles the curve of liabilities, but in lower oscillations. The stability of equity is obvious, as the substantial part is created by constant registered capital, on that account fluctuations of incomes can affect total equity only slightly.

3.2 Vertical analysis of the balance sheet

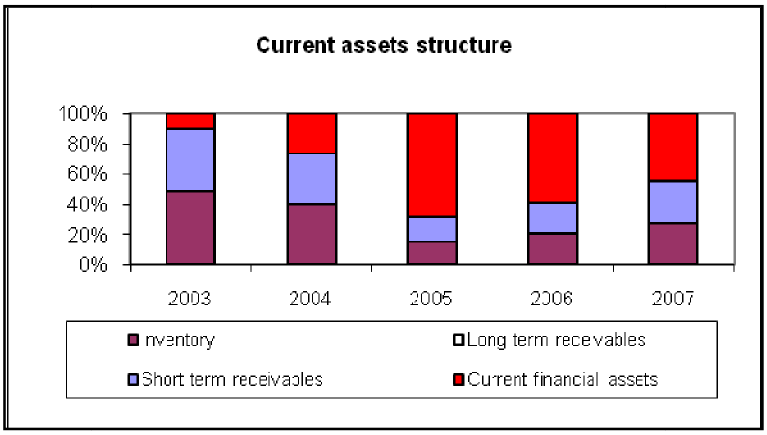
Graph 5 Assets structure – VP BESS, Ltd. 2003 - 2007



Source: own calculation

Vertical analysis of assets showed that current assets significantly prevail non current assets. The fact is caused mainly by lack of own premises. Company leases premises and some of the machinery from its controlling company – Václovny plechu, a.s.

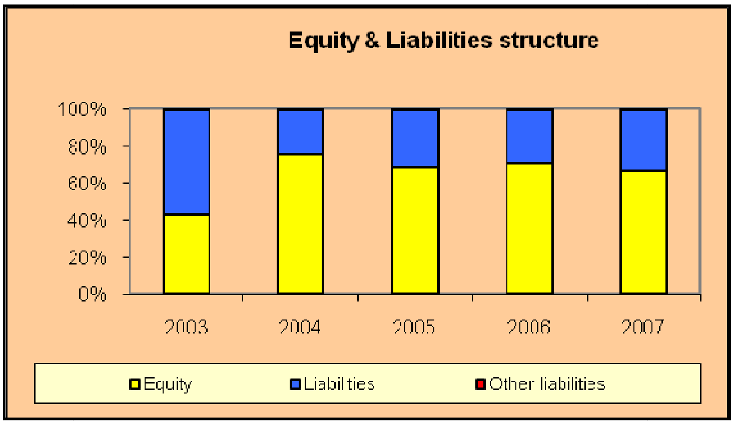
Graph 6 Current assets structure – VP BESS, Ltd. 2003 - 2007



Source: own calculation

Structure of current assets fluctuates during the period under consideration. At the beginning of the period it is caused mainly by decrease of merchandise and receivables from controlled and managed organizations. Logical consequence of the decrease of the two mentioned items is the accumulation of current financial assets (cash, bank accounts) which is obvious in the middle of the period. Towards the end of the period the production rose up. Consequently the inventory and short term receivables went up as well.

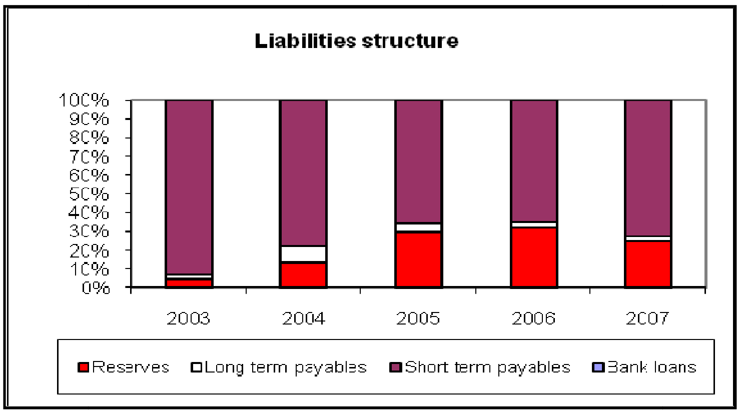
Graph 7 Equity & Liabilities structure – VP BESS, Ltd. 2003 - 2007



Source: own calculation

The structure of above graph is mainly given by fluctuations of liabilities. The biggest effect had the plunge of liabilities in 2004 (- 31.33%) caused by paying off the trade payables (- 32.74%). Since then liabilities underwent rather steady (growing) development. As for the total equity, it was mostly affected by changes of profit/loss item, since registered capital remained the same throughout the whole period. Statutory fund also underwent slight growing development. Nevertheless in this case we can say that the development of structure of total equity resembles the development of profit/loss item.

Graph 8 Liabilities structure, VP BESS, Ltd. 2003 - 2007

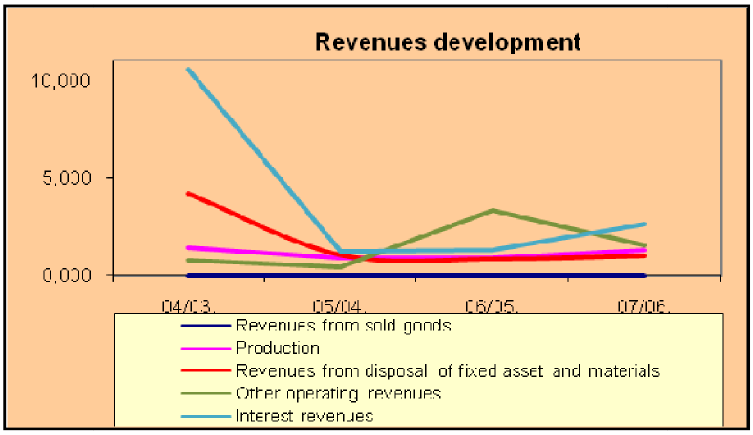


Source: own calculation

The structure of liabilities at the beginning of the period was predominantly affected by very high proportion of trade payables (41.59%). After the reduction of the trade payables the structure became more balanced, nevertheless short term payables remained predominant

3.3 Horizontal analysis of the income statement

Graph 9 Revenues development, VP BESS, Ltd. 2003 - 2007

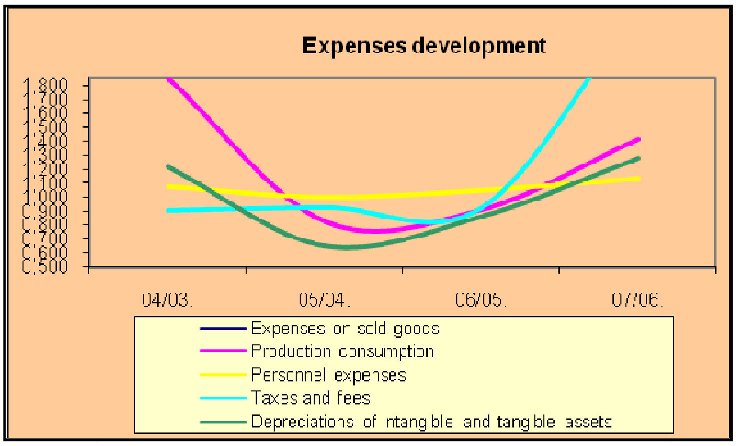


Source: own calculation

There is a notable growth of most of the items at the beginning of the period. For example interest revenues went up (+ 105%) because of increase of money on bank account. Nevertheless it is crucial for VP BESS, Ltd. as the production company to follow the production item. As we may notice there is rather steady growing development of the item, nevertheless even slight changes mean significant alterations to profit/loss item. It is so, because the numbers of production item are high. Therefore for example the change between 2006 and 2007 (+30%) meant + 24 935K CZK, although it is not really noticeable from the graph.

Therefore in my opinion the reporting ability of horizontal analysis is limited as it doesn´t involve the weight of the particular items and the value of their changes (their reporting ability). As I mentioned above, there might be a slight change of a crucial item (production), which affects the entire annual profit/loss. On the other hand a huge change of a less important item (interest revenues), doesn´t necessarily have to mean any significant alteration to profit/loss. Furthermore for layman user it may appear from the graph that the items underwent negative development (especially at the beginning of the period) even though it is not so. It is crucial to realize, that the lines in the graph show increases and decreases of the development of an item, not its actual state. Although some of the lines indicate decrease, it is only decrease of development, not a decrease of the state. Therefore the state of an item might be increasing, although the development slows down (the line of the graph goes down).

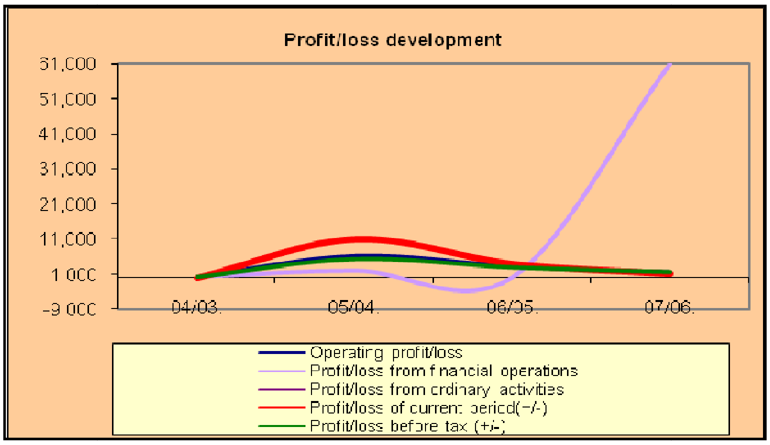
Graph 10 Expenses development – VP BESS, Ltd. 2003 - 2007



Source: own calculation

The most significant item of expenses is the production consumption, as production is the key factor for generation of profit/loss. At the beginning of the period production consumption (especially consumption of material and energy - + 113.3%) recorded significant growth (85.2%) The growth is a consequence of transfer of the assembly line Jorns from merchandise item into material item, which considerably affected consumption of material as well as sales. Customer Kovona Karviná, a.s. decided not to purchase the Jorns assembly line as a merchandise with separate order of assembly, but as a product with assembly included in the price. The situation went back to normal in 2005 when production consumption decreased by 17.8% (consumption of material and energy: -36.3%). Since 2005 production consumption has reported steady growth due to increase of production.

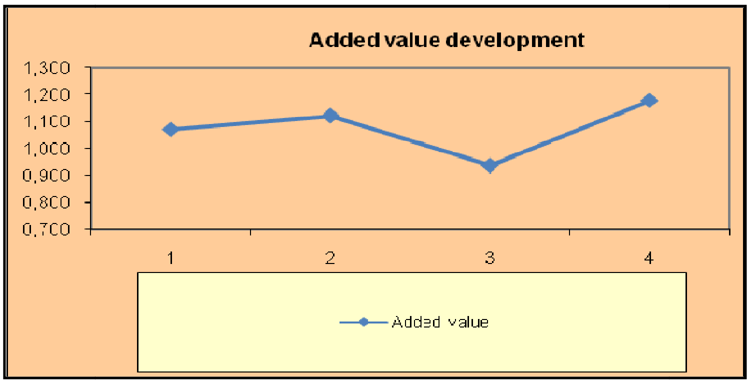
Graph 11 Profit/loss development – VP BESS, Ltd. 2003 – 2007



Source: own calculation

Since 2003 VP BESS, Ltd. has generated profit. Rather even growth of profit/loss of current period was interrupted in 2004, when the profit/loss decreased by 94.2%, nevertheless remained in positive value. The fact was caused by decision of the controlling company (the only partner) to create reserves on overhaul of machinery. Since 2005 company reported growth of profit/loss of current period.

Graph 12 Added value development – VP BESS, Ltd. 2003 - 2007

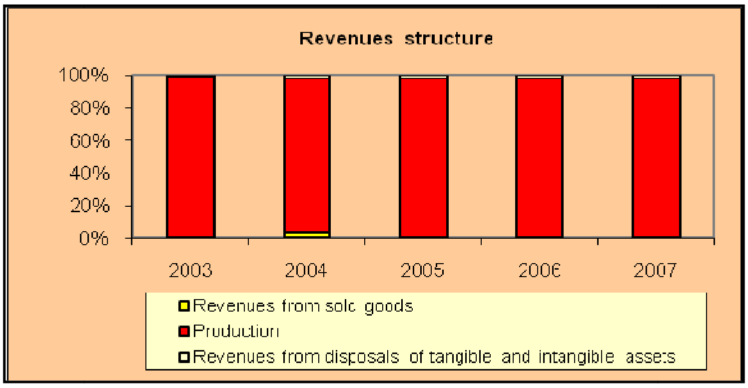


Source: own calculation

Although the profit/loss of current period is usually the most followed item, regarding the fact, that I analyze production company, the biggest reporting ability of the state of production lies in the added value item. As for the added value, the company shows positive annual growth, with the exception of 2006, when there was a decrease by 6.2% due to the decrease of revenues for own products and services. The decrease was caused by the fact that VPBESS, Ltd completed work on 2 assembly lines for controlling company Válcovny Plechu, a.s.. (- 18 122K CZK)

3.4 Vertical analysis of the income statement

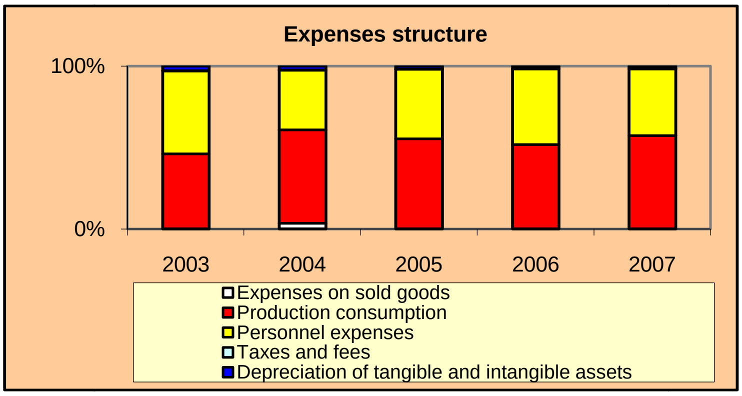
Graph 13 Revenues structure – VP BESS, Ltd. 2003 - 2007



Source: own calculation

The structure of revenues once again proves the fact that VP BESS, Ltd. is a production company. The production revenues indicator has significant reporting ability, since it apparently creates the majority of total revenues. Nevertheless to amplify the reporting ability of production revenue indicator we have to compare it to production consumption (see Added value).

Graph 14 Expenses structure – VP BESS, Ltd. 2003 - 2007



Source: own calculation

VPBESS, Ltd. managed to keep the proportion of personnel expenses to production consumption approximately on the same level with one exception. In 2004 production consumption considerably exceeded personnel expenses by 22.3% due to the already mentioned transfer of Jorns assembly line from merchandise to material item. Despite an increase of wages and salaries, VP BESS, Ltd. avoided any significant rise of personnel expenses by reduction of employees in 2004. Nevertheless in 2007 the company had to hire new employees due to increased production and consequently personnel expenses reported growth (+ 12.9%).

3.5 Profit/loss development

Profit/loss indicator has rather strong reporting ability especially for layman users, since it states, whether a company actually earns money. Nevertheless it provides us only with the top figure therefore the information is very general. To be able to answer the question how the profit/loss was generated, we have to analyze the income statement (see vertical and horizontal analysis of income statement).

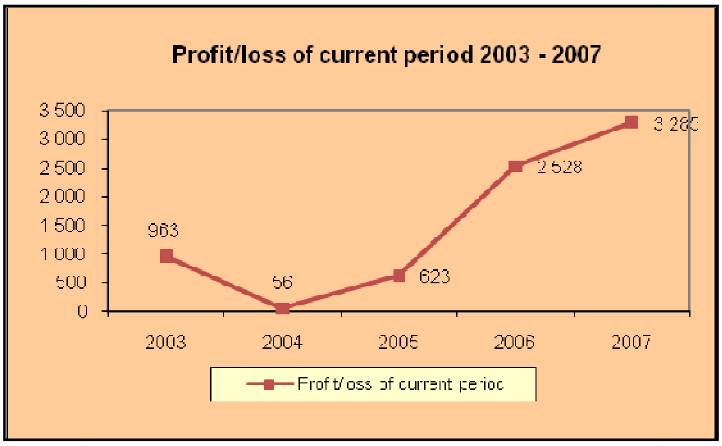
As for VP BESS, Ltd. we can observe positive development of profit/loss, especially since 2005. The decrease in 2004 is the consequence of the Jorns assembly line effect.

Table 4 Profit/loss development – VP BESS, Ltd. 2003 - 2007

In thousands CZK	**2003**	**2004**	**2005**	**2006**	**2007**
Operating profit/loss	632	118	723	2 321	3 446
Profit/loss from financial op.	-102	26	53	-8	488
Extraordinary profit/loss	0	0	-229	0	-9
Profit/loss of the current period	**963**	**56**	**623**	**2 528**	**3 285**
Profit/loss before tax	530	144	776	2 313	3 934
Profit/loss before tax and interest	530	144	776	2 313	3 934
Interest cost	0	0	0	0	0
Income tax on ordinary activities	-433	88	153	-215	649

Source: own calculation

Graph 15 Profit/loss development 2003 – 2007 – VP BESS, Ltd.



Source: own calculation

3.6 Cash flow analysis

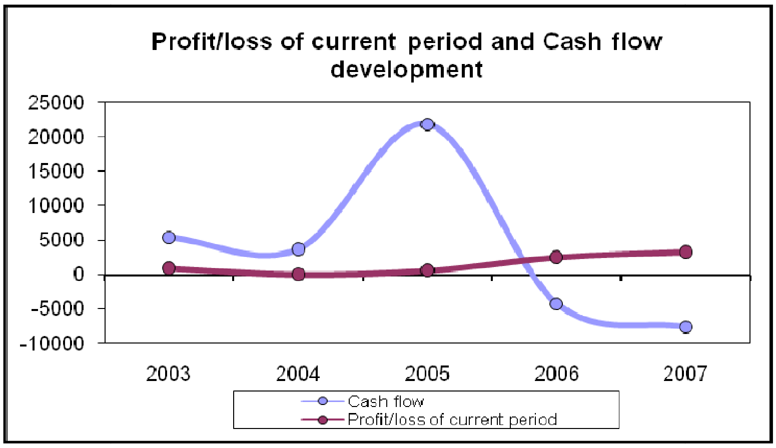
Cash flow statement provides us with overlook of company´s cash management. It records all money incomes and expenditures at the time of their realization, therefore it is able to show cash balance at any point. It might be of an interest for business partner, as well as for other creditors.

Table 5 Simplified Cash flow statement – VP BESS, Ltd. 2003 - 2007

Cash flow	2003	2004	2005	2006	2007
Profit/loss of current period	963	56	623	2 528	3 285
Cash in hand and fin. equivalents – beginning of the period	2528	7948	11675	33494	29242
CASH FLOW operating activities	**7823**	**4415**	**24656**	**-1841**	**590**
CASH FLOW financial activities	0	0	0	0	-5000
CASH FLOW investing activities	-2403	-688	-2837	-2411	-3213
CASH FLOW in total	**5420**	**3727**	**21819**	**-4252**	**-7623**
Cash in hand and fin. equivalents – end of the period	7948	11675	33494	29242	21619

Source: own calculation

Graph 16 Profit/loss of current period and Cash flow development – VP BESS, Ltd. 2003 – 2007



Source: own calculation

The above graph proves the fact that positive growth of profit/loss doesn´t necessarily have to involve positive growth of money resources (and vice versa). Although the fluctuation of cash flow curve is variable, the progress of profit/loss curve is rather steady. For example, towards the end of the period VP BESS, Ltd. invested some of its free money resources (new machinery, payment of profit shares), which caused negative cash flow and decrease of cash. Nevertheless profit/loss of current period reported growth.

3.7 Subtractive ratios - Net working capital analysis

Table 6 Net working capital development – VP BESS, Ltd. 2003 - 2007

In thousands CZK	2003	2004	2005	2006	2007	04/03	05/04	06/05	07/06
NWC	34 202	34 711	37 330	38 578	34 674	1,015	1,075	1,033	0,899

Source: own calculation

NWC has s strong reporting ability for managers, creditors and other possible business partners. As NWC is a difference between current assets and short term payables, it provides managers with relatively free resources, which are used to secure a smooth production. On the other hand NWC reports the external users of FA about credibility (solvency) of the company. If the result is positive it means, that company is able to settle its debts in relatively short time, since current assets are either cash or items, which can be transformed into cash quickly.

The positive outputs of the NWC ratio are listed in the table above. VP BESS, Ltd. keeps its current assets at relatively high values (especially bank account) since it lacks own premises and consequently the proportion of current assets on total assets is high (see Graph 5). This fact, along with sound proportion of short term payables, provides the company with disposable resources and underlines its credibility.

3.8 Analysis of selected ratios

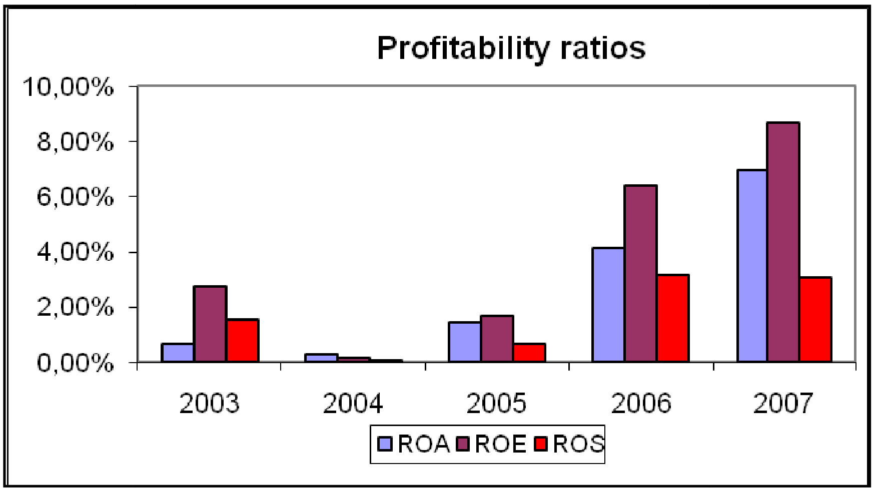
3.8.1 Profitability ratios

Table 7 Profitability ratios – VP BESS, Ltd. 2003 - 2007

Profitability	2003	2004	2005	2006	2007	03/02	04/03	05/04	06/05
ROA	0,64%	0,30%	1,43%	4,13%	6,93%	0,47	4,78	2,88	1,68
ROE	2,72%	0,15%	1,68%	6,39%	8,68%	0,06	10,94	3,80	1,36
ROS	1,50%	0,06%	0,61%	3,11%	3,01%	0,04	10,44	5,06	0,97
Op. expenses to Sales ratio	1,042	1,068	0,911	1,024	0,984	1,03	0,85	1,12	0,96
ROCE	1,37%	0,37%	1,81%	5,11%	9,16%	0,27	4,90	2,82	1,79

Source: own calculation

Graph 17 Profitability ratios – VP BESS, Ltd. 2003 - 2007



Source: own calculation

From the above graph we can deduce, that profitability ratios copy the development of net income (ROE, ROS), respectively EBIT (ROA). This is caused by rather constant development of equity and assets (ROE, ROA) and by the fact that most of the net income is created by production – thus sales (ROS; see Graph 13.)

VP BESS, Ltd. reported positive growth of the three most followed ratios since 2005. The drop in 2004 was caused by low profit/loss, which was the consequence of the already described Jorns assembly line transfer.

Although the ratios´ outputs copy the development of net income their reporting ability is stronger than the one of the net income itself. As mentioned in theoretical part, the strongest reporting ability of the profitability ratios is for shareholders, business partners and investors. Net income itself can inform them whether the company´s activities led to positive or negative output, but it doesn´t state to what extent the output is relevant for them, respectively for the capital they invested. Therefore the fact, that the ratios compare two indicators, makes their reporting ability more specific and relevant.

3.8.2 Liquidity ratios

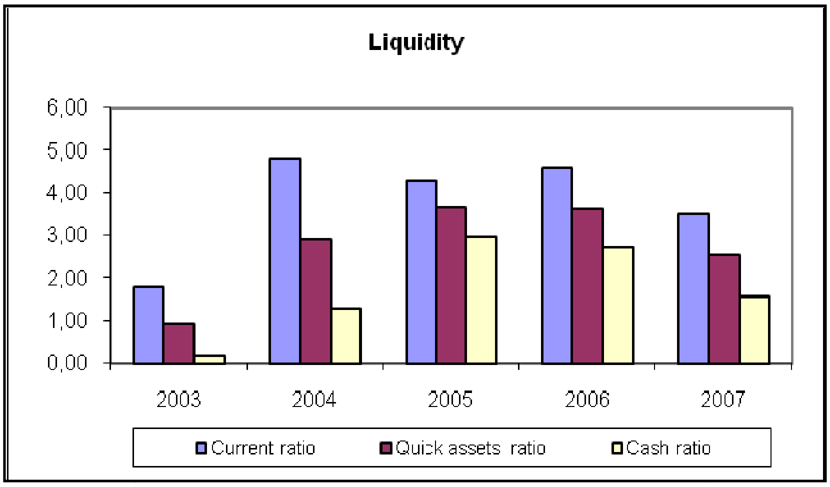
Liquidity ratios have three degrees according to used indicators and their reporting ability. Current ratio provides rather general information, since it includes all current assets regardless their ability to be transformed to money. Quick assets ratio excludes inventory, nevertheless it still involves receivables regardless their enforceability. Cash ratio is considered to be the most strict of all ratios, since it involves only short term financial assets (money). It states whether a company can settle its debts at the certain moment.

Table 8 Liquidity ratios – VP BESS, Ltd. 2003 - 2007

Liquidity	2004	2004	2005	2006	2007	03/02	04/03	05/04	06/05
Current ratio	1,80	4,82	4,30	4,60	3,51	2,68	0,89	1,07	0,76
Quick assets ratio	0,93	2,91	3,67	3,65	2,57	3,12	1,26	0,99	0,70
Cash ratio	0,19	1,29	2,96	2,73	1,57	6,93	2,30	0,92	0,57
WC / Assets	0,41	0,72	0,69	0,69	0,61	1,75	0,95	1,00	0,89

Source: own calculation

Graph 18 Liquidity ratios – VP BESS, Ltd. 2003 - 2007



Source: own calculation

Although it may not seem so the closest to ideal (to recommended values) is the year 2003. Since then the values are far above recommendations, which may indicate either company´s conservative policy or more probably it is caused by the structure of assets. As for the assets´ structure, absence of own premises lowers the non current assets and consequently current assets create substantial part of total assets (see Graph 5.). On that account current assets (especially bank account) considerably exceed short term payables. The above numbers suggest that VP BESS, Ltd. is a very stable and safe company for business partners and creditors. It is predominantly the consequence of operational leasing of premises from controlling company VP, a.s. Nevertheless, according to my opinion, managers should reconsider keeping so much money resources on bank account and find more profitable investment. For example, non current assets(new technologies), state bonds with safe and stable interest or on the other hand they can undergo a risk and invest on stock exchange, which would bring high returns.

3.8.3 Assets utilization ratios

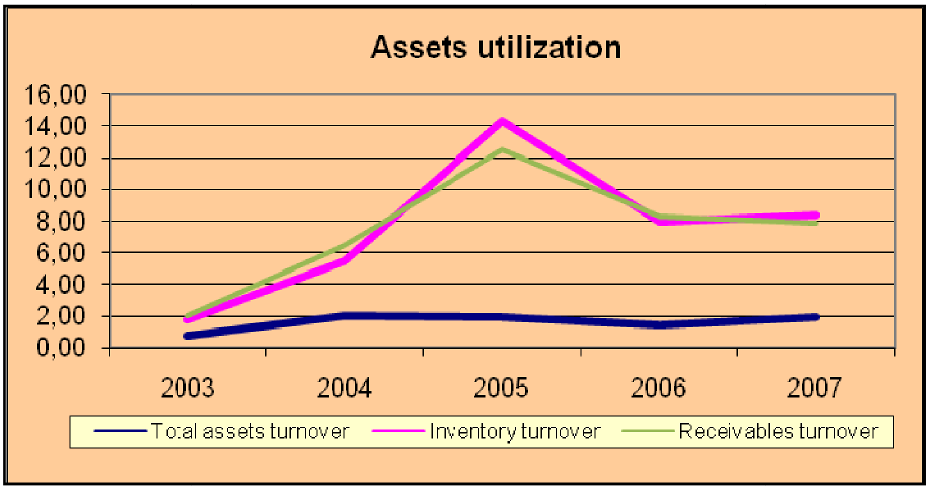
Assets utilization ratios inform investors about effectiveness of utilization of total assets, respectively about utilization of their investment. Recommended value is 1.5, but general rule for utilization is the higher the better. Managers can also use inventory ratios (especially inventory turnover period) to optimize the amount of inventory in the company. The general rule for measuring the successfulness of inventory management is the lower the better since the company can save on storage costs.

Table 9 Assets utilization ratios – VP BESS, Ltd. 2003 - 2007

Assets utilization	2003	2004	2005	2006	2007	03/02	04/03	05/04	06/05
Total assets turnover	0,77	1,98	1,87	1,45	1,92	2,55	0,95	0,78	1,32
Inventory turnover	1,73	5,47	14,35	7,94	8,41	3,16	2,62	0,55	1,06
Inventory turnover period	208	66	25	45	43	0,32	0,38	1,81	0,94
Receivables turnover	2,01	6,46	12,54	8,30	7,86	3,21	1,94	0,66	0,95
Receivables turnover period	179	56	29	43	46	0,31	0,51	1,51	1,06

Source: own calculation

Graph 19 Assets utilization – VP BESS, Ltd. 2003 - 2007



Source: own calculation

Although VP BESS, Ltd. begun the analyzed period in relatively negative values, since 2004 it reported significant improvement of all of the ratios. It is due to decrease of inventory and receivables caused by disposal of merchandise (Jorns assembly line), respectively decrease of trade receivables. From the above graph it is clearly noticeable, that the best results were achieved in 2005, since company reported high sales (101 383K CZK) along with relatively low state of inventory (7066K CZK) and receivables (8086K CZK).

3.8.4 Leverage ratios

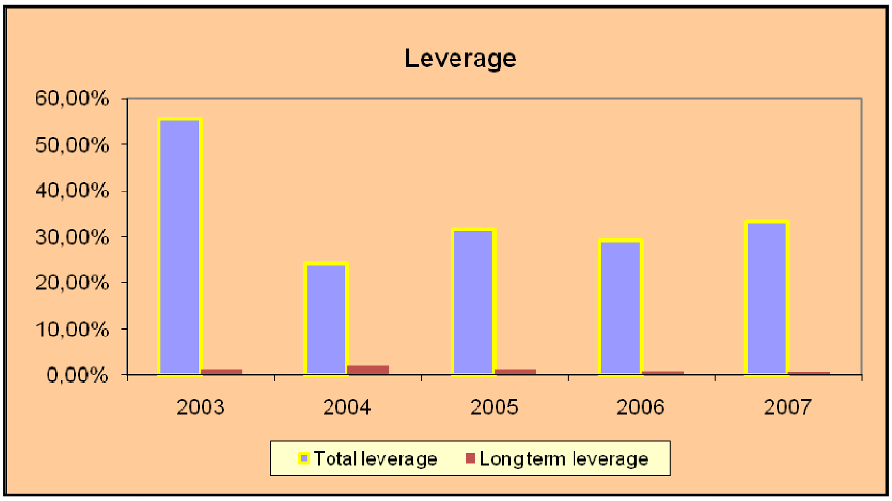
Outputs of leverage ratios can be seen from two points of view. Owners would prefer higher values because of leverage effect enhancing profitability of equity. On the other hand the reporting ability for creditors is obvious, since lower values mean better stability and credibility. Leverage ratios can also help managers to find the best structure of equity & liabilities.

Table 10 Leverage – VP BESS, Ltd. 2003 - 2007

Leverage	2003	2004	2005	2006	2007	04/03	05/04	06/05	07/06
Debt ratio (total leverage)	55,50%	24,17%	31,59%	29,31%	33,32%	0,44	1,31	0,93	1,14
Long-term leverage	1,45%	2,07%	1,33%	0,83%	0,60%	1,43	0,64	0,62	0,72

Source: own calculation

Graph 20 Leverage – VP BESS, Ltd. 2003 - 2007



Source: own calculation

VP BESS, Ltd. reported positive values of total leverage since 2004. In 2003 the total leverage reached 55.5%, which is considered to be risky situation. The situation was caused by considerable amount of trade payables. It can be stated, that the debt ratio copies the development of short term payables, since they create main part of liabilities (see Graph 8.). Other aspect, which positively affects the good results of debt ratio is the big and constant amount of equity, provided by controlling company VP, a.s. Long term leverage showed minimal values, since company didn´t use any long term bank accounts, thus the long term leverage consist merely of deferred tax liability.

3.9 Cumulative indicators

3.9.1 Du Pont analysis

Du Pont analysis improves reporting ability of ratios by breaking them into particular components. By doing so, it can reveal the areas managers should focus on to improve the overall indicator.

Table 11 ROA analysis – VP BESS, Ltd. 2003 - 2007

ROA	**2002**	**2003**	**2004**	**2005**	**2006**
Net Income / Sales	0,015	0,001	0,006	0,031	0,030
Sales / Total Assets	0,775	1,978	1,870	1,451	1,922
NI / S * S / TA	0,012	0,001	0,011	0,045	0,058
NI / TA = ROA	**0,012**	**0,001**	**0,011**	**0,045**	**0,058**

Source: own calculation

From above graph it is clearly noticeable, that the indicator, which drags down the whole ROA ratio is the Net Income / Sales ratio. Alarming number appeared in 2003, when although the profitability of assets was relatively high, the net income generated from sales was extremely low. The fact was caused by the case of Jorns assembly line in 2004. The positive growing trend is reported since 2004, which is again consequence of increasing Net Income/Sales ratio.

Table 12 ROE analysis – VP BESS, Ltd. 2003 - 2007

ROE	**2003**	**2004**	**2005**	**2006**	**2007**
Net income / Sales	0,015	0,001	0,006	0,031	0,030
Sales / Total assets	0,775	1,978	1,870	1,451	1,922
Total assets / Equity	2,345	1,320	1,464	1,416	1,500
(NI/S) * (S/TA) * (TA/Eq)	0,174	0,057	0,005	0,078	0,009
NI / Eq = ROE	**0,027**	**0,002**	**0,017**	**0,064**	**0,087**

Source: own calculation

ROE analysis adds to its calculation leverage effect. Positive impact of leverage effect on ROE begins when its values reach above 1. In case of VP BESS, Ltd. the greatest effect can be noticed in 2003. Despite reporting lower values since 2004, the leverage effect was still improving the ROE. Nevertheless as mentioned above, the biggest impact on ROE has the return on sales ratio.

3.9.2 Altman model (Z – score)

Altman model was created to indicate possible future development of a company, regarding either bankruptcy or profitability.

Table 13 Altman index – VP BESS, Ltd. 2003 - 2007

Weight	Altman index				
	2003	**2004**	**2005**	**2006**	**2007**
3,107	0,020	0,009	0,044	0,128	0,215
0,998	0,773	1,974	1,866	1,449	1,918
0,420	0,323	1,316	0,908	1,012	0,840
0,847	0,013	0,039	0,035	0,042	0,001
0,717	0,296	0,518	0,494	0,494	0,438
Z – score	1,425	3,856	3,347	3,125	3,413
Interpretation	Grey zone	OK	OK	OK	OK

Source: own calculation

VP BESS, Ltd. appeared in grey zone at the beginning of the period. Since 2004 company managed to range in safe zone, which indicates positive development and averts danger of bankruptcy.

3.9.3 Kralicek quick test

Quick test aims to evaluate a company situation by a single number. To find the number it combines four ratios in two areas. Quick test uses school marks for clear evaluation.

Table 14 Quick test – VP BESS, Ltd. 2003 – 2007

QUICK TEST indicators	**2003**	**2004**	**2005**	**2006**	**2007**
Equity / Total assets	42,64%	75,73%	68,26%	70,61%	66,66%
Operating CF / Sales	12,16%	4,64%	24,32%	-2,26%	0,54%
ROA	1,16%	0,12%	1,15%	4,51%	5,79%
Debt settlement period	7	0	-1	3	0

Source: own calculation

Table 15 Quick test evaluation chart

QUICK TEST indicators	2003	2004	2005	2006	2007
Equity / Total assets	1	1	1	1	1
Operating CF / Sales	1	4	1	5	4
ROA	4	4	4	4	4
Debt settlement period	2	1	1	1	1

Source: own calculation

Table 16 Quick test results – VP BESS, Ltd. 2003 - 2007

QUICK TEST indicators	2003	2004	2005	2006	2007
Financial stability	1,5	1	1	1	1
Revenue situation	2,5	4	2,5	4,5	4
Overall situation	**2**	**2,5**	**1,75**	**2,75**	**2,5**

Source: own calculation

From the above table it is easily noticeable that VP BESS, Ltd. is financially very stable since the average mark in the area is 1.1. Revenue situation of the company is evaluated by average mark 3.5. The final result of quick test is 2.3, which is an average mark combining results of both areas during the analyzed period. According to my opinion the final mark 2.3 indicates, that the company is on the edge of positive and negative development in the future. The area of improvement is clear. Since financial stability is almost perfect managers should focus on revenues situation.

CONCLUSION

As I mentioned in the introduction, there were two goals of the bachelor thesis. Firstly I focused on clarification of financial statements, indicators and ratios used in financial analysis. Secondly I used the clarified statements, indicators and ratios to analyze and evaluate real company – Válcovny Plechu BESS, Ltd.

As for the theoretical part I focused on answering basic questions regarding financial analysis: What is it? What does it denote? Who is it related to? The very first part describes financial analysis as a whole, its sources and target groups. Second part focuses on methods of financial analysis and describes particular indicators, ratios and processes used when analyzing a company. Whether or not the clarification was successful is to be left for consideration of each reader.

The practical part was elaborated with focus on explanation of causes of given results. Nevertheless the primary function of analysis is to evaluate the company´s financial health. Therefore I will summarize the results and evaluate the company at this point.

VPBESS, Ltd. showed positive results in most of the measured quantities, especially towards the end of the period. As for profitability ratios VPBESS, Ltd. reported positive growth since 2005. The drop in 2004 was caused by low profit/loss, which was the consequence of the Jorns assembly line case. All in all profitability can be seen as strength of the company.

According to liquidity ratios VPBESS, Ltd. can be considered as extremely stable company. Liquidity ratios significantly exceed the recommended values since 2003 due to high proportion of current assets (especially bank account). I would suggest investing some of company´s free resources into for example new technologies or securities.

Assets utilization ratios show considerable fluctuations at the beginning of the period. On the other hand we can witness consolidation in 2006 and 2007. The best result was achieved in 2005 and should serve as an example for managers.

Company seems to find ideal state of indebtedness according to leverage ratios. Since 2005 the debt ratios fluctuates around 30% which shows good credibility of the company and still makes the leverage effect work.

Cumulative indicators reported that there is no immediate danger of bankruptcy and predicted that company should be profitable in the future. Nevertheless they revealed also an area of possible improvement. It is the area of revenues and especially sales. Indicators including sales reported relatively negative results therefore managers should focus on sales and generation of profit from sales.

Current economic recession will definitely test company´s financial health. Nevertheless VPBESS, Ltd. became part of ArcelorMittal group in 2005 and I presume that having such strong background, VPBESS, Ltd. will stand the financial crisis.

All in all according to my opinion VPBESS, Ltd. is stable, healthy and credible company. Financial analysis didn´t reveal any serious problems, nevertheless there is always a space for improvements (sales).

I wish VPBESS, Ltd. all the best in the future.

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APPENDICES

APPENDIX P I: BALANCE SHEET – VPBESS, LTD. 2003 - 2007

Assets (in thousands CZK)		2003	2004	2005	2006	2007
	Total assets	**82 986**	**48 080**	**54 225**	**56 033**	**56 779**
B.	**Fixed assets**	**5 931**	**4 261**	**5 578**	**6 739**	**8 269**
B.I.	**Intangible assets**	**0**	**0**	**0**	**93**	**27**
3.	Software	0	0	0	93	27
B.II.	**Tangible assets**	**5 931**	**4 261**	**5 578**	**6 646**	**8 242**
3.	Machinery, tools and equipment	5931	4261	5578	6 646	8 242
C.	**Current assets**	**77 039**	**43 787**	**48 646**	**49 282**	**48 483**
C.I.	**Inventory**	**37 128**	**17 379**	**7 066**	**10 239**	**12 976**
1.	Material	6458	5773	4508	3 882	5 701
2.	Work in progress and semi-products	5221	11533	2558	6 155	7 230
5.	Merchandise	25400	0	0	92	45
6.	Advance payments for inventory	46	73	0	110	0
C.III.	**Short term receivables**	**31 963**	**14 733**	**8 086**	**9 801**	**13 888**
1.	Trade receivables	11054	9521	4803	6 213	10 300
2.	Receivables from controlled and managed organizations	16003	4353	1939	3 321	3570
4.	Due from state - tax receivables	4860	0	378	211	0
5.	Other receivables	46	858	966	5	18
C.IV.	**Short term financial assets**	**7 948**	**11 675**	**33 494**	**29 242**	**21 619**
1.	Cash	71	39	82	21	55
2.	Bank accounts	7877	11636	33412	29 221	21 564
D.	**Other assets**	**16**	**32**	**1**	**63**	**27**
D.I.	**Accruals**	**16**	**32**	**1**	**63**	**27**
D.I.1.	Deferred expanses	16	32	1	63	27

Liabilities & Equity(in thousands CZK)		2003	2004	2005	2006	2007
	Total liabilities	**82 986**	**48 080**	**54 255**	**56 033**	**56 779**
A.	**Equity**	**35 386**	**36 412**	**37 037**	**39 564**	**37 849**
A.I.	**Registered capital**	**33 400**	**33 400**	**33 400**	**33 400**	**33 400**
1.	Registered capital	33 400	33 400	33 400	33 400	33 400
A.II.	**Capital funds**	**107**	**108**	**108**	**108**	**108**
A.III.	**Statutory funds**	**564**	**660**	**666**	**728**	**981**
A.IV.	**Profit/loss previous period**	**1 322**	**2 188**	**2 239**	**2 800**	**75**
A.V.	**Profit/loss current period**	**963**	**56**	**624**	**2 528**	**3 285**
B.	**Liabilities**	**46 058**	**11 620**	**17 140**	**16 421**	**18 917**
B.I.	**Reserves**	**2 017**	**1 550**	**5 100**	**5 250**	**4 770**
1.	Reserves under special statutory regulation	1400	1 300	4 600	4 000	3 520
3.	Other reserves	617	250	500	1 250	1 250
B.II.	**Long term payables**	**1 204**	**994**	**724**	**467**	**338**
	Deferred tax liability	1 204	994	724	467	338
B.III.	**Short term payables**	**42 837**	**9 076**	**11 316**	**10 704**	**13 809**
1.	Trade payables	34514	3434	3539	4 053	5 342
2.	Payables to controlled and managed organizations	3557	2005	1762	2 162	1 899
3.	Payroll	1822	1789	2153	2 289	2 534
4.	Payables to social security and national insurance	820	887	886	1 080	1 313
5.	Due from state - tax liabilities and subsidies	199	840	592	256	836
6.	Estimated payables	1685	0	2184	630	1 112
8.	Other payables	77	87	153	169	229
C.	**Other liabilities**	**734**	**80**	**95**	**113**	**557**
C.I.	**Accruals**	**734**	**80**	**95**	**113**	**557**

APPENDIX P II: INCOME STATEMENT – VPBESS, LTD. 2003 - 2007

Income statement (in thousands CZK)		2003	2004	2005	2006	2007
I.	**Revenues from sold goods**	**0**	**3 400**	**0**	**0**	**0**
A.	**Expenses on sold goods**	**0**	**3400**	**0**	**0**	**0**
+	**Sale margin**	**0**	**0**	**0**	**0**	**0**
II.	**Production**	**66873**	**95850**	**90351**	**83 240**	**108 175**
1.	Revenues from own products and services	63796	89540	99084	79 360	107 146
2.	Change in inventory of own products	2 928	6 310	-8 975	3688	1 029
3.	Capitalization	**149**	**0**	**242**	**192**	**0**
B.	**Production consumpton**	**31 005**	**57 423**	**47 222**	**42 799**	**60 527**
1.	Consumption of material and energy	20 446	43 613	27 793	30 094	41 669
2.	Services	10 559	13 810	19 429	12705	18 858
+	**Added value**	**35868**	**38427**	**43129**	**40 441**	**47 648**
C.	**Personnel expenses**	**34 148**	**36 671**	**36 675**	**38 437**	**43 389**
1.	Wages and salaries	24 554	26 424	26 115	27408	30 725
3.	Social security expenses and health instance	8 830	9 236	9 407	10045	11 468
4.	Other social expenses	764	911	1153	984	1 196
D.	**Taxes and fees**	**30**	**27**	**25**	**23**	**54**
E.	**Depreciation of tangible and intangible assets**	**1 967**	**2 385**	**1 543**	**1322**	**1 683**
III.	**Revenues from disposals of fixed assets and materials**	**516**	**2173**	**2298**	**1969**	**2 002**
F.	**Net book value of disposed fixed assets and materials**	**453**	**2058**	**1553**	**1911**	**1 758**
G.	**Change in operating reserves and complex deferred costs**	**-4515**	**-579**	**4261**	**-1743**	**-2036**
VI.	**Other operating revenues**	**156**	**124**	**57**	**191**	**294**
I.	**Other operating expanses**	**3 825**	**144**	**704**	**330**	**1 650**
*	**Operating profit/loss**	**632**	**118**	**723**	**2 321**	**3 446**
XIV.	**Interest revenues**	**11**	**116**	**144**	**187**	**491**
XV.	**Other financial revenues**	**1**	**0**	**5**	**18**	**409**
Q.	**Other financial expenses**	**114**	**90**	**96**	**213**	**412**
*	**Profit/loss from financial operations**	**-102**	**26**	**53**	**-8**	**488**
S.	**Income tax on ordinary income**	**-433**	**88**	**153**	**-215**	**649**
1.	Due tax	155	298	423	42	788
2.	Tax deferred	-588	-210	-270	-257	-129
**	**Operating profit/loss from ordinary activity**	**963**	**56**	**623**	**2 528**	**3 285**
XVII.	**Extraordinary revenues**	**0**	**0**	**2**	**0**	**0**
T.	**Extraordinary expenses**	**0**	**0**	**231**	**0**	**9**
*	**Profit/loss from extraordinary activity**	**0**	**0**	**-229**	**0**	**-9**
***	**Profit/loss of current period**	**963**	**56**	**623**	**2 528**	**3 285**
	Profit/loss before tax	**530**	**144**	**776**	**2 313**	**3 934**

APPENDIX P III: HORIZONTAL ANALYSIS OF BALANCE SHEET – VPBESS, LTD. 2003 - 2007

Assets (in thousands CZK)		04/03.	05/04.	06/05.	07/06.
	Total assets	**0,579**	**1,128**	**1,033**	**1,013**
B.	**Non current assets**	**0,718**	**1,309**	**1,208**	**1,227**
B.I.	**Intangible assets**	**X**	**x**	**x**	**0,290**
3.	Software	X	x	x	0,290
B.II.	**Tangible assets**	**0,718**	**1,309**	**1,191**	**1,240**
3.	Machinery, tools and equipments	0,718	1,309	1,191	1,240
C.	**Current assets**	**0,568**	**1,111**	**1,013**	**0,984**
C.I.	**Inventory**	**0,468**	**0,407**	**1,449**	**1,267**
1.	Materials	0,894	0,781	0,861	1,469
2.	Work in progress and semi-products	2,209	0,222	2,406	1,175
5.	Merchandise	0,000	x	x	0,489
6.	Advanced payments for inventory	1,587	0,000	x	0,000
C.III.	**Short term receivables**	**0,461**	**0,549**	**1,212**	**1,417**
1.	Trade receivables	0,861	0,504	1,294	1,658
2.	Receivables from controlled and managed organisations	0,272	0,445	1,713	1,075
4.	Due from state - tax receivables	0,000	x	0,558	0,000
5.	Other receivables	18,652	x	0,005	3,600
C.IV.	**Short term financial assets**	**1,469**	**2,869**	**0,873**	**0,739**
1.	Cash	0,549	2,103	0,256	2,619
2.	Bank accounts	1,477	2,871	0,875	0,738
D.	**Other assets**	**2,000**	**0,031**	**63,000**	**0,429**
D.I.	**Accruals**	**2,000**	**0,031**	**63,000**	**0,429**
D.I.1.	Deferred expanses	2,000	0,031	63,000	0,429

Liabilities & Equity (in thousands CZK)		04/03.	05/04.	06/05.	07/06.
	Total liabilities	**0,579**	**1,128**	**1,033**	**1,013**
A.	**Equity**	**1,029**	**1,017**	**1,068**	**0,957**
A.I.	**Registered capital**	**1,000**	**1,000**	**1,000**	**1,000**
1.	Registered capital	1,000	1,000	1,000	1,000
A.II.	**Capital funds**	**1,009**	**1,000**	**1,000**	**1,000**
A.III.	**Statutory funds**	**1,170**	**1,009**	**1,093**	**1,348**
A.IV.	**Profit/loss previous period**	**1,655**	**1,023**	**1,251**	**0,027**
A.V.	**Profit/loss current period**	**0,058**	**11,143**	**4,051**	**1,299**
B.	**Liabilities**	**0,252**	**1,475**	**0,958**	**1,152**
B.I.	**Reserves**	**0,768**	**3,290**	**1,029**	**0,909**
1.	Reserves under special statutory regulation	x	3,538	0,870	0,880
3.	Other reserves	0,405	2,000	2,500	1,000
B.II.	**Long term payables**	**0,826**	**0,728**	**0,645**	**0,724**
B.III.	**Short term payables**	**0,212**	**1,247**	**0,946**	**1,290**
1.	Trade payables	0,099	1,031	1,145	1,318
2.	Payables to controlled and managed organisations	0,564	0,879	1,227	0,878
3.	Payroll	0,982	1,203	1,063	1,107
4.	Payables to social security and national insurance	1,082	0,999	1,219	1,216
5.	Due from state - tax liabilities and subsidies	4,221	0,705	0,432	3,266
6.	Estimated payables	0,000	x	0,288	1,765
8.	Other debtors	1,130	1,759	1,105	1,355
C.	**Other liabilities**	**0,109**	**1,188**	**1,189**	**4,929**
C.I.	**Accruals**	**0,109**	**1,188**	**1,189**	**4,929**

APPENDIX P IV: VERTICAL ANALYSIS OF BALANCE SHEET – VPBESS, LTD. 2003 – 2007

Assets (in thousands CZK)		2002	2003	2004	2005	2006
	Total assets	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**
B.	**Non current assets**	**7,15%**	**8,86%**	**10,29%**	**12,03%**	**14,56%**
B.I.	**Intangible assets**	**0,00%**	**0,00%**	**0,00%**	**0,17%**	**0,05%**
3.	Software	0,00%	0,00%	0,00%	0,17%	0,05%
B.II.	**Tangible assets**	**7,15%**	**8,86%**	**10,29%**	**11,86%**	**14,52%**
3.	Machinery, tools and equipment	7,15%	8,86%	10,29%	11,86%	14,52%
C.	**Current assets**	**92,83%**	**91,07%**	**89,71%**	**87,95%**	**85,39%**
C.I.	**Inventory**	**44,74%**	**36,15%**	**13,03%**	**18,27%**	**22,85%**
1.	Material	7,78%	12,01%	8,31%	6,93%	10,04%
2.	Work in progress and semi-products	6,29%	23,99%	4,72%	10,98%	12,73%
5.	Merchandise	30,61%	0,00%	0,00%	0,16%	0,08%
6.	Advanced payments for inventory	0,06%	0,15%	0,00%	0,20%	0,00%
C.III	**Short term receivables**	**38,52%**	**30,64%**	**14,91%**	**17,49%**	**24,46%**
1.	Trade receivables	13,32%	19,80%	8,86%	11,09%	18,14%
2.	Receivables from controlled and managed organisations	19,28%	9,05%	3,58%	5,93%	6,29%
4.	Due from state - tax receivables	5,86%	0,00%	0,70%	0,38%	0,00%
5.	Other receivables	0,06%	1,78%	1,78%	0,01%	0,03%
C.IV	**Short term financial assets**	**9,58%**	**24,28%**	**61,77%**	**52,19%**	**38,08%**
1.	Cash	0,09%	0,08%	0,15%	0,04%	0,10%
2.	Bank accounts	9,49%	24,20%	61,62%	52,15%	37,98%
D.	**Other assets**	**0,02%**	**0,07%**	**0,00%**	**0,11%**	**0,05%**
D.I.	**Accruals**	**0,02%**	**0,07%**	**0,00%**	**0,11%**	**0,05%**
1.	Deferred expanses	0,02%	0,07%	0,00%	0,11%	0,05%

Liabilities & Equity (in thousands CZK)		2003	2004	2005	2006	2007
	Total liabilities & Equity	100,00%	100,00%	100,06%	100,00%	100,00%
A.	**Equity**	**42,64%**	**75,73%**	**68,30%**	**70,61%**	**66,66%**
A.I.	**Registered capital**	**40,25%**	**69,47%**	**61,60%**	**59,61%**	**58,82%**
1.	Registered capital	40,25%	69,47%	61,60%	59,61%	58,82%
A.II.	**Capital funds**	**0,13%**	**0,22%**	**0,20%**	**0,19%**	**0,19%**
A.III	**Statutory funds**	**0,68%**	**1,37%**	**1,23%**	**1,30%**	**1,73%**
A.IV	**Profit/loss previous period**	**1,59%**	**4,55%**	**4,13%**	**5,00%**	**0,13%**
A.V.	**Profit/loss current period**	**1,16%**	**0,12%**	**1,15%**	**4,51%**	**5,79%**
B.	**Liabilities**	**55,50%**	**24,17%**	**31,61%**	**29,31%**	**33,32%**
B.I.	**Reserves**	**2,43%**	**3,22%**	**9,41%**	**9,37%**	**8,40%**
1.	Reserves under special statutory regulation	1,69%	2,70%	8,48%	7,14%	6,20%
3.	Other reserves	0,74%	0,52%	0,92%	2,23%	2,20%
B.II.	**Long term payables**	**1,45%**	**2,07%**	**1,34%**	**0,83%**	**0,60%**
B.III	**Short term payables**	**51,62%**	**18,88%**	**20,87%**	**19,10%**	**24,32%**
1.	Trade payables	41,59%	7,14%	6,53%	7,23%	9,41%
2.	Payables to controlled and managed organisations	4,29%	4,17%	3,25%	3,86%	3,34%
3.	Payroll	2,20%	3,72%	3,97%	4,09%	4,46%
4.	Payables to social security and national instance	0,99%	1,84%	1,63%	1,93%	2,31%
5.	Due from state - tax liabilities and subsidies	0,24%	1,75%	1,09%	0,46%	1,47%
6.	Estimated payables	2,03%	0,00%	4,03%	1,12%	1,96%
7.	Other payables	0,09%	0,18%	0,28%	0,30%	0,40%
C.	**Other liabilities**	0,88%	0,17%	0,18%	0,20%	0,98%
C.I.	**Accruals**	**0,88%**	**0,17%**	**0,18%**	**0,20%**	**0,98%**

APPENDIX P V: HORIZONTAL ANALYSIS OF INCOME STATEMENT – VPBESS, LTD. 2003 – 2007

Income statement (in thousands CZK)		04/03.	05/04.	06/05.	07/06.
I.	**Revenues from sold goods**	**X**	**0,000**	**x**	**X**
A.	**Expenses on sold goods**	**X**	**0,000**	**x**	**X**
+	**Sale margin**	**X**	**x**	**x**	**X**
II.	**Production**	**1,433**	**0,943**	**0,921**	**1,300**
1.	Revenues from own products and services	1,404	1,107	0,801	1,350
2.	Change in inventory of own products	2,155	-1,422	-0,411	0,279
3.	Capitalisation	0,000	x	0,793	0,000
B.	**Production consumption**	**1,852**	**0,822**	**0,906**	**1,414**
1.	Consumption of material and energy	2,133	0,637	1,083	1,385
2.	Services	1,308	1,407	0,654	1,484
+	**Added value**	**1,071**	**1,122**	**0,938**	**1,178**
C.	**Personnel expenses**	**1,074**	**1,000**	**1,048**	**1,129**
1.	Wages and salaries	1,076	0,988	1,050	1,121
3.	Social security expenses and health insurance	1,046	1,019	1,068	1,142
4.	Other social expenses	1,192	1,266	0,853	1,215
D.	**Taxes and fees**	**0,900**	**0,926**	**0,920**	**2,348**
E.	**Depreciation of tangible and intangible assets**	**1,213**	**0,647**	**0,857**	**1,273**
III.	**Revenues from disposals of fixed assets and materials**	**4,211**	**1,058**	**0,857**	**1,017**
F.	**Net book value of disposed fixed assets and materials**	**4,543**	**0,755**	**1,231**	**0,920**
G.	**Change in operating reserves and complex deferred costs**	**0,128**	**-7,359**	**-0,409**	**1,168**
VI.	**Other operating revenues**	**0,795**	**0,460**	**3,351**	**1,539**
I.	**Other operating expanses**	**0,038**	**4,889**	**0,469**	**5,000**
*****	**Operating profit/loss**	**0,187**	**6,127**	**3,210**	**1,485**
XIV.	**Interest revenues**	**10,545**	**1,241**	**1,299**	**2,626**
XV.	**Other financial revenues**	**0,000**	**x**	**3,600**	**22,722**
Q.	**Other financial expenses**	**0,789**	**1,067**	**2,219**	**1,934**
*****	**Profit/loss from financial operations**	**-0,255**	**2,038**	**-0,151**	**-61,000**
S.	**Income tax on ordinary income**	**-0,203**	**1,739**	**x**	**-3,019**
1.	Due tax	1,923	1,419	0,099	18,762
2.	Tax deferred	0,357	1,286	0,952	0,502
******	**Operating profit/loss from ordinary activity**	**0,058**	**11,125**	**4,058**	**1,299**
XVII.	**Extraordinary revenues**	**x**	**x**	**x**	**x**
T.	**Extraordinary expenses**	**x**	**x**	**x**	**x**
*****	**Profit/loss from extraordinary activity**	**x**	**x**	**x**	**x**
*******	**Profit/loss of current period**	**0,058**	**11,125**	**4,058**	**1,299**
	Profit/loss before tax	**0,272**	**5,389**	**2,981**	**1,701**

APPENDIX P VI: VERTICAL ANALYSIS OF INCOME STATEMENT – VPBESS, LTD. 2003 – 2007

	Income statement (in thousands CZK)	2003	2004	2005	2006	2007
I.	**Total revenues**	**100%**	**100%**	**100%**	**100%**	**100%**
A.	**Revenues from sold goods**	**0%**	**3%**	**0%**	**0%**	**0%**
B	**Production**	**99%**	**95%**	**98%**	**98%**	**98%**
B.1.	Revenues from own products and services	95%	93%	110%	95%	99%
2.	Change in inventory of own products	4%	7%	-10%	5%	1%
3.	Capitalization	1%	0%	0%	0%	0%
B.	**Revenues from disposal of fixed assets and materials**	**1%**	**2%**	**2%**	**2%**	**2%**
B.1.	Other revenues	0%	0%	0%	0%	0%
2.	**Total expenses**	**100%**	**100%**	**100%**	**100%**	**100%**
A.	**Expenses on sold goods**	**0%**	**3%**	**0%**	**0%**	**0%**
B	**Production consumption**	**47%**	**57%**	**51%**	**52%**	**57%**
B-1.	Consumption of material and energy	66%	76%	59%	70%	69%
B.2.	Services	44%	24%	41%	30%	31%
C.	**Personnel expenses**	**51%**	**36%**	**40%**	**46%**	**41%**
C.1.	Wages and salaries	72%	72%	71%	71%	71%
C.3.	Social security expenses and health insurance	26%	25%	26%	26%	26%
C.4.	Other social expenses	2%	3%	3%	3%	3%
D.	**Depreciation of tangible and intangible assets**	**3%**	**3%**	**2%**	**2%**	**1%**
E.	**Net book value of disposed fixed assets and materials**	**0%**	**2%**	**2%**	**2%**	**2%**
F.	**Change in operating reserves and complex deferred costs**	**-7%**	**-1%**	**5%**	**-2%**	**-2%**
G.	**Other operating expanses**	**6%**	**0%**	**0%**	**0%**	**1%**