

Financial Analysis of D H J – Kovo, s.r.o.

Jitka Zálešáková

Bachelor Thesis
2010



Tomas Bata University in Zlín
Faculty of Humanities

Univerzita Tomáše Bati ve Zlíně
Fakulta humanitních studií
Ústav anglistiky a amerikanistiky
akademický rok: 2009/2010

ZADÁNÍ BAKALÁŘSKÉ PRÁCE

(PROJEKTU, UMĚLECKÉHO DÍLA, UMĚLECKÉHO VÝKONU)

Jméno a příjmení: **Jitka ZÁLEŠÁKOVÁ**
Studijní program: **B 7310 Filologie**
Studijní obor: **Anglický jazyk pro manažerskou praxi**

Téma práce: **Finanční analýza společnosti D H J – Kovo, s.r.o.**

Zásady pro vypracování:

Zpracujte literární rešerši zabývající se danou problematikou.
Provedte finanční analýzu společnosti.
Zhodnoťte výsledky finanční analýzy.
Navrhněte doporučení vedoucí ke zlepšení finančního řízení ve společnosti.

Rozsah práce:

Rozsah příloh:

Forma zpracování bakalářské práce: **tištěná/elektronická**

Seznam odborné literatury:

Blaha, Zdenek S., and Irena Jindřichovská. 1994. Jak posoudit finanční zdraví firmy. Praha: MANAGEMENT PRESS.

Kislingerová, Eva a kol. 2004. Manažerské finance. Praha: C.H. Beck.

Needles, Belverd E., and Marian Powers. 2007. Financial Accounting. Boston: Houghton Mifflin Company.

Paseková, Marie. 2007. Účetní výkazy v praxi. Praha: Kernberg Publishing.

Pavelková, Drahomíra. 2005. Výkonost podniku z pohledu finančního manažera. Praha: Linde.

Růčková, Petra. 2008. Finanční analýza: metody, ukazatele, využití v praxi. Praha: Grada.

Vedoucí bakalářské práce:

Ing. Marie Paseková, Ph.D.

Ústav financí a účetnictví

Datum zadání bakalářské práce:

8. ledna 2010

Termín odevzdání bakalářské práce:

7. května 2010

Ve Zlíně dne 8. ledna 2010

prof. PhDr. Vlastimil Švec, CSC.
děkan



doc. Ing. Anežka Lengálová, Ph.D.
vedoucí katedry

PROHLÁŠENÍ AUTORA BAKALÁŘSKÉ PRÁCE

Beru na vědomí, že

- odevzdáním bakalářské práce souhlasím se zveřejněním své práce podle zákona č. 111/1998 Sb. o vysokých školách a o změně a doplnění dalších zákonů (zákon o vysokých školách), ve znění pozdějších právních předpisů, bez ohledu na výsledek obhajoby¹⁾;
- beru na vědomí, že bakalářská práce bude uložena v elektronické podobě v univerzitním informačním systému dostupná k nahlédnutí;
- na moji bakalářskou práci se plně vztahuje zákon č. 121/2000 Sb. o právu autorském, o právech souvisejících s právem autorským a o změně některých zákonů (autorský zákon) ve znění pozdějších právních předpisů, zejm. § 35 odst. 3²⁾;
- podle § 60³⁾ odst. 1 autorského zákona má UTB ve Zlíně právo na uzavření licenční smlouvy o užití školního díla v rozsahu § 12 odst. 4 autorského zákona;
- podle § 60³⁾ odst. 2 a 3 mohu užít své dílo – bakalářskou práci - nebo poskytnout licenci k jejímu využití jen s předchozím písemným souhlasem Univerzity Tomáše Bati ve Zlíně, která je oprávněna v takovém případě ode mne požadovat přiměřený příspěvek na úhradu nákladů, které byly Univerzitou Tomáše Bati ve Zlíně na vytvoření díla vynaloženy (až do jejich skutečné výše);
- pokud bylo k vypracování bakalářské práce využito softwaru poskytnutého Univerzitou Tomáše Bati ve Zlíně nebo jinými subjekty pouze ke studijním a výzkumným účelům (tj. k nekomerčnímu využití), nelze výsledky bakalářské práce využít ke komerčním účelům.

Prohlašuji, že

- elektronická a tištěná verze bakalářské práce jsou totožné;
- na bakalářské práci jsem pracoval samostatně a použitou literaturu jsem citoval. V případě publikace výsledků budu uveden jako spoluautor.

Ve Zlíně 6.5.2010



.....

¹⁾ Zákon č. 111/1998 Sb. o vysokých školách a o změně a doplnění dalších zákonů (zákon o vysokých školách), ve znění pozdějších právních předpisů, § 47b Zveřejňování záverečných prací:

(1) Vysoká škola nesystematicky zveřejňuje disertační, diplomové, bakalářské a rigorózní práce, u kterých proběhla obhajoba, včetně posudků oponentů a výsledků obhajoby prostřednictvím databáze kvalifikačních prací, kterou spravuje. Způsob zveřejnění stanoví vnitřní předpis vysoké školy.

(2) *Dokladná, diplomová, bakalářská a rigorózní práce odevzdání uchazečem k obhajobě musí být též nejméně pět pracovních dnů před konáním obhajoby zveřejněny k nahlázení veřejnosti v místě určeném vnitřním předpisem vysoké školy nebo není-li tak určeno, v místě pracoviště vysoké školy, kde se má konat obhajoba práce. Každý si může ze zveřejněné práce pořizovat na své náklady výpisy, opisy nebo rozmnoženiny.*

(3) *Platí, že odevzdáním práce autor souhlasí se zveřejněním své práce podle tohoto zákona, bez ohledu na výsledek obhajoby.*

2) *zákon č. 121/2000 Sb. o právu autorském, o právech souvisejících s právem autorským a o změně některých zákonů (autorský zákon) ve znění pozdějších právních předpisů, § 35 odst. 3:*

(3) *Do práva autorského také nezasahuje škola nebo školské či vzdělávací zařízení, sžije-li nikoli za účelem přímého nebo nepřímého hospodářského nebo obchodního prospěchu k výuce nebo k vlastní potřebě dílo vytvořené žákem nebo studentem ke splnění školních nebo studijních povinností vyplývajících z jeho přímého vztahu ke škole nebo školskému či vzdělávacímu zařízení (školské dílo).*

3) *zákon č. 121/2000 Sb. o právu autorském, o právech souvisejících s právem autorským a o změně některých zákonů (autorský zákon) ve znění pozdějších právních předpisů, § 60 Školské dílo:*

(1) *Škola nebo školské či vzdělávací zařízení mají za obvyklých podmínek právo na uzavření licenční smlouvy o užití školského díla (§ 35 odst.*

3). *Opírá-li autor takového díla užití svolení bez výhradního důvodu, mohou se tyto osoby domáhat náhrady chybějícího projevu jeho vůle u soudu. Ústanovení § 35 odst. 3 zůstává neúčinné.*

(2) *Není-li sjednáno jinak, může autor školského díla své dílo užití či poskytnout jinému licenci, není-li to v rozporu s oprávněnými zájmy školy nebo školského či vzdělávacího zařízení.*

(3) *Škola nebo školské či vzdělávací zařízení jsou oprávněny požadovat, aby jim autor školského díla z výdělku jin doručeního v souvislosti s užitím díla či poskytnutím licence podle odstavce 2 přiměřeně přispěl na úhradu nákladů, které na vytvoření díla vynaložil, a to podle okolností až do jejich skutečné výše; přitom se přibližně k větší výdělku doručeního školou nebo školským či vzdělávacím zařízením z užití školského díla podle odstavce 1.*

ABSTRAKT

Tato bakalářská práce se zabývá finanční analýzou společnosti DHJ – Kovo, s.r.o. Jejím cílem je zhodnotit finanční situaci dané společnosti v letech 2004 – 2008 a navrhnout možná opatření vedoucí ke zlepšení finančního řízení společnosti. Teoretická část popisuje uživatele, zdroje a metody finanční analýzy. Praktická část obsahuje finanční analýzu společnosti, při které byly použity absolutní, rozdílové, poměrové a souhrnné ukazatele. Získané hodnoty jsou zpracovány do grafů a tabulek.

Klíčová slova: finanční analýza, účetní výkazy, absolutní ukazatele, poměrové ukazatele, rozdílové ukazatele, souhrnné ukazatele

ABSTRACT

This bachelor thesis deals with financial analysis of DHJ – Kovo, s.r.o. Its aim is to evaluate the financial situation of the company from 2004 to 2008 and suggest possible measures leading to the improvement of financial management in the company. The theoretical part describes users, sources and methods of a financial analysis. The practical part contains financial analysis of the company by means of absolute, subtractive, ratio and cumulative indicators. The acquired data are processing graphs and tables.

Keywords: financial analysis, financial statements, absolute indicators, ratio indicators, subtractive indicators, cumulative indicators

ACKNOWLEDGEMENTS

I would like to thank my supervisor Ing. Marie Paseková, Ph.D. for her valuable advice and kind attitude. This is also the opportunity to thank my parents for their endless support.

CONTENTS

INTRODUCTION.....	10
I THEORY.....	11
1 THEORETICALASPECTSOFFINANCIALANALYSIS.....	12
1.1 Sourcesofinformationforfinancialanalysis....	12
1.2 Usersoffinancialanalysis.....	14
1.2.1 Investors,shareholders.....	14
1.2.2 Commercialbanksandothercreditors.....	15
1.2.3 Governmentanditsbodies.....	15
1.2.4 Businesspartners.....	15
1.2.5 Staff.....	15
1.2.6 Managers.....	15
2 FINANCIALSTATEMENTSUSEDFORFINANCIALANALYSIS.	17
2.1 BalanceSheet.....	17
2.1.1 Possibledifficultiesofbalancesheetanalysis..	17
2.2 IncomeStatement.....	18
2.2.1 Possibledifficultiesofincomestatementanalysis	19
2.3 StatementofCashFlows.....	19
2.3.1 FreeCashFlow(FCF).....	20
3 METHODSANDINDICATORSOFFINANCIALANALYSIS.....	21
3.1 OverviewofElementaryMethodsofFinancialAnalysi	22
3.2 AnalysisofAbsoluteIndicators.....	24
3.2.1 TrendAnalysis(horizontalanalysis).....	24
3.2.2 PercentageAnalysisofComponents(verticalanalysi	24
3.3 AnalysisofSubtractive Indicators.....	24
3.4 AnalysisofRatioIndicators.....	25
3.4.1 ProfitabilityRatios.....	26
3.4.2 AssetUtilizationRatios.....	27
3.4.3 DebtManagementRatios.....	28
3.4.4 LiquidityRatios.....	29
3.4.5 MarketValueRatios.....	30
3.5 AnalysisofCumulativeIndicators.....	32
3.5.1 KralicekQuickTest.....	33
3.5.2 AltmanModel(Z-Score).....	34
3.5.3 DuPontAnalysis.....	35
II ANALYSIS.....	37
4 CHARACTERISTICSOFTHECOMPANY.....	38

4.1	Basic information.....	38
4.2	SWOT ANALYSIS.....	41
4.3	Characteristics of the subject of business.....	41
4.3.1	The position of OKE Č28 within the manufacturing industry.....	42
4.3.2	International trade.....	43
4.3.3	Investments.....	45
5	METHODS.....	46
5.1	Absolute indicators.....	46
5.1.1	Horizontal analysis of the balance sheet.....	46
5.1.2	Vertical analysis of the balance sheet.....	49
5.1.3	Horizontal analysis of the income statement.....	52
5.1.4	Vertical analysis of the income statement.....	57
5.2	Subtractive indicators.....	59
5.2.1	Networking capital.....	59
5.3	Ratio indicators.....	60
5.3.1	Profitability ratios.....	60
5.3.2	Asset utilization ratios.....	61
5.3.3	Debt management ratios.....	62
5.3.4	Liquidity ratios.....	63
5.4	Cumulative indicators.....	64
5.4.1	Altman Model (Z-Score).....	65
5.4.2	DuPont analysis.....	65
	CONCLUSION.....	67
	BIBLIOGRAPHY.....	69
	APPENDICES.....	72

INTRODUCTION

Financial analysis represents the evaluation of the past, present and recommendations of appropriate solutions for the future. Its goal is to recognize the financial health of the company, identify strengths but also weaknesses which would lead to problems. One of the targets of financial management is to provide management of the company with an abundance of quality information used for various flexible, tactical and strategic decisions. Financial analysis serves as an important tool for reaching those decisions. Not only management of the company, but also shareholders, banks, creditors and employees are interested in results of financial analysis.

This bachelor thesis is divided into two parts – theoretical and practical. In the theoretical part, firstly, I deal with grounds and point of financial analysis. Secondly, I mention sources of information for analysis and finally, I describe methods of evaluation of financial health of the company.

In the practical part, I sum up basic information about DHJ – Kovo, s.r.o. and characteristics of the branch (OKE Č) in which the company does business. SWOT Analysis, which identifies strengths and weaknesses of the company, is also the part of the research. The analysis itself begins with horizontal and vertical analyses of financial statements – balance sheet and income statement in the period from 2004 to 2008. In the following chapter, I deal with the analysis of subjective indicators, especially networking capital. Then follow analyses of ratio indicators – profitability ratios, asset utilization ratios, debt management ratios and liquidity ratios. The last mentioned indicators are cumulative indicators, especially Altman Z – Score which defines the probability of going bankrupt, and DuPont Analysis of Return on Equity (ROE). I try to process the acquired data as clearly as possible in the form of graphs and tables.

The aim of the bachelor thesis is to evaluate the financial situation of the company DHJ – Kovo, s.r.o. by means of various methods and suggest feasible measures which would lead to the improvement of financial management of the company.

I. THEORY

1 THEORETICAL ASPECTS OF FINANCIAL ANALYSIS

Financial analysis represents a systematic analysis of acquired data that are primarily included in financial statements. Financial analysis contains the assessment of the company's past, present and prediction of future financial conditions. The main purpose of the analysis is to prepare documents for quality decision-making about functioning of the company. It is obvious that there is a very strong connection between financial accounting and company decision-making. From a financial analysis point of view, financial accounting presents exact values of financial data which are only related to a given period of time. These data must be analysed for financial analysis in order to use them for evaluation of the financial health of the company. (Růčková 2008, 9)

Financial analysis is not only the part of financial management but it also has an impact on the company as a whole, e.g. the analysis is included in marketing SWOT Analysis. It is the identification of weaknesses in the economic health of the company which would lead to problems in the future and of strengths connected with future increase of the value of company property.

Financial analysis has had a long tradition in countries with developed market economies and is an inseparable part of financial management. The analysis has become a popular tool for evaluation of real financial situation of the company. Financial results are becoming the basic criteria of economic decisions and company finances are being an object of businessmen's attention. Results are crucial not only for strategic financial management but also for evaluation and selection of business partners. The financial stability is one of the basic aims of financial management. Růčková (2008, 10) points out that the stability is assessed by means of two basic criteria:

- The ability to make a profit, arrange the increase in property and to appreciate the invested capital;
- To arrange the solvency of the company.

1.1 Sources of information for financial analysis

The sources of information have the different availability but generally are divided into two groups:

- External
- Internal

External information

External information is concerned not only with the company as a whole but also with domestic and foreign environment in which the company is situated. This category includes information from:

- International analyses,
- Analyses of national economy or industrial sectors,
- Official statistics,
- Market report.

Non-financial external information is financial position on the market, competitors, governmental measures or the quality of management. (Růčková 2008, 19)

Internal information

- Internal information is directly concerned with the analysed company. Nevertheless, all the information is not available to the general public. Publicly available information are data from the statement of account which includes these financial statements:
 - Balance sheet,
 - Income statement,
 - Statement of cash flows,
 - Statement of shareholders' Equity. (Růčková 2008, 17)

Kovanicová and Kovanic (1995, 5) present the different segmentation of information for financial analysis.

Financial information includes:

- Financial statements and annual reports,
- In-house financial statements,
- Forecasting of analysts and company executives,
- Market report,
- Business news in the media,
- Development of monetary ratios and interest rates.

Quantifiable non-financial information:

- Company statistics of production, demand, employment and sales,
- Company leaflets, internal directives,

- Official economic statistics.

Non-quantifiable information:

- Reports of senior executives, managing directors and auditors,
- Comments of managers,
- Comments of technical journals,
- Personal contacts,
- Independent assessment and forecasts.

Analytical estimates of various institutions.

1.2 Users of financial analysis

Financial analysis is crucial for management of the company, shareholders, creditors and other external users. Shareholders are interested in current profitability of shares, suppliers in repayment of invoices in time, customers in quality of delivery and staff is interested in pay conditions and job security. Nowadays the company can no longer exist without continuous processing and evaluation of financial indexes.

External users:

- Investors, shareholders,
- Commercial banks and other creditors,
- Government and its bodies,
- Business partners,
- Managers, competitors.

Internal users:

- Managers,
- Trade unionists,
- Staff.

1.2.1 Investors, shareholders

Investors and shareholders take an interest in information about the performance of the company. On the one hand, they want to obtain the adequate amount of information needed

for decision-making about investments in the company. The main attention is paid to the degree of the risk and return on capital invested. On the other hand, owners and investors want to make sure whether invested resources are properly evaluated and optimized.

1.2.2 Commercial banks and other creditors

Commercial banks as creditors evaluate long-term liquidity and profitability of potential or existing debtors. Creditors use information from financial analysis to make decisions whether to loan money to companies or not.

1.2.3 Government and its bodies

The government and its bodies control the correctness of collected taxes. Information about companies is used for various statistical purposes, for checking of companies with state property involvement, for distribution of subsidies, and for an economic survey of companies which were given state orders with intenters.

1.2.4 Business partners

Business partners and suppliers are interested in information whether the company is able to repay its liabilities. They particularly focus on these indexes:

- Solvency,
- Liquidity,
- Indebtedness.

1.2.5 Staff

Employees are naturally interested in prosperity, economic and financial stability of the company. It is concerned with job security, possibilities in wage and social policy, or other benefits provided by the employer. (Kislingerová 2005, 22-24)

1.2.6 Managers

Managers need the analysis for current and long-term financial management and decision-making. Continuous knowledge of company performance allows managers to make right decisions on gaining of financial resources, on determination of the optimum financial structure, on allocation of free finances, on distribution of profits, and on allocation of

trade credits. The knowledge of financial position is necessary for both the past and forecasting of future development. (Pavelková 2005, 25)

2 FINANCIAL STATEMENTS USED FOR FINANCIAL ANALYSIS

The quality of information depends on used source information which should be not only quality but also complex. The basic data for financial analysis are very often acquired from financial statements. The statements provide a survey of economic situation, structure of the property, allocation of resources and cash flows.

2.1 Balance Sheet

The balance sheet is a summary of all transactions of the company recorded in its accounting and therefore it provides information about a financial situation of an accounting unit which is necessary for financial management.

When analysing the balance sheet, according to Růčková (2008, 23) the attention is paid to:

- State and development of accounting equation,
($Assets = Liabilities + Stockholders' Equity$)
- Structure and development of assets, an adequate size of particular components,
- Structure and development of liabilities, particularly stockholder's equity, bank and supplier's loans,
- Relation among assets and liabilities components.

Table 1. Structure of the balance sheet

BALANCE SHEET	
ASSETS	LIABILITIES+EQUITY
LONG-TERM(FIXED)ASSETS	STOCKHOLDERS'EQUITY
CURRENTASSETS	LIABILITIES
ACCRUALS	ACCRUALS

2.1.1 Possible difficulties of balance sheet analysis

Blaha and Jindřichovská (1994, 22-23) point out possible difficulties when analysing the balance sheet:

- Balance sheet does not exactly reflect the present value of the company because accounting principles use the past value – past purchase price - for evaluation of assets and liabilities,

- Accounting principles use the estimate to determine the real value of some balance sheet components,
- In financial statements there are not included some components which have certain “internal” values, e.g. human resources or experience and qualification of employees.

Růčková (2008, 30) mentions further possible difficulties when analysing the balance sheet:

- Balance sheet reflects the state of components at a given moment and therefore it does not provide information about the vitality of the company,
- Balance sheet does not work with the present value of money and does not exactly capture the present value of assets and liabilities because it does not take into account the influence of external factors which can influence some components from the balance sheet.

2.2 Income Statement

The income statement provides information about the company performance over an accounting period. When analysing the income statement, the attention is paid to the structure of the statement, and dynamism of particular components. The information from the income statement is a very important source material for evaluation of profitability.

There are several degrees of net income in the structure of income statement. Particular components of net income differ from each other in which expenses and revenues belong to its structure. Net income is divided into:

- Operating activities,
- Financial activities,
- Extraordinary,
- Before taxation,
- Accounting period.

The most important component of the statement is “net income on operating activities” because it reflects the efficiency of the company to generate positive net income on company’s main operations.

The basic difference between the balance sheet and the income statement is that the balance sheet records assets and liabilities at a given moment, while the income statement is always related to a given time interval – an overview of resulting operations over a time interval. The income statement includes flow quantities based on a cumulative basis and their changes at the time do not have to be even. (Růčková 2008, 32)

2.2.1 Possible difficulties of income statement analysis

Blaha and Jindřichovská (1994, 23-24) point out possible problems when analysing the income statement:

- Revenues and expenses appear in financial statements even though there are no flows of cash over a given period; revenues on selling (sales) include sales paid in cash immediately and selling to customers on the trade credit,
- Sales – revenues of current period – do not include the encashment of payments from selling that was realized on credit in a previous period,
- Expenses of a given period represent all the costs made during the process of making of revenues of a given period; wages, salaries and other expenses do not have to be paid in the same period when they appear in the income statement,
- Some of the expenses included in ‘the profit and loss account’ are not a cash expense, e.g. the depreciation does not mean the outflow of cash in spite of the fact that the depreciation is subtracted when calculating the net income.

2.3 Statement of Cash Flows

The primary purpose of the statement of cash flows is to provide information about the state of financial resources at the beginning and at the end of an accounting period. The statement also shows how particular business operations participate in inflows and outflows of financial resources. (Paseková 2007, 34)

The statement of cash flows is used for evaluation of company's financial stability, short-term planning of cash receipts and cash payments, long-term compiling of a financial plan and evaluation of cost-effectiveness of investment variants.

A secondary purpose is to provide information about a company's:

- Operating activities,
- Investing activities,

- Financing activities.

The statement of cash flows is useful to management, investors and creditors as well. Management uses the statement of cash flows to evaluate liquidity, to determine dividend policy, and to assess the effects of major decisions involving investments and financing.

Investors and creditors use the statement to evaluate a company's ability to manage cash flows, to generate positive future cash flows, to pay its liabilities, to anticipate its need for additional financing, and to pay dividends and interest. (Needles and Powers 2007, 658)

There are two methods to quantify the statement of cash flows:

- *Direct method* – by means of observation of cash receipts and cash payments over a given time period,
- *Indirect method* – by means of transformation of net income into cash flows from operations.

The advantage of composition of the statement of cash flows is that the statement is not influenced by the depreciation of assets because the accounting unit shows the same cash flows when using the method of straight-line and accelerated depreciation but the 'net income' component can widely differ – the depreciation is not connected with cash flows. (Růčková 2008, 36)

2.3.1 Free Cash Flow (FCF)

Free cash flow is the index used for financial analyses and at the same time is the source information for chosen procedures of valuation of the company. It corresponds to the question how large cash flows (positive or negative) are generated by operating and investment activities. It is the free cash which is available to those people who came up with the capital – owners and creditors. (Pavelková 2005, 22)

If free cash flow is positive, the company has met all of its planned cash commitments and also has cash available to reduce debt or to expand. On the other hand, free cash flow is negative, it means that the company will have to sell investments, borrow money, or issue stock in the short term to continue at its planned level. If the company's free cash flow remains negative for several years, the company may not be able to raise cash by issuing stocks or bonds. (Needles and Powers 2007, 664)

3 METHODS AND INDICATORS OF FINANCIAL ANALYSIS

The development of mathematical, statistical and economic sciences enabled to establish a wide range of methods for evaluation of company's financial health within financial analysis. It is necessary to realize that the attention should be paid to the suitability when choosing methods of analysis. Růčková (2008, 40) suggests that the choice of methods must be done with respect to:

- *Usefulness* – it means that the method must correspond to the stated aim; exactly the same methods and indicators are not suitable for every company,
- *Expensiveness* – there are many expenses (time, competence) connected with the analysis; the expenses should be appropriate to the return of invested expenses,
- *Reliability* – the more reliable and quality is the input information, the more reliable are results of the analysis.

Růčková (2008, 41) shows that there are two approaches to the evaluation of economic methods in economics:

- *Fundamental analysis* – based on the knowledge of mutual connections between economic and non-economic processes which influence activities of an analysed company; deduces conclusions mostly without algorithm processes,
- *Technical analysis* – uses mathematic, mathematic-statistics and algorithm methods to compile data quantitatively in order to assess conclusions from economic point of view.

It is obvious that fundamental and technical analyses are relatively close because it would be quite difficult to assess conclusions of technical analyses without the “fundamental” knowledge of economic processes so it is necessary to combine these two approaches to financial analysis.

It follows from this that financial analysis belongs to the category of technical analyses because it works with mathematical processes which are presented as the explanation of computed values.

3.1 Overview of Elementary Methods of Financial Analysis

Sedláček (2005, 171 - 202) divides elementary methods used in technical analyses into these groups:

- Analysis of Absolute Indicators (state and flow):
 - Trend Analysis (horizontal analysis),
 - Percentage Analysis of Components (vertical analysis).

- Analysis of Subtractive Indicators:
 - Net Working Capital.

- Analysis of Ratio Indicators:
 - Profitability Ratios,
 - Asset Management Ratios,
 - Debt Management Ratios,
 - Liquidity Ratios,
 - Market Value Ratios.

- Analysis of Cumulative Indicators:
 - Kralicek Quick Test,
 - Altman Model (Z-Score),
 - The DuPont Analysis.

Růčková (2008, 42-43) presents different segmentation of indicators which is nowadays frequently used:

- Extensive (volumetric) Indicators:
 - Subtractive Indicators,
 - Non-financial Indicators,
 - State Indicators,
 - Flow Indicators.

- Intensive (relative) Indicators:
 - Homogeneous,
 - Heterogeneous.

Extensive (volumetric) indicators

Extensive indicators are holders of information about the range or volume of analysed component and present the quantity in natural (volumetric) units. In the case of analysis of basic financial statements, the quantity is expressed in financial units. The category of extensive indicators includes: subtractive, non-financial, state and flow indicators.

Subtractive indicators present the difference of state of given groups of assets or liabilities which are always applied to the same time. The typical representative of subtractive indicator is *net working capital* – the difference among total current assets and total short-term liabilities.

Non-financial indicators are the necessary part of the analysis and are drawn from data stated in the in-house financial accounting. This category includes the total number of employees, the amount of products, energy consumption, the productivity of labour etc.

State indicators show the state of property and its financial resources of cover to the given time. These quantities serve as a basic to the other indicators, particularly components from the balance sheet.

Flow indicators inform about the change in extensive indicators which happened in the given period of time. The most common flow indicator is net income which is expressed as the subtraction of revenues and expenditures. (Růčková 2008, 42-43)

Intensive indicators

Intensive indicators characterize the degree of how often these indicators are used in the company and how fast or strong they are changed. The category of intensive indicators includes homogeneous and heterogeneous intensive indicators.

Homogeneous intensive indicators are the ratio of extensive indicators which are expressed in the same figures.

Heterogeneous intensive indicators are defined as the ratio of two indicators expressed in different figures. The most typical examples are turnover and speed indicators in the category of asset indicators. The reason why these indicators are so frequently used is that they enable to do the analysis of time development of financial position of a given company. Furthermore, the indicators are used when compiling both short-term and long-term financial planning. (Růčková 2008, 43)

3.2 Analysis of Absolute Indicators

This method of analysis uses direct data involved in financial statements for assessing and following of financial situation of a given company. On the one hand, it enables to assess particular changes in the structure of assets and liabilities, and at the same time it assesses their development in time (*trend analysis*). On the other hand, the method enables to compare relative changes in assets and liabilities among other companies mutually by means of percentage analysis of components (*vertical analysis*). (Sedláček 2005, 171)

3.2.1 Trend Analysis (horizontal analysis)

The horizontal analysis compares changes of indicators in the timeline with retrospective from five to ten years. It considers horizontally (line by line) both changes of absolute indicators and proportional changes of particular components in financial statements. (Sedláček 2005, 171)

3.2.2 Percentage Analysis of Components (vertical analysis)

Needles and Powers (2007, 718) present this definition of vertical analysis:

“Vertical analysis shows how the different components of a financial statement relate to a total figure in the statement. The analyst sets the total figure at 100 percent and computes each component’s percentage of that total. On the balance sheet, the figure would be total assets or total liabilities and stockholders’ equity, and on the income statement, it would be net revenues or net sales.”

The main advantage of vertical analysis could be the fact that it is independent of the interim inflation and therefore it allows the comparability of results of analysis from various years and even comparison of various companies. (Sedláček 2005, 173)

3.3 Analysis of Subtractive Indicators

Subtractive indicators are used for analysing and management of company’s financial situation with orientation to company’s liquidity. The most important subtractive indicator is *net working capital*. (Pavelková 2005, 25)

Net working capital is defined as:

$$\text{Net Working Capital} = \text{Total Current Assets} - \text{Total Current Liabilities}$$

Net working capital represents that part of current assets which is financed with long-term financial resources – either own resources (company’s capital) or liabilities (bank loans, bonds). The development of net working capital and short-term solvency interest the company’s management and its short-term creditors (banks, suppliers). (Blaha and Jindřichovská 1994, 37-38)

Needles and Powers (2007, 247) mention that the net working capital could be used to purchase inventory, obtain credit, and finance expanded sales. When a company lacks the net working capital, it can lead to a company’s failure.

3.4 Analysis of Ratio Indicators

The analysis of financial statements by means of ratio indicators is one of the most popular methods because it allows forming a quick idea on basic company’s financial profile. (Pavelková 2005, 26)

It is possible to distinguish various groups of ratio indicators. Růčková (2008, 47) divides ratio indicators according to financial statements from which it is primarily sourced.

Table 2. Types of Ratio Indicators

RATIO INDICATORS		
INDICATORS OF THE STRUCTURE OF PROPERTY AND EQUITY	INDICATORS OF MAKING OF NET INCOME	INDICATORS ON THE BASE OF CASH FLOWS

Source: Růčková, 2008, 47.

It is clear that this segmentation is based on the logical basis because each group is focused on one of three financial statements which are used for financial analyses. *The indicators of the structure of property and equity* are based on a balance sheet and applied to liquidity ratios. Leverage ratios are also very essential because they evaluate the company’s capital structure. *The indicators of making of net income* are primarily based on the income statement. The indicators deal with the structure of revenues and expenses (which influence the size of accounting profit) and also with the structure of net income

according to the area in which this result was earned. *The indicators on the base of cash flows analysis there are flow of financial resources.* (Růčková 2008, 47)

The more common segmentation of ratio indicators is divided according to the area of financial analysis: *profitability ratios, asset management ratios, debt management ratios, liquidity ratios and market value ratios.*

3.4.1 Profitability Ratios

The profitability is a measure of company's ability to earn a satisfactory income by means of capital investment. Generally, profitability ratios are used for evaluating of total effectiveness of a given activity. Shareholders and potential investors are unambiguously interested in these indicators. (Růčková 2008, 51) To evaluate the profitability, these indicators are very frequently used:

- **Gross Profit Margin** “measures how well a company manages its costs per euro/Czech crown/dollar of sales.” (Needles and Powers 2007, 724)

$$\text{Gross Profit Margin} = \frac{\text{Net Income}}{\text{Net Sales}}$$

- **Return on Assets (ROA)** is a measure of total company's efficiency, profit-making ability or production power.

$$\text{ROA} = \frac{\text{EBIT}}{\text{Average Total Assets}}$$

- **Return on Equity (ROE)** is a measure of profitability of equity invested by shareholders or owners of the company.

$$\text{ROE} = \frac{\text{Net Income}}{\text{Average Shareholders' Equity}}$$

- **Return on Sales (ROS)**

$$ROS = \frac{Net\ Income}{Sales}$$

- **Return on Costs (ROC)**

$$ROC = 1 - \frac{Net\ Income}{Sales}$$

3.4.2 Asset Utilization Ratios

Asset ratios measure how effectively a company manages its assets. (Sedláček 2005, 181)

- **Total Assets Turnover Ratio** is “a measure of how efficiently assets are used to produce sales.” (Needles and Powers 2007, 732)

$$Total\ Assets\ Turnover\ Ratio = \frac{Net\ Sales}{Average\ Total\ Assets}$$

- **Inventory Turnover Ratio** is “a measure of the relative size of inventory”. (Needles and Powers 2007, 732). Generally speaking, the higher inventory turnover is, the better the situation is in a particular company. Nowadays, the supply management in the majority of companies inclines to the just-in-time system that is suitable for custom-made production. (Růčková 2008, 60)

$$Inventory\ Turnover\ Ratio = \frac{Cost\ of\ Goods\ Sold}{Average\ Inventory}$$

- **Average Collection Period** shows how long the company's property is tied up in the form of receivables after customers, respectively how long it takes customers to pay receivables on average. The recommended value is of course the common due date of invoices. If the average collection period is longer than the common due date of invoices, it means that business partners do not keep credit policy.

However it is common nowadays that the due date of invoices is longer than stated. In this case, it is very important to take the size of analysed company into consideration because the longer due date of receivables can cause financial problems to smaller companies whereas bigger companies are able to tolerate it. (Růčková 2008, 60-61)

$$\text{Average Collection Period} = \frac{\text{Receivables}}{\text{Sales} / 360}$$

3.4.3 Debt Management Ratios

The debt indicates the fact that a company uses liabilities for financing its assets. When using liabilities, it influences both return on capital employed and business risk. Nowadays it would be unthinkable for bigger companies to finance all assets either from the equity or from liabilities. It is not possible to finance assets only by liabilities because the legal system demands the certain amount of equity. (Kislingerová 2005, 85)

- **Debt Ratio** is defined as “the percentage of funds provided by current liabilities and long-term debt. Creditors prefer low debt ratios because the lower ratio, the greater the cushion against creditors’ losses in the event of liquidation. Stockholders, on the other hand, may want more leverage because it magnifies expected earnings.” (Brigham and Ehrhardt 2008, 129)

$$\text{Debt Ratio} = \frac{\text{Liabilities}}{\text{Total Assets}}$$

- **Equity Ratio** is an additional indicator of debt ratio which indicates the company’s financial independence. Equity ratio also shows the proportion of company’s assets that is financed by stockholders. (Růčková 2008, 58)

$$\text{Equity Ratio} = \frac{\text{Stockholders' Equity}}{\text{Total Assets}}$$

- **Debt to Equity Ratio** measures “capital structure and leverage by showing the amount of a company’s assets provided by creditors in relation to the amount provided by stockholders.” (Needles and Powers 2007, 726)

$$\text{Debt to Equity Ratio} = \frac{\text{Liabilities}}{\text{Stockholders' Equity}}$$

- **Interest Coverage Ratio** indicates how many times the net income is higher than interest payment. If the ratio is equal to 1, it means that revenues are needed to pay interest expenses. (Sedláček 2005, 184)

$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest Expenses}}$$

3.4.4 Liquidity Ratios

“Liquidity is a company’s ability to pay bills when they are due and to meet unexpected needs for cash.” (Needles and Powers 2007, 722) Basic liquidity ratios are deduced from current assets because cash and money on bank accounts are the most liquid components of a balance sheet. The company’s liquidity is deduced from the following indicators:

- **Current Ratio** measures how many times current assets cover company’s current liabilities. The optimum value of the ratio is 1.5 – 2.5. The current ratio is the most commonly used indicator of short-term solvency. In general, creditors would like to see a high current ratio. If the company is getting into financial troubles, it will begin paying its bills much more slowly and borrowing from the banks so its current liabilities will be increasing. If current liabilities are increasing faster than current assets, the current ratio will decrease and this situation could cause problems. The high current ratio from the perspective of shareholders means that a company has a lot of money tied up in non-productive assets. (Brigham and Ehrhardt 2008, 125)

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

- **Quick Ratio/Acid Test** is calculated by deducting inventories from current assets and then dividing by current liabilities. Inventories are the least liquid of company's current assets. Hence they are current assets on which losses are most likely to occur in a bankruptcy. Therefore, a measure of the company's ability to pay off short-term obligations without relying on the sale of inventories is very crucial. (Brigham and Ehrhardt 2008, 126)

$$\text{Quick Ratio / Acid Test} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$$

According to Blaha and Jindřichovská (1994, 52) it is very useful to look at the ratio between current ratio and quick ratio. The substantially low value of quick ratio shows the excessive significance of inventories in a company's balance sheet.

- **Cash Ratio** measures the company's ability to settle just now payable claims. The numerator includes money (cash, money on bank accounts) and its equivalents (money market securities, payable debts and cheques). (Sedláček 2005, 187)

$$\text{Cash Ratio} = \frac{\text{Cash} + \text{Cash Equivalents}}{\text{Current Liabilities}}$$

- **Net Working Capital**, often referred as *working capital*, is the difference between a company's short-term assets and liabilities. The principal short-term assets are cash, accounts receivable (customers' unpaid bills), and inventories of raw materials and finished goods. The principal short-term liabilities are accounts payable (bills that a company has not paid). (Brealey and Myers 2000, 123)

3.4.5 Market Value Ratios

Market value ratios deal with the relationship among share prices, net income and book value per share. These ratios provide useful information to the management about shareholders' opinions on the company's management and their future expectations. It is

very useful for a company and potential investors to evaluate financial indices which combine accounting components and market values. (Břichová and Jindřichovská 1994, 64)

- **Book Value Per Share** is the equity of the owner of one share of stock in the net assets of a company. The value generally does not equal the amount a stockholder receives when the company is sold because in most cases, assets are recorded at the historical cost, not at the current market value. (Needles and Powers 2007, 634) This ratio reflects the company's past performance and it should show the increasing tendency - the company is in the financial health and it lures potential investors. (Růčková 2008, 61)

$$\text{Book Value per Share} = \frac{\text{Stockholders' Equity}}{\text{Number of Common Shares}}$$

- **Earnings Per Share** shows the company's financial position. Earnings mean the total net income after taxation and paying primary dividends. It is difficult to conclude the tendency of development of earnings per share because revenues, similar to shares, behave accidentally. The net income could be also influenced by the company's accounting policy, e.g. techniques of evaluating assets. (Sedláček 2005, 188)

$$\text{Earnings per Share} = \frac{\text{Net Income}}{\text{Number of Common Shares}}$$

- **Dividends Yield** "measures a stock's current return to an investor in the form of dividends." (Needles and Powers 2007, 728)

$$\text{Dividends Yield} = \frac{\text{Dividends per Share}}{\text{Market Price per Share}}$$

- **Price/earning Ratio (P/E Ratio)** "shows how much investors are willing to pay per Czech crown/dollar of reported profit." (Brigham and Ehrhardt 2008, 134) The P/E ratio varies as market price per share fluctuates daily and the amount of P/E changes. (Needles and Powers 2007, 575)

$$P/E \text{ Ratio} = \frac{\text{Market Price per Share}}{\text{Earnings per Share}}$$

- **Market/Book Ratio (M/B Ratio)** gives another indication of how investors regard the company. “Companies with relatively high rates of return on equity generally sell at higher multiples of book value than those with low returns.” (Brigham and Ehrhardt 2008, 135)

$$M/B \text{ Ratio} = \frac{\text{Market Price per Share}}{\text{Book Value per Share}}$$

3.5 Analysis of Cumulative Indicators

The financial situation of the company is analysed by means of considerable number of ratios and subtractive indicators. The disadvantage of this approach is that various indicators have the limited informative data because they only characterize the given activity of the company. On the account of above-mentioned disadvantage, the cumulative indicators are used for evaluation of overall financial situation. The indicators are often termed as analytical systems or models of financial analysis. On the one hand, the increasing number of indicators in a model provides more detailed representation of financially-economic situation of the company. On the other hand, the raising number of indicators can cause problems when analysing and evaluating the company's position. (Sedláček 2005, 195)

The aim of cumulative indicators is to indicate the overall characteristics of financial and economic health of the company by means of a single number, however, their reporting ability is lower. The indicators are suitable to be used for the quick and global comparison of companies and they can serve as the basis for the further evaluation. (Růčková 2008, 70)

3.5.1 Kralicek Quick Test

The quick test was created by P. Kralicek in 1990. It consists of 4 equations and the evaluation of the company's financial health is based on these equations. (Růčková 2008, 80)

$$R1 = \frac{\text{Equity}}{\text{Assets}}$$

$$R2 = \frac{\text{Liabilities} - \text{Cash}}{\text{CF}}$$

$$R3 = \frac{\text{EBIT}}{\text{Assets}}$$

$$R4 = \frac{\text{CF}}{\text{Revenues}}$$

Table 3. Kralicek Quick Test – Evaluation Scale

Ratio	Excellent (1)	Very Well (2)	Well (3)	Poor (4)	Dangerous (5)
EQUITY/TOTAL ASSETS	>30%	>20%	>10%	>0%	Negative
DEBT SETTLEMENT PERIOD	<3years	<5years	<12years	>12years	>30years
OPERATING CF/ SALES	>10%	>8%	>5%	>0%	Negative
ROA	>15%	>12%	>8%	>0%	Negative

Source: Sedláček 2005, 199.

The solvency of the company is measured that the result of every ratio is classified according to the evaluation scale. The final mark is an average of all marks acquired from a particular ratio.

3.5.2 Altman Model (Z-Score)

The Z-score is a formula for a measurement of the financial health of a company. At the same time, it is a powerful tool that predicts the probability of a company going bankrupt. The model combines five common business ratios which are weighted by coefficients. (<http://www.valuebasedmanagement.net> –Z-Score)

Originally, the model was designed for companies which were publicly held. Růčková (2008, 73) states the following equation:

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1X_5$$

X_1 = Working Capital / Total Assets

X_2 = Retained Earnings / Total Assets

X_3 = EBIT / Total Assets

X_4 = Market Value of Equity / Total Liabilities

X_5 = Sales / Total Assets

Interpretation of results:

Z-SCORE < 1.81 - "Bankruptcy" Zone

Z-SCORE 1.81 – 2.98 - "Grey" Zone

Z-SCORE > 2.99 - "Safe" Zone

The model of privately held companies is slightly different from the publicly held ones:

$$Z = 0.717X_1 + 0.847X_2 + 3.107X_3 + 0.42X_4 + 0.998X_5$$

X_1 = (Current Assets – Current Liabilities) / Total Assets

X_2 = Retained Earnings / Total Assets

X_3 = EBIT / Total Assets

X_4 = Book Value of Equity / Total Liabilities

X_5 = Sales / Total Assets

Interpretation of results:

Z-SCORE < 1.23 - "Bankruptcy" Zone

Z-SCORE 1.23 – 2.9 - "Grey" Zone

Z–SCORE>2.9 - "Safe" Zone

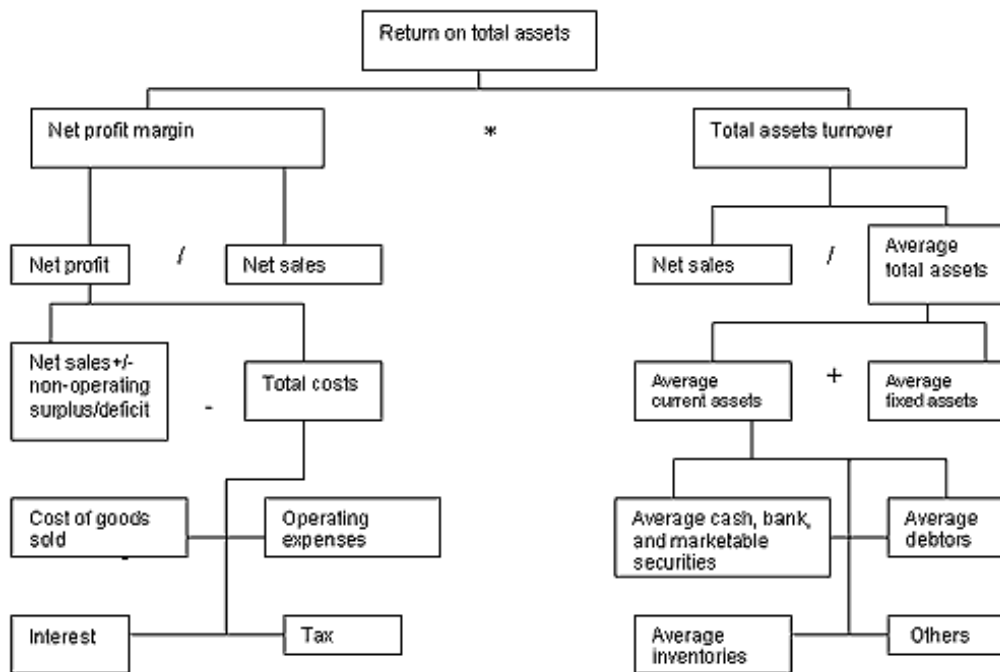
3.5.3 DuPont Analysis

DuPont Model examines a company's ROE (Return on Equity) 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 the equity since poorly performing components will drag down the overall figure. To calculate a company's ROE through DuPont analysis, the *profit margin* (net income divided by sales), *asset turnover* (sales divided by assets), and *leverage factor* (total assets divided by shareholders' equity) are multiplied together. (<http://www.investorwords.com> – Du Pont analysis Definition)

$$ROE = Profit\ Margin \times Asset\ Turnover \times Leverage\ Factor$$

$$= (Net\ Profit / Sales) \times (Sales / Assets) \times (Assets / Equity)$$

Figure 1. DuPont Analysis



Source: <http://www.themanagementor.com/EnlightenmentorAreas/finance/CFA/DUPontAnalysis.html>–DuPont Analysis

$$ROA = \frac{EBIT}{\text{Total Assets}} = \frac{EBIT}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total Assets}}$$

$$ROE = ROA \times \text{Leverage Effect}$$

$$ROE = \frac{EBIT}{\text{Equity}} = \frac{EBIT}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total Assets}} \times \frac{\text{Total Assets}}{\text{Equity}}$$

II. ANALYSIS

4 CHARACTERISTICS OF THE COMPANY

4.1 Basic information

Fullname:	DHJ–Kovo,s.r.o.
Organization identification number:	46975543
Legal form:	Limited liability company
Headquarters:	Masarykova 274, 68708 Buchlovice
Date of establishment:	October 22, 1992
Subject of business:	Locksmith's trade Wholesale trade Specialized retail trade Mediation of services Mediation of trade Surface finishes and welding of metals National road motor freight transport International road motor freight transport
Registered capital:	105000 CZK
Statutory body	
Executives:	Jiří Dvořáček , PIN 530403174 KMazánku 689, 68708 Buchlovice Ing. Naděžda Ježová , PIN 6256170701 Tyršova 647, 68708 Buchlovice Position established: December 1, 2005
Partners:	Jiří Dvořáček, PIN 530403174 KMazánku 689, 68708 Buchlovice
Shareholder's investment:	53000 CZK
Paid off:	100%
Business share:	50%

Ing. Naděžda Ježová, PIN 6256170701

Tyršova 647, 68708 Buchlovice

Shareholder's investment: 52000 CZK

Paid off: 100%

Business share: 50%

Source: <http://obchodnirejstrik.cz/d-h-j-kovo-s-r-o-46975543/-DHJ-Kovo,s.r.o.>

Although DHJ-Kovo, s.r.o. is classified as a small company, it has had a strong position on the market since 1992. The founders were Jiří Dvořáček, Josef Hlavsa and Ing. Petr Jež. The company underwent important changes in its structure – Josef Hlavsa left the company in 1999 and Ing. Petr Jež died in 2004. One year later, in 2005, Ing. Naděžda Ježová became the new partner of the company.

The company is focused on:

- 1) Serial metal working production
 - Advertising stands
 - Components for automotive industry
- 2) Building locksmith's trade
 - Staircases
 - Roofing by metal frames
- 3) Steel frames and assembly halls
 - Complete supply of steel frames including casing and foundations
- 4) Powder varnishing
 - Surface finish of metals, powder metallurgy, varnishing - Komaxit
- 5) Production of welded parts
 - Doors, gratings, shelves, racks, banisters and crates

The company's main business is the serial metal working production. They realize the job-order production based on customer's technical drawings. The main priority is to supply customers with high-quality products and services and keep competitive advantages and obtain new customers.

DHJ–Kovo, s.r.o. pays attention to employing a highly qualified employees in all positions. What is more, the attention is also paid to the workplace safety and to the health of employees—the assembly halls are equipped with air conditioning and ventilation.

The company philosophy is to be the company directed by its customers by means of making long-term business relations with the target group of customers, quality products and deliveries on time.

DHJ – Kovo, s.r.o. possess the significant certificate issued by TÜV NORD Czech Republic- ČSN EN ISO 9001:2001 Management of quality in following activities:

- The surface finish of metal products by means of powder coatings
- The production and installation of constructional steel frames.

Significant foreign customers are:

PROBST Greiftechnik Verlegesysteme GmbH, Erdmannhausen, Germany

CEPRO International B.V., Rijen, Netherlands

OTTINGER GmbH, Singen, Germany

KÖNIG–THULES, p.A, Milano, Italia

LANDROVER DEUTSCHLAND GmbH, Schwalbach, Germany

Significant domestic customers are:

DEKOR, s.r.o., Buchlovice

DHJ–Kovo, s.r.o. buys the quality metallurgical material only from domestic suppliers such as:

FAVEX Trade, s.r.o, Buchlovice

FERONA, a.s., Staré Město

BRITTERN, a.s., Moravský Písek

Table 4. Number of employees in DHJ–Kovo, s.r.o.

Year	2004	2005	2006	2007	2008
Number of employees	23	25	23	17	17

4.2 SWOT ANALYSIS

Table 5. SWOT Analysis of DHJ–Kovo, s.r.o.

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> - Qualified employees - History and tradition in the region - Certificates of quality - High quality products - Good position on the market - Deliveries on time - Friendly working environment 	<ul style="list-style-type: none"> - Advertising and promotion - WWW pages - Low probability of promotion of employees because of the size of the company
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> - New foreign markets - Investments in new machines - Grants from the European Union - Trade fairs - Merger with a bigger company - New qualified employees 	<ul style="list-style-type: none"> - Continuing world financial crisis - Risky investments - Decrease of demand and orders - High staff turnover

4.3 Characteristics of the subject of business

According to OKE Č (Branch classification of economic activities), DHJ–Kovo, s.r.o. belongs to the group 28 – Production of metal frames and metalworking products (excluding machines and devices). The diversity of products is typical of OKE Č 28 therefore the development and outlook of individual divisions in the branch are significantly different.

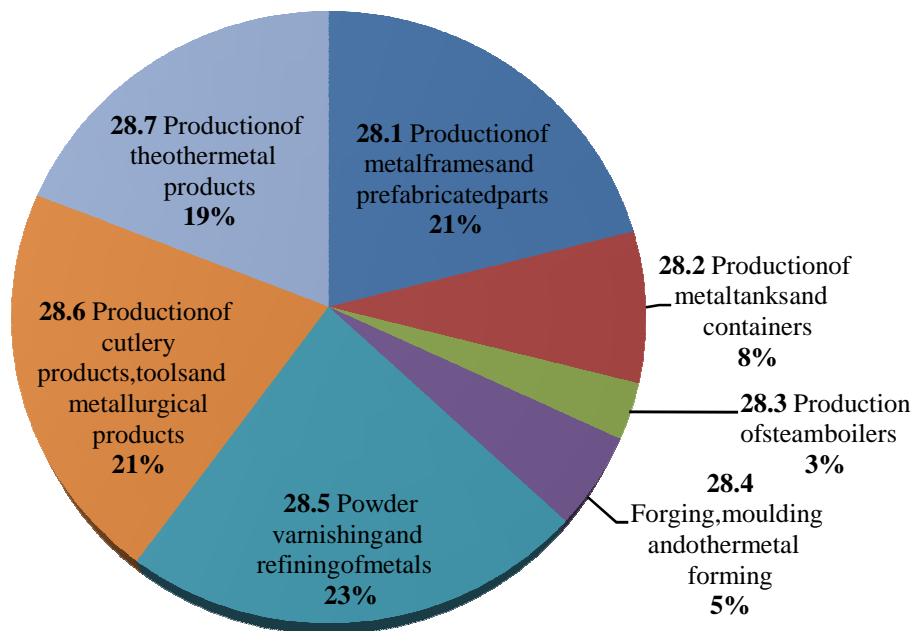
OKE Č 28 is divided into the following subdivisions:

- 28.1 Production of metal frames and prefabricated parts,
- 28.2 Production of metal tanks and containers,
- 28.3 Production of steam boilers,
- 28.4 Forging, moulding and other metal forming,
- 28.5 Powder varnishing and refining of metals,

- 28.6 Production of cutlery products, tools and metallurgical products,
- 28.7 Production of the other metal products.

Because of the variety of the product range, DHJ – Kovo, s.r.o. would be classified into these subdivisions of the branch: 28.1 - Production of metal frames and prefabricated parts, 28.4 - Forging, moulding and other metal forming and 28.5 - Powder varnishing and refining of metals.

Figure 2. Percentage participation of individual branches in total sales from sold goods and services in 2007

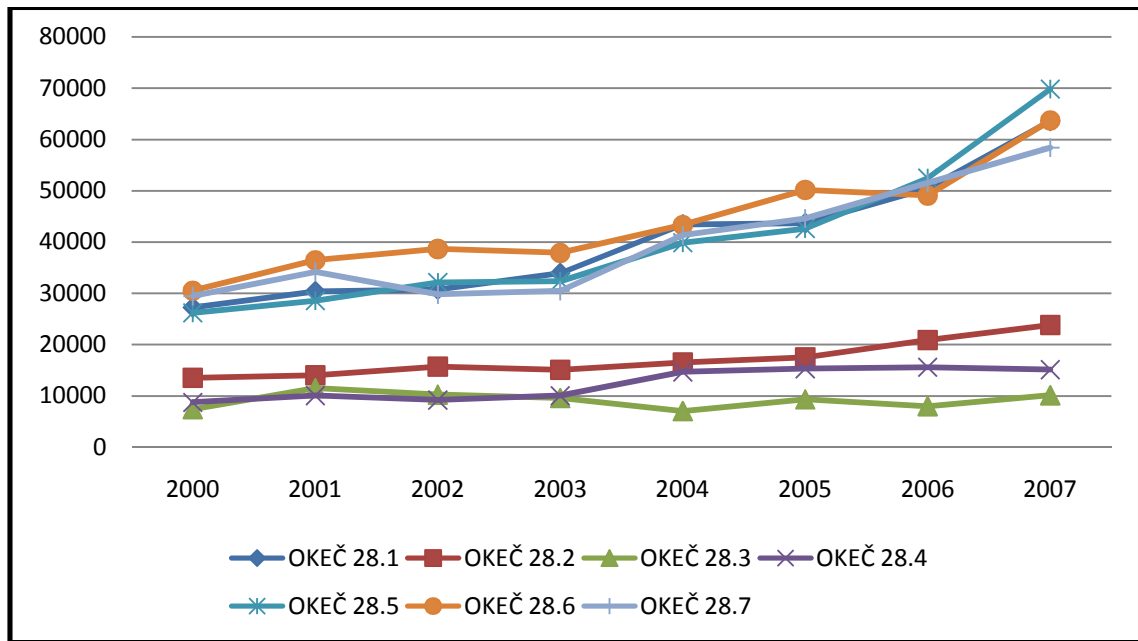


Source: www.mpo.cz- Ministry of Industry and Trade of the Czech Republic

4.3.1 The position of OKE Č28 within the manufacturing industry

Production of metal frames and metal working products has had the important place in the sphere of the manufacturing industry as a whole because this branch of industry is one of the most significant suppliers of components used for completing of final products and devices in the automotive and engineering industry.

Figure 3. Development of sales of products and services 2000-2007



Source: www.mpo.cz-Ministry of Industry and Trade of the Czech Republic

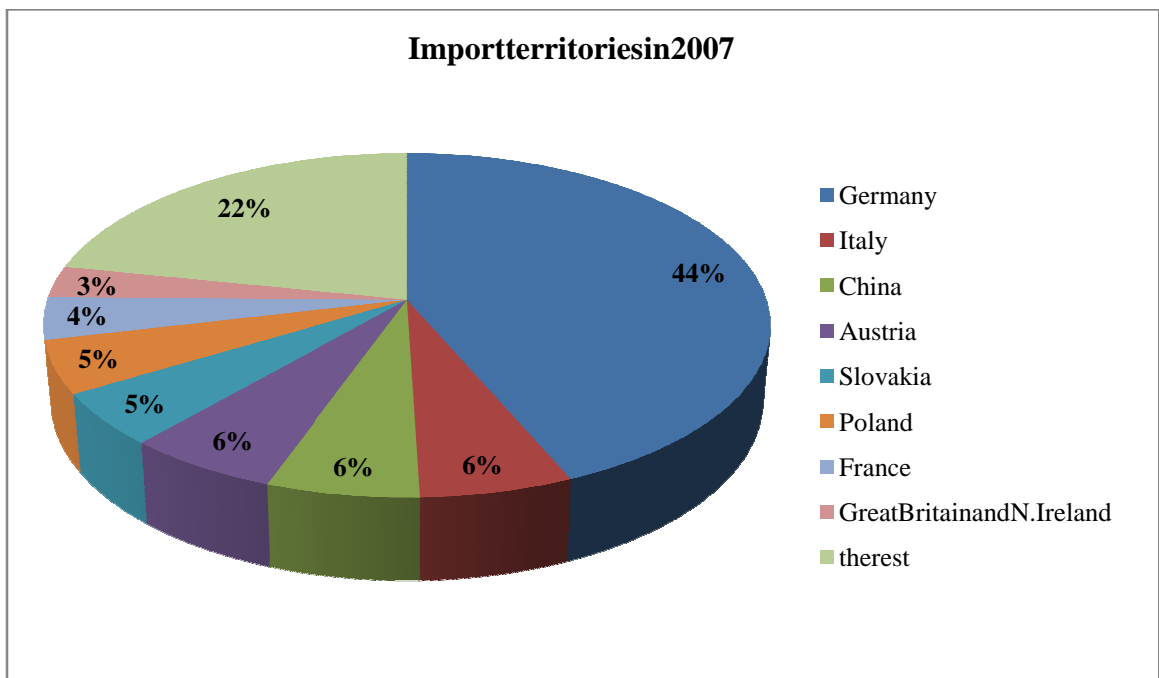
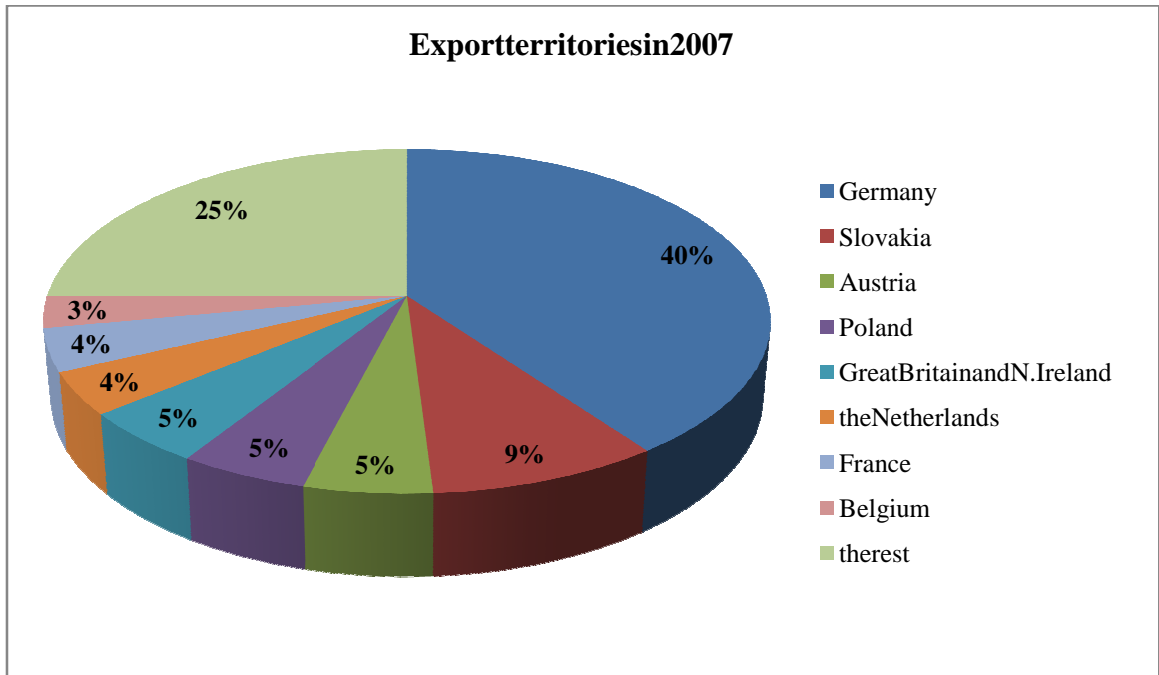
The increase of sales of products and services as well as increase of the added value within 2002 – 2007 was reflected in the development of the number of workers. Within 2001 – 2003 the number of workers declined, nevertheless, more than 17,500 new vacancies have been created since 2000. This favourable trend was caused by the fact that the Czech Republic became a member of the European Union in 2004 and it led to the increase of the volume of orders.

4.3.2 International trade

The development of the exchange rate of the Czech currency with long-term tendency to strengthen was one of the noticeable factors which influenced the balance of exports and imports. It was witnessed in 2002 when the strong Czech currency caused the decrease of values of exports.

The increasing productivity and competitiveness of products in OKEČ 28 were positively shown on exports and imports. Companies successfully managed to get both foreign and domestic orders for building and modernization.

Figure 4. The territorial structure of the international trade in 2007



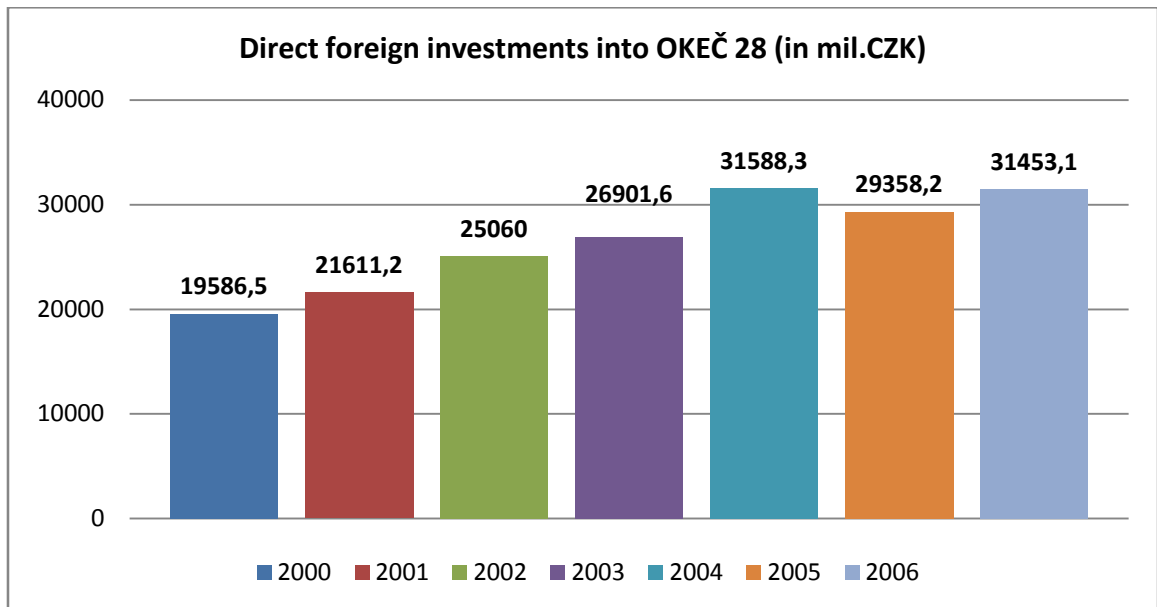
Source: www.mpo.cz - Ministry of Industry and Trade of the Czech Republic

4.3.3 Investments

The adoption of the system of investment stimuli gave an important prerequisite for increasing of international investments in the manufacturing industry in the Czech Republic. It simultaneously gave an impulse for the development of domestic investments.

International investments unambiguously have a positive impact on the development of the branch. To keep the attention of foreign investors, it is needed to have the stable and transparent legislation, tax incentives, transport availability, quality and skillful workforce. (www.mpo.cz)

Figure 5. Direct foreign investments into OKEČ 28



Source: www.mpo.cz-Ministry of Industry and Trade of the Czech Republic

5 METHODS

The practical part is focused on the analysis of financial statements – balance sheet and income statement from 2004 to 2008. The attention is paid not only to the statements but also to the events which happened during the analysed period. The used methods are classified into these categories – absolute, subtractive, ratio and cumulative indicators.

5.1 Absolute indicators

Absolute indicators are based on the direct assessment of values of individual items included in financial statements. This method enables to evaluate the changes in the structure of assets and liabilities and their development in time (*horizontal analysis*) but also enables to compare their relative changes among companies by means of the percentage analysis of components (*vertical analysis*).

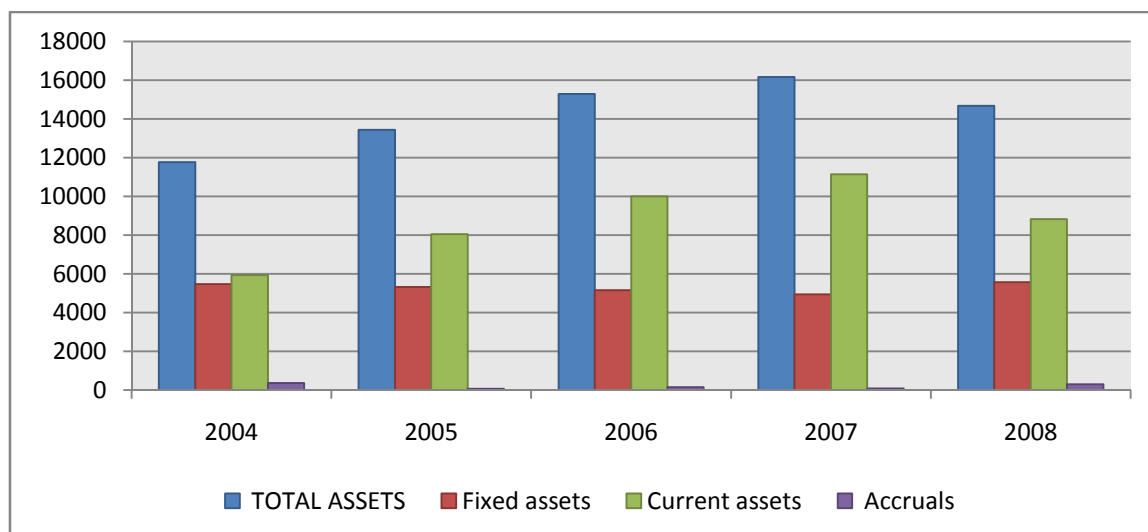
5.1.1 Horizontal analysis of the balance sheet

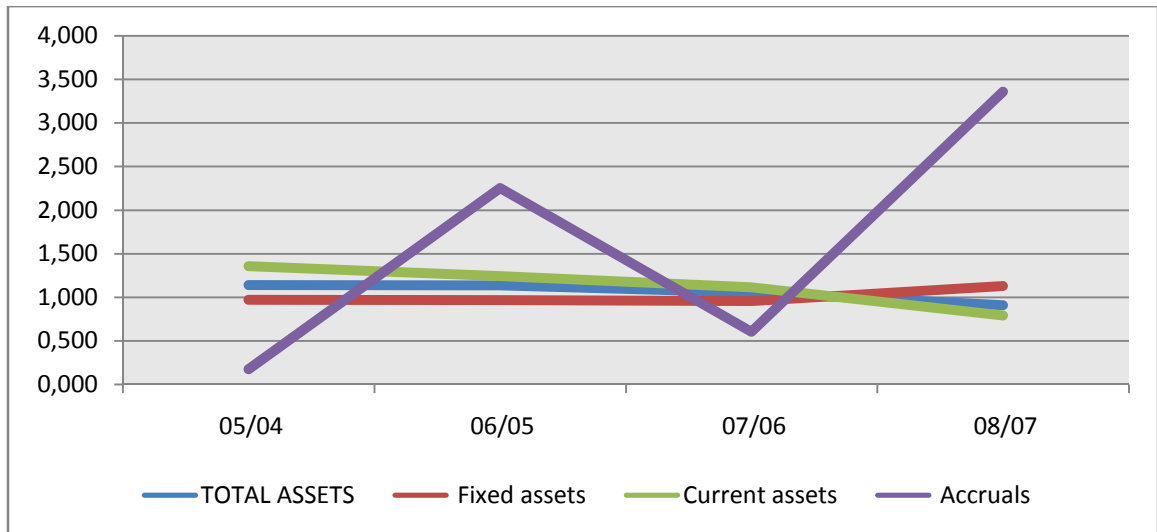
Table 6. Horizontal analysis of the balance sheet, DHJ–Kovo, s.r.o.

Assets (in thousands CZK)		05/04	06/05	07/06	08/07
	TOTAL ASSETS	14,05%	13,84%	5,74%	-9,19%
B.	Fixed assets	-2,81%	-3,16%	-4,16%	12,81%
B.I.	Intangible assets	X	X	X	X
B.II.	Tangible assets	-2,81%	-3,16%	-4,16%	12,81%
1.	Land	0,00%	15,23%	25,39%	136,20%
2.	Constructions	-8,72%	-9,16%	2,45%	0,97%
3.	Separate movable items	14,23%	1,97%	-43,18%	81,36%
7.	Tangible assets in progress	0,00%	0,00%	0,00%	7650%
8.	Advances granted for tangible assets	0,00%	0,00%	0,00%	-100%
C.	Current assets	35,57%	24,19%	11,48%	-20,85%
C.I.	Inventory	394,35%	-18,63%	26,97%	47,68%
C.I.1.	Materials	394,35%	-18,63%	26,97%	47,68%
C.III.	Short-term receivables	14,48%	33,96%	28,48%	-28,72%
C.III.1.	Trade receivables	-5,16%	37,43%	35,55%	-26,77%
6.	Due from government-tax receivables	698,0	3%	20,03%	-0,14%
8.	Unbilled revenues	-100%	X	X	X
9.	Other receivables	-100%	X	-100%	X
C.IV.	Short-term financial assets	78,56%	12,07%	72,53%	11,98%
C.IV.1.	Cash	-54,53%	-15,17%	-60,34%	57,75%
2.	Bank accounts	245,01%	16,56%	-73,99%	3,61%
D.	Accruals	-82,61%	125%	39,58%	235,63%
D.I.1.	Deferred expenses	-82,61%	125%	-100%	X

3.	Unbilled revenues	-100%	X	X	X
Equity and Liabilities (in thousands CZK)					
		05/04	06/05	07/06	08/07
TOTAL LIABILITIES		14,05%	13,84%	5,74%	-9,19%
A.	Equity	30,98%	16,37%	26,81%	5,89%
A.I.	Registered capital	0,00%	0,00%	0,00%	0,00%
A.I.1.	Registered capital	0,00%	0,00%	0,00%	0,00%
A.II.	Capital funds	X	X	X	X
A.III.	Reserve funds, statutory funds and other retained earnings	0,00%	0,00%	88,89%	1000%
A.III.1.	Legal reserve fund	0,00%	0,00%	-88,89%	1000%
A.IV.	Profit/loss previous year	34,67%	31,71%	16,66%	27,33%
A.IV.1.	Retained earnings from previous years	34,67%	31,71%	16,66%	27,33%
A.V.	Profit/loss current year	23,18%	-30,79%	91,35%	-72,73%
B.	Liabilities	1,95%	11,52%	12,47%	-32,17%
B.I.	Reserves	X	X	X	X
B.III.	Short-term payables	7,52%	-6,62%	12,68%	-30,90%
B.III.1.	Trade payables	0,88%	-6,61%	18,16%	-42,26%
2.	Payable to controlled and managed organization	ns	-22,24%	0,00%	-10,18%
5.	Payroll		10,38%	-10,03%	-19,51%
6.	Payable to social security and national insurance		13,37%	-11,79%	1,16%
7.	Due to government - taxes and subsidies	-90	,29%	-73,21%	-53,33%
10.	Unbilled deliveries	X	X	X	397,10%
11.	Other liabilities		X	X	X
B.IV.	Bank loans and borrowings	-33,30%	196,64%	93,26%	-100%
B.IV.1.	Long-term bank loans		X	X	-66,67%
B.IV.2.	Short-term bank loans	-33,30%	136,64%	-100%	X
C	Accruals	X	X	X	-100%

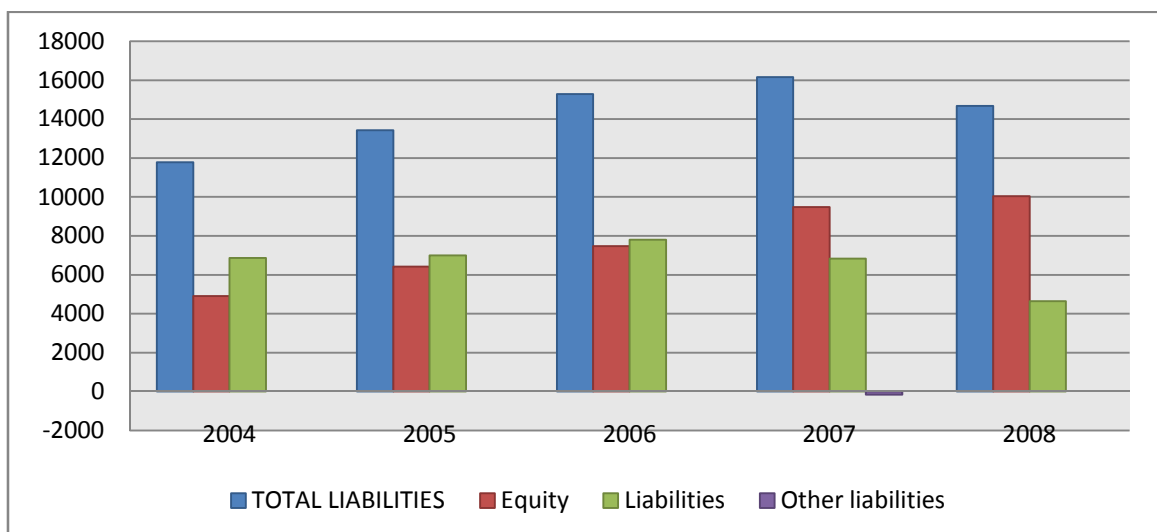
Figure 6. Development of assets, DHJ - Kovo, s.r. o. 2004 - 2008

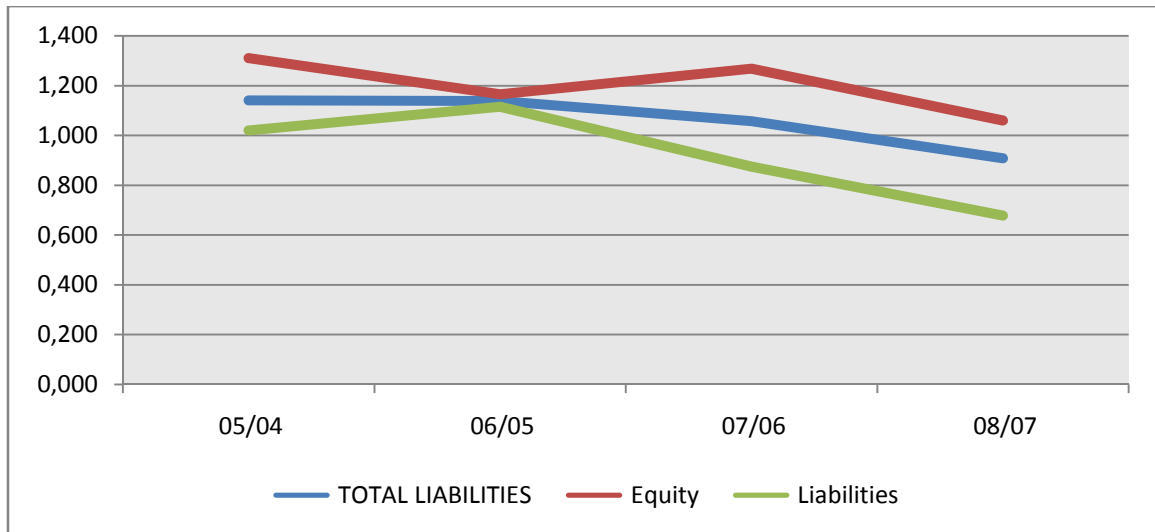




Looking at the graph, the values of total assets remained steady until 07/06, then slightly decrease in the following period 08/07 (-9,19%). The same development could be seen in the case of fixed assets, then slightly decreased in 08/07 (+12,81%). This was caused by the increase of land (+136,20%) and separate moveable items (+81,36%). In the period 05/04, current assets increased (+35,57%), significantly because of the inventory (+394,35%). Short-term receivables decreased sharply in 08/07 (-28,72%), especially trade receivables (-26,77%) → the outflow of customers. Short-term financial assets increased (+78,56%) in 05/04, significant improvement could be obvious in the case bank accounts (+245,01%). To compare the years 2006 and 2007, there was the opposite development → financial assets showed the reduction of money at bank accounts (-73,99%). Accruals were changing during the analysed period (05/04, -82,61% X 08/07, +235%).

Figure 7. Development of liabilities, DHJ–Kovo, s.r.o. 2004–2008





Total liabilities underwent exactly the same development as total assets did. To compare the years 2004 and 2005, the equity increased (+30,98%), especially because of the profit/loss of previous year (+34,67%) and profit/loss of current year (+23,18%). In the period 07/06, the profit/loss skyrocketed (+91,35%), on the other hand, it plummeted in 08/07 (-72,73%). Liabilities decreased in 08/07 (-32,17%). The drop of liabilities was also influenced by the reduction of short-term payables (-30,90%). In 2006, D H J – Kovo, s.r.o. took out a short-term bank loan of 1479000 CZK – it influenced the structure of liabilities → an increase in bank loans and borrowings in 07/06 (+196,64%)

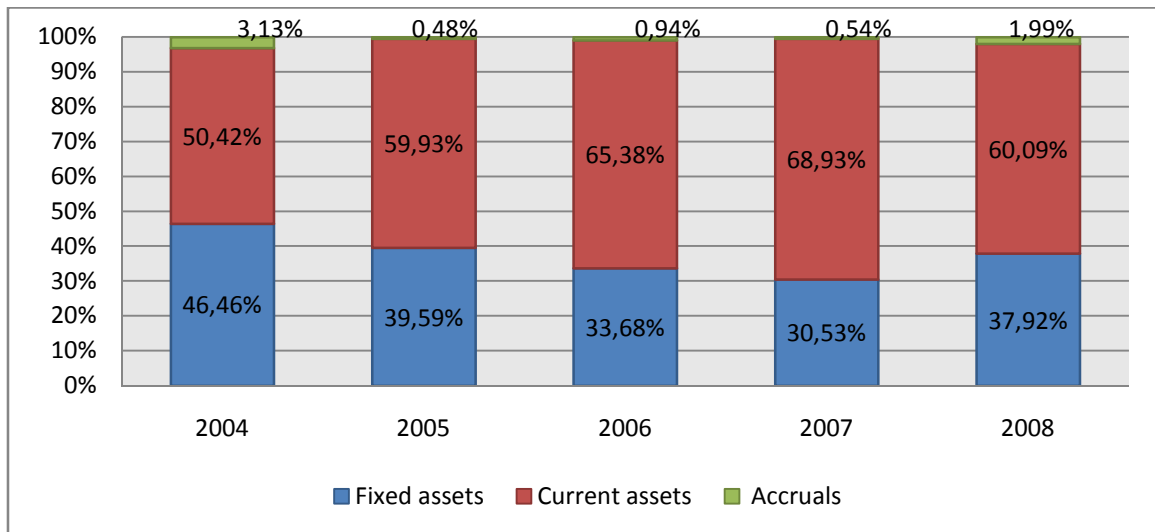
5.1.2 Vertical analysis of the balance sheet

Table 7. Vertical analysis of the balance sheet, D H J – Kovo, s.r.o. 2004–2008

Assets (in thousands CZK)		2004	2005	2006	2007	2008
	TOTAL ASSETS	100%	100%	100%	100%	100%
B.	Fixed assets	46,46%	39,59%	33,68%	30,53%	37,92%
B.I.	Intangible assets	0,00%	0,00%	0,00%	0,00%	0,00%
B.II.	Tangible assets	100%	39,59%	33,68%	30,53%	37,92%
1.	Land	4,24%	3,72%	3,76%	4,46%	11,60%
2.	Constructions	26,70%	21,37%	17,05%	16,52%	18,37%
3.	Separate movable items	7,16%	7,17%	6,42%	3,45%	6,89%
7.	Tangible assets in progress	0,02%	0,01%	0,01%	0,01%	1,06%
8.	Advances granted for tangible assets	8,35%	7,32%	6,43%	6,08%	0,00%
C.	Current assets	50,42%	59,93%	65,38%	68,93%	60,09%
C.I.	Inventory	1,50%	6,52%	4,66%	5,59%	9,09%
C.I.1.	Materials	1,50%	6,52%	4,66%	5,59%	9,09%
C.III.	Short-term receivables	41,82%	42,32%	49,79%	60,50%	47,49%
C.III.1.	Trade receivables	40,02%	33,28%	40,18%	51,51%	0,42%

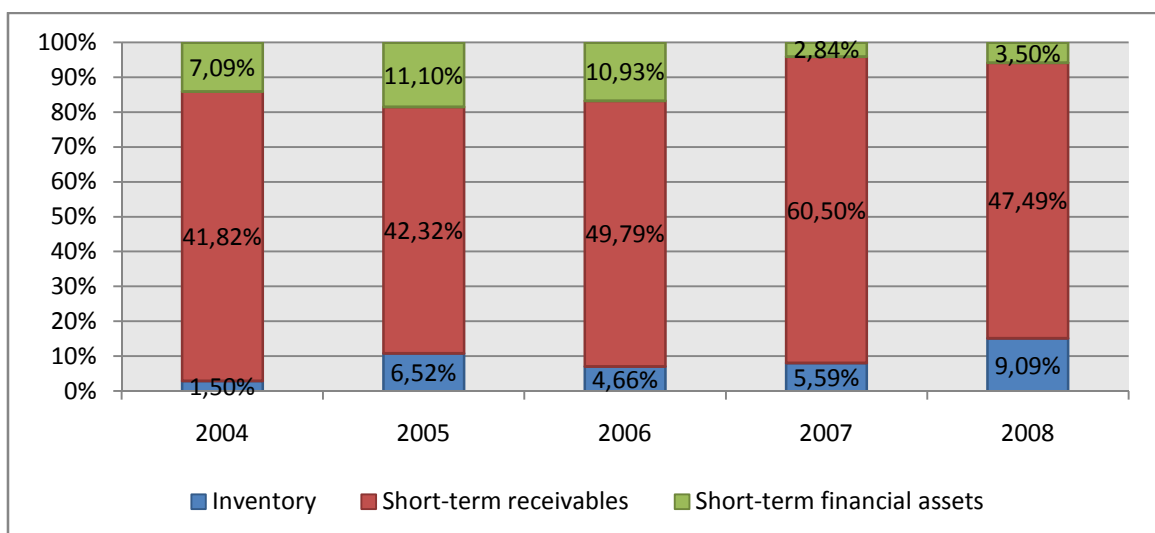
6.	Due from government-tax receivables	1,29%		9,03%	9,52%	8,99%	5,95%
8.	Unbilled revenues	0,39%		0,00%	0,00%	0,00%	0,00%
9.	Other receivables	0,12%		0,00%	0,09%	0,00%	0,00%
C.IV.	Short-term financial assets	7,09%	11,10%	10,93%	2,84%	3,50%	
C.IV.1.	Cash	3,94%	1,57%	1,17%	0,44%	0,76%	
2.	Bank accounts	3,15%	9,53%	9,76%	2,40%	2,74%	
D.	Accruals	3,13%	0,48%	0,94%	0,54%	1,99%	
D.I.1.	Deferred expenses	3,11%	0,48%	0,94%	0,00%	0,00%	
3.	Unbilled revenues	0,02%		0,00%	0,00%	0,00%	0,00%
Equity and Liabilities (in thousands CZK)							
TOTAL LIABILITIES		100%	100%	100%	100%	100%	100%
A.	Equity	41,67%	47,86%	48,92%	58,67%	68,41%	
A.I.	Registered capital	0,89%	0,78%	0,69%	0,65%	0,72%	
A.I.1.	Registered capital	0,89%	0,78%	0,69%	0,65%	0,72%	
A.II.	Capital funds	0,00%	0,00%	0,00%	0,00%	0,00%	
A.III.	Reserve funds, statutory funds and other retained earnings	0,08%	0,07%	0,06%	0,01%	0,07%	
A.III.1.	Legal reserve fund	0,08%	0,07%	0,06%	0,01%	0,07%	
A.IV.	Profit/loss previous year	30,22%	35,69%	41,29%	45,56%	63,88%	
A.IV.1.	Retained earnings from previous years	30,22%	35,69%	41,29%	45,56%	63,88%	
A.V.	Profit/loss current year	10,48%	11,32%	6,88%	12,45%	3,74%	
B.	Liabilities	58,33%	52,14%	51,08%	42,29%	31,59%	
B.I.	Reserves	0,00%	0,00%	0,00%	41,51%	0,00%	
B.III.	Short-term payables	50,37%	47,49%	38,96%	33,68%	31,59%	
B.III.1.	Trade payables	32,01%	36,74%	30,14%	4,86%	21,42%	
2.	Payable to controlled and managed organizations	9,54%	6,51%	5,72%	1,43%	5,07%	
5.	Payroll	2,45%	2,38%	1,88%	1,08%	1,34%	
6.	Payable to social security and national insurance	1,46%	1,45%	1,12%	0,04%	1,15%	
7.	Due to government-taxes and subsidies	4,9	0%	0,42%	0,10%	0,43%	0,27%
10.	Unbilled deliveries	0,00%		0,00%	0,00%	0,00%	2,34%
11.	Other liabilities	0,00%		0,00%	0,00%	0,00%	0,00%
B.IV.	Bank loans and borrowings	7,96%	4,65%	12,13%	0,77%	0,00%	
B.IV.1.	Long-term bank loans	0,00%	0,00%	2,45%	0,77%	0,00%	
B.IV.2.	Short-term bank loans	7,96%	4,65%	9,67%	0,00%	0,00%	
C	Accruals	0,00%	0,00%	0,00%	-0,95%	0,00%	

Figure 8. Structure of assets, DHJ–Kovo, s.r.o. 2004–2008



Current assets significantly participated in the structure of assets. Current assets were prevailing over fixed assets during the analysed period → DHJ–Kovo, s.r.o. had a low level of long-term tangible assets. The percentage portions of current assets were smoothly raising from 2004 to 2007 but the year 2008 stopped the development when the portion decreased to 60,09%.

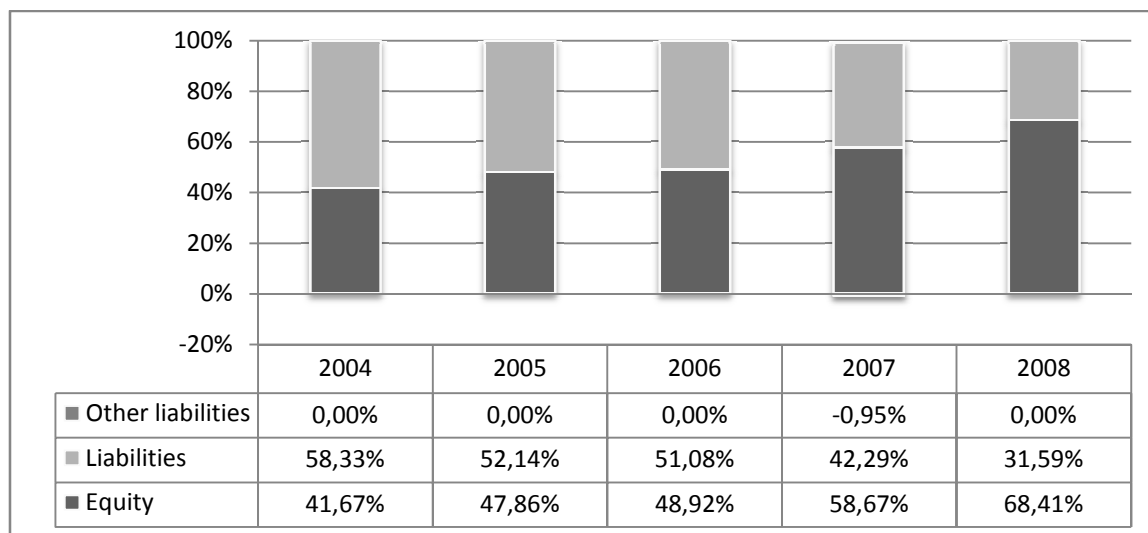
Figure 9. Structure of current assets 2004–2008



Current assets represent the part of the property of a company by which it is possible to pay liabilities. Looking at the graph, short-term receivables are the most significant item in the structure of current assets. The highest percentage portions of financial assets were recorded in 2005 (11,10%, 1491000 CZK) and 2006 (10,93%, 1671000 CZK). On the other

hand, the lowest portion of financial assets appeared in 2007 (2,84%, 459000CZK), followed by the year 2008 (3,50%, 514000CZK).

Figure 10. Structure of total liabilities, DHJ – Kovo, s.r.o. 2004 – 2008



The graph shows the structure of total liabilities from 2004 to 2008. It is apparent that the equity had the increasing tendency – starting at 41,67% in 2004 and finishing at 68,41% in 2008. On the other hand, liabilities had the opposite tendency – from 58,33% to 31,59%. Liabilities had the dominant position in the capital structure in 2004 (58,33%) → DHJ – Kovo, s.r.o. used liabilities to finance the majority of its activities. On the contrary, the equity prevailed over the liabilities in 2008 when the percentage portion was 68,41% → the company was predominantly using its own financial resources.

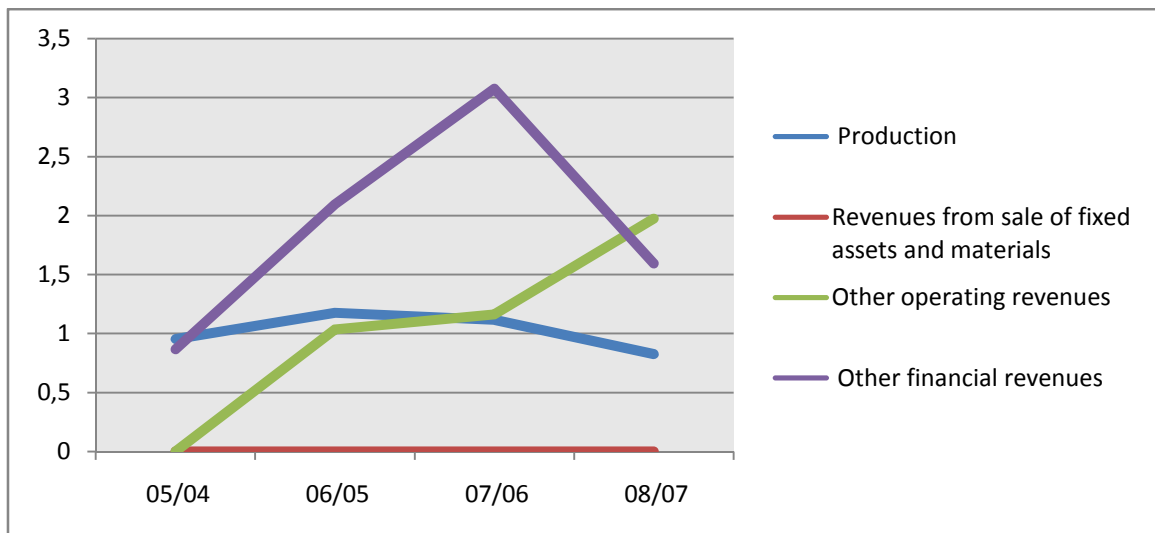
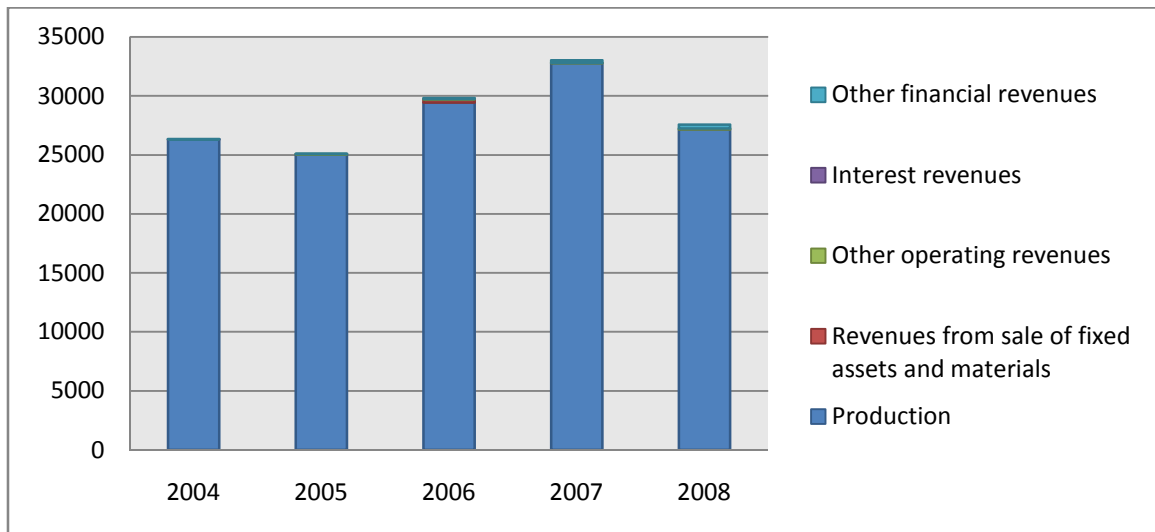
5.1.3 Horizontal analysis of the income statement

Table 8. Horizontal analysis of the income statement, DHJ – Kovo, s.r.o. 2004 – 2008

Income statement (in thousands CZK)		05/04	06/05	07/06	08/07
I.	Revenues from sold goods	X	X	X	X
A.	Expenses on sold goods	X	X	X	X
+	Sale margin	X	X	X	X
II.	Production	-4,81%	17,47%	11,35%	17,10%
II.1.	Revenues from own products and services	-4,81%	17,47%	11,35%	-17,10%
B.	Production consumption	15,72%	35,42%	8,51%	13,69%
B.1.	Consumption of material and energy	-11,62%	39,08%	5,09%	-2,49%

2.	Services	-20,66%	30,51%	13,41%	-28,55%
+	Added value	23,40%	-14,23%	19,27%	25,75%
C.	Personnel expenses	19,12%	-5,54%	0,40%	-4,27%
C.1.	Wages and salaries	19,80%	-5,42%	-0,44%	-3,95%
C.3.	Social security and health insurance expenses	17,23%	-5,87%	2,80%	-5,18%
D.	Taxes and fees	-4,55%	23,81%	-11,54%	95,65%
E.	Depreciation of tangible and intangible assets	8,82%	11,29%	-7,93%	50,85%
III.	Revenues from sale of fixed assets and materials	X	X	-100%	X
III.1	Revenues from sale of fixed assets	X	X	-100%	X
F.	Net book value of disposed fixed assets and materials	X	X	X	X
G.	Change in operating reserves and complex deferred costs	-100%	X	X	X
IV.	Other operating revenues	X	3,33%	16,13%	97,22%
H.	Other operating expenses	47,96%	-33,10%	12,37%	65,14%
*	Operating profit/loss	9,46%	-29,82%	74,27%	63,36%
VII.	Revenues from long-term financial assets	X	X	X	X
X.	Interest revenues	-100%	X	X	X
N.	Interest expenses	85,71%	-40,38%	-33,33%	53,23%
XI.	Other financial revenues	-13,51%	109,38%	207,46%	59,22%
O.	Other financial expenses	50,13%	31,16%	53,64%	62,34%
*	Profit/loss from financial operations	27,42%	-11,15%	-10,45%	36,96%
Q.	Income tax on ordinary income	8,42%	-38,26%	93,11%	74,11%
Q.1.	-due tax	8,42%	-38,26%	93,11%	-74,11%
**	Operating profit/loss from ordinary activity	23,18%	-30,79%	91,35%	72,73%
S.	Tax on extraordinary profit/loss	X	X	X	X
*	Profit/loss from extraordinary activity	X	X	X	X
***	Profit/loss of current period	23,18%	-30,79%	91,35%	72,73%
****	Profit/loss before taxation	18,93%	-32,75%	91,77%	73,06%

Figure 11. Development of revenues, DHJ–Kovo, s.r.o. 2004–2008



The production kept its smooth development with no period. There was the increase of 17,47% in 06/05, appeared negative values -17,10%. Other operating r reached the peak in 08/07 (+97,22%). Other financia (+207,46%), then followed a huge reduction to +59,2

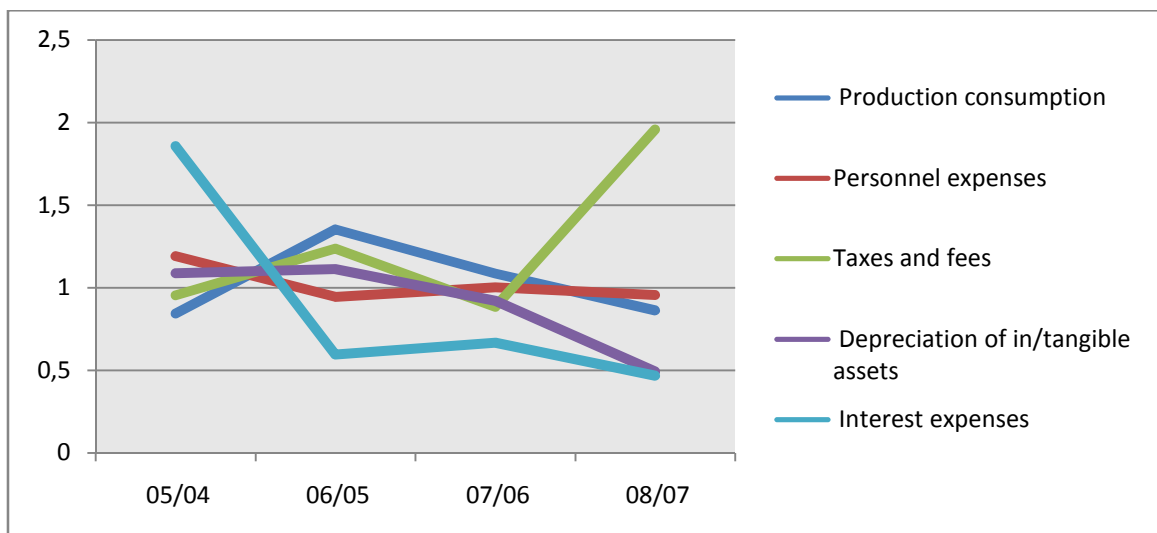
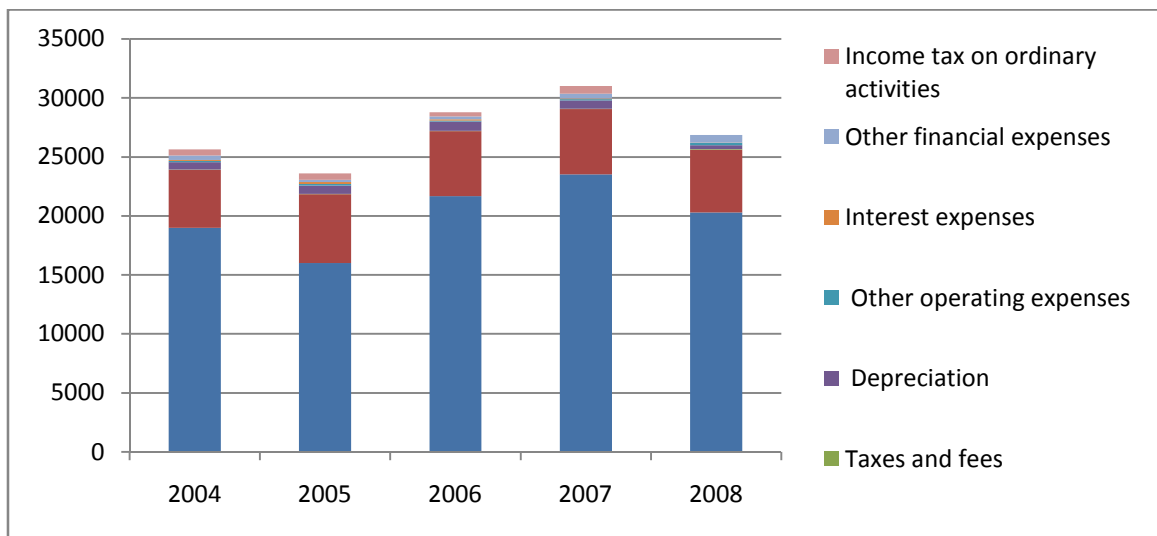
radical changes during the analysed on the other hand, in 08/07 there revenues were raising steadily until revenues sharply decreased in 07/06 2% in 08/07.

Table 9. Development of expenses, DHJ–Kovo, s.r.o. 2004–2008

In thousands CZK	2004	2005	2006	2007	2008
Expenses on sold goods	0	0	0	0	0
Production consumption	18989	16004	21673	23518	20299
Personnel expenses	4910	5849	5525	5547	5310

Taxes and fees	22	21	26	23	45
Depreciation of in/tangible assets	635	691	769	708	348
Other operating expenses	98	145	97	109	180
Interest expenses	84	156	93	62	29
Other financial expenses	399	199	261	401	651
Income tax on ordinary activities	499	541	334	645	167

Figure 12. Development of expenses, DHJ–Kovo, s. r.o. 2004–2008



The values of production consumption were fluctuating in the course of time. For example, when comparing the years 2005 and 2006, there is the decrease of 35,42 % in the production consumption (especially the consumption of material and energy +35,42%).

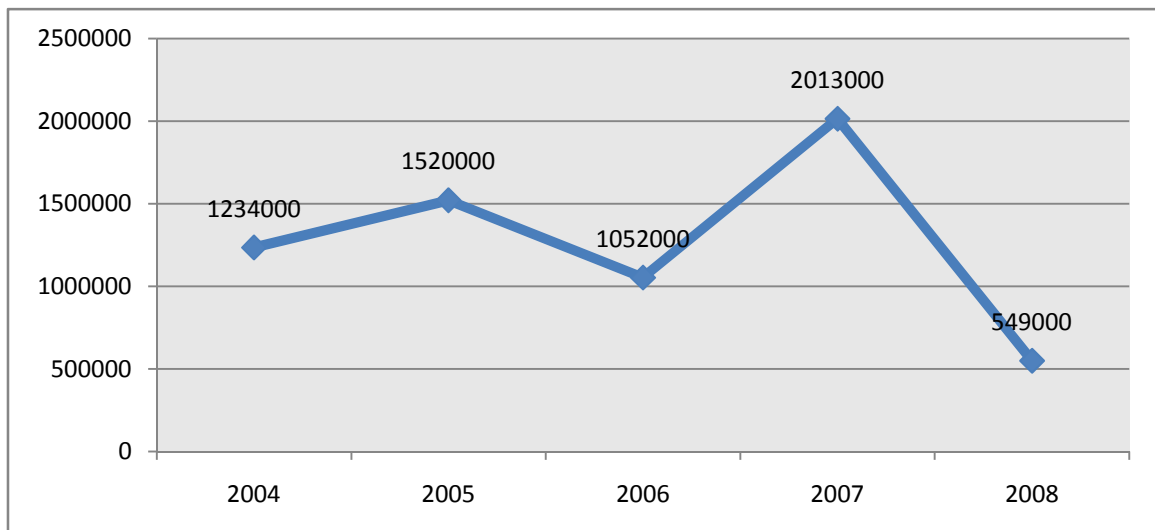
Personnel expenses increased (19,12%) in 05/04 because of the higher number of employees in the company. Taxes and fees were varying until 07/06, then raised very dramatically (95,65%) in 08/07.

Table 10. Profit/loss, DHJ–Kovo, s.r.o. 2004–2008

In thousands CZK	2004	2005	2006	2007	2008
Operating profit/loss	2178	2384	1673	2915	1068
Profit/loss from financial op.	-445	-323	-287	-257	-352
Profit/loss of the current period	1234	1520	1052	2013	549
Profit/loss before tax	1733	2061	1386	2658	716
Profit/loss before tax and interests	1733	2061	1386	2658	716
Profit/loss from extraordinary act.	0	0	0	0	0
Incometax on ordinary activities	499	541	334	645	167

It is clearly noticeable that all the forms of the profit/loss were varying during the analysed period. Nevertheless, the one-third decrease of the operating profit/loss in 2008 is alarming because the operating activity is the core of business of a producing company. The profit/loss from financial operations appeared in negative values but it was not a disconcerting situation. The reason is the fact that the company uses liabilities (bank loans) for financing and pays interest expenses from it.

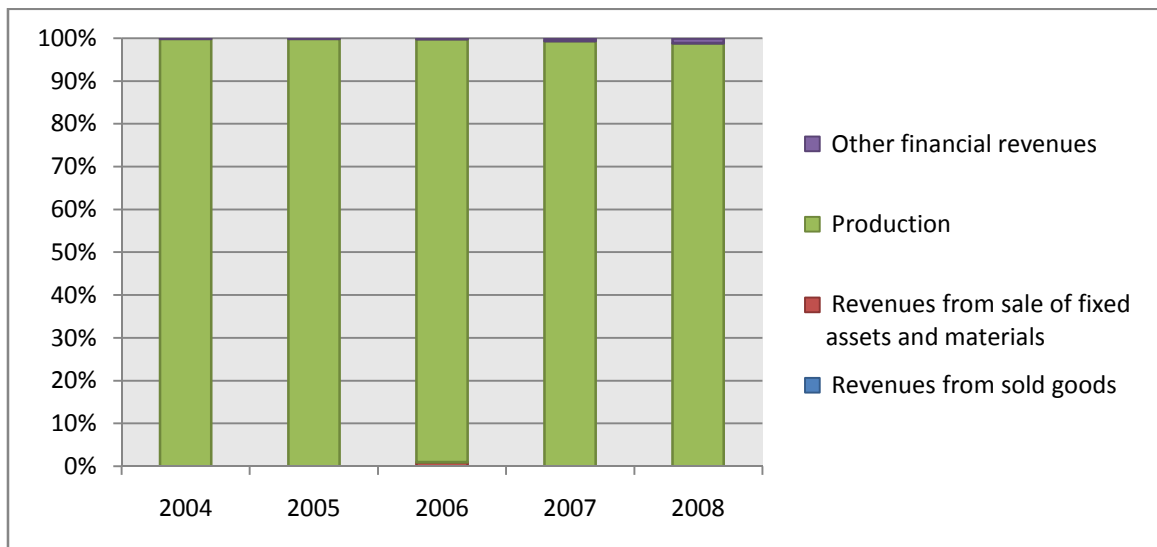
Figure 13. Development of profit/loss of the current period, DHJ–Kovo, s.r.o. 2004–2008



It is apparent that the highest profit/loss was reached in 2007 (2013000 CZK). Unlike the year 2007, the following year 2008 was critical because the profit/loss dropped very sharply to 549000 CZK.

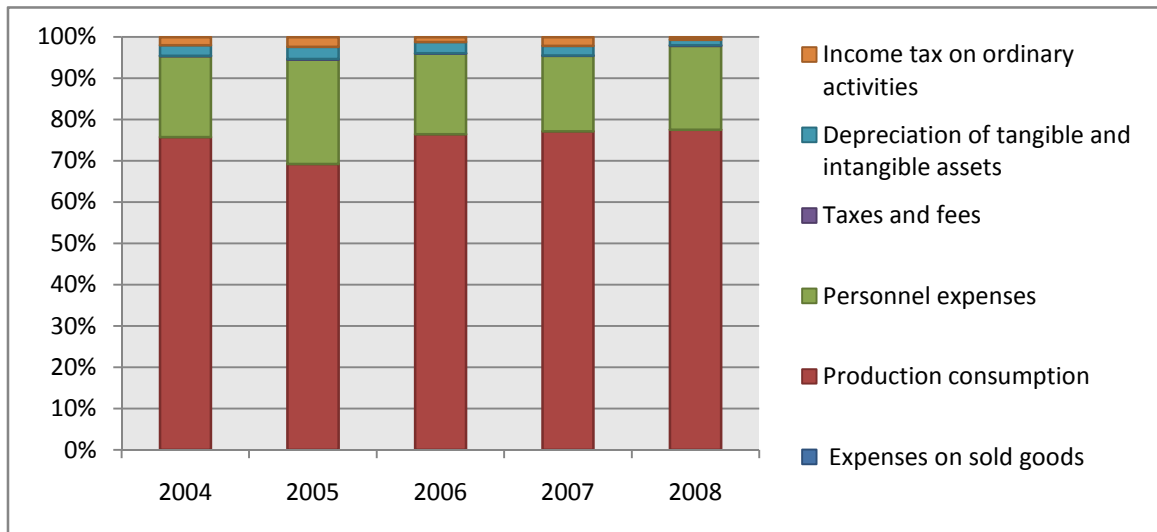
5.1.4 Vertical analysis of the income statement

Figure 14. Structure of revenues, DHJ-Kovo, s.r.o. 2004–2008



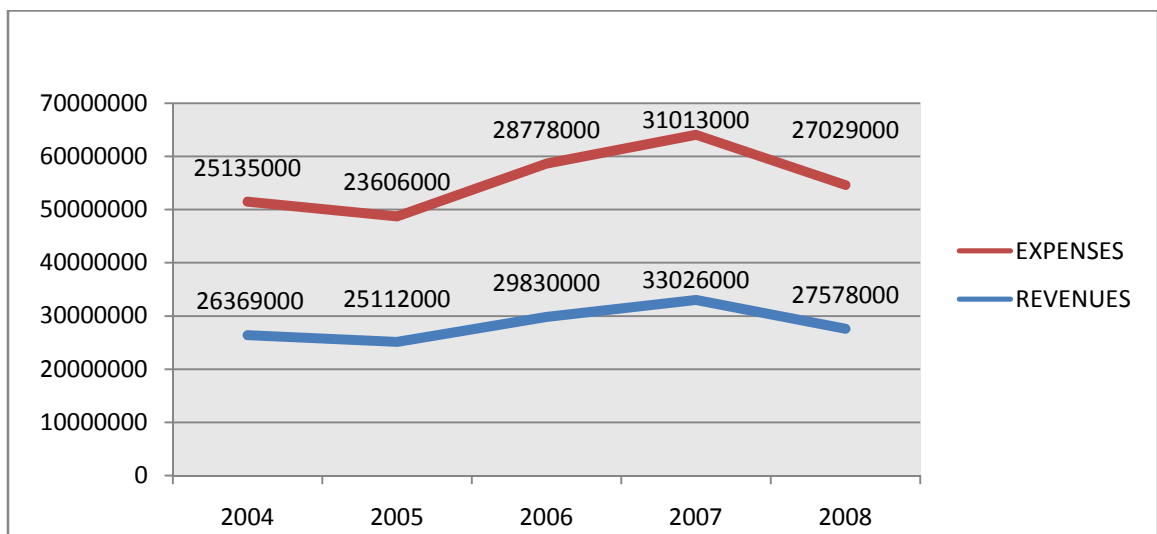
The graph shows the structure of revenues from 2004 to 2008. It is clearly noticeable that the production is the most important item of revenues → the structure demonstrates that DHJ-Kovo, s.r.o. is the production company. In 2006, the company sold fixed assets and material (290000 CZK) which meant the percentage portion of 0,97% on total revenues.

Figure 15. Structure of expenses, D H J – Kovo, s.r .o. 2004 – 2008



The most significant item of expenses is the production consumption. The highest percentage portion appeared in 2004 (75,55%). The personnel expenses reached its peak in 2005 (24,78%) when DHJ–Kovo, s.r.o. was employing the highest number of employees (25) during the analysed period from 2004 to 2008. In 2007, the percentage portion of the expenses decreased to 17,89% (-6,89%) because of the lowering number of employees (17). From 2004 to 2007, the depreciation of tangible and intangible assets kept the portion of 2,28% - 2,93% on total expenses. The exception was the year 2008 when the value dropped to 1,29%.

Figure 16. Development of total revenues and expenses 2004–2008



The graph shows the development of total expenses and revenues of DHJ–Kovo, s.r.o. Expenses and revenues were increasing and decreasing until they reached the peak in 2007 (expenses – 31013000, revenues – 33026000). In 2007, the company underwent the modernization of production and bought a powder varnishing machine → it was the consequence of higher revenues. In 2008, there was a huge drop of revenues in comparison with 2007.

5.2 Subtractive indicators

5.2.1 Networking capital

Networking capital means the amount by which current assets exceed short-term payables. It is a relatively free capital used to secure the smooth course of economic activities. The difference between current assets and short-term payables has an important influence on the company's solvency. The surplus of current assets means that the company has a stable financial background.

Net working capital could be understood as a 'financial blanket' that enables the company to continue with its activities in the case of an unfavourable event demanding the high expenditure of financial resources. The size of the 'financial blanket' depends not only on the current assets turnover but also on the external circumstances (competitors, market stability, tax legislation etc.)

Table 11. Networking capital 2004–2008

In thousands CZK	2004	2005	2006	2007	2008
NWC	5	1671	4040	4433	4184

The amount of the net working capital was positively increasing during the analysed period. It is apparent that the company reached the worst result in 2004 which could eventually cause problems when an unexpected event would occur demanding the high expenditure of financial resources. Nevertheless, the amount of the networking capital was satisfactory in the following years → DHJ–Kovo, s.r.o. is able to fulfil its due payables.

5.3 Ratio indicators

Ratio indicators are basic tools of financial analysis. Many ratio indicators have developed in the course of time therefore they had to be sorted into categories according to the individual fields of financial analysis.

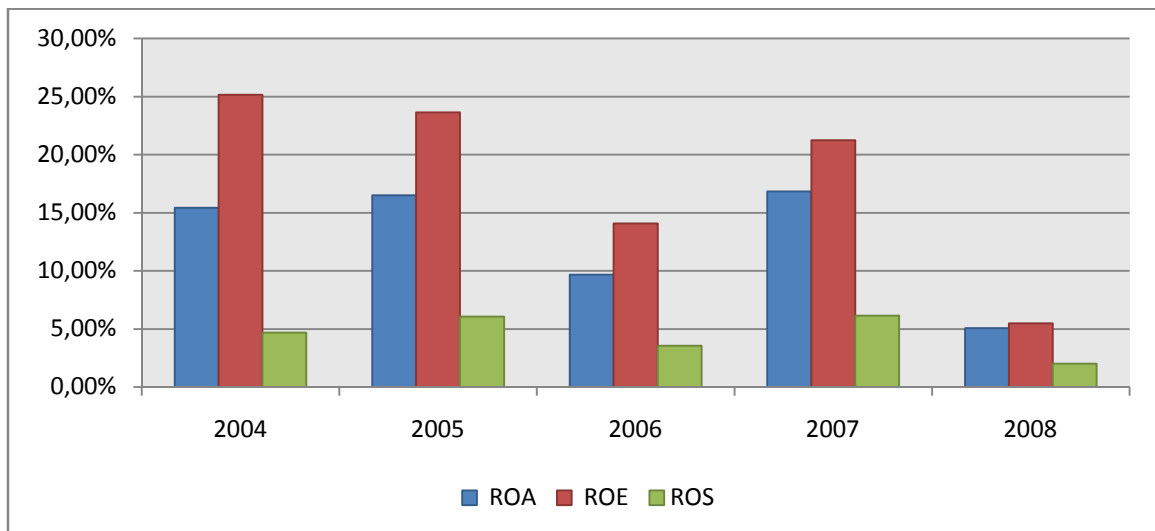
5.3.1 Profitability ratios

The profitability is the measure of the company's ability to gain profit by means of invested capital. In addition, the ratios are used for the evaluation of total efficiency of a given activity.

Table 12. Profitability ratios, DHJ–Kovo, s.r.o. 2004–2008

Profitability	2004	2005	2006	2007	2008
ROA	15,43%	16,51%	9,67%	16,83%	5,07%
ROE	25,15%	23,65%	14,07%	21,23%	5,47%
ROS	4,69%	6,06%	3,54%	6,14%	2,02%

Figure 17. Development of profitability ratios 2004–2008



Although the profitability ratios were fluctuating during the analysed period from 2004 to 2008, DHJ–Kovo, s.r.o. could be evaluated as a profitable company → the values did not appear in negative numbers. The highest profitability ratios were in the years of 2004, 2005 and 2007. The increase of ROE was caused by the improvement of the profit/loss. In 2008, the drop in all ratios brought about the very low profit/loss in comparison with other

analysed years. When analysing ROS, 1 CZK of sales contributed to the increase of profit on average on 0,037 CZK.

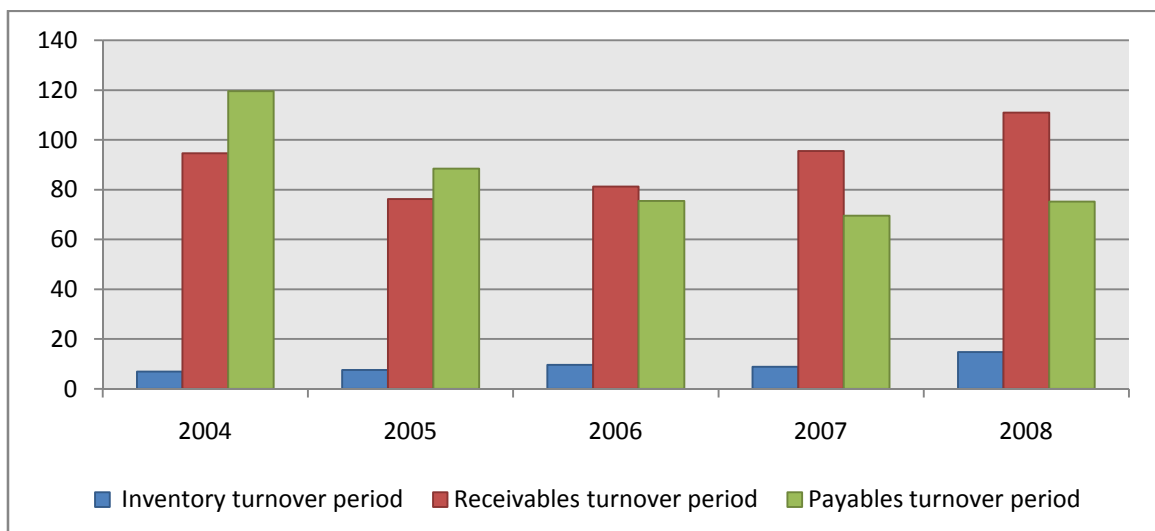
5.3.2 Asset utilization ratios

The ratios express how effectively a company uses its assets. If a company owns more assets than needed → superfluous expenses, but on the other hand, if a company lacks the assets → loss of potential sales.

Table 13. Assets utilization ratios, 2004-2008

Assets utilization	2004	2005	2006	2007	2008
Total asset turnover	2,24	1,87	1,94	2,03	1,85
Inventory turnover period/in days/	6,9	7,6	9,6	8,9	14,8
Inventory turnover	52,25	47,62	37,46	40,59	24,28
Receivable turnover period/in days/	94,6	76,2	81,3	95,5	110,9
Receivable turnover	3,81	4,72	4,43	3,77	3,25
Payable turnover period/in days/	119,6	88,4	75,4	69,5	75,2
Payables period	3,01	4,07	4,77	5,18	4,79

Figure 18. Assets utilization, 2004–2008



Total asset turnover was higher than the required amount, which meant that DHJ – Kovo, s.r.o. reached such the amount of the equity.

value of 1 during the analysed period. It means that the amount of revenues equal to the amount of equity.

Inventory turnover period was the lowest in 2004, 7 days. In 2008, the value of the inventory turnover period was 14 days. The reason why the values were so low was that DHJ – Kovo is a manufacturing company and the inventory is purchased in the case of orders from customers.

when the value was in the region of 7 days. In 2008, the value of the inventory turnover period was 14 days. The reason why the values were so low was that DHJ – Kovo, s.r.o. is the manufacturing company and the inventory is purchased in the case of orders from customers.

The payment morality of customers was satisfactory in 2005 (76 days) and 2006 (81 days). In 2008, customers likely required the longer due dates when the turnover period was 111 days. Nowadays, it is quite common that as stated in it. The receivables turnover period is in the region of 60 days in the Czech Republic.

in 2005 (76 days) and 2006 (81 days). In 2008, customers likely required the longer due dates when the turnover period was 111 days. Nowadays, it is quite common that as stated in it. The receivables turnover period is in the region of 60 days in the Czech Republic.

From the payables turnover period was evident that DHJ – Kovo, s.r.o. tried to improve its payment morality – 120 days in 2004, 50 days in 2007. It is crucial to compare due dates of receivables and payables. In 2004 and 2005, the company showed longer due dates of payables than of receivables. It meant that DHJ – Kovo, s.r.o. covered its payables after receiving payments from the customers.

DHJ – Kovo, s.r.o. tried to improve its payment morality – 120 days in 2004, 50 days in 2007. It is crucial to compare due dates of receivables and payables. In 2004 and 2005, the company showed longer due dates of payables than of receivables. It meant that DHJ – Kovo, s.r.o. covered its payables after receiving payments from the customers.

5.3.3 Debt management ratios

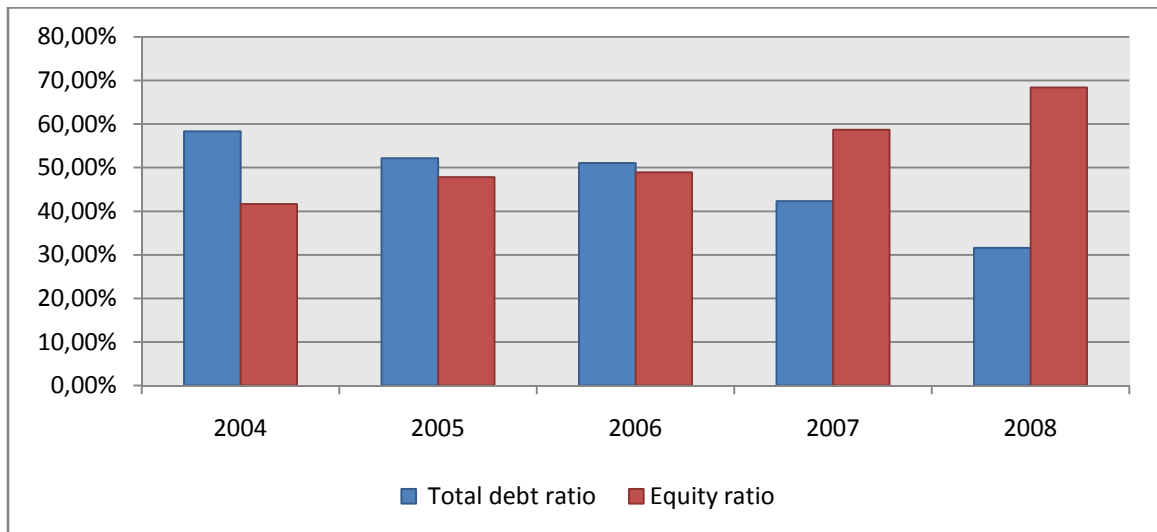
The determination of the optimal financial structure, in the sense of the determination of an appropriate structure of sources of financing, belongs not only to the most important but also to the most difficult task of financial directing.

e, in the sense of the determination of an appropriate structure of sources of financing, belongs not only to the most important but also to the most difficult task of financial directing.

Table 14. Debt management ratios, DHJ – Kovo, s.r.o. 2004 – 2008

Debt management ratios	2004	2005	2006	2007	2008
Total debt ratio	58,33%	52,14%	51,08%	42,29%	31,59%
Equity ratio	41,67%	47,86%	48,92%	58,67%	68,41%

Figure 19. Total debt ratios, 2004–2008



In 2004, the total debt ratio of DHJ – Kovo, s.r.o. reached 58,33%. It means that the company used bank loans and borrowings in a large extent. On the other hand, in the years of 2007 and 2008, the situation completely changed for the company began to use own financial resources in a large extent (2007–58,67 %, 2008–68,41%).

It is generally known, from the debt management point of view, that the higher is the amount of payables, the more attention should be paid to the creation of financial resources to cover them in the future.

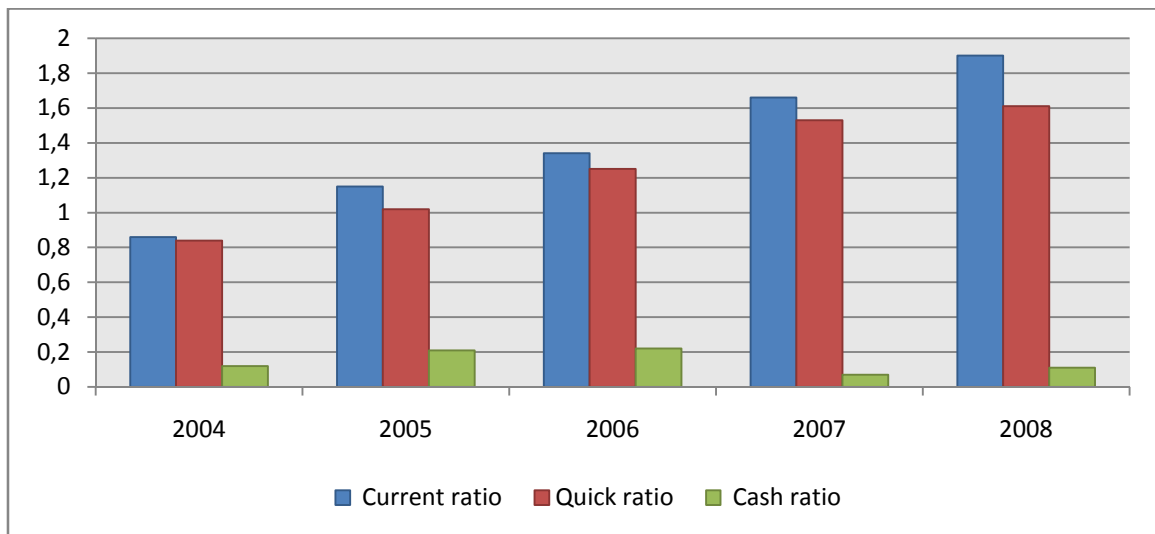
5.3.4 Liquidity ratios

Before starting evaluating the liquidity, it is crucial to take a different approach to it because various target users will use data from a financial analysis → every target group of users will prefer a different level of liquidity. For or management of a company, the lack of liquidity could mean the decrease in profitability, the loss of control over a company or the underutilization of opportunities. Owners of a company will rather prefer a lower level of liquidity because current assets represent the ineffective tying of finances that can curtail ROE.

Table 15. Liquidity ratios, DHJ – Kovo, s.r.o. 2004–2008

Liquidity ratios	2004	2005	2006	2007	2008
Current ratio	0,86	1,15	1,34	1,66	1,90
Quick ratio	0,84	1,02	1,25	1,53	1,61
Cash ratio	0,12	0,21	0,22	0,07	0,11

Figure 20. Development of liquidity ratios, DHJ–Kovo, s.r.o. 2004–2008



The recommended values of the current ratio are estimated at 1,5–2,5. In the case of DHJ–Kovo, s.r.o., current ratio values were increasing in the course of the analysed period from 2004 to 2008. Until 2006, values appeared to be insufficient because they declined under a low threshold of recommended standards. The alarming situation took place in 2004 when the current ratio value was 0,86.

The quick ratio values of DHJ–Kovo, s.r.o. came up to recommended values of 1, or higher value of the quick ratio is more favourable for creditors, not for shareholders and the management of a company. The excessive amount of current assets leads to the unproductive use of money invested into a company so it unfavourably influences the total profitability of invested capital.

The cash ratio values of DHJ–Kovo, s.r.o. reached the recommended value of 0,2–1,1 – only in the years of Ministry of Industry and Trade of the Czech Republic – 2005 (0,21) and 2006 (0,22). But the value of 0,2 is classified as critical not only from the psychological point of view. The nonobservance of recommended values does not definitely mean that a company has financial problems. Nowadays, it is quite common to use current accounts which cannot be obvious when using data from the balance sheet.

5.4 Cumulative indicators

Cumulative ratios express in summary the financial position and financial health of a company. Nevertheless, their informative ability is limited – a company is such a difficult system and expression by means of a single number is quite problematic.

5.4.1 Altman Model (Z-Score)

The original aim of Altman Z-Score was to determine how easily distinguish companies close to bankruptcy from those companies where the probability of bankruptcy is minimal.

Table 16. Altman Z-Score, DHJ-Kovo, s.r.o. 2004-2008

	2004	2005	2006	2007	2008
0,717	0,000	0,089	0,189	0,197	0,204
0,847	0,256	0,302	0,350	0,386	0,541
3,107	0,457	0,477	0,282	0,511	0,152
0,420	0,300	0,385	0,402	0,583	0,910
0,998	2,232	1,863	1,922	2,024	1,848
Z-Score	3,245	3,116	3,145	3,701	3,655
Result	'SAFE'	'SAFE'	'SAFE'	'SAFE'	'SAFE'

The evaluation of the company by means of Altman Z-Scores suggests that DHJ-Kovo, s.r.o. can be classified among companies with a satisfactory financial situation. The company does not deal with serious financial problems. The company reached the best Z-Score in 2007 (3,701). On the other hand, the worst result was reached in 2005 (3,116), but still satisfactory result was reached in 2005 (3,116).

5.4.2 DuPont analysis

Table 17. Analysis of ROA, DHJ-Kovo, s.r.o. 2004-2008

	2004	2005	2006	2007	2008
Net Income/Sales	0,047	0,061	0,036	0,061	0,020
Sales/Total Assets	2,236	1,866	1,926	2,028	1,851
NI/S*S/TA	0,105	0,114	0,069	0,124	0,037
NI/TA= ROA	0,105	0,113	0,069	0,125	0,037

The values were varying during the analysed years. Net Income/Sales is the ratio which dragged down the total ROA. The lowest values appeared in 2008, it was caused by the very low profit/loss and also by the worldwide weak economic situation which influenced the company. On the other hand, the highest values appeared in 2007 because of a relatively high value of Sales/Total Assets ratio.

Table 18. Analysis of ROE, DHJ–Kovo, s.r.o. 2004–2008

	2004	2005	2006	2007	2008
Net Income/Sales	0,047	0,061	0,036	0,061	0,020
Sales/Total Assets	2,236	1,866	1,926	2,028	1,851
Total Assets/Equity	2,400	2,090	2,044	1,705	1,462
NI/S*S/TA*TA/E	0,252	0,238	0,142	0,211	0,054
NI/E= ROE	0,251	0,237	0,141	0,212	0,055

The right side of Du Pont equation is the indicator of the leverage effect. From the presence of the effect is evident that – if a company uses liabilities in the wider range, it can reach higher values of ROE under certain circumstances. The positive influence of the leverage effect on ROE starts at values above 1. The highest values were reached in 2004 (2,400). The values were decreasing in the following years but still maintained the values above 1. In common with ROA in 2008, the lowest values of ROE appeared.

CONCLUSION

The aim of the bachelor thesis was to evaluate the financial position of the company DHJ – Kovo, s.r.o. by means of various methods which were red described in the theoretical part of the thesis. The analysis was based on financial statements – balance sheet and income statement in the period from 2004 to 2008. The theoretical part also includes grounds and point of financial analysis, sources of information of the analysis and its users. The practical part is focused on financial analysis of DHJ – Kovo, s.r.o. by means of methods mentioned in the theoretical part of the thesis. I would like to summarize results of the analysis and evaluate the financial health of the company.

According to subtractive ratios, DHJ – Kovo, s.r.o. had positively increasing net working capital during the analysed period. The worst result was reached in 2004. The very low amount of net working capital could eventually cause problems when high unexpected expenditure would occur. Nevertheless, the amount of net working capital was satisfactory → DHJ – Kovo, s.r.o. was able to fulfill its due payables.

Although profitability ratios were fluctuating, results did not appear in negative values → profitability could be evaluated as the strength of the company. The highest values were measured in 2004, 2005 and 2007 – the increase was caused by the improvement of the profit/loss. On the other hand, the year 2008 meant the drop in all ratios brought about the very low profit/loss.

According to asset utilization ratios, total asset turnover was higher than required values of 1 and the company reached such the amount of revenues equal to the amount of equity. The payment morality of customers was satisfactory. The exception was the year 2008 when the receivables turnover period was 111 days. Nowadays, it is very common that a settlement of an invoice is longer than stated in it. From the payable turnover period was obvious that DHJ – Kovo, s.r.o. tried to improve its payment morality. Once again, the exception was the year 2008 when the company covered its payables after receiving payments from customers.

According to debt management ratios, DHJ – Kovo, s.r.o. used bank loans, especially short-term bank loans, in a large extent in 2004 (9 37000 CZK) and 2006 (1479000 CZK).

Liquidity ratios showed that DHJ – Kovo, s.r.o. had problems in this area. Until 2006, current ratios appeared insufficient because they did not reach the recommended values of 1,5 – 2,5. The most alarming year was 2004 when the current ratio value was 0,86 because of the low proportion of current assets in comparison with the rest of the

period. According to recommended values (0,2–1,1) the Czech Republic, DHJ–Kovo, s.r.o. reached the value of 0,2 in 2006. But the value of 0,2 could be classified as critical → liquidity was the weakness of the company.

The evaluation of the company by means of cumulative indicators, especially Z–Score, showed that DHJ–Kovo, s.r.o. could be classified as a company with a satisfactory financial situation → the company did not deal with serious financial problems. Nevertheless, the analysis of ROA and ROE revealed that there are areas which should be improved – revenues and sales. The values of Net Income/Sales were relatively low, especially in 2008. It was caused by the worldwide weak economic situation which influenced the company, generally the whole engineering industry.

All companies are definitely struggling with the worldwide economic crisis and DHJ–Kovo, s.r.o. is not the exception. The year 2008 meant the outflows of orders and customers → decrease in sales.

A possible recommendation of how to improve the financial situation of the company is entering new markets. Since DHJ–Kovo, s.r.o. does business with German–speaking countries, the company should try to aim its business activities at new markets, especially in English–speaking countries. Since DHJ–Kovo, s.r.o. is the small company, entering new markets could be problematic. The possible option is to find a stronger and bigger strategic business partner that has had some experience with doing business in English–speaking countries, or generally in foreign countries.

As it was mentioned, a real weakness is the propagation of the company. Www pages are old–fashioned and need urgent and effective improvements. When potential customers are interested in the company, the first thing what they do is browsing www pages and trying to get to know as much as possible about company's business activities, then they decide to contact the company.

To be successful and competitive, DHJ–Kovo, s.r.o. should invest capital into the modern technological equipment and modernize the machinery as well as production. The old lathes should be replaced with powerful and modern CNC machines. Modernization would broaden business activities of the company, increase the quality of products and attract new customers. Since the Czech Republic has been the member of the European Union since 2004, the potential modernization could be financed with grants from European structural funds.

of Ministry of Industry and Trade of the Czech Republic, DHJ–Kovo, s.r.o. reached the values of 0,21 in 2005 and 0,22 in 2006. But the value of 0,2 could be classified as critical → liquidity was the weakness of the company.

The evaluation of the company by means of cumulative indicators, especially Z–Score, showed that DHJ–Kovo, s.r.o. could be classified as a company with a satisfactory financial situation → the company did not deal with serious financial problems. Nevertheless, the analysis of ROA and ROE revealed that there are areas which should be improved – revenues and sales. The values of Net Income/Sales were relatively low, especially in 2008. It was caused by the worldwide weak economic situation which influenced the company, generally the whole engineering industry.

All companies are definitely struggling with the worldwide economic crisis and DHJ–Kovo, s.r.o. is not the exception. The year 2008 meant the outflows of orders and customers → decrease in sales.

A possible recommendation of how to improve the financial situation of the company is entering new markets. Since DHJ–Kovo, s.r.o. does business with German–speaking countries, the company should try to aim its business activities at new markets, especially in English–speaking countries. Since DHJ–Kovo, s.r.o. is the small company, entering new markets could be problematic. The possible option is to find a stronger and bigger strategic business partner that has had some experience with doing business in English–speaking countries, or generally in foreign countries.

As it was mentioned, a real weakness is the propagation of the company. Www pages are old–fashioned and need urgent and effective improvements. When potential customers are interested in the company, the first thing what they do is browsing www pages and trying to get to know as much as possible about company's business activities, then they decide to contact the company.

To be successful and competitive, DHJ–Kovo, s.r.o. should invest capital into the modern technological equipment and modernize the machinery as well as production. The old lathes should be replaced with powerful and modern CNC machines. Modernization would broaden business activities of the company, increase the quality of products and attract new customers. Since the Czech Republic has been the member of the European Union since 2004, the potential modernization could be financed with grants from European structural funds.

BIBLIOGRAPHY

- Blaha, Zdeněk S., and Irena Jindřichovská. 1994. *Jak posoudit finanční zdraví firmy*. Praha: Management Press.
- Brealey, Richard A., and Stewart C. Myers. 2000. *Principles of Corporate Finance*. Irwin: McGraw-Hill.
- Brigham, Eugene F., and Michael C. Ehrhardt. 2007. *Financial Management: Theory and Practice*. USA: Thomson South-Western.
- InvestorWords.com. DuPont Analysis Definition. http://www.investorwords.com/6496/Du_Pont_Analysis.html (accessed February 28, 2010).
- Kislingerová, Eva. 2007. *Manažerské finance*. Praha: C.H. Beck.
- Kovanicová, Dana, and Pavel Kovanic. 1995. *Pokladyskrytévú četnictví*. Praha: Polyglon.
- Ministerstvo pro úmyslnou obchodu. *Panorama zpracovatelského průmyslu ČR 2008*. <http://www.mpo.cz/dokument65939.html> (accessed March 19, 2010).
- Needles, Belverd E., and Marian Powers. 2007. *Financial Accounting*. Boston: Houghton Mifflin Company.
- Obchodní rejstřík firem, živnostenský rejstřík osob, rejstřík firem, ares, justice, rejstřík podnikatelů. D H J – KOVO, s.r.o. <http://obchodnirejstrik.cz/d-h-j-kovo-s-r-o-46975543/> (accessed March 19, 2010).
- Paseková, Marie. 2007. *Účetní výkazy v praxi*. Praha: Kernberg Publishing.
- Pavelková, Drahomíra. 2005. *Výkonnost podniků z pohledu finančního manažera*. Praha: Linde.
- Růčková, Petra. 2008. *Finanční analýza: metody, ukazatele, využití v praxi*. Praha: Grada.
- Sedláček, Jaroslav. 2005. *Účetnictví pro manažery*. Praha: Grada Publishing.
- TheManageMentor. TheManageMentor – Finance – DuPont Analysis. <http://www.themanagementor.com/EnlightenmentAreas/finance/CFA/DUPontAnalysis.html> (accessed February 28, 2010).
- ValveBasedManagement. Z-Score. http://valvemanagement.net/methods_altman_z-score.html (accessed February 28, 2010).

LIST OF TABLES

Table 1. Structure of the balance sheet	17
Table 2. Types of ratio indicators	25
Table 3. Kralicek Quick Test	33
Table 4. Number of employees in DHJ–Kovo, s.r.o.	40
Table 5. SWOT Analysis of DHJ–Kovo, s.r.o.	41
Table 6. Horizontal analysis of the balance sheet, DHJ–Kovo, s.r.o.	46
Table 7. Vertical analysis of the balance sheet, DHJ–Kovo, s.r.o.	49
Table 8. Horizontal analysis of the income statement, DHJ–Kovo, s.r.o.	52
Table 9. Development of expenses, DHJ–Kovo, s.r.o. 2004–2008	54
Table 10. Profit/loss, DHJ–Kovo, s.r.o. 2004–2008	56
Table 11. Working capital, 2004–2008	59
Table 12. Profitability ratios, DHJ–Kovo, s.r.o. 2004–2008	60
Table 13. Assets utilization ratios, 2004–2008	61
Table 14. Debt management ratios, DHJ–Kovo, s.r.o. 2004–2008	62
Table 15. Liquidity ratios, 2004–2008	63
Table 16. Altman Z–Score, DHJ–Kovo, s.r.o. 2004–2008	65
Table 17. Analysis of ROA, DHJ–Kovo, s.r.o. 2004–2008	65
Table 18. Analysis of ROE, DHJ–Kovo, s.r.o. 2004–2008	66

LIST OF FIGURES

Figure 1. DuPont analysis	35
Figure 2. Percentage participation of individual branches in total sales from sold goods and services in 2007	42
Figure 3. Development of sales of products and services 2000–2007	43
Figure 4. Territorial structure of the international trade in 2007	44
Figure 5. Direct foreign investments into OKE Č28	45
Figure 6. Development of assets, DHJ–Kovo, s.r.o. 2004–2008	47
Figure 7. Development of liabilities, DHJ–Kovo, s.r.o. 2004–2008	48
Figure 8. Structure of assets, DHJ–Kovo, s.r.o. 2004–2008	51
Figure 9. Structure of current assets, DHJ–Kovo, s.r.o. 2004–2008	51
Figure 10. Structure of total liabilities, DHJ–Kovo, s.r.o. 2004–2008	52
Figure 11. Development of revenues, DHJ–Kovo, s.r.o. 2004–2008	54
Figure 12. Development of expenses, DHJ–Kovo, s.r.o. 2004–2008	55
Figure 13. Development of profit/loss of the current period, 2004–2008	56
Figure 14. Structure of revenues, DHJ–Kovo, s.r.o. 2004–2008	57
Figure 15. Structure of expenses, DHJ–Kovo, s.r.o. 2004–2008	58
Figure 16. Development of total revenues and expenses, 2004–2008	58
Figure 17. Development of profitability ratios, 2004–2008	60
Figure 18. Assets utilization, 2004–2008	61
Figure 19. Total debt ratios, 2004–2008	63
Figure 20. Development of liquidity ratios, DHJ–Kovo, s.r.o. 2004–2008	64

APPENDICES

PI	BalancesheetofDHJ–Kovo,s.r.o.2004–	2008
PII	IncomestatementofDHJ–Kovo,s.r.o.20	04–2008
PIII	HorizontalanalysisofbalancesheetofDHJ	–Kovo,s.r.o.2004–2008
PIV	VerticalanalysisofbalancesheetofDHJ–	Kovo,s.r.o.2004–2008
PV	HorizontalanalysisofincomestatementofDH	J–Kovo,s.r.o.2004–2008
PVI	VerticalanalysisofincomestatementofDHJ	–Kovo,s.r.o.2004–2008

APPENDIX PI: BALANCE SHEET OF DHJ-KOVO, S.R.O.

2004-

2008

Assets (in thousands CZK)		2004	2005	2006	2007	2008
	TOTAL ASSETS	11776	13430	15289	16166	14680
B.	Fixed assets	5471	5317	5149	4935	5567
B.I.	Intangible assets	0	0	0	0	0
B.II.	Tangible assets	5471	5317	5149	4935	5567
1.	Land	499	499	575	721	1703
2.	Constructions	3144	2870	2607	2671	2697
3.	Separate movable items	843	963	982	558	1012
7.	Tangible assets in progress	2	2	2	2	155
8.	Advances granted for tangible assets	983	983	983	983	0
C.	Current assets	5937	8049	9996	11144	8821
C.I.	Inventory	177	875	712	904	1335
C.I.1.	Materials	177	875	712	904	1335
C.III.	Short-term receivables	4925	5683	7613	9781	6972
C.III.1.	Trade receivables	4713	4470	6143	8327	6098
6.	Due from government-tax receivables	152	1213	1456	1454	874
8.	Unbilled revenues	46	0	0	0	0
9.	Other receivables	14	0	14	0	0
C.IV.	Short-term financial assets	835	1491	1671	459	514
C.IV.1.	Cash	464	211	179	71	112
2.	Bank accounts	371	1280	1492	388	402
D.	Accruals	368	64	144	87	292
D.I.1.	Deferred expenses	366	64	144	0	0
3.	Unbilled revenues	2	0	0	0	0
Equity and Liabilities (in thousands CZK)						
	TOTAL LIABILITIES	11776	13430	15289	16166	14680
A.	Equity	4907	6427	7479	9484	10043
A.I.	Registered capital	105	105	105	105	105
A.I.1.	Registered capital	105	105	105	105	105
A.II.	Capital funds	0	0	0	0	0
A.III.	Reserve funds, statutory funds and other retained earnings	9	9	9	1	11
A.III.1.	Legal reserve fund	9	9	9	1	11
A.IV.	Profit/loss previous year	3559	4793	6313	7365	9378
A.IV.1.	Retained earnings from previous years	3559	4793	6313	7365	9378
A.V.	Profit/loss current year	1234	1520	1052	2013	549
B.	Liabilities	6869	7003	7810	6836	4637
B.I.	Reserves	0	0	0	0	0
B.III.	Short-term payables	5932	6378	5956	6711	4637

B.III.1.	Tradepayables	3770	4934	4608	5445	3144
2.	Payablestocontrolledandmanaged organizations	1124	874	874	785	745
5.	Payroll	289	319	287	231	196
6.	Payablestosocialsecurityandnationalinsur ance	172	195	172	174	169
7.	Duetogovernment-taxesandsubsidies	577	56	15	7	40
10.	Unbilleddeliveries	0	0	0	69	343
11.	Otherliabilities	0	0	0	0	0
B.IV.	Bankloansandborrowings	937	625	1854	125	0
B.IV.1.	Long-termbankloans	0	0	375	125	0
B.IV.2.	Short-termbankloans	937	625	1479	0	0
C	Accruals	0	0	0	-154	0

APPENDIX P II: INCOME STATEMENT OF DHJ – KOVO, S. R.O.
2004–2008

Incomestatement(inthousandsCZK)		2004	2005	2006	2007	2008
I.	Revenuesfromsoldgoods	0	0	0	0	0
A.	Expensesonsoldgoods	0	0	0	0	0
+	Salemargin	0	0	0	0	0
II.	Production	26331	25064	29442	32784	27179
II.1.	Revenuesfromownproductsandservices	26331	25064	29442	32784	27179
B.	Productionconsumption	18989	16004	21673	23518	20299
B.1.	Consumptionofmaterialandenergy	10383	9176	12762	13412	13078
2.	Services	8606	6828	8911	10106	7221
+	Addedvalue	7342	9060	7769	9266	6880
C.	Personnelexpenses	4910	5849	5525	5547	5310
C.1.	Wagesandsalaries	3616	4332	4097	4079	3918
C.3.	Socialsecurityandhealthinsuranceexpenses	1294	1517	1428	1468	1392
D.	Taxesandfees	22	21	26	23	45
E.	Depreciationoftangibleandintangibleassets	635	691	769	708	348
III.	Revenuesfromsaleoffixedassetsandmaterials	0	0	290	0	0
III.1	Revenuesfromsaleoffixedassets	0	0	290	0	0
F.	Netbookvalueofdisposedfixedassetsand materials	0	0	0	0	0
G.	Changeinoperatingreservesandcomplex deferredcosts	-501	0	0	0	0
IV.	Otheroperatingrevenues	0	30	31	36	71
H.	Otheroperatingexpenses	98	145	97	109	180
*	Operatingprofit/loss	2178	2384	1673	2915	1068
VII.	Revenuesfromlong-termfinancialassets	0	0	0	0	0
X.	Interestrevenues	1	0	0	0	0
N.	Interestexpenses	84	156	93	62	29
XI.	Otherfinancialrevenues	37	32	67	206	328
O.	Otherfinancialexpenses	399	199	261	401	651
*	Profit/lossfromfinancialoperations	-445	-323	-287	-257	-352
Q.	Incometaxonordinaryactivities	499	541	334	645	167
Q.1.	-duetax	499	541	334	645	167
**	Operatingprofit/lossfromordinaryactivity	1234	1520	1052	2013	549
S.	Taxonextraordinaryprofit/loss	0	0	0	0	0
*	Profit/lossfromextraordinaryactivity	0	0	0	0	0
***	Profit/lossofcurrentperiod	1234	1520	1052	2013	549
****	Profit/lossbeforetaxation	1733	2061	1386	2658	716

**APPENDIX P III: HORIZONTAL ANALYSIS OF BALANCE SHEET
OF DHJ-KOVO, S.R.O. 2004-2008**

Assets (in thousands CZK)		05/04	06/05	07/06	08/07
	TOTAL ASSETS	1,140	1,138	1,057	0,908
B.	Fixed assets	0,972	0,968	0,958	1,128
B.I.	Intangible assets	X	X	X	X
B.II.	Tangible assets	0,972	0,968	0,958	1,128
1.	Land	1,000	1,152	1,254	2,362
2.	Constructions	0,913	0,908	1,025	1,010
3.	Separate movable items	1,142	1,020	0,568	1,814
7.	Tangible assets in progress	1,000	1,000	1,000	77,500
8.	Advances granted for tangible assets	1,000	1,000	1,000	0,000
C.	Current assets	1,356	1,242	1,115	0,792
C.I.	Inventory	4,944	0,814	1,270	1,477
C.I.1.	Materials	4,944	0,814	1,270	1,477
C.III.	Short-term receivables	1,154	1,340	1,285	0,713
C.III.1.	Trade receivables	0,948	1,374	1,356	0,732
6.	Due from government-tax receivables	7,980	1,200	0,999	0,601
8.	Unbilled revenues	0,000	X	X	X
9.	Other receivables	0,000	X	0,000	X
C.IV.	Short-term financial assets	1,786	1,121	0,275	1,120
C.IV.1.	Cash	0,455	0,848	0,397	1,577
2.	Bank accounts	3,450	1,166	0,260	1,036
D.	Accruals	0,174	2,250	0,604	3,356
D.I.1.	Deferred expenses	0,175	2,250	0,000	X
3.	Unbilled revenues	0,000	X	X	X
Equity and Liabilities (in thousands CZK)		05/04	06/05	07/06	08/07
	TOTAL LIABILITIES	1,140	1,138	1,057	0,908
A.	Equity	1,310	1,164	1,268	1,059
A.I.	Registered capital	1,000	1,000	1,000	1,000
A.I.1.	Registered capital	1,000	1,000	1,000	1,000
A.II.	Capital funds	X	X	X	X
A.III.	Reserve funds, statutory funds and other retained earnings	1,000	1,000	0,111	11,000
A.III.1.	Legal reserve fund	1,000	1,000	0,111	11,000
A.IV.	Profit/loss previous year	1,347	1,317	1,167	1,273
A.IV.1.	Retained earnings from previous years	1,347	1,317	1,167	1,273
A.V.	Profit/loss current year	1,232	0,692	1,913	0,273
B.	Liabilities	1,020	1,115	0,875	0,678
B.I.	Reserves	X	X	X	X

B.III.	Short-term payables	1,075	0,934	1,127	0,691
B.III.1.	Trade payables	1,309	0,934	1,182	0,577
2.	Payables to controlled and managed organizations	0,778	1,000	0,898	0,949
5.	Payroll	1,104	0,900	0,805	0,848
6.	Payables to social security and national insurance	1,134	0,882	1,012	0,971
7.	Due to government - taxes and subsidies	0,0	97	0,268	5,714
10.	Unbilled deliveries	X	X	X	4,971
11.	Other liabilities	X	X	X	X
B.IV.	Bank loans and borrowings	0,667	2,966	0,067	0,000
B.IV.1.	Long-term bank loans	X	X	0,333	0,000
B.IV.2.	Short-term bank loans	0,667	2,366	0,000	X
C	Accruals	X	X	X	0,000

APPENDIX IV: VERTICAL ANALYSIS OF BALANCE SHEET OF DHJ – KOVO, S.R.O. 2004 – 2008, CHANGE IN THE STRUCTURE IN%

Assets(inthousandsCZK)		05/04	06/05	07/06	08/07
	TOTALASSETS	0,00%	0,00%	0,00%	0,00%
B.	Fixedassets	-6,87%	-5,91%	-3,15%	7,40%
B.I.	Intangibleassets	0,00%	0,00%	0,00%	0,00%
B.II.	Tangibleassets	-6,87%	-5,91%	-3,15%	7,40%
1.	Land	-0,52%	0,05%	0,70%	7,14%
2.	Constructions	-5,33%	-4,32%	-0,53%	1,85%
3.	Separatemovableitems	0,01%	-0,75%	-2,96%	3,44%
7.	Tangibleassetsinprogress	-0,002%	-0,002%	-0,001%	1,04%
8.	Advancesgrantedfortangibleassets	-1,03%	-0,89%	-0,33%	-6,08%
C.	Currentassets	9,52%	5,45%	3,55%	-8,85%
C.I.	Inventory	5,01%	-1,86%	0,94%	3,50%
C.I.1.	Materials	5,01%	-1,86%	0,94%	3,50%
C.III.	Short-termreceivables	0,49%	7,48%	10,71%	13,01%
C.III.1.	Tradereceivables	-6,74%	6,90%	11,33%	-9,97%
6.	Duefromgovernment-taxreceivables	7,74%	0,49%	-0,53%	-3,04%
8.	Unbilledrevenues	-0,39%	0,00%	0,00%	0,00%
9.	Otherreceivables	-0,12%	0,09%	-0,09%	0,00%
C.IV.	Short-termfinancialassets	4,01%	-0,17%	-8,09%	0,66%
C.IV.1.	Cash	-2,37%	-0,40%	-0,73%	0,32%
2.	Bankaccounts	6,38%	0,23%	-7,36%	0,34%
D.	Accruals	-2,65%	0,47%	-0,40%	1,45%
D.I.1.	Deferredexpenses	-2,63%	0,47%	-0,94%	0,00%
3.	Unbilledrevenues	-0,02%	0,00%	0,00%	0,00%
EquityandLiabilities(inthousandsCZK)		05/04	06/05	07/06	08/07
	TOTALLIABILITIES	0,00%	0,00%	0,00%	0,00%
A.	Equity	6,19%	1,06%	9,75%	9,75%
A.I.	Registeredcapital	-0,11%	-0,10%	-0,04%	0,07%
A.I.1.	Registeredcapital	-0,11%	-0,10%	-0,04%	0,07%
A.II.	Capitalfunds	0,00%	0,00%	0,00%	0,00%
A.III.	Reservefunds,statutoryfundsandother retainedearnings	-0,01%	-0,01%	-0,05%	0,07%
A.III.1.	Legalreservefund	-0,01%	-0,01%	-0,05%	0,07%
A.IV.	Profit/losspreviousyear	5,47%	5,60%	4,27%	18,32%
A.IV.1.	Retainedearningsfrompreviousyears	5,47%	5,60%	4,27%	18,32%
A.V.	Profit/losscurrentyear	0,84%	-4,44%	5,57%	-8,71%
B.	Liabilities	-6,19%	-1,06%	-8,80%	-10,7%

B.I.	Reserves	0,00%	0,00%	0,00%	0,00%
B.III.	Short-term payables	-2,88%	-8,53%	2,69%	-9,93%
B.III.1.	Trade payables	4,72%	-6,60%	3,54%	12,26%
2.	Payables to controlled and managed organizations	-3,04%	-0,79%	-0,86%	0,22%
5.	Payroll	-0,08%	-0,50%	-0,45%	-0,09%
6.	Payables to social security and national insurance	-0,09%	-0,33%	-0,05%	0,07%
7.	Due to government - taxes and subsidies	-4,48%	-0,32%	-0,05%	0,23%
10.	Unbilled deliveries	0,00%	0,00%	0,43%	1,91%
11.	Other liabilities	0,00%	0,00%	0,00%	0,00%
B.IV.	Bank loans and borrowings	-3,30%	7,47%	-11,35%	-0,77%
B.IV.1.	Long-term bank loans	0,00%	2,45%	-1,68%	-0,77%
B.IV.2.	Short-term bank loans	-3,30%	5,02%	-9,67%	0,00%
C	Accruals	0,00%	0,00%	-0,95%	0,95%

**APPENDIX P V: HORIZONTAL ANALYSIS OF INCOME
STATEMENT OF DHJ-KOVO, S.R.O. 2004-2008**

Income statement (in thousands CZK)		05/04	06/05	07/06	08/07
I.	Revenues from sold goods	X	X	X	X
A.	Expenses on sold goods	X	X	X	X
+	Sale margin	X	X	X	X
II.	Production	0,952	1,175	1,114	0,829
II.1.	Revenues from own products and services	0,952	1,175	1,114	0,829
B.	Production consumption	0,843	1,354	1,085	0,863
B.1.	Consumption of material and energy	0,884	1,391	1,051	0,975
2.	Services	0,793	1,305	1,134	0,715
+	Added value	1,234	0,858	1,193	0,742
C.	Personnel expenses	1,191	0,945	1,004	0,957
C.1.	Wages and salaries	1,198	0,946	0,996	0,961
C.3.	Social security and health insurance expenses	1,172	0,941	1,028	0,948
D.	Taxes and fees	0,955	1,238	0,885	1,957
E.	Depreciation of tangible and intangible assets	1,088	1,113	0,921	0,492
III.	Revenues from sale of fixed assets and materials	X	X	0,000	X
III.1	Revenues from sale of fixed assets	X	X	0,000	X
F.	Net book value of disposed fixed assets and materials	X	X	X	X
G.	Change in operating reserves and complex deferred costs	0,000	X	X	X
IV.	Other operating revenues	X	1,033	1,161	1,972
H.	Other operating expenses	1,480	0,669	1,124	1,651
*	Operating profit/loss	1,095	0,702	1,742	0,366
VII.	Revenues from long-term financial assets	X	X	X	X
X.	Interest revenues	0,000	X	X	X
N.	Interest expenses	1,857	0,596	0,667	0,468
XI.	Other financial revenues	0,865	2,094	3,075	1,592
O.	Other financial expenses	0,499	1,312	1,536	1,623
*	Profit/loss from financial operations	0,726	0,889	0,895	1,370
Q.	Income tax on ordinary income	1,084	0,617	1,931	0,259
Q.1.	-due tax	1,084	0,617	1,931	0,259
**	Operating profit/loss from ordinary activity	1,232	0,692	1,913	0,273
S.	Tax on extraordinary profit/loss	X	X	X	X
*	Profit/loss from extraordinary activity	X	X	X	X
***	Profit/loss of current period	1,232	0,692	1,913	0,273
****	Profit/loss before taxation	1,189	0,672	1,918	0,269

**APPENDIX P V: HORIZONTAL ANALYSIS OF INCOME
STATEMENT OF DHJ – KOVO, S.R.O. 2004 – 2008, INCREASE IN
%**

Income statement (in thousands CZK)		05/04	06/05	07/06	08/07
I.	Revenues from sold goods	X	X	X	X
A.	Expenses on sold goods	X	X	X	X
+	Sale margin	X	X	X	X
II.	Production	-4,81%	17,47%	11,35%	-17,10%
II.1.	Revenues from own products and services	-4,81%	17,47%	11,35%	-17,10%
B.	Production consumption	-15,72%	35,42%	8,51%	-13,69%
B.1.	Consumption of material and energy	-11,62%	39,08%	5,09%	-2,49%
2.	Services	-20,66%	30,51%	13,41%	-28,55%
+	Added value	23,40%	-14,23%	19,27%	-25,75%
C.	Personnel expenses	19,12%	-5,54%	0,40%	-4,27%
C.1.	Wages and salaries	19,80%	-5,42%	-0,44%	-3,95%
C.3.	Social security and health insurance expenses	17,23%	-5,87%	2,80%	-5,18%
D.	Taxes and fees	-4,55%	23,81%	-11,54%	95,65%
E.	Depreciation of tangible and intangible assets	8,82%	11,29%	-7,93%	-50,85%
III.	Revenues from sale of fixed assets and materials	X	X	-100%	X
III.1	Revenues from sale of fixed assets	X	X	-100%	X
F.	Net book value of disposed fixed assets and materials	X	X	X	X
G.	Change in operating reserves and complex deferred costs	-100%	X	X	X
IV.	Other operating revenues	X	3,33%	16,13%	97,22%
H.	Other operating expenses	47,96%	-33,10%	12,37%	65,14%
*	Operating profit/loss	9,46%	-29,82%	74,27%	-63,36%
VII.	Revenues from long-term financial assets	X	X	X	X
X.	Interest revenues	-100%	X	X	X
N.	Interest expenses	85,71%	-40,38%	-33,33%	-53,23%
XI.	Other financial revenues	-13,51%	109,38%	207,46%	59,22%
O.	Other financial expenses	-50,13%	31,16%	53,64%	62,34%
*	Profit/loss from financial operations	-27,42%	-11,15%	-10,45%	36,96%
Q.	Income tax on ordinary income	8,42%	-38,26%	93,11%	-74,11%
Q.1.	-due tax	8,42%	-38,26%	93,11%	-74,11%
**	Operating profit/loss from ordinary activity	23,18%	-30,79%	91,35%	-72,73%
S.	Tax on extraordinary profit/loss	X	X	X	X
*	Profit/loss from extraordinary activity	X	X	X	X
***	Profit/loss of current period	23,18%	-30,79%	91,35%	-72,73%
****	Profit/loss before taxation	18,93%	-32,75%	91,77%	-73,06%

**APPENDIX VI: VERTICAL ANALYSIS OF INCOME STATEMENT T
OF DHJ-KOVO, S.R.O. 2004-2008**

Income statement (in thousands CZK)		2004	2005	2006	2007	2008
TOTAL REVENUES		100%	100%	100%	100%	100%
I.	Revenues from sold goods	0,00%	0,00%	0,00%	0,00%	0,00%
II.	Production	99,86%	99,75%	98,70%	99,27%	98,55%
II.1.	Revenues from own products and services	99,86%	99,75%	98,70%	99,27%	98,55%
III.	Revenues from sale of fixed assets and materials	0,00%	0,00%	0,97%	0,00%	0,00%
III.1.	Revenues from sale of fixed assets	0,00%	0,00%	0,97%	0,00%	0,00%
IV.	Other operating revenues	0,00%	0,12%	0,10%	0,11%	0,26%
X.	Interest revenues	0,00%	0,00%	0,00%	0,00%	0,00%
XI.	Other financial revenues	0,14%	0,13%	0,22%	0,62%	1,19%
TOTAL EXPENSES		100%	100%	100%	100%	100%
A.	Expenses on sold goods	0,00%	0,00%	0,00%	0,00%	0,00%
B.	Production consumption	75,55%	67,80%	75,31%	75,38%	75,10%
B.1.	Consumption of material and energy	41,31%	38,87%	44,35%	43,25%	48,39%
B.2.	Services	34,24%	28,92%	30,96%	32,59%	26,72%
C.	Personnel expenses	19,53%	24,78%	19,20%	17,89%	19,65%
C.1.	Wages and salaries	14,39%	18,35%	14,24%	13,15%	14,50%
C.3.	Social security and health insurance expenses	5,15%	6,43%	4,96%	4,73%	5,15%
D.	Taxes and fees	0,09%	0,09%	0,09%	0,07%	0,17%
E.	Depreciation of tangible and intangible assets	2,53%	2,93%	2,67%	2,28%	1,29%
G.	Change in operating reserves and complex deferred costs	-1,99%	0,00%	0,00%	0,00%	0,00%
H.	Other operating expenses	0,39%	0,61%	0,34%	0,35%	0,67%
N.	Interest expenses	0,33%	0,66%	0,32%	0,20%	0,11%
O.	Other financial expenses	1,59%	0,84%	0,91%	1,29%	2,41%
Q.	Income tax on ordinary activities	1,99%	2,29%	1,16%	2,08%	0,62%
Q.1.	-duetax	1,99%	2,29%	1,16%	2,08%	0,62%