A Financial Analysis of the Czech Branch of TOPS

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ABSTRAKT

Tato bakalářská práce se zabývá finanční analýzou společnosti TOPS, s.r.o. Cílem této práce je provést finanční analýzu účetních výkazů společnosti za roky 2006-2010, zhodnotit výsledky finanční analýzy a navrhnout opatření vedoucí ke zlepšení finančního řízení. Práce je rozdělena na teoretickou a praktickou část. Teoretická část se zabývá zdroji, uživateli, cíli a metodami finanční analýzy. Praktická část obsahuje základní informace o společnosti, vypracovanou finanční analýzu, která byla provedena pomocí nástrojů finanční analýzy, a to absolutních, rozdílových a poměrových ukazatelů. Získané hodnoty jsou porovnány s odvětvím společnosti. Na závěr jsou doporučeny kroky ke zlepšení finančního řízení podniku.

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

ABSTRACT

This bachelor thesis deals with financial analysis of the Czech branch of TOPS. Its aim is to implement financial analysis of financial statements in a period 2006 - 2010, to evaluate the results of financial analysis and to suggest steps leading to improvement of financial management. The thesis is divided into theoretical and practical part. The theoretical part deals with sources, users, objectives and methods of financial analysis. The practical part contains basic information about the company and implemented financial analysis which is executed by means of financial analysis such as absolute, subtractive indicators and ratio analysis. Gained values are compared with the industry of the company. Steps for improving of financial management of the company are recommended at the conclusion.

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

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CONTENTS

INTRODUCTION

A financial analysis is a world-wide phenomenon. Every company needs it. If anybody thinks otherwise they are wrong. Why is a financial analysis so useful? It is because of high competitiveness in nowadays business field, especially in field of construction. The company I analyze belongs to this field. They must be always punctual and deliver as high quality service as possible, because there are almost 150 competitors just in Zlin, who would be able to replace them immediately.

A financial analysis reveals a lot of useful information which can be used either for comparing with other companies of the same field or for detecting potential problems (threats), which could lead even into bankruptcy. On the other hand, management of a company can also realize positive fact about the company which could be used for future development. A company does not have to always analyze itself. Management can also learn about their competitors, because all the needed documents (balance sheet, income statement) are accessible online.

This is the reason why I have chosen this topic for my bachelor thesis. I could have learnt useful information which has some value for the analyzed company and the information could help in the real world therefore I have feeling I have done something which has an implication.

My bachelor thesis is divided into two main parts. The first one analyses a theoretical background tightly connected with the practical part. It delivers knowledge of both financial analysis about itself (its users, sources or objectives) and methods which are employed in my thesis.

The practical (analytical) part analyses the company – TOPS, s. r. o. The analysis follows a general rule of financial analysis. It starts with SWOT analysis and continues with vertical and horizontal analysis afterwards. Following steps employed are methods of ratio analysis which is actually the most valuable source of information about the company by counting its liquidity, profitability, activity and debt policy. The analyzed period of time is five years (2006-2010) and is compared to building industry.

The aim of this thesis is to analyze the company and after summarizing the results, to suggest any possible steps which could lead into company's improvement.

I. THEORY

1 CHARACTERISTICS OF FINANCIAL ANALYSIS

Financial analysis is absolutely fundamental tool in nowadays business field. It represents fast and reliable source of information about company's financial position for anyone, who needs it. (Brammertz et al. 2009)

In order to define it precisely, we can state that financial analysis is collecting and evaluating of financial data of the company in order to find and realize weak and strong points. When these are found, problems are being solved and potential future of the company can be estimated. (Brammertz et al. 2009)

Facts as financial stability, liquidity or profitability are crucial for making decisions of management, potential investors or customers. Thanks to financial analysis all of them have an opportunity to get their answers. (Brammertz et al. 2009)

Financial analysis is basically going through the most important financial documents (balance sheets, income statements) and looking at the information provided from different perspectives regarding company's needs. (Brammertz et al. 2009)

1.1 Sources used for financial analysis

Fundamental steps of financial analysis are always carried thanks to various documents which can be roughly divided into internal and external sources.

Table 1. Internal and external sources of financial analysis

INTERNAL SOURCES	EXTERNAL SOURCES
Balance sheet	Prediction of financial analyst
Income statement	Exchange news
Cash flow statement	Economic news
Prediction of top management	Official economic statistics
Company statistics (production, sales…etc)	Experts commentary
Managers' report	Independent evaluation and prediction
Auditor's report	Estimation of non-company analysts

The most important internal sources are balance sheet and income statement because they contain the most important information needed for its users. Every qualified manager who has these statements available is basically able to carry financial analysis out. (Pavelková, Knápková 2006)

1.1.1 A balance sheet

A balance sheet provides us static information about firm's financial position at one specific point in time. Firm's financial composition of assets and liabilities is stated in the manner of overview. (Alice C. Lee,John C. Lee,Cheng F. Lee 2009, 14-17)

In addition to information above, a balance sheet is divided into more than just assets (what the firm owns) and liabilities (what the firm owes). Regular simplified balance sheet in Czech Republic has concretely four main groups of its property.

First one is called fixed assets and logically belongs to assets. These assets are, according to the law, in the ownership of a company for longer than one year. This item is more divided into tangible assets, intangible assets and long-term investments. Tangible assets are all the properties which have tangible form. Examples can be premises, houses, or cars. Intangible assets are all the assets which have intangible form as any kind of software, license or copyright. Long-term investments are all the financials which are possessed more than one year by a company. These can be shares, long-term lending or pieces of art intended for future business.

Current assets belong to the second group. These are owned by a company for shorter period of time (less than one year according to the law). The item is further divided into inventory, long-term receivables, short-term receivables and short-term financial assets. Inventories are basically all the assets which are kept in stock. It can be material, goods or own products. Long-term receivables are receivables which are not paid in first year after a business deal has been finished. Short-term receivables are usual and very common for various kinds of companies, because they occur practically every day. These are paid usually within 30 days after receiving an invoice. Short-term financial assets have the highest liquidity. These are cash, financial means on a bank account, valuables, or checks.

Equity belongs to liabilities and it is third group. Equity shows us what situation is the company in. If a company is profitable, equity grows. If a company has lost, equity decreases. It is further divided into share capital, capital funds, funds created from net profit, indivisible reserve and other funds created from net profit, profit or loss of previous years and profit or loss for the current period. Share capital are all financial means which were put by co-owners and can be raised or lowered according to current needs of the company. Capital funds are also financed by co-owners who can contribute by tangible and intangible assets as well. Furthermore, also donation belongs to this item. Funds created from net profit, indivisible reserve and other funds created from net profit is at the first place item which, according to the law, has to get at least 10 per cent of net profit every year, but cannot reach over 5 per cent of amount of share capital. Except of these, other funds can be created for various kinds for needs. Profit or loss of previous years and profit or loss for the current period are items which show the company's result of carrying its business. First of them always represents a result of previous years which is employed for comparing with a current profit or loss. These are strongly connected with income statement because they are actually results of this document.

The last and fourth group of balance sheet is called liabilities. This group represents all the liabilities of the company. It is divided into provisions, long-term liabilities, short-term liabilities and bank loans and borrowings. Provisions are created when management predicts any kind of need to do so. Most common reason is higher expected costs. Long-term liabilities are such liabilities which last longer than one year and logically short-term liabilities last less than one year and most of these are yet unpaid invoices. Bank loans and borrowings logically tell us its nature. This item has function for all the loans which company needs for covering its costs on investment or other debts.

Every specialist can see the compact system of connections among all the items of a balance sheet. When oriented and having experience with laws which apply to them, a specialist can find questions and answer them after analysis. Balance sheet could be actually considered (with certain overstatement) as company's "patient document" along with other important documents (income statement) and analyst is a doctor whose responsibility is to state if the company is healthy and if it is not, to find the appropriate treatment.

1.1.2 An income statement

An income statement measures a company's financial performance over a specific accounting period. It shows us a summary of how a company treats its revenues and expenses. Most importantly, an income statement shows a result of the whole effort company puts in its activities. Income statement also functions for further processing of taxes. (As indicated on Investopedia website)

This financial statement is more complex than a balance sheet. All the expenses and revenues (represented by Latin letters and Roman numerals) can be seen in it divided into various items according to its origin and purpose.

Because all the items are so various, an income statement is consisted of more group totals for even better order and further analyzing. The first group total is operating profit or loss. This one is a result of all operating expenses and revenues which most usually occur in a company. The second one is called financial profit or loss, which logically deals with pure financial operations like interest expenses or revenues. The third one is extraordinary profit or loss which is rather unusual and contains items like extraordinary expenses and revenues.

All of these are then summarized into one item – Profit or loss for the current period and then income tax on ordinary activity can be calculated.

An income statement has lots of connections with a balance sheet and if these are understood correctly, a lot of results and observations can be deduced by analysts. Apart from that, an effective communication must exist between analyst and management of a company, because particular features and changes in financial statements can have more causes and reasons.

This knowledge of balance sheet and income statement was gathered on my business high school from sources such as: (Štohl, 2008)

1.2 Users of financial analysis

This big group can be first divided into two following groups: internal and external users. Internal users are users who are included in the given company. External users are such users who are not straightly involved in. (as indicated on finance-maps of world website)

Users are also divided more specifically according to their relation to the company:

Table 2. Users

INTERNAL USERS	EXTERNAL USERS
• Shareholders	• Suppliers
• Employees	• Customers
• Managers	• Government
• Owners	• Investors
	• Banks

Group of shareholders, owners and investors is most concerned about company's profitability. These persons are looking mainly for profit a company is supposed to earn them. Investors want to see if it is worth to invest more so they could earn more. Shareholders want to control their shares and want their value to grow. (as indicated on finance-maps of world website)

Managers are interested in a profit as well, but they have much more goals. Besides, they usually take the whole responsibility and they are the ones who are asked by shareholders for results and explaining the reasons and causes. Furthermore, managers use financial statements as a tool which helps them to make decisions and avoid any problems. They simply need to have a view of the whole company. (as indicated on finance-maps of world website)

Employees have different goals. Their biggest need is to get as high salaries as possible. They need to be concerned about company's profitability for making that possible. If a company was in red numbers they would be afraid to lose their jobs so they need to try contribute as much as they can. (as indicated on finance-maps of world website)

Banks want to see results. If a company needs a loan, a bank needs to go through financial statements to be sure the company will be able to pay the loan back. Higher the loan is higher requirements are from the side of the bank. (as indicated on finance-maps of world website)

Suppliers need to be sure that a company is able to pay invoices. If they see a company has financial problems and is unstable, their trust is much lower and they properly consider any bigger deals. (as indicated on finance-maps of world website)

Customers represent very special group. They are not influenced by financial statements directly but through any information channels like media are. If they see company has problems, they unconsciously stop buying their products. (as indicated on finance-maps of world website)

Government is, in certain manner, the most important user. Government is most interested in taxes and has the power to make a company pay huge penalties for breaking the law. So company must be always sure their documents are true and correct. (as indicated on finance-maps of world website)

1.3 Objectives

A financial analysis has various kinds of objectives. Important fact is that a financial analysis deals with all three perceptions of time. It provides information about past, presence and probable financial position of a company in a future. (As indicated on accountlearning website)

Most well known objectives are:

- Assessment of past performance
- Assessment of current position
- Prediction of profitability and growth prospects
- Prediction of bankruptcy and failure
- Assessment of the operational efficiency

Assessment of past performance is also good tool for prediction of company's future development. All the information provided by analysis is important for internal users as well as external users like banks or investors. (as indicated on accountlearning website)

Assessment of current position is carried out by going through financial statements. Management always has to appropriately react on information provided by it. They can see current liabilities, assets, income or cost and decide what steps are needed to process further. (as indicated on accountlearning website)

Prediction of profitability and growth prospects is basically main interest of persons who invested in a company. They always want to make sure company is going to be profitable in following years and their wish, of course, is to see their profits growing. (as indicated on accountlearning website)

Prediction of bankruptcy and failure is also very important, we can say, almost the most important objective of a financial analysis. For example, if failure is predicted, management can try to save a company by any possible solutions. The main role of a financial analysis here is to inform management as soon as possible in order to provide time long enough for dealing with the particular problem. (as indicated on accountlearning website)

Assessment of the operational efficiency is intentioned mainly for managers who are supposed to defense their actions when owners ask. A financial analysis helps them to find their mistakes and to avoid them in the future and so be more efficient. (as indicated on accountlearning website)

1.4 Features which causes discrepancies

Some economic features can cause discrepancies between results got from analysis and real ones. When economic situation of the country or union of countries is, stable there can be more or less slight differences. On the contrary, big and crucial discrepancies can occur when facing a recession (inflation) or huge growth (disinflation) so a financial analysis is hard to keep up-to-date. (Brealey and Myers, 2003)

Inflation can impact mainly ratio analysis because assets which were bought are stated in historical costs but revenues are stated in current values. (Brealey and Myers, 2003)

Disinflation has just opposite impact on ratio analysis. Assets bought in the past are overvalued comparing to current prices and so revenues seems to be lower. (Brealey and Myers, 2003)

Also other effects exist. Reporting revenue, different methods of inventory accounting and extraordinary gains and losses can also impact ratio analysis. (Brealey and Myers, 2003)

2 METHODS USED

A financial analysis is a very complex operation which has many steps. There is no official rule or order which should be followed. It is a responsibility of each manager which steps (and their results) will be processed and are important for particular company and which could be omitted (because of lack of time).

Many books suggest various ways for processing a financial analysis. However, we will look at steps which were carried in practical part of this bachelor thesis and describe them.

2.1 SWOT analysis

First step is called SWOT analysis. It is actually just little introduction to the core and important steps. SWOT is a compound of Strengths, Weaknesses, Opportunities and Threats. These four words already give us a clue what this step is about. (Pahl and Richter, 2007)

SWOT analysis goes through the company and tries to find and include all the qualities of a company in these four group which can be further divided according to relation to a company (internal, external) and nature (helpful, harmful). (Pahl and Richter, 2007)

A list of strengths contains all strong features and characteristics of a company and mainly – its competitive advantages. On the contrary, weaknesses are points which need to be improved in order to satisfy needs of the market. (Pahl and Richter, 2007)

Opportunities are challenges which should be accepted for further development and success. Threats are points which should endanger a company and a company should be aware of. (Pahl and Richter, 2007)

Figure 1. SWOT analysis (as indicated on freshthinkingbusiness website)

Definitions of SWOTs

	Helpful to achieving the objective	**Harmful** to achieving the objective
Internal (attributes of the organization)	**Strengths**	**Weaknesses**
External (attributes of the environment)	**Opportunities**	**Threats**

2.2 Absolute indicators

2.2.1 Vertical analysis

Vertical analysis focuses on a balance sheet and an income statement. It provides us an insight into all items contained in both financial statements and focuses on their changes.

The main principle of vertical analysis of a balance sheet is to state percent of any particular item contained in assets compared to total assets (total assets always represent 100 per cent). Any percent of liabilities or equity item is compared to total liabilities (represent 100 per cent as well). (Duchac,Reeve and Warren 2012)

Vertical analysis of an income statement has the same function where all incomes are compared to total income and all costs are compared to total cost. (Duchac,Reeve and Warren 2012)

Analysts can see a perfect overview of company's financial and other means and so realize what item represents what percent and decide if a current situation is satisfactory or needs to be changed. (Duchac,Reeve and Warren 2012)

2.2.2 Horizontal analysis

Horizontal analysis basically needs results (percents) of vertical analysis so it means they are strongly connected together. (Weygandt,Kimmel and Kieso 2010)

However, horizontal analysis focuses not only on percents but also on development throughout the years analyzed and comparison of each year. That means that a difference between each year is displayed in form of percentage and shows us if the particular item increased, decreased or remained stable. (Weygandt,Kimmel and Kieso 2010)

Moreover, the final comparison of the first and the last year analyzed is displayed to provide final information about development of given item. Analysts can then realize if the company's means develop in the right or wrong way and so suggest appropriate solutions. (Weygandt,Kimmel and Kieso 2010)

2.3 Subtractive indicators

This kind of indicator is focused mainly on company's liquidity. It assesses financial situation of a company and its result says if a company is able to cover current liabilities by its current assets. Most frequently used indicator is called net working capital. (as indicated on Investopedia website)

Net working capital is not complicated method so it is suitable when quick and reliable answer is needed. However, this method mainly focuses on short-term financial situation. (as indicated on Investopedia website)

Formula of net working capital is:

Net working capital = Current assets – Current liabilities

If the result is positive (bigger than zero) company is able to cover its short-term liabilities. Negative result says the company would not be able to pay its short-term liabilities off and in could mean bankruptcy in the worst case. (as indicated on Investopedia website)

It does not mean that if net working capital is positive, no problem can occur. Net working capital needs to be always checked throughout long period of time. If it declines, it should warn company's managers to find the causes and be aware of it. When it grows, it shows that a company possesses more current assets or less current liabilities. Either of them is generally good message. (as indicated on Investopedia website)

A problem also is, that it depends what items of current assets most financial means are related to. If too much financial means are represented by inventory (although net working capital is positive), it would be troublesome to get money from that because it takes some time to get money from this source (inventory lacks liquidity). On the other hand, when most of current assets are represented by money on a bank account or cash (high liquidity), no problem should occur. (as indicated on Investopedia website)

2.4 Ratio analysis

Because financial statements contain enormous number of information, analysts need to narrow and organize them according to their needs and results they have their interest in. Ratio analysis provides tools (formulas) for gaining information needed for further comparison with past performance, other companies or the industry so current position of a company is gathered.

A big number of ratios exist. Most frequently used ratios and ratios implemented in the practical part of this bachelor thesis are going to be explained such as: liquidity ratios, activity ratios, debt ratios and profitability ratios. (as indicated on Investopedia website)

2.4.1 Liquidity ratios

The main interest of short-term creditors such as bankers and suppliers is to be ensured the company is able to pay its debts back. When analysts count liquidity of a company, their formulas focus very often on current assets, because this group of assets is the most liquid one (except of inventory and long-term receivables). The three best known measures are current ratio, quick ratio and cash ratio. (Weygandt,Kimmel and Kieso 2010)

Current ratio is the most common method used for stating short-term liquidity of a company. This ratio tells us how many times a company is able to cover its liabilities in case of converting of all current assets into financial means (money on bank account or cash).

Not all analysts or other professionals have the same opinion about ideal value of current ratio. It can be generally stated that value of 1.5 is still acceptable while value of 1 or less is not because it means a company would not be able to pay its current liabilities off by its current assets so a company would need to pay this debts by its long-term assets or to take a loan from a bank. Value of 1.8 to 2.5 can be generally stated as an optimal one. More current liabilities grow and current assets decrease, more unpleasant value of current ratio is. (as indicated on Investopedia website)

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

Quick ratio is method which is similar to current ratio. The big difference between these too is that quick ratio do not consider inventory as liquid source of financial means so inventory is subtracted from current assets in the formula. Logically can be deduced that if a company does not possess any inventory there is no difference between values of current and quick ratio. Generally, value of 1 or 1.5 is recommended but it very depends on type of a company. (as indicated on Investopedia website)

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

Cash ratio is method which is strongly focused only on highly liquid items such as cash and cash equivalents. Value of this method should not be considered as company's value indicator but rather as additional information because usually a company is able to pay off its current liabilities by other means. (as indicated on Investopedia website)

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

2.4.2 Activity ratios

These ratios are focused on how effectively and fast a company converts its assets into cash or sales. (as indicated on Investopedia website)

Total assets turnover is focused on efficiency of sales generated via company's assets. The bigger a value is the more efficiently company generates its assets. This ratio is better to use when a company does not have so many fixed assets because these assets usually do not turn over as fast as current assets do. In addition, there is difference when analyst uses net sales or gross sales in the formula. When net sales are employed, inner company's production is not considered as important (only sales of goods and sales of production are employed). (Nelson, 2008)

$$\text{Total assets turnover} = \frac{\text{Net sales}}{\text{Total assets}}$$

Receivables turnover actually deals with company's debt policy. The ratio employs sales and receivables. If the sales are higher than receivables, the final value is higher as well and this case means that company deals with its debtors efficiently (receivables are paid off in the right time). If receivables are higher than sales, final value is lower and company should re-asses its debt policy. (as indicated on Investopedia website)

$$\text{Receivables turnover} = \frac{\text{Net credit sales}}{\text{Total receivables}}$$

Payables turnover is ratio which deals with a company from the opposite point of view. Company is considered as debtor here and a value of the ratio shows us how efficiently a company pays its debts off, concretely how often are its payables turned over during a year. Of course, the same rule applies here – the bigger the number is the better for a company (a company is very active and does not have any troubles with paying its debts off). (as indicated on A3 website)

$$\text{Payables turnover} = \frac{\text{Cost of sales}}{\text{Total payables}}$$

Inventory turnover is ratio which evaluates how many times company's inventory was turned over. If the company does not possess any inventory (this is the case of the analyzed company in this thesis) this ratio is pointless. High value means that a company has got poor sales and therefore possesses too much of inventory. Low value indicates either high sales or ineffective buying. (as indicated on Investopedia website)

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

2.4.3 Debt ratios

These ratios concerns about company's equity, debts and their connection. Realizing debt loads, analyst can recognize if a taken risk would be bearable or not. It is impossible for bigger companies to cover its assets only by equity and if it would happen, company would not carry its business out as efficiently as it could. Debt ratios tell management how big debt loads are suitable to have. (as indicated on Investopedia website)

The debt ratio says how many percent of total assets are financed by company's liabilities. Therefore low percentage says a company does not have so big debt loads. The higher a percentage is the higher risk the company takes. It is a responsibility of management to decide how big risk is safe to take. (as indicated on Investopedia website)

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

Debt to equity ratio deals with company's equity and liabilities. It shows how much equity is financed by debts. When a company takes big loans to boost its business up, it can be seen by high percentage of this ratio. (as indicated on Ivestopedia website)

$$\text{Debt to equity ratio} = \frac{\text{Total liabilities}}{\text{Equity}}$$

Interest coverage copes with company's ability to pay its interest expenses off. If the interest coverage is lower than 1 it means that a company has serious problems with this issue. (as indicated on Investopedia website)

$$\text{Interest coverage} = \frac{\text{EBIT}}{\text{Interest expense}}$$

2.4.4 Profitability ratios

Profitability ratios concern about company's ability to make profits. Each ratio copes with different part of company's property. Shareholders and investors are mostly interested in this group of ratios because it provides crucial information for them – general idea about amount of money they could get from a company. Generally, a company tries to get as high values as possible (higher than its competitors as well). (as indicated on Investopedia website)

Return on equity – equity are basically money which were invested by investors. This ratio shows them how much it was worth it and how much of profit was generated by means of equity. (as indicated on Investopedia website)

$$\text{ROE} = \frac{\text{EAT}}{\text{Equity}}$$

Return on assets is similar to ROE but assets are the main factor here. It shows us how efficiently assets generate a profit of a company. (as indicated on Investopedia website)

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

Return on sales also widely used by management of companies. It evaluates company's ability to generate profit on its sales. (as indicated on Investopedia website)

$$ROS = \frac{EAT}{\text{Net sales}}$$

2.5 Spider analysis

Spider analysis is very useful tool when finishing financial analysis of a company and well-arranged comparison between a company and its industry is needed. User or analyst of financial analysis can easily see in what sense a company is behind its industry, is in the similar condition or surpasses it. It makes further comparison much easier for third persons who need simple but effective output for their extensive work.

In a spider model, the lowest scores can be found near to the centre and as the values are higher they can be found more and more farther. The highest possible values are on an edge of a model. Spider analysis is very efficient when presenting results to investors, teachers or superiors because they exactly know how the values were reached they just need the result. (Curwell, Deakin and Symes 2009)

II. ANALYSIS

3 BASIC INFORMATION ABOUT TOPS

TOPS, s. r. o. was originally founded in Slovakia, specifically in Bratislava in 1991 in the middle of the monster business boom when a lot of people started with running their businesses because of Velvet revolution. The company separated into two branches very soon (only 2 years later) when Czechoslovakia was divided. The main one remained in Bratislava and the new one was established in Zlin. Then another branch of TOPS, s. r. o. was established in Germany.

Its main business activity has not changed from the very beginning. It is construction of buildings from huge projects like construction of factories to buildings with offices and family houses. The company provides more services except of the main one as well.

The company functions as a supplier for other companies so they are always up to date when considering their knowledge of the most modern materials. In addition, TOPS, s. r. o. has also patented their invention of special technology of form work called PASCHAL which is mainly used for monolithic constructions.

Another service which is provided is designing of various types of constructions thanks to highly qualified project managers. Consultation services are offered in order to help any natural or juridical person with their own projects.

Finally, the fifth activity which is carried in the company is that company functions as property agency although this one is not more or less the core one.

What should be mentioned further is some information about success of the company in the past. The first bigger recognition for first-rate service company provides came in 2008 for construction of complex of flats in Partyzanska Street and it cost 15,1 mil. CZK. It was announced as the best building of Zlin region in 2008. Just one year later, the most expensive project run by the company was a complex of flats in Priluky. It cost 35.1 mil. CZK and the building was announced the best building in Zlin region in 2009.

The main business field of the company is construction of buildings. Therefore it belongs to building industry and will be compared with this one as well.

3.1 SWOT analysis of TOPS

SWOT analysis is always very important step of financial analysis. According to the table 1, the most crucial weakness for its technically-oriented field is fact that employees are not able to use PC efficiently and it leads to loss of time so appropriate training is needed to improve their skills. Another solution would be hiring new employees with these abilities. On the contrary, it would not be the best idea, because current employees have other very valuable skills needed for the company (experience with projects, awareness of system of various activities in the company).

Furthermore, marketing plan should be carried out as well, because it is absolutely necessary in nowadays competitive business environment.

The website of the company is not attractive, lacks informativeness and does not meet the requirements which are common and usual for standard website of this age. Solution would be if the company hired some professional website designer and he would apply appropriate changes in design, order and informativeness.

Changes in law are always a threat for any kind of company. Law always changes in general. For example a new law which is called "Novel of labor code" was implemented in 2012 in Czech Republic as lots of other novels and codes. Concretely this Novel of labor code is very important for the company. Here are some topics included in the novel: Length of time for testing the new employee was prolonged from 3 months to 6. Length of job agreement for specific time was changed as well. Now it is possible for 3 years with 2 more repetitions. Also payoffs were changed. When an employee is fired, the company must pay 1 moth salary if the employee was working there for 1 year, 2 moth salaries if he was working there for 2-3 years and 3 month salaries if he worked there for more than 3 years.

There certainly are much more changes, but these ones are enough to show its importance. Company must be always aware of these changes because it always means potential danger if the company does not follow the current law, they can be fined or worse and it can have very unpleasant consequences.

Table 3. SWOT analysis of TOPS

Strengths	Weaknesses
• Wide range of services • Runs business in Slovakia (Bratislava), Moravian part of CR (Zlin), and Germany • Employees with big experience in their field • High quality • Longer history – established in 1993 • Came up with their own technology of formwork called PASCHAL • Is awarded for the best building in Zlin in 2008 and 2009	• High average age of employees (38) • Most of employees do not speak English • Employees do not possess appropriate PC abilities • Company does not have any marketing plan and they rely on their good name created by well done projects • Company has its website which is not attractive at all and sometimes even does not work
Opportunities	**Threats**
• Possibility to spread its business to capital city of CR and therefore cover the bohemian part • Starting new way of marketing online • Hiring younger people who are able to operate computers efficiently – saving of time • New projects	• Too big competition in this industry • Economic situation of Europe – macro impact • Possible raising of taxes • Changes in law

3.2 Employees of TOPS

Table 4. Number of white collar employees of TOPS

	2006	2007	2008	2009	2010	2010/2006
Number of employees	28	30	27	26	19	-32,14%

First of all we need to know the structure of all the employees. The head of the branch is co-owner. Then all the following white collar workers are located at the main office on Fugnerovo nabrezi, Zlin. These are: construction managers who closely cooperate with designers when figuring out all the properties buildings should have; designers whose main goal is dealing with designing the building either “on paper” (because their computer abilities are not so good) or in more or less simple design software; then supervisors who frequently leave their office and check on quality of procedures carried at the construction site and discuss all the problems with supervisors who are at the construction site all their working days. Very experienced is accountant manager who takes care of all the property of the company as well as salaries and taxes. Of course that administrative workers and secretary are needed as well – these positions are occupied by younger and not so experienced people. Furthermore, company has bigger number of regular blue collar workers from carpenters to masons and seasonal workers like students or lately unemployed people.

When looking at the chart, it can be observed that the number of employees was more or less stable throughout the years 2006-2009. The slight drops and only one increase are of rather natural cause when some employees retired and their colleagues took over their responsibilities. Younger but not so experienced managers were accepted in order to lower quite high average age ratio of management in the company which is around 40 years. On the other hand, the company could have saved some costs on salaries because they do not have to pay so high salaries to not so experienced young employees, who were in the time of crisis looking for job experience and appreciated the opportunity for getting any work experience without high salary expectations. The biggest change came in 2010 when the number decreased significantly. The main cause is the economical depression. When comparing the starting year of the analysis with the last one, number of employees dropped by 9 employees which represents 32 per cent.

4 FINANCIAL ANALYSIS OF THE COMPANY

The methods which are going to be shown in this section are very often used in practice. The reason is simple. Managers and other people involved in business field have always need for doing everything in fast but still efficient way in nowadays strongly time demanding business environment. When quick information is needed, they cannot just wait for weeks for a final announcement of their colleagues saying that company needs to stop with loans from a bank because they would not be able to cover costs related to this issue anymore. They need quick answers to be able to make a decision immediately. Two most important and most frequently used tools of financial analysis are applied in this part. The first one is called analysis of absolute indicators and the second one is analysis of ratios. This analysis deals with the first one in the following chapter.

Furthermore, one important indicator cannot be omitted. It is net working capital which will follow analysis of absolute indicators.

4.1 Analysis of absolute indicators

As mentioned above, this tool is not complicated and even person who is not the real professional can very easily recognize the main purpose of vertical and horizontal analysis. These charts allow anyone to observe the whole financial structure of the company and its change throughout the analyzed years thanks to balance sheets and income statements. At the time when the structure is recognized, questions about the structure must occur and be answered as well. Why short-term receivables increase every year? Does the particular company have enough of financial resources for covering them? By answering such questions, the genuine analysis is actually operated.

Chapters analyzing building industry are provided in order to have an appropriate overview as well and to have an opportunity for comparison with vertical and horizontal analysis of the company.

4.1.1 Vertical and horizontal analysis of balance sheets

Comments and analysis by itself has descendent order which means that it starts with the table number 3 and follows up to table number 6. All the comments are located bellow all the charts in this chapter.

Table 5. Vertical analysis of the balance sheet of TOPS

(in CZK thousand)	2006		2007		2008		2009		2010	
TOTAL ASSETS	8 842	100,00%	10 034	100,00%	10 584	100,00%	19 819	100,00%	15 799	100,00%
Receivables for subscribed capital	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Fixed assets	394	4,46%	262	2,61%	621	5,87%	711	3,59%	512	3,24%
Intangible fixed assets	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Tangible fixed assets	205	2,32%	73	0,73%	432	4,08%	711	3,59%	512	3,24%
Long-term investments	189	2,14%	189	1,88%	189	1,79%	0	0,00%	0	0,00%
Current assets	8 445	95,51%	9 695	96,62%	9 914	93,67%	19 088	96,31%	15 284	96,74%
Inventory	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Long-term receivables	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Short-term receivables	8 303	93,90%	8 667	86,38%	9 715	91,79%	18 795	94,83%	15 258	96,58%
Short-term financial assets	142	1,61%	1 028	10,25%	199	1,88%	293	1,48%	26	0,16%
Accruals and deferred expenses	3	0,03%	77	0,77%	49	0,46%	20	0,10%	3	0,02%
TOTAL LIABILITIES	8 842	100,00%	10 034	100,00%	10 584	100,00%	19 819	100,00%	15 799	100,00%
Equity	-162	-1,83%	100	1,00%	1 767	16,70%	2 257	11,39%	2 830	17,91%
Share capital	200	2,26%	200	1,99%	200	1,89%	200	1,01%	200	1,27%
Capital funds	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Funds*	22	0,25%	31	0,31%	41	0,39%	48	0,24%	51	0,32%
Profit or loss of previous years	-697	-7,88%	-414	-4,13%	-161	-1,52%	1 496	7,55%	1 979	12,53%
Profit or loss (for the current period)	313	3,54%	283	2,82%	1 687	15,94%	513	2,59%	600	3,80%
Liabilities	9 004	101,83%	9 934	99,00%	8 817	83,30%	17 562	88,61%	12 969	82,09%
Provisions	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Long-term liabilities	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Short-term payables	9 004	101,83%	9 934	99,00%	6 611	62,46%	14 099	71,14%	10 176	64,41%
Bank loans and borrowings	0	0,00%	0	0,00%	2 206	20,84%	3 463	17,47%	2 793	17,68%
Accruals and deferred income	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%

*Funds created from net profit, indivisible reserve and other funds created from net profit

Table 6. Vertical analysis of the balance sheet of building industry

(in CZK million)	2006		2007		2008		2009		2010	
TOTAL ASSETS	179 610	100,00%	176 019	100,00%	191 768	100,00%	171 602	100,00%	222 456	100,00%
Fixed assets	46 036	25,63%	43 789	24,88%	58 312	30,41%	43 697	25,46%	67 710	30,44%
Intangible fixed assets Tangible fixed assets	35 778	19,92%	29 743	16,90%	43 375	22,62%	29 671	17,29%	48 210	21,67%
Long-term investments	10 258	5,71%	14 046	7,98%	14 937	7,79%	14 025	8,17%	19 499	8,77%
Current assets	130 331	72,56%	130 602	74,20%	131 191	68,41%	125 470	73,12%	153 337	68,93%
Inventory	15 909	8,86%	19 850	11,28%	16 699	8,71%	11 373	6,63%	18 283	8,22%
Long-term receivables Short-term receivables	94 444	52,58%	88 063	50,03%	91 368	47,65%	83 733	48,79%	99 621	44,78%
Short-term financial assets	19 977	11,12%	22 689	12,89%	23 123	12,06%	30 363	17,69%	35 432	15,93%
Accruals and deferred expenses	3 243	1,81%	1 626	0,92%	2 263	1,18%	2 434	1,42%	1 408	0,63%
TOTAL LIABILITIES	179 610	100,00%	176 019	100,00%	191 768	100,00%	171 602	100,00%	222 456	100,00%
Equity	60 058	33,44%	53 592	30,45%	67 629	35,27%	62 997	36,71%	82 966	37,30%
Share capital	20 757	11,56%	19 583	11,13%	31 244	16,29%	31 596	18,41%	34 476	15,50%
Capital funds Funds*	28 571	15,91%	26 991	15,33%	27 890	14,54%	19 184	11,18%	38 156	17,15%
Profit or loss of previous years	8 140	4,53%	10 729	6,10%	7 016	3,66%	8 495	4,95%	12 216	5,49%
Profit or loss (for the current period)	10 729	5,97%	7 016	3,99%	8 495	4,43%	12 216	7,12%	10 334	4,65%
Liabilities	114 720	63,87%	121 111	68,81%	122 325	63,79%	106 269	61,93%	134 943	60,66%
Provision	10 095	5,62%	9 715	5,52%	10 066	5,25%	10 884	6,34%	13 154	5,91%
Long-term liabilities	7 013	3,90%	8 025	4,56%	9 971	5,20%	11 842	6,90%	17 044	7,66%
Short-term payables	88 597	49,33%	92 373	52,48%	89 287	46,56%	72 662	42,34%	85 173	38,29%
Bank loans and borrowings	9 015	5,02%	10 996	6,25%	12 999	6,78%	10 879	6,34%	19 570	8,80%
Accruals and deferred income	4 832	2,69%	1 315	0,75%	1 812	0,94%	2 335	1,36%	4 546	2,04%

*Funds created from net profit, indivisible reserve and other funds created from net profit

Table 7. Horizontal analysis of the balance sheet of TOPS

(in CZK thousand)	2006	2007	7/6	2008	8/7	2009	9/8	2010	10/9	10/6
TOTAL ASSETS	8 842	10 034	13,48%	10 584	5,48%	19 819	87,25%	15 799	-20,28%	78,68%
Receivables for subscribed capital	0	0	x	0	x	0	x	0	x	x
Fixed assets	394	262	-33,50%	621	137,02%	711	14,49%	512	-27,99%	29,95%
Intangible fixed assets	0	0	x	0	x	0	x	0	x	x
Tangible fixed assets	205	73	-64,39%	432	491,78%	711	64,58%	512	-27,99%	149,76%
Long-term investments	189	189	0,00%	189	0,00%	0	-100,00%	0	x	-100,00%
Current assets	8 445	9 695	14,80%	9 914	2,26%	19 088	92,54%	15 284	-19,93%	80,98%
Inventory	0	0	x	0	x	0	x	0	x	x
Long-term receivables	0	0	x	0	x	0	x	0	x	x
Short-term receivables	8 303	8 667	4,38%	9 715	12,09%	18 795	93,46%	15 258	-18,82%	83,76%
Short-term financial assets	142	1 028	623,94%	199	-80,64%	293	47,24%	26	-91,13%	-81,69%
Accruals and deferred expenses	3	77	2466,67%	49	-36,36%	20	-59,18%	3	-85,00%	0,00%
TOTAL LIABILITIES	8 842	10 034	13,48%	10 584	5,48%	19 819	87,25%	15 799	-20,28%	78,68%
Equity	-162	100	-161,73%	1 767	1667,00%	2 257	27,73%	2 830	25,39%	-1846,91%
Share capital	200	200	0,00%	200	0,00%	200	0,00%	200	0,00%	0,00%
Capital funds	0	0	x	0	x	0	x	0	x	x
Funds*	22	31	40,91%	41	32,26%	48	17,07%	51	6,25%	131,82%
Profit or loss of previous years	-697	-414	-40,60%	-161	-61,11%	1 496	-1029,19%	1 979	32,29%	-383,93%
Profit or loss (for the current period)	313	283	-9,58%	1 687	496,11%	513	-69,59%	600	16,96%	91,69%
Liabilities	9 004	9 934	10,33%	8 817	-11,24%	17 562	99,18%	12 969	-26,15%	44,04%
Provisions	0	0	x	0	x	0	x	0	x	x
Long-term liabilities	0	0	x	0	x	0	x	0	x	x
Short-term payables	9 004	9 934	10,33%	6 611	-33,45%	14 099	113,27%	10 176	-27,82%	13,02%
Bank loans and borrowings	0	0	x	2 206	x	3 463	56,98%	2 793	-19,35%	x
Accruals and deferred income	0	0	x	0	x	0	x	0	x	x

*Funds created from net profit, indivisible reserve and other funds created from net profit

Table 8. Horizontal analysis of the balance sheet of building industry

(in CZK million)	2006	2007	7/6	2008	8/7	2009	9/8	2010	10/9	10/6
TOTAL ASSETS	179 610	176 019	-2,00%	191 768	8,95%	171 602	-10,52%	222 456	29,63%	23,86%
Fixed assets	46 036	43 789	-4,88%	58 312	33,17%	43 697	-25,06%	67 710	54,95%	47,08%
Intangible fixed assets Tangible fixed assets	35 778	29 743	-16,87%	43 375	45,83%	29 671	-31,59%	48 210	62,48%	34,75%
Long-term investments	10 258	14 046	36,93%	14 937	6,34%	14 025	-6,11%	19 499	39,03%	90,09%
Current assets	130 331	130 602	0,21%	131 191	0,45%	125 470	-4,36%	153 337	22,21%	17,65%
Inventory	15 909	19 850	24,77%	16 699	-15,87%	11 373	-31,89%	18 283	60,76%	14,92%
Long-term receivables Short-term receivables	94 444	88 063	-6,76%	91 368	3,75%	83 733	-8,36%	99 621	18,97%	5,48%
Short-term financial assets	19 977	22 689	13,58%	23 123	1,91%	30 363	31,31%	35 432	16,69%	77,36%
Accruals and deferred expenses	3 243	1 626	-49,86%	2 263	39,18%	2 434	7,56%	1 408	-42,15%	-56,58%
TOTAL LIABILITIES	179 610	176 019	-2,00%	191 768	8,95%	171 602	-10,52%	222 456	29,63%	23,86%
Equity	60 058	53 592	-10,77%	67 629	26,19%	62 997	-6,85%	82 966	31,70%	38,14%
Share capital	20 757	19 583	-5,66%	31 244	59,55%	31 596	1,13%	34 476	9,12%	66,09%
Capital funds Funds*	28 571	26 991	-5,53%	27 890	3,33%	19 184	-31,22%	38 156	98,89%	33,55%
Profit or loss of previous years	8 140	10 729	31,81%	7 016	-34,61%	8 495	21,08%	12 216	43,80%	50,07%
Profit or loss (for the current period)	10 729	7 016	-34,61%	8 495	21,08%	12 216	43,80%	10 334	-15,41%	-3,68%
Liabilities	114 720	121 111	5,57%	122 325	1,00%	106 269	-13,13%	134 943	26,98%	17,63%
Provision	10 095	9 715	-3,76%	10 066	3,61%	10 884	8,13%	13 154	20,86%	30,30%
Long-term liabilities	7 013	8 025	14,43%	9 971	24,25%	11 842	18,76%	17 044	43,93%	143,03%
Short-term payables	88 597	92 373	4,26%	89 287	-3,34%	72 662	-18,62%	85 173	17,22%	-3,86%
Bank loans and borrowings	9 015	10 996	21,97%	12 999	18,22%	10 879	-16,31%	19 570	79,89%	117,08%
Accruals and deferred income	4 832	1 315	-72,79%	1 812	37,79%	2 335	28,86%	4 546	94,69%	-5,92%

*Funds created from net profit, indivisible reserve and other funds created from net profit

Before getting to the first chart (vertical analysis of the company), one more fact should be mentioned. According to the law of Czech Republic dealing with accounting, two types of balance sheet and income statement format exist. First one is that both of the documents must be kept in detailed structure what is basically provided by companies which are periodically controlled by auditors and auditors' confirmation must be on each statement. Second option which applies to the analyzed company is that company can provide and display both balance sheet and income statement in simplified form which does not contain all the items in detail.

VERTICAL ANALYSIS OF TOTAL ASSETS: First fact which should be stressed considering the structure of total assets is that four items of the balance sheet have value of zero. That demands answers of course. The first item with value of zero is receivables of subscribed capital. This is actually good for the company, because all the co-owners who were supposed to subscribe their part of capital of the company have already done so.

The second item is intangible fixed assets. Because the business of the company is building all kinds of constructions, they basically do not need any intangible fixed assets. All the software needed for their activities (OS, accounting software etc.) has been already stated as costs which is possible according to the law when its value is less than 60 00 CZK. Of course that giant corporations in USA would need it (for example their own software for designing of made up constructions), but it is not necessary for company of analyzed company size. Because company does not run any official research or development we cannot expect anything else than zero for the item logically.

The third item is inventory. Explanation is obvious. Because company does not produce any product by itself, there is no need to keep anything in stock. When company constructs any building, anything they need is to get the required material to the place where the project takes place.

The last item with value of zero is long-term receivables. That can be basically good for the company, because they do not need to wait for years for their money back. On the other hand, if the company provided any kind of loan or was willing to wait until the debtor pays back it would be possible to agree on any particular interest the debtor would be supposed to pay as well as the due amount. Generally, if the company does not have enough financial resources, it is not recommended to do so because it would cause low current ratio.

When going further through structure of assets, the item with the markedly biggest percentage (around 90 per cent throughout the years) is short-term receivables. Explanation for why this item has the biggest proportion in assets is the way company runs its business in. In nowadays building industry, all the bigger orders are neither paid in advance, nor at the exact time when it is agreed on the conditions and all documentation needed is approved. All the due amounts are paid within 30 days from the day when invoice was received by a debtor. When the analyzed company provides given service in day-to-day routine, it is obvious that short-term receivables must occur in big numbers.

The rest of items in assets are items which very sporadically reach value of one million CZK. Fixed assets as a whole item are incomparable with current ones. That means that company is not really in possession of any big buildings or bigger number of cars etc. Company rather owns few cars which are used for transport when attending various kinds of meetings with potential customers and other business - related people.

The item long - term investments deals with leasing on car only. As we can see, the leasing is paid up by the end of 2008.

The rest of current assets are two last items which are short-term financial assets and accruals and deferred expenses. The first one includes money kept on usual bank accounts, cash kept in cash register by an accountant manager and short-term borrowings from a bank. The item was increased significantly in 2007 and its share rose up to 10.25 per cent in structure of assets. It can be a lot of reasons for that. The most probable one is that the company needed bigger cash for some project so they took a short-term borrowing from a bank.

Accruals and deferred expenses are the last item in assets and are not so very well predictable one. Here we can talk about paying rents of offices and other financial transfers which are not processed in the time they belong to.

To conclude vertical analysis of assets of the company, we should focus on stability of values and percentage of shares possessed by each item in general.

We can generally see that the percentage possessed did not change a lot and that the values are more or less stable. The only bigger change can be noticed in 2007 when short-term financial assets grew up rapidly, but then their value dropped in the following year in the same margin as well. The bigger value as previously mentioned belongs to short-term receivables thanks to the nature and way of running the business.

BUILDING INDUSTRY: The next step is going to be a comparison of assets with building industry. Firstly, important information must be mentioned here. It is the fact that building industry does not officially provide information about intangible and tangible fixed assets separately nor information about long and short-term receivables and additionally, values of capital funds and funds created from net profit, indivisible reserve and other funds created from net profit either.

Reason for this format is that most of the companies in the given industry do not posses any considerable amount in intangible fixed assets as it can be seen in chart number two of the company. So it is simplification of all the charts which are publicized every year. The same solution is basically applied to long receivables and capital funds as well.

When comparing ratio of fixed and current assets between the industry and company, the first difference can be noticed. It is percentage of fixed assets. While fixed assets of the company circulate around 5 per cent, the situation in the industry is totally different. Its average percentage is around 25 or 30 per cent. Why is it so? The key answer is clarified in the next paragraph.

The key role is played by tangible and intangible fixed assets. The difference can be explained by looking at the building industry in more detail and realizing that not all the companies can run their business without bigger tangible assets as the analyzed company can. Some companies own machines or very expensive devices which are absolutely necessary for their daily activity.

Long-term investments do not differ so much because 2 per cent compared to 9 per cent still does not represent bigger importance for the company. Of course, lots of the companies need some external financial support time to time, but it should not be more than the company can afford.

It is enormous difference between the industry and the company when looking at the first item of current assets. Despite of the fact inventory represents zero value in the company the building industry possesses around 10 per cent in its assets. That is the most noticeable difference between analyzed company and some of the companies from the building industry. The need for inventory varies according to the specific activity. If the company possesses any kind of stock and needs it or it is necessary to buy and keep any material in its own premises before constructing, then its management must be aware of the fact that they should expect additional costs on stocking. On the other hand, it is very good news for the analyzed company that they basically do not have to rent any premises for stocking and they can smoothly operate with materials straightly delivered to the building area. Also depends on the shipping costs of course.

Long-term and short-term receivables do not represent as big percentage for industry as for the company. From one point of view, it is not so good news for the company because it means that they do not physically posses so much financial resources as average companies in the building industry do. From another point of view, it very depends on the daily routine and if all the debtors are reliable and pay up their liabilities within 30 days (we can get the information from debtor days ratio), then the company just needs to make sure that not all their finances come from receivables. We can actually see in the case of the analyzed company that most of their assets are covered by receivables, which is not effective and it does not help when considering current ratio indicator.

Short-term financial assets are exact opposite when comparing with both kinds of receivables. These assets here represent bigger proportion of the building industry and much smaller for the company which is basically logical. To be clear, building industry has more money on bank accounts and in cash and the company possesses its money on invoices.

Accruals and deferred expenses are basically the same for both the industry and the company. It basically shows that these kinds appear rather sporadically in this business.

VERTICAL ANALYSIS OF TOTAL LIABILITIES: When comparing proportion of equity and liabilities, the difference is enormous. While equity is in 2006 even minus 1.83 per cent because company did not have any profit but loss, and its biggest share on the structure is in 2010 (which means that financial situation of the company has been improved), liabilities are always more than 80 per cent and in 2006 even almost 102 percent. From this information we can deduce an important conclusion. Almost all the financial means the company possesses are not in its own possession but in possession of creditors and debtors (when looking at assets).

When following the structure of equity, we can notice that the share capital is always around 2 per cent and does not change at all.

Capital funds are strongly connected with previous item and have value of zero throughout all the years, because nobody from associates of the company contributed any.

Funds created from net profit, indivisible reserve and other funds created from net profit is basically item which contains financial means which are created from net profit according to accounting legislation. Associates can determine the percentage which will be included to this item in their deed of association. According to accounting legislation they can convert amount at least of 10 per cent of their share capital which is in this case at least 20 thousand CZK which was fulfilled also in 2006 (22 thousand) when the company was not so much profitable. Talking about proportion of this item in the structure of liabilities, it is more or less insignificant (around 0.3 per cent).

The last item of equity is profit. As we can notice, the biggest percentage was reached in 2008 when profit grew rapidly almost up to 16 per cent. Why did this happen? It is connected with a loan the company was forced to take. What for? I have been told by accounting manager that it was needed basically for all the operating expenses which include: Salaries, materials, health and social insurance etc. The form of this loan is called Kontokorent in Czech bank system.

In liabilities, most of the items have value of zero and the only item which represents the whole liabilities throughout the all years is short-term payables and the reason for that is already explained in the "conclusion" discussed above. Together with short-term payables also one more item possesses some percentage and has been already discussed - bank loans and borrowings which represents around 20 per cent.

Three last items were not discussed yet. These are items which have value of zero: provisions, long-term liabilities and accruals and deferred income.

Provisions do not have to be created, but it is recommended. Accountant manager commented it by saying that there is currently no need for creating any provisions. The company does not own any building, they pay a rent.

Long-term liabilities have value of zero and it is good for the company because except of the loan, they do not have to pay any additional interests.

Accruals and deferred income are not needed for the company because they do not leas any premises or cars or any other assets.

BUILDING INDUSTRY: The biggest differences between total liabilities of the company and industry are going to be discussed. The first one is relation between equity and liabilities. Company has much more liabilities as it has been already mentioned. In the building industry, equity represents from 30 up to 38 per cent in contrast to the company. The reason for this difference are mainly all the funds and even more specifically – capital funds. Because the funds item is not separated in the building industry, it is hard to say how much capital funds represent. But when we compare all funds of the company with all the funds of industry, we can be sure that industry possesses much more. While building industry has around 15 per cent, the company has not even 1 per cent. That means that the rest of the companies and its associates contribute much more to the company and also that they are basically better prepared for covering their unexpected costs.

Share capital represents also much bigger proportion in the industry, but this figure is rather not well comparable. When we compare profits in average, they have very similar percentage.

Moving to liabilities, one fact is supported here. Average companies in the industry are better prepared for unexpected situations and related costs, because they do possess some provisions and the company does not. But it also depends on the actual needs of the company to be objective.

Long – term liabilities and payables represent much more in the company where they all together represented even more that 100 per cent in 2006. They move around 50 per cent in industry. Why is it so? It is because of loans from banks which represent more in building industry. So it means that average company of the industry uses more services of banks than analyzed one.

The last item is accruals and deferred incomes. Because some companies own some properties they have some incomes from them which our analyzed company does not.

HORIZONTAL ANALYSIS OF TOTAL ASSETS: In this and following paragraphs of horizontal analysis, we will take a look at the balance sheet from horizontal point of view. In addition, not every item will be described, because it would be rather pointless when considering that all the items were deeply examined in previous paragraphs of vertical analysis. Furthermore, all the figures are compared as year – to – year changes and development.

When we look at total assets (which means we are taking look at total liabilities as well because they are equal), we can see a monster change when comparing years 2008 and 2009. What caused growth of 87 per cent? The main cause are obviously short-term receivables in assets and short-term payables (which as we could have seen in previous explanations play the key roles in the company) and also tangible fixed assets (purchasing of a car). Comparing the whole analyzed period, total assets (and liabilities as well) raised by almost 79 per cent which shows that the financial situation of the company has been improved and it is very positive message.

Fixed assets changed most in 2008 by 137 per cent when tangible assets raised by 491 per cent because of purchasing a car.

Current assets were more or less stable except of the mentioned year 2009 when the item grew because of short-term receivables by almost 93 per cent.

Accruals and deferred expenses rocketed in 2007 when the company paid rent in advance.

INDUSTRY: Total assets of industry were more or less stable, although we should notice one bigger change in 2010 when they grew by 30 per cent which was caused by growth of tangible and intangible fixed assets (purchasing of buildings and cars or various kinds of software).

Interesting comparison is when noticing that short-term receivables and payables are more or less stable in the industry, but it does not apply to the company. So we can say that business behavior of the company differs from the one of average companies from similar field.

HORIZONTAL ANALYSIS OF TOTAL LIABILITIES: From owner's point of view, the most important item of equity is profit. Because the company made big step forward by making markedly bigger profit in 2008 (growth of almost 5000 per cent), it influenced equity which rose by enormous 1 667 per cent. It can be stated that year 2008 was successful and crucial year for the company. Profit raised by almost 92 per cent throughout the analyzed years which is merely satisfactory.

Share capital did not change at all, but funds were still increasing which means that the company has still more and more financial backup.

When moving to liabilities, except of short-term payables bank loan can be discussed. The loan was taken in 2008 and then additional Kontokorent in 2009 bigger by 56 per cent. Then the company started with paying back and should continue with that.

INDUSTRY: Profit of the whole industry rose more in 2009 by 43 per cent. When comparing development of profit of the building industry and the company, here is the difference and similarity: in 2009, profit of the company dropped by almost 70 per cent, but it raised in the industry by almost 44 per cent. Similar is profit in 2007 when it dropped in the company and the industry as well. According to the development, we could not say that there is any bigger connection between profit development of the company and the industry thou.

Short-term payables are more or less stable in the industry. The company has them more unstable because they match with current business activities which are always connected with them as it has been already mentioned.

4.1.2 Vertical and horizontal analysis of income statements

Comments and analysis will begin with table number 7 which will be compared with table number 9 and table 8 will be compared with table 10 (company will be compared with building industry) All the comments are located bellow all the charts in this chapter

Table 9. Vertical analysis of the income statement of TOPS

(in CZK thousand)	2006		2007		2008		2009		2010	
Sales of goods	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Sales of production	25 995	98,66%	37 582	99,13%	43 737	90,93%	49 873	99,46%	47 650	99,45%
Proceeds from sales of fixed assets and raw material	3	0,01%	2	0,01%	0	0,00%	0	0,00%	0	0,00%
Other operating income	197	0,75%	245	0,65%	3 597	7,48%	112	0,22%	0	0,00%
Transfer of operating revenues	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Proceeds from sale of securities and interests	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Income from long-term investments	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Income from short-term financial assets	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Gains from revaluation of securities and derivatives	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Interest income	1	0,00%	0	0,00%	1	0,00%	1	0,00%	263	0,55%
Other financial income	152	0,58%	82	0,22%	767	1,59%	157	0,31%	0	0,00%
Transfer of financial revenues	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Extraordinary income	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
TOTAL INCOME	26 348	100,00%	37 911	100,00%	48 102	100,00%	50 143	100,00%	47 913	100,00%
Cost of goods sold	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Cost of sales	17 836	68,51%	28 873	76,73%	33 899	73,03%	40 495	81,59%	36 495	77,14%
Staff costs	6 868	26,38%	7 679	20,41%	9 535	20,54%	7 849	15,82%	6 334	13,39%
Taxes and charges	32	0,12%	31	0,08%	28	0,06%	32	0,06%	33	0,07%
Depreciation of intangible and tangible fixed assets	275	1,06%	132	0,35%	96	0,21%	162	0,33%	199	0,42%
Net book value of fixed assets and materials sold	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Change in provisions*	0	0,00%	16	0,04%	-16	-0,03%	0	0,00%	0	0,00%
Other operating expenses	685	2,63%	492	1,31%	2 025	4,36%	181	0,36%	3 709	7,84%
Transfer of operating expenses	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Securities and interests sold	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Cost of financial expenses	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Losses from revaluation of securities and derivatives	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Change in provisions and allowances**	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Interest expense	4	0,02%	0	0,00%	71	0,15%	299	0,60%	337	0,71%
Other financial expenses	325	1,25%	248	0,66%	269	0,58%	424	0,85%	58	0,12%
Transfer of financial expenses	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Income tax on ordinary activity	10	0,04%	157	0,42%	508	1,09%	188	0,38%	148	0,31%
Extraordinary expenses	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Extraordinary income tax	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
Transfer of profit or loss to partners	0	0,00%	0	0,00%	0	0,00%	0	0,00%	0	0,00%
TOTAL COST	26 035	100,00%	37 628	100,00%	46 415	100,00%	49 630	100,00%	47 313	100,00%

*Change in provisions and allowances relating to operations and change in complex prepaid expenses

**Change in provisions and allowances relating to financial operations

Table 10. Horizontal analysis of the income statement of TOPS

(in CZK thousand)	2006	2007	7/6	2008	8/7	2009	9/8	2010	10/9	10/6
Sales of goods	0	0	x	0	x	0	x	0	x	x
Sales of production	25 995	37 582	44,57%	43 737	16,38%	49 873	14,03%	47 650	-4,46%	83,30%
Proceeds from sales of fixed assets and raw material	3	2	-33,33%	0	-100,00%	0	x	0	x	-100,00%
Other operating income	197	245	24,37%	3 597	1368,16%	112	-96,89%	0	-100,00%	-100,00%
Transfer of operating revenues	0	0	x	0	x	0	x	0	x	x
Proceeds from sale of securities and interests	0	0	x	0	x	0	x	0	x	x
Income from long-term investments	0	0	x	0	x	0	x	0	x	x
Income from short-term financial assets	0	0	x	0	x	0	x	0	x	x
Gains from revaluation of securities and derivatives	0	0	x	0	x	0	x	0	x	x
Interest income	1	0	-100,00%	1	x	1	0,00%	263	26200,00%	26200,00%
Other financial income	152	82	-46,05%	767	835,37%	157	-79,53%	0	-100,00%	-100,00%
Transfer of financial revenues	0	0	x	0	x	0	x	0	x	x
Extraordinary income	0	0	x	0	x	0	x	0	x	x
TOTAL INCOME	26 348	37 911	43,89%	48 102	26,88%	50 143	4,24%	47 913	-4,45%	81,85%
Cost of goods sold	0	0	x	0	x	0	x	0	x	x
Cost of sales	17 836	28 873	61,88%	33 899	17,41%	40 495	19,46%	36 495	-9,88%	104,61%
Staff costs	6 868	7 679	11,81%	9 535	24,17%	7 849	-17,68%	6 334	-19,30%	-7,78%
Taxes and charges	32	31	-3,13%	28	-9,68%	32	14,29%	33	3,13%	3,13%
Depreciation of intangible and tangible fixed assets	275	132	-52,00%	96	-27,27%	162	68,75%	199	22,84%	-27,64%
Net book value of fixed assets and materials sold	0	0	x	0	x	0	x	0	x	x
Change in provisions*	0	16	x	-16	-200,00%	0	-100,00%	0	x	x
Other operating expenses	685	492	-28,18%	2 025	311,59%	181	-91,06%	3 709	1949,17%	441,46%
Transfer of operating expenses	0	0	x	0	x	0	x	0	x	x
Securities and interests sold	0	0	x	0	x	0	x	0	x	x
Cost of financial expenses	0	0	x	0	x	0	x	0	x	x
Losses from revaluation of securities and derivatives	0	0	x	0	x	0	x	0	x	x
Change in provisions and allowances**	0	0	x	0	x	0	x	0	x	x
Interest expense	4	0	-100,00%	71	x	299	321,13%	337	12,71%	8325,00%
Other financial expenses	325	248	-23,69%	269	8,47%	424	57,62%	58	-86,32%	-82,15%
Transfer of financial expenses	0	0	x	0	x	0	x	0	x	x
Income tax on ordinary activity	10	157	1470,00%	508	223,57%	188	-62,99%	148	-21,28%	1380,00%
Extraordinary expenses	0	0	x	0	x	0	x	0	x	x
Extraordinary income tax	0	0	x	0	x	0	x	0	x	x
Transfer of profit or loss to partners	0	0	x	0	x	0	x	0	x	x
TOTAL COST	26 035	37 628	44,53%	46 415	23,35%	49 630	6,93%	47 313	-4,67%	81,73%

*Change in provisions and allowances relating to operations and change in complex prepaid expenses

**Change in provisions and allowances relating to financial operations

Table 11.Vertical analysis of the income statement of building industry

(in CZK million)	2006		2007		2008		2009		2010	
Sales of goods	5 927	2,08%	4 402	1,83%	2 232	0,95%	1 421	0,64%	2 219	1,02%
Sales of production	279 023	97,92%	236 172	98,17%	233 417	99,05%	219 242	99,36%	214 981	98,98%
TOTAL INCOME	284 950	100,00%	240 574	100,00%	235 649	100,00%	220 663	100,00%	217 200	100,00%
Cost of goods sold	5 198	1,89%	3 804	1,68%	1 674	0,73%	1 213	0,58%	1 841	0,90%
Cost of sales	230 196	83,83%	194 070	85,68%	198 343	86,31%	177 507	84,73%	172 440	84,34%
Staff costs	31 075	11,32%	21 252	9,38%	23 201	10,10%	23 378	11,16%	24 401	11,93%
Taxes and charges	3 750	1,37%	2 805	1,24%	2 759	1,20%	3 314	1,58%	2 887	1,41%
Interest expense	641	0,23%	1 776	0,78%	1 057	0,46%	760	0,36%	x	x
Income tax on ordinary activity	3 750	1,37%	2 805	1,24%	2 759	1,20%	3 314	1,58%	2 887	1,41%
TOTAL COST	274 610	100,00%	226 512	100,00%	229 793	100,00%	209 486	100,00%	204 456	100,00%

Table 12. Horizontal analysis of the income statement of building industry

(in CZK millon)	2006	2007	7/6	2008	8/7	2009	9/8	2010	10/9	10/6
Sales of goods	5 927	4 402	-25,73%	2 232	-49,30%	1 421	-36,34%	2 219	56,16%	-62,56%
Sales of production	279 023	236 172	-15,36%	233 417	-1,17%	219 242	-6,07%	214 981	-1,94%	-22,95%
TOTAL INCOME	284 950	240 574	-15,57%	235 649	-2,05%	220 663	-6,36%	217 200	-1,57%	-23,78%
Cost of goods sold	5 198	3 804	-26,82%	1 674	-55,99%	1 213	-27,54%	1 841	51,77%	-64,58%
Cost of sales	230 196	194 070	-15,69%	198 343	2,20%	177 507	-10,51%	172 440	-2,85%	-25,09%
Staff costs	31 075	21 252	-31,61%	23 201	9,17%	23 378	0,76%	24 401	4,38%	-21,48%
Taxes and charges	3 750	2 805	-25,20%	2 759	-1,64%	3 314	20,12%	2 887	-12,88%	-23,01%
Interest expense	641	1 776	177,07%	1 057	-40,48%	760	-28,10%	x	x	x
Income tax on ordinary activity	3 750	2 805	-25,20%	2 759	-1,64%	3 314	20,12%	2 887	-12,88%	-23,01%
TOTAL COST	274 610	226 512	-17,52%	229 793	1,45%	209 486	-8,84%	204 456	-2,40%	-25,55%

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VERTICAL ANALYSIS OF TOTAL INCOME: Even from the first look at income of the company, we are able to figure the main financial source out immediately. It is item called sales of production and covers almost hundred per cent most of the years. All the income made from the main activity (construction) is included here.

The item which has got second biggest proportion (more than 7 per cent in 2008) in the structure of income is other operating income which is strongly connected with the first item mentioned.

Other financial income is kind of income, which cannot be included in any other account. But its value is still very noticeable, because its proportion in 2008 is almost 2 percent of 48 million CZK.

Lots of items have value of zero. It is because company does not run its business in the way the items represent. For example sales of goods are not needed for such company because it is not its business and they never sell any. On the other hand, the company sells tangible assets when not needed anymore.

INDUSTRY: Unfortunately, not all of the needed information is provided by official sources, but some items can be compared anyway. The biggest difference is that some companies sell goods in contrast with the analyzed one. But the proportion is still very small and it is therefore shown that companies who build do not sell goods in order to get some bigger profit.

VERTICAL ANALYSIS OF TOTAL COST: Two biggest items are logically cost of sales (which are an opposite of sales of production) and staff costs. Because the company creates something, sales of production are the item where most of the financial means are needed. Because employees are obviously needed for qualified construction and management, their salaries are also important item of the company (around 20 per cent). We can also see that staff costs were slightly decreased. It has three explanations. The first one is that the company lowered the salaries, because of lack of financial means. The second one is that number of employees was decreased. The third is that both happened. According to table number two, the second explanation is the correct one.

Depreciation does not have any significant percentage, but looking at amount of money it represents, it is not so low because it moves around 200 000 CZK. Here we are mainly talking about depreciation of cars.

Other operating expenses should be certainly mentioned. Their proportion reaches in 2010 even almost 8 per cent and are connected with costs on activities which cannot be included in cost of sales.

When we compare total income and total cost we can say that the company is in analyzed years always profitable which is very positive message.

INDUSTRY: The situation around goods is the same in cost of goods sold. The company does not have any but some companies in the industry do have some (1-2 per cent).

The item cost of sales is stable (most of years around 84 per cent). The percentage of the company is slightly lower (around 70 per cent). That means that the company has more financial means divided in other items and the costs are not as high as in the industry.
On the other hand, the staff cost represents bigger percentage for the company than for the industry which cannot be really concluded because this item really differs from company to company.

Taxes and charges, interest expenses and income tax on ordinary activity represent a smaller proportion in both the company and the industry concretely even much less in the company, because they do not have to pay the whole wide – range of taxes as other companies do. Comparing total income with total cost, industry seems to be much more profitable so that means that the analyzed company does not belong to high profit companies in the given industry.

HORIZONTAL ANALYSIS OF TOTAL INCOME: Sales of production raised significantly in 2007 by 44 per cent which is the biggest growth noticed. Then the item rose a bit (around 15 per cent for two years) and then unfortunately even dropped by 5 per cent. This kind of development can be explained by lots of causes. First cause can be macroeconomics like economic state of whole Europe or Czech Republic. Second of all, depends on current demand and supply. These two are influenced by huge number of causes so it is hard to say what exactly caused lowering the sales of production. When talking about overall development throughout the analyzed years, the reality is more that satisfying because this crucial kind of income grew by 83 per cent.

On the other hand (and it is good for company), other operating income rocketed in 2008 by 1 368 per cent. But as quickly it grew, quickly at fell even to value of zero. That basically shows the nature of building industry. If company does not get any orders or specific requirements during the construction the item can change with no pattern.
Interest income grew by 26 200 per cent. It sounds like monster growth, but the item had one thousand CZK previous year. This kind of income can come from bank accounts or loans provided to other parties.

Other financial income was raised notably in 2008. This income comes from other financial activities of the company which do not have any synthetic account for that. It could be generated when changing currency, or insurance operations.

INDUSTRY: Sales of goods cannot be compared with the company because of value zero of this item there. When observing the development of this item in the industry, we see that the number is always lowered.

Comparing sales of production, situation of the company is much better because while sales of production of the company were rising the same item was decreasing in the industry and dropped by 23 per cent in the 5 years.

HORIZONTAL ANALYSIS OF TOTAL COST: Here is one important fact which must be mentioned. Comparing development of cost of sales and sales of production, one unpleasant truth comes out. Cost of sales always rises more than sales of production which should be a warning for the company. Sales of production are always higher which is good of course, but some attention should be paid to fact mentioned. Cost of sales rose by almost 105 per cent during the analyzed years.

Staff costs were being increased first, than lowered because of crisis or simply because of too high total cost.

Very positive information is that taxes and charges are more or less stable. They were decreasing first and then got back to their original value or slightly increased.

Other operating expenses grew significantly in 2008 as well as other operating income so they were basically covering each other.

Interest expense rose because of loan from a bank which was used for covering of operating costs.

Income tax on ordinary activity was very unstable and in 2007 was raised even by 1 470 per cent because the income increased as well.

INDUSTRY: Because sales of goods were declining cost of goods sold were logically declining as well. Cost of sales were relatively stable unlike cost of sales of the company.

Staff costs decreased first by 31 per cent, but then were slightly increasing which is positive for the industry. Comparing the company, its development did not match with the industry.

To conclude this chapter, the company does not really match with industry. From one point of view, the company does well comparing to the industry and from the other one does not. Financial means of the company change quickly according to how many orders were received and how many projects were finished. It also very depends on size of the project.

First years were basically successful because the profit was growing fast. The following years were stable or did not experience such a rocket rise. The company is profitable and does not have any serious problem according to this part of analysis except of too big receivables and payables which will be shown in the following chapter

Table 13. Analysis of profit or loss - TOPS

(in CZK thousand)	2006	2007	2008	2009	2010
Operating profit or loss	499	606	1 767	1 266	880
Financial profit or loss	-176	-166	428	-565	-132
Extraordinary profit or loss	0	0	0	0	0
Profit or loss for the current period	313	283	1 687	513	600
EBT	323	440	2 195	701	748
EBIT	327	440	2 266	1 000	1 085
Interest expense	4	0	71	299	337
Income tax on ordinary activity	10	157	508	188	148

When we take a look at the structure of the profit, we can notice that the main source is profit coming out from carried operations. This profit was increasing throughout the years 2006, 2007 and 2008 and decreasing the rest 2 years which is not good message for the company. The main cause is economic crisis which has bad impact on demand.

The company loses a lot of financial means by financial loss. That is caused its loans and borrowings. Company does not have any extraordinary income or loss.

Profit for the current period is not stable because of the nature of the industry. The company is always profitable so does not have to be worried about bankruptcy according to this.

Interest expense is biggest in 2010 because of the company took a loan from a bank. Income tax behaves according to the profit, which is highest in 2008.

4.2 Subtractive indicator

Table 14. Net working capital – TOPS

(in CZK thousand)	2006	2007	2008	2009	2010
Net working capital	-559	-239	3 303	4 989	5 108

Net working capital shows us how the company would be able to pay off all the short-term liabilities it has all at once. Looking at first two years, we can say that company would have a big problem with covering them which is very unpleasant. On the other hand, beginning by 2008 the company is in completely different situation and has even too much financial means which would be left. Such a huge change in net working capital was caused by already mentioned loan from a bank.

4.3 Ratio analysis

4.3.1 Liquidity ratios

Table 15. Liquidity ratios – TOPS

	2006	2007	2008	2009	2010	Values advised by MIT
Current ratio	0,94	0,98	1,50	1,35	1,50	1,5-2
Quick ratio	0,94	0,98	1,50	1,35	1,50	1
Cash ratio	0,02	0,10	0,03	0,02	0,00	0,2

Table 16. Liquidity ratios – building industry

	2006	2007	2008	2009	2010	Values advised by MIT
Current ratio	1,47	1,41	1,47	1,73	1,80	1,5-2
Quick ratio	1,29	1,20	1,28	1,57	1,59	1
Cash ratio	0,23	0,25	0,26	0,42	0,42	0,2

Table number 13 deals with liquidity of the company. When focusing on current ratio, we can say that the company had problems to reach the appropriate value, but improved in 2008 and following years. Despite of it there still remains a need for further improvement. Building industry is in slightly better position and is more stable. Year 2010 shows probably the most optimal value of 1.8.

Quick ratio has the same value in the company because they do not posses any money included in inventory. Because some companies in industry do possess some inventory, the value is little bit lower but still too high for meeting the requirements.

The company has very unpleasant value of cash ratio. That means that all the financial means are wherever but not in physical position or on account. That does not necessarily mean that it is an alarming message, because if the company does not need it, there is no need to keep them in that way. But in case the company would need it, it would be troublesome to transfer or get the money from other sources.

4.3.2 Activity ratios

Table 17. Activity ratios – TOPS

	2006	2007	2008	2009	2010
Total assets turnover	2,94	3,75	4,13	2,52	3,02
Receivables turnover	3,13	4,34	4,50	6,65	3,12
Payables turnover	1,98	2,91	3,84	2,31	2,81

Table 18. Activity ratios – building industry

	2006	2007	2008	2009	2010
Total assets turnover	1,59	1,37	1,23	1,29	0,98
Receivables turnover	3,02	2,73	2,58	2,64	2,18
Payables turnover	2,20	1,74	1,77	1,86	1,42
Inventory turnover	17,91	12,12	14,11	19,40	11,88

Total assets turnover in the company has higher value than industry. This ratio shows us how much money is the company able to generate from its own sources which are available. So it means the more, the better. As it can be seen, the company does much better, because its total assets turnover is always higher than the industrial one.

Receivables turnover shows us how many times is the whole turnover done in the particular year. According to the tables, the company's receivables have always higher value. That shows how actively the company gets its money back and how quick demanders are with their paying back.

Talking about payables turnover, the company operates it much faster than industry except of 2006. This information means that the company deals with its debtors more efficiently than an average company in the industry.

Inventory turnover cannot be counted for the company, because it does not own any. On the other hand, the industry does. Values of its turnover is satisfactory, because generally is said that higher is better.

4.3.3 Debt ratios

Table 19. Debt ratios – TOPS

	2006	2007	2008	2009	2010
Debt ratio	1,02	0,99	0,83	0,89	0,82
Debt to equity ratio	-55,58	99,34	4,99	7,78	4,58
Interest coverage	124,75	x	24,89	4,23	2,61

Table 20. Debt ratios – building industry

	2006	2007	2008	2009	2010
Debt ratio	0,64	0,69	0,64	0,62	0,61
Debt to equity ratio	1,91	2,26	1,81	1,69	1,63
Interest coverage	23,59	6,53	11,65	21,43	x

Comparing debt ratio of the company with the industry, industry has got less debts. The only time when the company has more assets than debts is in 2006. From that year on, the company had almost same value of both of them or more debts. Industry always has much more assets. The company should try to improve it, but it is very unlikely because of the style of carrying out their business, which is always full of short-term payables (It is almost impossible to get paid in the real time in this kind of industry).

Focusing on debt to equity, year 2006 was critical, but then the situation improved by raising the value in 2007 which shows instability. Industry is relatively stable throughout all the years.

Interest coverage depends on interest expenses. Situation changed in 2008 when the company took a loan from a bank. From that time on, company has almost a problem with interest coverage, because of too high loan. Industry does not have any problem with covering the interests.

4.3.4 Profitability ratios

Table 21. Profitability ratios – TOPS

	2006	2007	2008	2009	2010
ROE	-193,00%	283,00%	95,00%	23,00%	21,00%
ROA	6,00%	6,00%	17,00%	6,00%	6,00%
ROS	1,00%	1,00%	4,00%	1,00%	1,00%

Table 22. Profitability ratios – building industry

	2006	2007	2008	2009	2010
ROE	17,86%	13,09%	12,56%	19,39%	12,46%
ROA	8,42%	6,59%	6,42%	9,49%	5,93%
ROS	3,77%	2,92%	3,60%	5,54%	4,76%

Table 23. Multiplicator of equity – TOPS

	2006	2007	2008	2009	2010
EBT/EBIT	0,02	0,04	0,18	0,04	0,06
Total assets/Equity	-54,58	100,34	5,99	8,78	5,58
Multiplicator	-1,17	3,81	1,07	0,38	0,32

Value of ROE was in 2006 critical as well as multiplicator which should be always bigger than 1. The industry did not have such a difficulty. The situation got better in the following years. The best one was in 2007 (multiplicator as well) but then dropped again.

ROA was highest in 2009 where multiplicator is again below 1 which does not meet requirements for efficient profitability.

ROS is always low and stable. The industry does not have ROS any bigger the company is in better position even in 2008.

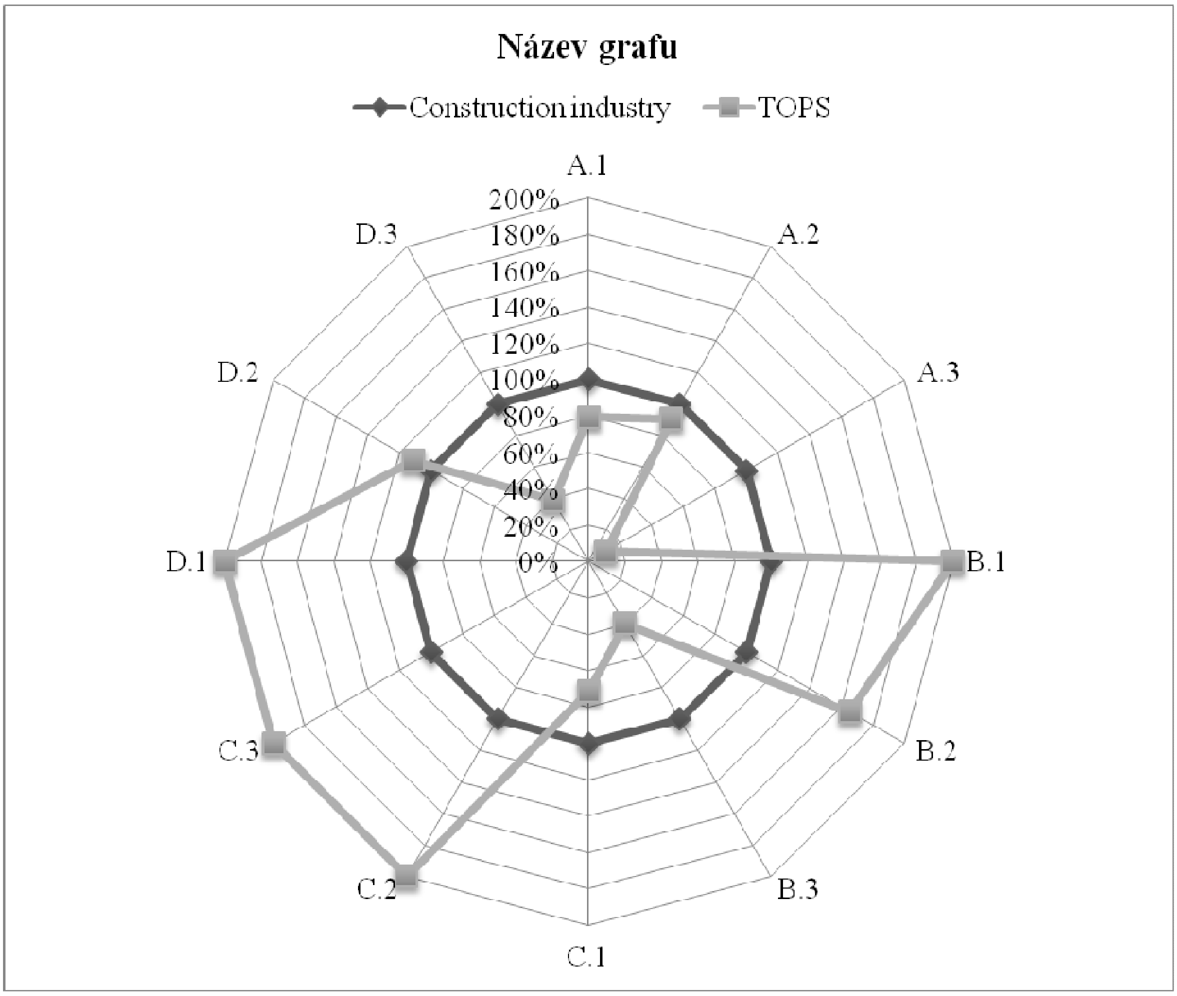
When looking at the rest of the values of industry, we can state that industry is always much more stable than the company.

4.3.5 Spider analysis

Table 24. Spider analysis (average of all 5 analyzed years)

			TOPS	Construction industry
Liquidity	A.1	Current ratio	1,25	1,58
	A.2	Quick ratio	1,25	1,39
	A.3	Cash ratio	0,03	0,31
Activity	B.1	Total assets turnover	3,27	1,29
	B.2	Receivables turnover	4,35	2,63
	B.3	Time of one assets turnover	113,62	286,39
Debt	C.1	Debt ratio	0,46	0,64
	C.2	Debt to equity ratio	12,22	1,86
	C.3	Interest coverage	154,39	12,64
Profitability	D.1	ROE	45,80%	15,07%
	D.2	ROA	8,20%	7,37%
	D.3	ROS	1,60%	4,12%

Figure 2. Graph of spider analysis



The table 23 and figure 1 offer an overlook at all the ratios and comparison of the company with the industry. Looking at the graph, Current ratio, quick ratio, debt ratio and ROA have more or less similar values when comparing the company with the industry.

The company has lower values of cash ratio, time of one assets turnover and ROS than the industry has.

On the other hand, the company has got higher numbers when considering total assets turnover, debt to equity ratio, interest coverage and ROE.

The graph was given maximal value of 200 for better orientation.

The company has all the ratios of liquidity lower than industry has. On contrary, the company has higher most of the activity ratios (assets, receivables turnover), ROE and ROA.

To conclude this part, the company does not really match with average companies of its industry. The company is very specific by its nature. Some values indicate that the company is in better financial situation than average ones, some of them claim reversely. The company does not have any bigger problems in reality, but thanks to the analysis we can see that not all features are pleasant and some of them should be changed by improvement.

CONCLUSION

The company came into Czech Republic after Velvet revolution. We can generally say that its situation had got better but now stagnates thanks to circumstances of economic situation in EU. The conclusion is focusing on every aspect in the same order analytical part is written in for better orientation.

Thanks to the financial analysis, following facts were found out:

According to SWOT analysis could be observed that the company faces problems regarding to language skills of its employees which could be a problem when company expanded abroad. The solution could be signing the employees in language course or (when the company actually expands) hiring native speakers from that particular country where the company would be expanding to. Even bigger problem is, company's employees have poor computer skills which could be improved by attending a course as well. However, an average age of employees is too high for having the ability to learn new computer skills in shorter period of time. As a result, an appropriate solution would be hiring new younger employees who already possess such skills. The last bigger problem which is going to be mentioned here is company's website. I would suggest immediate investment in improving or rather making completely new website. The website is not interactive, attractive and does not provide enough information.

Feature which is very typical for the company is that short-term receivables represent around 90 per cent of the whole assets. The rest of assets are represented by fixed tangible assets and short-term financial assets. Fixed assets represent much lower values than the current ones, because the company does not need any more with regards to nature of its business. It is obvious that the company has a different structure of its assets when comparing this fact with the industry. Also, the company does not possess any inventory as some companies in the industry do because, again, the company does not need it.

Looking at liabilities, company did have a critical problem with its equity but this one has been solved and its equity has been growing from 2006. The problem was actually solved by external help – a loan from a bank and so the borrowed money were used for operational expenses and equity. This is a big difference comparing to the industry because the industry does not have such equity problems. When recently mentioning situation connected with short-term receivables, short-term payables have similar position in company's structure of liabilities again because company operates with invoices in day-to-day basis. This feature is actually not so different from the industry but it represents slightly lower values there.

When recapitulating the income statements of the company, sales of production represent major part of total income. Again, when we imagine a nature of the company's business it is obvious and the industry matches with similar values. That basically says important information: the company has straight and clear field of their business.

This goes hand in hand with structure of total cost. Because the company creates something (constructs buildings), cost of sales are the main item. In addition, employees (either white collar or blue collar workers) are needed all the time so staff cost is the second largest item in the company's total cost. Important thing is that sales of production are always higher than cost of sales which makes the company profitable (along with other sales and costs).

When looking at profit or loss, the company always loses part of its profit by financial lost. That is because the company pays interests from its loan from a bank and that is also the reason why interest coverage dropped in the last years of my analysis. Economic crisis also plays important role here, because that is the reason for lower operating profit in 2010 except of interest expenses which were already mentioned.

Net working capital constantly grows which should be a good message for the company. It means that company possesses more current assets than current liabilities. However, we should consider the structure of both of them. Because they contain most of invoice - related assets and liabilities, it basically means that the company has more short-term receivables then short-term payables. In addition, the company had big problem in 2006 and 2007 and the problem was, again, solved by the loan so the company could have paid some liabilities off.

Summarizing ratios, the company's current ratio was sufficient just in 2008 and 2010 when it reached minimum of 1.5 but building industry is in better position because it reached value of 1.5 almost every year. This is the same problem as problem related to net working capital (formula for both net working capital and current ratio employs current assets and current liabilities). Interesting is cash ratio where the company completely fails. The reason is formula of cash ratio considers the most liquid items (cash, bank account) and the company does not possess so big financial means on bank account. What would help the company in both situations is converting more financial means to bank account. However, with respect to the nature of company's business, it would be rather pointless and we should remember that not all the insufficient values of ratios mean the company has any severe problem. On the other hand, the industry is sufficient at all three ratios of liquidity.

Focusing on activity ratios, the company is very active. Total assets turnover has very pleasant value which is much higher than in the industry and the same applies for receivables and payables turnover (huge invoice-related activity).

Debt ratios are basically satisfactory because both debt ratio and debt to equity ratio are of low values which means the company does not covers its assets (and equity) by long term debts in dangerous manner. On the other hand, interest coverage seems to be declining which is some sort of alert for the company. The company could improve it by paying its debts off and not taking another loan. The industry is in better position because it does not have any problem with interest coverage.

Talking about profitability, the company faces big change in 2007 where the value of ROE got from 193 per cent to 283 per cent when the company became finally profitable. From that time, the company has higher ROE than the industry which is good sign. ROA is more or less stable in the company (around 6 per cent) which is similar to the industry. ROS is very low in general and little bit lower (2 per cent) than the industry.

To summarize provided information, the company does not need any additional support because its profit is more or less stable or even grows. On the other hand, the company should try to lower its interest expenses and lower its cost of sales to be even more profitable. Further development also depends on development of economic situation of Czech Republic and EU as a whole.

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APPENDICES

APPENDIX P I: MAJOR WORKS OF TOPS

2009 - Residence Příluky, Zlín 1

2007 – Apartment block Partyzánská, Zlín

APPENDIX P II: FINANCIAL STATEMENTS OF TOPS

(in CZK thousand)	**2006**	**2007**	**2008**	**2009**	**2010**
TOTAL ASSETS	8 842	10 034	10 584	19 819	15 799
Receivables for subscribed capital	0	0	0	0	0
Fixed assets	394	262	621	711	512
Intangible fixed assets	0	0	0	0	0
Tangible fixed assets	205	73	432	711	512
Long-term investments	189	189	189	0	0
Current assets	8 445	9 695	9 914	19 088	15 284
Inventory	0	0	0	0	0
Long-term receivables	0	0	0	0	0
Short-term receivables	8 303	8 667	9 715	18 795	15 258
Short-term financial assets	142	1 028	199	293	26
Accruals and deferred expenses	3	77	49	20	3
TOTAL LIABILITIES	8 842	10 034	10 584	19 819	15 799
Equity	-162	100	1 767	2 257	2 830
Share capital	200	200	200	200	200
Capital funds	0	0	0	0	0
Funds created from net profit*	22	31	41	48	51
Profit or loss of previous years	-697	-414	-161	1 496	1 979
Profit or loss (for the current period)	313	283	1 687	513	600
Liabilities	9 004	9 934	8 817	17 562	12 969
Provision	0	0	0	0	0
Long-term liabilities	0	0	0	0	0
Short-term payables	9 004	9 934	6 611	14 099	10 176
Bank loans and borrowings	0	0	2 206	3 463	2 793
Accruals and deffered income	0	0	0	0	0

*Funds created from net profit, indivisible reserve and other funds created from net profit

(in CZK thousand)	**2006**	**2007**	**2008**	**2009**	**2010**
Sales of goods	0	0	0	0	0
Sales of production	25 995	37 582	43 737	49 873	47 650
Proceeds from sales of fixed assets and raw material	3	2	0	0	0
Other operating income	197	245	3 597	112	0
Transfer of operating revenues	0	0	0	0	0
Proceeds from sale of securities and interests	0	0	0	0	0
Income from long-term investments	0	0	0	0	0
Income from short-term financial assets	0	0	0	0	0
Gains from revaluation of securities and derivatives	0	0	0	0	0
Interest income	1	0	1	1	263
Other financial income	152	82	767	157	0
Transfer of financial revenues	0	0	0	0	0
Extraordinary income	0	0	0	0	0
TOTAL INCOME	26 348	37 911	48 102	50 143	47 913
Cost of goods sold	0	0	0	0	0
Cost of sales	17 836	28 873	33 899	40 495	36 495
Staff costs	6 868	7 679	9 535	7 849	6 334
Taxes and charges	32	31	28	32	33
Depreciation of intangible and tangible fixed assets	275	132	96	162	199
Net book value of fixed assets and materials sold	0	0	0	0	0
Change in provisions*	0	16	-16	0	0
Other operating expenses	685	492	2 025	181	3 709
Transfer of operating expenses	0	0	0	0	0
Securities and interests sold	0	0	0	0	0
Cost of financial expenses	0	0	0	0	0
Losses from revaluation of securities and derivatives	0	0	0	0	0
Change in provisions and allowances**	0	0	0	0	0
Interest expense	4	0	71	299	337
Other financial expenses	325	248	269	424	58
Transfer of financial expenses	0	0	0	0	0
Income tax on ordinary activity	10	157	508	188	148
Extraordinary expenses	0	0	0	0	0
Extraordinary income tax	0	0	0	0	0
Transfer of profit or loss to partners	0	0	0	0	0
TOTAL COST	26 035	37 628	46 415	49 630	47 313

*Change in provisions and allowances relating to operations and change in complex prepaid expenses

**Change in provisions and allowances relating to financial operations