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BACHELOR THESIS

Financial Analysis of the Company Jaromír Steinhauser s.r.o.

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DECLARATION

I declare that I have elaborated this bachelor thesis on the topic Financial Analysis of the Company Jaromír Steinhauser s.r.o. by my own under the guidance of Ing. Samuel Antwi Darkwah, Ph.D., all literature and materials used are mentioned in the enclosed list.

In Brno,

Signature:

ABSTRACT

Steinhauser, J. *Financial analysis of the company Jaromír Steinhauser s.r.o.* Bachelor thesis. Brno, 2008

The objective of this bachelor thesis was evaluate overall financial situation of selected company that makes business in food processing industry. This analysis is conducted between years 2002–2006 according to its financial statements, mainly balance sheet and profit and loss statement. Special financial methods were used to find out what factors has mostly influenced the development of this company in the specified period.

The obtained results would be used for evaluation of the company's financial situation and would be suggested measures that could be taken for the improvement of financial situation for the company's future development.

ABSTRACT

Steinhauser, J. *Finanční analýza firmy Jaromír Steinhauser s.r.o.*, Bakalářská práce, Brno, 2008

Cílem této práce bylo zhodnotit celkovou finanční situaci podniku zabývající se výrobou potravin. Tato analýza byla sestavena na základě rozvah a výkazů zisků a ztrát za období 2002 – 2006. Byly použity speciální metody pro identifikaci faktorů, které nejvíce ovlivnily rozvoj firmy ve sledovaném období.

Na základě získaných ukazatelů byla stanovena finanční situace podniku a navržena opatření, které by mohli vést k zlepšení finančního hospodaření v budoucím vývoji podniku.

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1. Introduction

1.1. Market structure

Types of market structure influences how a firm behaves and how it acts. It is so because it sets the degree of competition in the industry. can distinguish between four basic market structures.

- *Perfect competition* is an economical model or situation that describes hypothetical market form in which no producer has market power to influence prices. This situation would lead to completely efficient outcome and to market equilibrium where resources are effectively used and social welfare is maximized.
- *Monopolistic competition* is most common form of the market. It is characterized as market where there are many producers and many consumers. There are not big barriers to enter or exit the market and the producer is able to control prices. Consumers see no price difference in competitor's products and that's why it is sometimes called non-price competition.
- *Oligopoly* is situation where small number of sellers have control of given market or industry. Because of small number of sellers, they are aware of the actions of the others and decisions of one firm are influenced by decisions of the other firms. This makes the market and industries to be at the highest risk for collusion.
- *Monopoly* exists when a specific enterprise has sufficient control over a particular product or service and his competitors can not influence it. This market is characterized with a lack of economic competition for goods and with a lack of substitutable goods. These enterprises have greater market share that what is expected under perfect competition.

In Czech Republic the meat industry has mainly monopolistic competition. There are too many producers with same or similar products and services and this causes big

economic competition among the enterprises. It is not easy to increase prices without loosing the customer so the producers have to use different strategies. Moreover prices of inputs of the production change very often.

1.2. Czech meat industry

In Czech Republic, likewise like in all the European Union, the food production belongs to bearing branches of manufacturing industry. The main objective of meat industry is given by ensuring to the population health unexceptionable, safe, high - quality and especially well price obtainable food through production and sale. All this is done with precious efficiency and with competitive advantage of this line.

Some corporations of meat industry have direct linkage on agricultural primary industry; others deal with higher finishing processes resulting in final products. Big number of meat processing companies in Czech Republic invested not small resources and efforts to the hygiene and modernization of their plants to be in order to the legislative requirements of European Union.

Meaning of production of food and is more important because of direct connection on agriculture, which supplies them with their production. Further it processes and transmits to the circulation or to the market. Providing of meat and meat products to inhabitants does from these types of production a strategic and useful sector. All producers of this sector consider safeness of food without health imperfections as main priority and as a basic key to success.

Requirements on providing high - level of preservation of health and stronger trusts of consumers are still more and more on pressure. At present it is not sufficient only to offer health unexceptionable, safe, and biologically full-value food in corresponding quality. It is necessary to provide clear and truthful evidence of efficient monitoring of mentioned criteria. Usage of up-to-date scientific piece of knowledge is necessary for

better protection of consumer and environment. All this should be well understandable to the customers.

There is big attention on meat industry in Czech Republic. This sector includes agricultural production, own production, transfer of goods to circulation and to the food market, including their sales to final consumers.

There are large, medium and small enterprises on the market that are competing between each other. Large enterprises are supplying to multiple stores and to retailers that are pushing down the prices and there are usually minimum profits. Medium and small firms are supplying to smaller retailers, to associations of merchants or shop unions, etc.

Because of so big competition, the enterprises are making strategic plans to have some competitive advantage. Very important part of strategic planning is financial analysis to have an overview about the firms' performance and to predict future changes. It can be assumed that financial analysis plays an important role in good operation of the business.

2. Literature search

2.1. Financial analysis

Financial analysis applies analytical tools and techniques to financial statements and related data to derive estimates and inferences useful in business decisions. It is a screening tool in selecting investment or merger candidates, and is a forecasting tool of future financial conditions and consequences. It is a diagnostic tool in assessing financing, investing, and operating activities, and is an evaluation tool for managerial and other businesses decisions. [2]

2.1.1. Main objectives of financial analysis

A financial analysis assists in identifying the major strengths and weaknesses of a business enterprise. It indicates whether a firm has enough cash to meet obligations, an efficient inventory management policy, sufficient plant, property and equipment, and an adequate capital structure – all of which are necessary if the firm to achieve the goal of maximizing shareholder wealth. Financial analysis also can be used to asses a firm's viability as an ongoing enterprise and to determine whether a satisfactory return is being earned for the risk taken.

When performing a financial analysis, the analyst may discover specific problem areas in time for remedial action. The result of financial analysis can indicate certain facts and trends that can aid the financial manager in planning and implementing a course of action consistent with the goal of maximizing shareholder wealth. [3]

Analyzing financial performance begins with the company's income statement and balance sheet. Analysts use past financial statements to evaluate the company's current performing and try to predict financial future. By analyzing the statements, analysts can

assess the company's financial strengths and weaknesses. Financial statement analysis provides information such as:

- The company is or isn't profitable than other companies in the industry.
- The management is or isn't using the company assets efficiently to generate sales.
- The company's liquidity is or isn't sufficient to satisfy the claims of suppliers and lenders.
- The company's debt position is or isn't overextended, and has or has not additional borrowing power.
- The management follows aggressive or conservative credit policies.
- The company is or is not carrying excessive or inadequate inventories. [1]

2.1.2. Users of financial analysis

Recitation of users of financial analysis and their conclusions is not only very extensive, but also diverse. All users have something in common; they need to know for purpose of managing.

Financial statement users are broadly classified into two groups:

- **Internal users** – those who work in the company
- **External users** – those who don't belong to the company, they gather information from outside [2].

2.1.2.1. Internal users

Primarily the managers of a company are involved in making operating and strategic decisions for the business. As employee, they typically have complete access to a company's information system [2].

2.1.2.2. External users

Individuals not directly involved in the company's operations. These users must relay on information provided by management as part of the financial reporting process.

There are many classes of external users of financial statements.

- **Creditors** are bankers, bondholders, and other individuals who lend money to business enterprises. Creditors look to financial statements for evidence concerning the ability of the borrower to pay periodic interest payments and repay the principal amount when the loan matures.
- **Equity investors** include existing and potential shareholders of a company. Existing shareholders need financial information in deciding whether to continue holding the stock or sell it. Potential shareholders need financial information to help in choosing among competing alternative investments. Equity investors are generally interested in assessing the future profitability or riskiness of a company.
- **Merger and acquisition analysts** are interested in determining the economic value and assessing the financial and operating compatibility of potential merger candidates.
- **Auditors** use financial analysis techniques in determining areas warranting special attention during their examination of a client's financial statements.
- A company's **board of directors**, in their role as appointees of shareholders, monitors management's actions.
- **Regulatory agencies** utilize financial statements in the exercise of their supervisory functions.
- Other users include **employees** (in evaluating the fairness of their wages and working conditions), **intermediaries** (in offering investment advice), **suppliers** (in determining the creditworthiness of customers), and **customers** (in evaluating the staying power of their suppliers). All of these users rely on the analysis of financial statements. [2]

2.1.3. Sources of information

Major parts of data necessary for conducting a financial analysis are included with financial accounting as basic economic information. Financial statements are prepared periodically, typically annually at the end of accounting period, but can be also quarterly or half-yearly. Financial statement reporting of financing and investing activities occurs at a point in time, whereas operating activities are reported for a period of time.

According to [7] the sources of information can be sort into these groups:

- Financial information from company's information system (internal sources)
- External financial information (external sources)
- Quantified non-financial information
- Other unquantifiable information

2.1.3.1. Internal sources

Internal sources of financial information are provided in financial statements outgoing from the financial accounting, information from financial analysts and company's managers, annual reports.

Four primary financial statements are prepared within the financial accounting, belonging to this group:

1. The balance sheet
2. The income statement
3. The statement of shareholders' (owners) equity
4. The statement of cash flows
5. Annual report [2].

The Balance Sheet

It is a financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time. These three balance sheet segments give investors an idea as to what the company owns and owes, as well as the amount invested by the shareholders. Typical Czech balance sheet can be seen in appendix 1.

The balance sheet must follow the following formula:

$$\text{Assets} = (\text{Liabilities} + \text{Shareholders' Equity})$$

Each of the three segments of the balance sheet will have many accounts within it that document the value of each. Accounts such as cash, inventory and property are on the asset side of the balance sheet, while on the liability side there are accounts such as accounts payable or long-term debt. The exact accounts on a balance sheet will differ by company and by industry, as there is no one set template that accurately accommodates for the differences between different types of businesses [5].

The Income Statement

This statement is also known as the "profit and loss statement" or "statement of revenue and expense". A financial statement measuring a company's financial performance over a specific accounting period. Financial performance is assessed by giving a summary of how the business incurs its revenues and expenses through both operating and non-operating activities. It also shows the net profit or loss incurred over a specific accounting period, typically over a fiscal quarter or year.

The income statement is divided into two parts: the operating and non-operating sections. The portion of the income statement that deals with operating items is interesting to investors and analysts alike because this section discloses information about revenues and expenses that are a direct result of the regular business operations. The non-operating

items section discloses revenue and expense information about activities that are not tied directly to a company's regular operations. [6].

For structure of profit and loss statement see appendix 2.

The Statement of Shareholders' Equity

In addition to its liabilities to parties outside the firm, the corporation has obligations to its owners. Shareholders' equity is a total of funding invested or contributed by shareholders (contributed capital) and accumulated earnings, since inception in excess of distribution to shareholders (retained earnings). On the balance sheet this is represented as registered capital, capital contributions, reserve funds and retained earnings. Typical consolidates statement of shareholders' equity can be seen in appendix 3.

$$\text{Shareholders' equity} = \text{registered capital} + \text{capital contributions} + \text{reserve fund} + \text{retained earnings} [3].$$

The Cash Flow Statement

In financial accounting, a cash flow statement or statement of cash flows is a financial statement that shows a company's incoming and outgoing money (sources and uses of cash) during a time period (often monthly or quarterly). The statement shows how changes in balance sheet and income accounts affected cash and cash equivalents, and break the analysis down according to operating, investing, and financing activities (see appendix 4). As an analytical tool the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills [6].

Timing of cash inflow and outflow is unsynchronized. Cash flows are calculated to determine when cash will be needed, where it will come from and when it will be used by the enterprise.

Annual Report

It is obligatory report done every year that informs about the economic and financial situation of the enterprise. This report is done by auditors and it includes information that is not written in the balance sheet or profit and loss statement, activities done by the enterprise in previous period and sometimes plans for future period. There is also important information about reserves, distribution of profit, employees, etc.

2.1.3.2. External sources

Beyond these internal sources there are also external sources of information like annual report from securities analysts, prospectuses of securities, financial news, development of domestic and foreign economies, rate of inflation, financial statements from comparable enterprises, etc.

2.1.3.3. Quantified non-financial information

This information includes development of technologies, demographic studies, development of communications network, etc.

2.1.3.4. Other unquantifiable information

These are reports and comments of the managers, independent valuations, forecasting, private contacts, prepared legislative proceedings, etc.

2.2. Basic methods of financial analysis

A variety of tools and techniques designed to fit specific needs are available to help users analyze the financial statements.

2.2.1 Quantitative methods

Basic techniques of financial analysis include methods that are based on processing of known variables. These variables are included in financial reports and statements derived from them. According to this they are divided into two groups. If there would be used variables from financial reports, it would mean the use of absolute method with utilization of absolute indicators. If there would be used relation of two different entries and their values, it would mean the use of relative method with utilization of relative indicators.

Absolute method:

- *Absolute indicators* mean some phenomenon without any relation to different phenomenon. They are very sensitive to the size of the enterprise, so compares between enterprises is quit inefficient.
- *Extensive indicators* which hold information about the scope (extend) and represent quantity.

Relative method:

- *Relative indicators* mean relation between two phenomenon and their value is a value of one phenomenon falling on unit of measurement of the other phenomenon. This means that compares among enterprises is possible.
- *Intensive indicators* characterize how much are the extensive indicator used by the enterprise and how fast do they change [4].

2.3. Special methods of financial analysis

2.3.1. Percentage Financial Statements

The percentage financial statements are particularly useful for identifying trends in the firm's assets, liabilities and income composition. It usually uses two types of techniques: Comparative financial statement analysis and Common-size financial statement analysis [3].

2.3.1.1. Comparative Financial Statement Analysis (Horizontal Analysis)

Users of financial statements conduct comparative financial statement analysis by reviewing consecutive balance sheets, income statements, or statements of cash flows from period to period.. This usually involves a review of changes in individual account balances on year-to-year basis. The most important information often revealed from comparative statement analysis is a trend. A comparative statement over several years can reveal the direction, speed, and extent of a trend. This analysis also compares trends in related items. During this analyze different rates are obtained and will look for reasons behind differences in these related rates. Two techniques of comparative analysis are mostly used: year-to-year change analysis and index-number trend analysis [3].

1. Year-to-year change analysis

Comparing financial statements over relatively short time periods – normally two to three years – is usually performed with analysis of year-to-year changes in individual accounts. This analysis for short time periods is manageable and understandable. It has the advantage of presenting changes in absolute dollar amounts as well as in percentages. These changes can be obtained from these equations [8]:

Absolute change = current year balance – last year balance

*Percentage change = [(current year balance – last year balance) / last year balance] * 100*

2. Index number trend analysis

It is a useful tool for long-term trend comparisons. Analyzing data using index-number trend analysis require choosing a base period, for all items, with a pre-selected index number usually set to 100. Since a base year period is a frame of reference for all comparisons, it is best to choose a normal year with regard to business conditions.

When using index numbers, percentage changes are computed by reference to the base period according to this formula:

*Index number = (current year balance / base year balance) * 100*

It has to be exercise care in using index-number trend comparisons where changes might be due to economy or industry changes. Interpretation of percentage changes, including those using index-number trend series, must be made with an awareness of potentially inconsistent applications of accounting principles over time. An important outcome of trend analysis is its power to convey insight into manager's philosophies, policies, and motivations [8].

2.3.1.2. Common-size Financial Statement Analysis (Vertical analysis)

Financial statement analysis can benefit from knowing what proportion of a group or subgroup is made up of a particular account. When analyzing a balance sheet, it is common to express total assets as 100%. Then, accounts within these groupings are expressed as a percentage of their respective total. In analyzing income statement, sales are often set at 100% with the remaining income statement accounts expressed as a percentage

of sales. Since the sum of individual accounts within groups is 100%, this analysis is said to yield common-size financial statements.

1. Sources of financing including the distribution of financing across current liabilities, non current liabilities, and equity.
2. Composition of assets including amounts for individual current and non current assets [2].

Common-size analysis of a balance sheet is often extended to examine the accounts that make up specific subgroups. For example, in assessing liquidity of current assets it is composed of inventories, and not simply what proportion inventories are of total assets. Common-size analysis of an income statement is equally important. An income statement readily lends itself to common-size analysis, where each item is related to a key amount such as sales. To varying degrees, sales impact nearly all expenses, and it is useful to know what percentage of sales is represented by each expense item.

Time comparisons of a company's common-size statements are useful in revealing any proportionate changes in accounts within groups of assets, liabilities, expenses, and other categories.

Common size statements are especially useful for inter-company comparisons because financial statements of different companies are recast in common-size format. Comparison of a company's common-size statements with those of competitors, or with industry averages, can highlight differences in account makeup and distribution. A comparison of selected accounts using common-size statements along with industry statistics is part of the comprehensive case [8].

2.3.2. Ratio Analysis

It is the most commonly used method of financial analysis, based on financial ratios that examine individual parts of financial management of the enterprise. These ratios are

in addition to percentage financial statements. Method of financial ratios is useful for financial managers, who can get an overview of some of the company's key operating data. Moreover the managers can detect some important trends in company's performance when they compile these measurements over time.

A ratio expresses a mathematical relation between two quantities. A ratio of 200 to 100 is expressed as 2:1, or simply 2. While computation of the ratio is a simple arithmetic operation, its interpretation is more complex. To be meaningful, a ratio must refer to an economically important relation. For example there is a direct and crucial relation between an item's sale price and its cost.

Ratios are tools that provide us with insights into underlining conditions. Ratios, properly interpreted, identify areas requiring further investigation. Analysis of a ratio can reveal important relations and bases of comparisons in uncovering conditions and trends difficult to detect by inspecting the individual components that make up the ratio. Still, like other analysis tools, ratios often are most useful when they are future oriented. This means that factors affecting a ratio are often adjusted for their probable future trend and magnitude [2].

It is possible to compute various ratios using data from financial statements. Some of them are general and can be used in for all enterprises and others are applicable just on some specific circumstances or industries. Financial ratios are divided into four major groups: liquidity, profitability, leverage, and turnover ratios.

For list of all financial ratios that are suitable for different forms of financial analysis see appendix 5.

2.3.2.1. Liquidity Ratios

Liquidity means the ability of resources to meet short-term obligations. Company's liquid assets represent the potential to discharge current liabilities. High liquid companies

have more liquid assets compared with their liabilities. There are three measures of liquidity that are widely used: current ratio, quick ratio, and cash ratio.

1. Current ratio

It measures current assets per current liabilities. It indicates the extent to which current assets can meet the claims of short term creditors. The current ratio is calculated according to this formula:

$$\text{Current ratio} = \text{Current assets} / (\text{Short-term liabilities} + \text{Short-term bank loans})$$

Financial managers view excess of liquidity as an investment into unproductive asset. Excessive liquidity depresses the total asset turnover (Net sales / Total assets) and, in turn, the return on total assets. However extremely low level of liquidity signals that company can have problems paying its bills [1].

2. Quick ratio

Another measure of liquidity recognizes that not all current assets have the same liquidity. Cash, marketable securities, and accounts receivables are more liquid than inventory. Cash is totally liquid and securities and receivables take some time in converting. Quick ratio (also called the Acid test ratio) doesn't count with inventories and shows only cash and near-cash per current liabilities:

$$\text{Quick ratio} = (\text{Current assets} - \text{Inventory}) / (\text{Short-term liabilities} + \text{Short-term bank loans})$$

It is important to remember that companies pay bills with cash and that the liquidity exists only when cash is available to pay for a bill. So the analyst should check a

company's cash balance and marketable securities in addition to current and quick ratios when assessing liquidity [3].

3. Cash ratio and Cash to current liability ratio

Cash and its equivalents are the most liquid of current assets. The measure of “near-cash” assets to the total of current assets is a degree of current asset liquidity. This measure called cash ratio is calculated as:

$$\text{Cash ratio} = \text{Short-term financial assets} / \text{Current assets}$$

The larger is this ratio, the more liquid are current assets. There is nearly no waiting period for conversion of these assets into usable cash.

Another ratio that measures cash adequacy is the cash to current liabilities ratio. The formula is:

$$\text{Cash to current liabilities ratio} = \text{Short-term financial assets} / (\text{Short-term liabilities} + \text{Short-term bank loans})$$

This measures how much cash is available in the company to pay current obligations. It is used as an addition to the cash ratio in measuring cash availability from a different point of view [3].

2.3.2.2. Debt Ratio

The debt ratios measure the impact of using debt capital to finance assets. Management employs debt in an attempt to leverage return on common equity. However too much debt increases the risk and fear of default limits use of debt for financing.

Debt ratios help us to analyze total debt, short-term debt, and long-term debt. A current liability (debt) matures within one year, and long-term debt matures over periods longer than one year [8].

1. Total debt ratio

It is one of mostly used measures of total debt. It measures the total debt per total assets:

$$\text{Total debt ratio} = \text{Liabilities} / \text{Total assets}$$

It is expressed as a percentage and shows the extent to which debt finances total assets. The lower the debt, the lower is the financial leverage.

2. Debt-equity ratio

It is an alternative of total debt ratio and is calculated as:

$$\text{Debt-equity ratio} = \text{Total debt} / \text{Common equity}$$

3. Equity multiplier

This is second alternative to find the total debt ratio. The equity multiplier is the value of total assets per equity:

$$\text{Equity multiplier} = \text{Total assets} / \text{Equity}$$

4. Current debt ratio, long-term debt ratio

Current debt normally costs less than long-term debt, but it usually creates more risk. With most long-term debt the company locks with interest rates for long period of time. With current debt, future credit terms are uncertain. The ratios are calculated with these formulas:

$$\text{Current debt ratio} = (\text{Short term liabilities} + \text{Short-term bank loans}) / \text{Total assets}$$

$$\text{Long-term debt ratio} = (\text{Long-term liabilities} + \text{Long-term bank loans}) / \text{Total assets}$$

The sum of percentage of current debt ratio and long-term debt ratio equals the percentage for the total debt ratio.

5. Times interest earned

It calculates the coverage of interest expense. It is measured by earnings before interests and taxes (EBIT) divided by interest expenses:

$$\text{Times interest earned} = \text{EBIT} / \text{Interest expense}$$

It is a part of debt management ratios because it shows the evidence of company's ability to meet the fixed cost of its debt. Generally, the companies with large debt ratios have small times-interest earned ratios [3].

2.3.2.3. Turnover (Activity) Ratios

An important objective of financial management is to determine how a firm's resources can be distributed in the best way among the various asset accounts. If a good

mix of cash, receivables, inventories, plant, property, and equipment can be achieved, then the structure of assets would be more effective in generating revenues.

The turnover ratio indicates how much an enterprise invested into particular type of asset, relative to the revenue that is generated by this asset.

It includes: total asset turnover ratio, the average collection period, the fixed asset turnover ratio, and the inventory turnover ratio [2].

1. Total asset turnover ratio

It indicates how effectively a firm uses total resources to generate sales and is a summary measure that is influenced by each of the activity ratios previously discussed. Total asset turnover is defined as:

$$\text{Total asset turnover} = \text{Sales} / \text{Total assets}$$

Strict credit policies, inadequate inventory, or insufficient equipment could lead to a decrease in total sales which would also reduce the turnover. To have successful asset management, the managers have to strike a balance in company policies between too large or too small investment into assets [3].

2. Fixed asset turnover ratio

It tells us how much the enterprise utilizes its existing property, plant and equipment to generate sales. There are several factors that affect the amount of invested capital into property, plant, and equipment. These factors are for example acquisition cost, length of time since acquisition, depreciation, and extent of leased assets. It can be calculated using this formula [8]:

$$\text{Fixed asset turnover} = \text{Sales} / \text{Fixed assets}$$

3. Average collection period

The average collection period is the average number of days account receivable remains outstanding. It can be determined by dividing firm's year-end receivables balance by the average daily credit sales (based on 360 days a year):

$$\text{Average collection period} = \text{Accounts receivable} / (\text{Annual credit sales} / 360)$$

It is a very important toll to find out if the firm has good or too liberal credit policy. The firm must determine if the liberal policy generate enough sales and profits to justify the costs. On the other hand too strict collection policy may drive the customers to other competitors [3].

3. Inventory turnover ratio

According to [3], this ratio is usually calculated to find out how fast can the enterprise sales and supply its inventory. It is important to know if the turnover is high to have more inventories on stock and not to run out of it so frequently. Also low turnover would lead to lower inventories and not to have too much capital in it. The inventory turnover ratio is defined as follows:

$$\text{Inventory turnover} = \text{Cost of goods sold} / \text{Average inventory}$$

2.3.2.4. Profitability Ratios

Profit is the best indicator that demonstrates how well the enterprise is making its decisions and investments. Profitability ratios measure how effectively the management of the enterprise generates the profit from sales, total assets and stockholder's investment.

There are several types of profitability ratios that include net profit margin ratio, and return on investment ratio.

1. Net profit margin ratio

The definition of net profit margin is:

$$\text{Net profit margin} = \text{Earnings after tax (EAT)} / \text{Sales}$$

It is calculated by dividing net income by sales, and it gives the profit per crown of sales. It reveals how effectively the firm's management is making decisions regarding pricing and control of costs at various levels [3].

2. Return on investment ratios

The return on investment (ROI) is widely used in financial analysis. There are two types of ROI: return on total asset and return on equity. Both types calculate with data from both balance sheet and profit and loss statement.

The ratio of earnings after taxes to total assets measures return on total assets (ROA):

$$\text{Return on assets} = \text{Profit for the accounting period (Earning after taxes)} / \text{Total assets}$$

ROA indicates the owners' profitability from all of the resources used in the business.

The ratio of earnings after taxes to common equity (total shareholder equity) measure return on common equity (ROE):

$$\text{Return on common equity} = \text{Profit for the accounting period (Earnings after taxes)} / \text{Equity}$$

Return on equity expresses the relationship between the shareholders' share of revenues and their previously contributed capital, including retained earnings. From the shareholders' point of view, ROE is the most important profitability ratio [3].

2.3.3. Assessing overall financial situation

It is possible to benefit from a guiding principle to interpret the mosaic created by the diverse groups of financial ratios; profitability, activity, debt management, and liquidity. Fortunately, there are two models that bring order to financial ratios: The Du Pont model ties together profitability and activity, and the extended Du Pont model ties together profitability, activity, and debt management [3].

2.3.3.1. Du Pont Model (ROA)

It is an equation that relates total assets turnover and profit margin to return on assets:

$$\text{Return on total assets} = \text{After-tax profit margin} * \text{Total asset turnover}$$

This equation with after-tax profit margin and total asset turnover show that this equation is true:

$$\text{Return on total assets} = (\text{Earnings after taxes} / \text{Sales}) * (\text{Sales} / \text{Total assets})$$

The Du Pont equation divides the profitability measure ROA into two determinants branches. When multiplying profit margin by total asset turnover, it shows us reasons why has the company low or high ROA.

2.3.3.2. Extended Du Pont Model (ROE)

The extended Du Pont model has the same basis as normal Du Pont model and it is extended by the debt management dimension to calculate return on common equity (ROE):

$$ROE = \text{After-tax profit margin} * \text{Total asset turnover} * \text{Equity multiplier}$$
$$\text{Earnings after tax} / \text{Equity} = (\text{Earnings after tax} / \text{Sales}) * (\text{Sales} / \text{Total assets}) * (\text{Total assets} / \text{Equity})$$

ROA equals after-tax profit margin times total asset turnover and if this equation is more simplified the formula looks like this:

$$ROE = ROA * \text{Equity multiplier}$$

The firm's capital faces two dimensions of risk. First one is business risk or the riskiness of the firm's assets if it uses no debt. The second one is financial risk, which is the additional risk placed on the common stockholders as a result of the firm's decision to use debt.

2.3.4. Financial Distress

Predicting financial distress is very important part of financial analysis. Models used for analyzing of financial distress are called bankruptcy prediction models. These models examine the trend and behavior of selected ratios. Characteristics of these ratios are than used in identifying the likelihood of future financial distress. This model tells us in

advance the future development and actions can be done to avoid risk of loss or to gain on this information.

2.3.4.1. Altman Z-Score

Probably the most well-known model of financial distress is Altman Z-score. It uses multiple ratios to generate a predictor of distress. Altman's Z-score uses a statistical technique (multiple discriminant analysis) to produce a predictor that is a linear function of several explanatory variables. This predictor classifies or predicts the likelihood of bankruptcy or non-bankruptcy. Five financial ratios are included in the Z-score:

X_1 = Working capital / Total assets; (liquidity),

X_2 = Retained earnings / Total assets; (Age of firm and cumulative profitability),

X_3 = Earnings before interest and taxes / Total assets; (profitability),

X_4 = Shareholder's equity / Total liabilities; (financial structure),

X_5 = Sales / Total assets; (capital turnover rate).

Altman Z-score is using two different formulas for evaluating of firm's health. Altman has calculated these formulas based on data from manufacturing firms. This first formula is used for private companies (private manufacturers):

$$Z = 0,717 X_1 + 0,847 X_2 + 3,107 X_3 + 0,420 X_4 + 0,998 X_5$$

With this formula is obtained an index number which have to compare within some specific range. A Z-score of less than 1,20 suggests a high probability of bankruptcy, while Z-score above 2,90 imply a low probability of bankruptcy. Sector between 1,20 and 2,90 are in the gray or ambiguous area [8].

And this second formula is likely to use for public companies (public manufacturers):

$$Z = 1,2 X_1 + 1,4 X_2 + 3,3 X_3 + 0,6 X_4 + 0,999 X_5$$

Public manufacturers also have different ranges. If the Z-score is 1,80, or less, then the bankruptcy is likely. Z-score between 1,80 and 3,00, than the company is in gray area and the higher it is from 3,00 the better financing has the firm.

3. Aim of the work and methodology

3.1. Aim of the work

The aim of this work is to analyze the development of financial situation of the company Jaromír Steinhauser s.r.o. during years 2001-2006. Main tasks are to assess the economic situation and find factors that have mostly influenced the economy of the firm in the given period. Following these factors it will be possible to find all shortfalls and look for concrete solutions to all those problems and try to make positive suggestions to the betterment and the future development of the firm. These suggestions for the future development will be put into possible action that would eventually lead to the improvement of the economic situation of the company.

3.2. Methodology

As a basis for performing the financial analysis, the following financial statements were used, the balance sheet and the profit and loss statement from years 2001-2006 (see appendix 5 and 6). These financial statements were obtained from the accounts department of the company. Additional data were obtained from the auditor's reports.

All other source of information was taken from the list of literature listed at the end of the thesis and from the knowledge obtained during my studies.

All the information gathered from these different sources were put together and used for calculating the financial ratios of the Jaromír Steinhauser s.r.o. The obtained results are mentioned in the part of own work with explanations and would be used to remedy any shortfalls which would eventually bring efficiency, viability and sustainable financial stability and growth in the chosen firm.

The work is divided into four parts. The first part will introduce the market structure and current situation in meat industry.

The second part will be oriented on theoretical piece of knowledge about financial analysis. Main content of this part is the literature search with explanation of financial analysis methods that are commonly used for evaluating of companies economy.

The third part will be focused on own work where will be shown the results from the financial analysis. These obtained results will be followed with explanations and necessary comments.

The last part would discuss all obtained results and will suggest recommendations for improvement of studied problems.

4. Own work

4.1. Introduction of the company

4.1.1. Basic information about the company

The firm was incorporated into the financial register according to Czech laws with commercial name Jaromír Steinahuser s.r.o. (Ltd.) on 26th April 1994. The seat of the company is in the city Brno, Mojmírovo nám. 20, 612 00 Brno – Královo pole, Czech Republic. Its object of business is distribution of goods, intermediary, butchery and tuitions in field of butchery. Registered capital is 4000 000 CZK, it has only one partner MVDr. Jaromír Steinhauser and he is also an executive manager of this company.

4.1.2. Characteristics of the company

The company Jaromír Steinhauser s.r.o. specializes on meat products with good quality and pleasant taste. When it was established, it mainly functioned as a training center for young butchers. In 10 years the company has developed significantly and focused more on production than on training. At the beginning the company produced great number of different products but after some years it needed specialization because of ineffective production. In year 2003 the company stopped fabrication of cooked products and specialized more on sausage line and ham line.

After the entry of Czech Republic to the European Union, there have been many new hygienic restrictions on meat production and elaboration, and new competitors came to the Czech grocery market. Therefore the company had to decide on deeper specialization of production and on reconstruction so the company could become more

competitive. In years 2005 and 2006 the firm invested great amount of money into new production technologies and into hygienic standards.

In year 2004, firm Jaromír Steinhauser s.r.o. started to use new registered trade mark Steinex® because of export to other European countries and differentiation from their competitors.

Today the company is in good position on the market fulfilling all hygienic restrictions imposed by the European Union with certificates HACCP, ISO9001 standards and ISO14001 standards.

Company Jaromír Stenhauser s.r.o. uses for its production complete meat parts which require only minimum elaboration. After the entry to the European Union, the company buys this meat parts from whole Europe because of better prices. Overall sales consist of sale of fresh meat, sale of meat products and sale of other goods. The structure of sales of fresh meet and meat used in production is following: 95% of all meat is necessary for production and 5% is sold as fresh meat on the market.

This company has many competitors in this region, but its share of market is quite big. Assuming that the company sales mostly to shops and distributors, without sales in supermarkets it has about 33% market share in Brno region. The biggest competitors are Uzenářství a lahůdky Sláma s.r.o., Hadač a Zapletal s.r.o. and Steinhauser s.r.o.. The overall market share in the Czech Republic can be estimated at about 2% from the whole meat industry.

4.2. Percentage financial statement analysis

4.2.1. Horizontal analysis

Horizontal analysis, examine how a specific element of balance sheet or profit and loss statement changed in comparison with previous year. This change is both in absolute and relative values.

These changes will be described in selected indicators of financial statements from years 2002 – 2006.

Horizontal analysis of balance sheet

At first was examined how assets develop in specified period of time. In the table below, there are listed the main assets with their absolute and relative changes.

Table no. 1: Horizontal analysis of assets of the balance sheet from years 2002 - 2006

Content of the cell	2003	2002	Absolute change in CZK	Relative change in %	2004	2003	Absolute change in CZK	Relative change in %
TOTAL ASSETS	72857	63973	8884	13,89%	78170	72857	5313	7,29%
Fixed assets	18757	15966	2791	17,48%	23180	18757	4423	23,58%
Current assets	52753	46882	5871	12,52%	53815	52753	1062	2,01%
- Inventories	15959	9314	6645	71,34%	16559	15959	600	3,76%
- Short term receivables	34280	28908	5372	18,58%	42121	28908	13213	45,71%
Accruals	1347	1125	222	19,73%	1175	1347	-172	-12,77%

Content of the cell	2005	2004	Absolute change in CZK	Relative change in %	2006	2005	Absolute change in CZK	Relative change in %
TOTAL ASSETS	126551	78170	48381	61,89%	112655	126551	-13896	-10,98%
Fixed assets	46634	23180	23454	101,18%	46179	46634	-455	-0,98%
Current assets	78467	53815	24652	45,81%	64932	78467	-13535	-17,25%
- Inventories	18378	16559	1819	10,98%	24250	18378	5872	31,95%
- Short term receivables	58549	42121	16428	39,00%	39696	58549	-18853	-32,20%
Accruals	1450	1175	275	23,40%	1544	1450	94	6,48%

Source: Authors' calculation on the basis of financial statements of the company Jaromír Steinhäuser s.r.o.

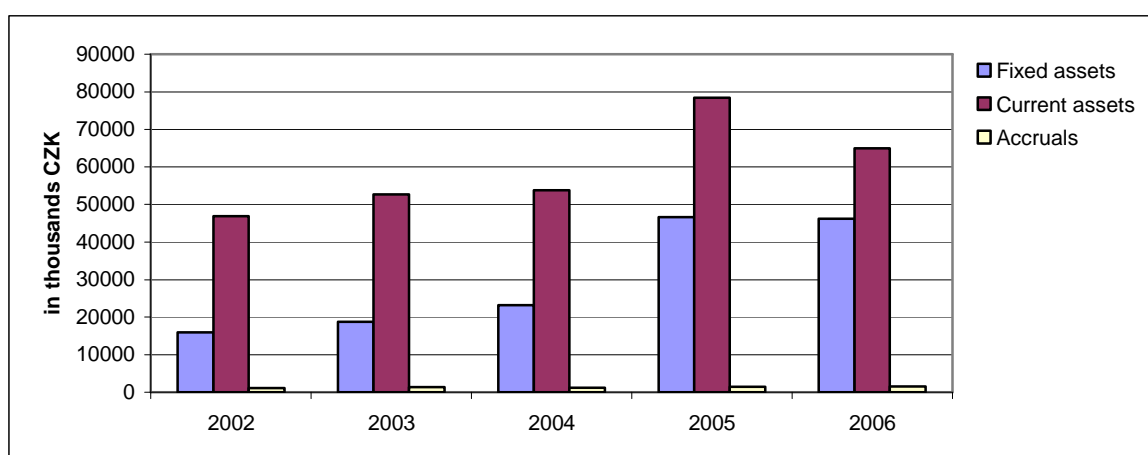
The total assets of the company in all years, except the last year had increasing trend (see graph no. 2). During all periods the amount of total assets raised from 63,97 million CZK to the maximum of 126,55 mil. CZK in year 2005 and then it decreased by 10,98 % to 112,65 mil. CZK in 2006. This means almost two times increase from year

2002, in relative value it increased by 76,10 %. The biggest increase of assets was in year 2005 where it was 48,38 mil.CZK, that means an increase by 61,89 %. This increase was caused by big investments during 2005 into buildings and machinery. It can be seen in fixed assets where the increase was by 101,18 % which was by 24,65 mil. CZK.

Current assets must be mentioned as well because they also increased in that year. The increases was by 45,81 % which is not so much because there was also increase in short term receivables by 39,00 %.

In year 2006 finished the investments to buildings and machinery. Due to this investment, the production capacity and storage increased and this can be seen in the inventories that increased by 31,95 %. However there was also decrease in current assets, especially in the short term receivables by 32,20 %. This decrease was caused by loss of some important customers that could be very dangerous after so big investments. The fixed assets remained relatively the same. There was decrease by 0,98 % that was caused by change in long-term fixed assets.

Graph no. 1: Trend development of groups of assets (in thousands CZK)



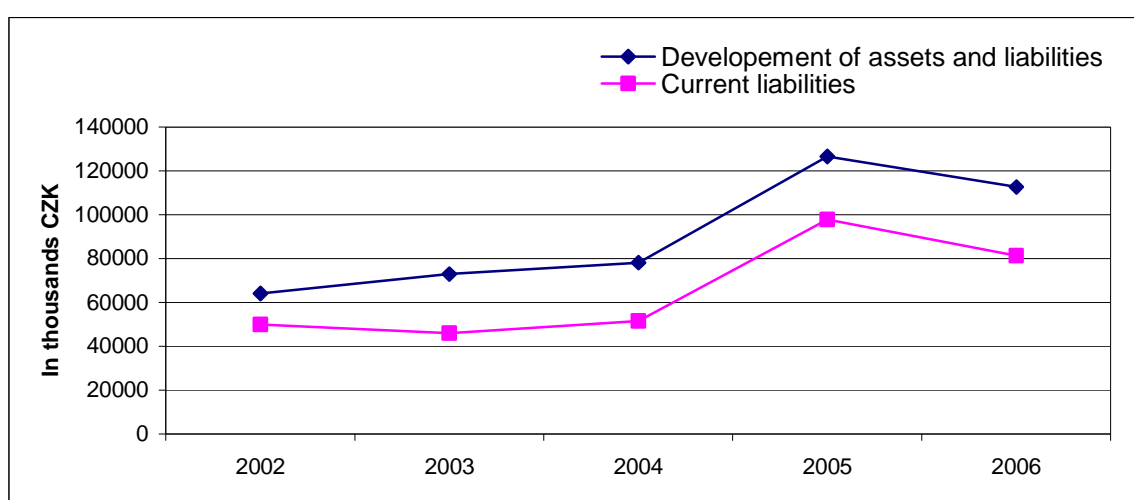
Source: authors' calculation

Graph no. 1 shows the assets divided into basic groups of fixed assets, current assets and accruals. It is obvious from the graph that current assets have much higher value than fixed assets which is normal in the food processing industry. The company must have

sufficient fresh products on stock to supply the customers who usually buy on invoice bill and also must have sufficient material on stock to continue the production.

Secondly were examined the liabilities and owner's equity. The overall situation in examined period had increasing character with exception of the last year. This progress can be seen in table no. 2. The trend development of current liabilities was the same as trend development of total assets see. The only small change was in year 2003, because of better repaying of invoice bills, but it returned back in 2004.

Graph no. 2: Development of total assets and current liabilities (in thousands CZK)



source: authors' calculation

Table no. 2: Horizontal analysis of liabilities of the balance sheet from years 2002 - 2006

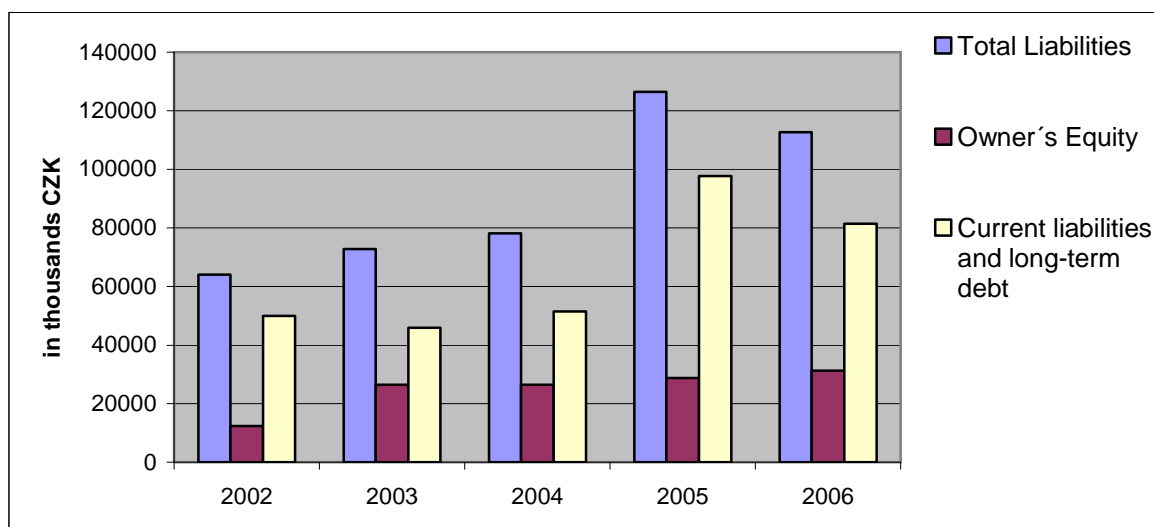
Content of the cell	2003	2002	Absolute change in CZK	Relative change in %	2004	2003	Absolute change in CZK	Relative change in %
TOTAL LIABILITIES	72857	63973	8884	13,89%	78170	72857	5313	7,29%
Owner's Equity	26450	12461	13989	112,26%	26490	26450	40	0,15%
Current liabilities and long-term debt	45972	49981	-4009	-8,02%	51527	45972	5555	12,08%
- Current liabilities	45225	42126	3099	7,36%	45780	45225	555	1,23%
- Bank loans	0	0	0	0	5000	0	5000	0
Accruals	0	53	-53	0,00%	0	0	0	0

Content of the cell	2005	2004	Absolute change in CZK	Relative change in %	2006	2005	Absolute change in CZK	Relative change in %
TOTAL LIABILITIES	126551	78170	48381	61,89%	112655	126551	-13896	-10,98%
Owner's Equity	28768	26490	2278	8,06%	31274	28768	2506	8,71%
Current liabilities and long-term debt	97783	51527	46256	89,77%	81381	97783	-16402	-16,77%
- Current liabilities	40784	45780	-4996	-10,92%	38867	40784	-1917	-4,70%
- Bank loans	56125	5000	51125	1122,50%	36069	56125	-20056	-35,57%
Accruals	0	0	0	0	0	0	0	0

Source: Authors' calculation on the basis of financial statements of the company Jaromír Steinhauser s.r.o.

During all the examined periods the owner's equity was positive and it significantly increased every year. The biggest increase was from year 2002 – 2003 where the rise was by 112,26 % caused by increase in capital funds and funds from profit. In absolute values, the owner's equity raised by 13,98 mil. CZK. This raise was mostly influenced by capital funds that increased from value of 0 in year 2002 to the value of 10,63 mil. CZK. From year 2003 the rise in owner's equity was not so extensive, especially in year 2004 where the rise was only by 0,15 %, but then it was consistently increasing by more than 8 % until the end of examined period. The overall rise was by 250,98 % in case of owner's equity and 176,10% in case of total liabilities. This increasing trend of owners' equity can be seen in graph no. 3.

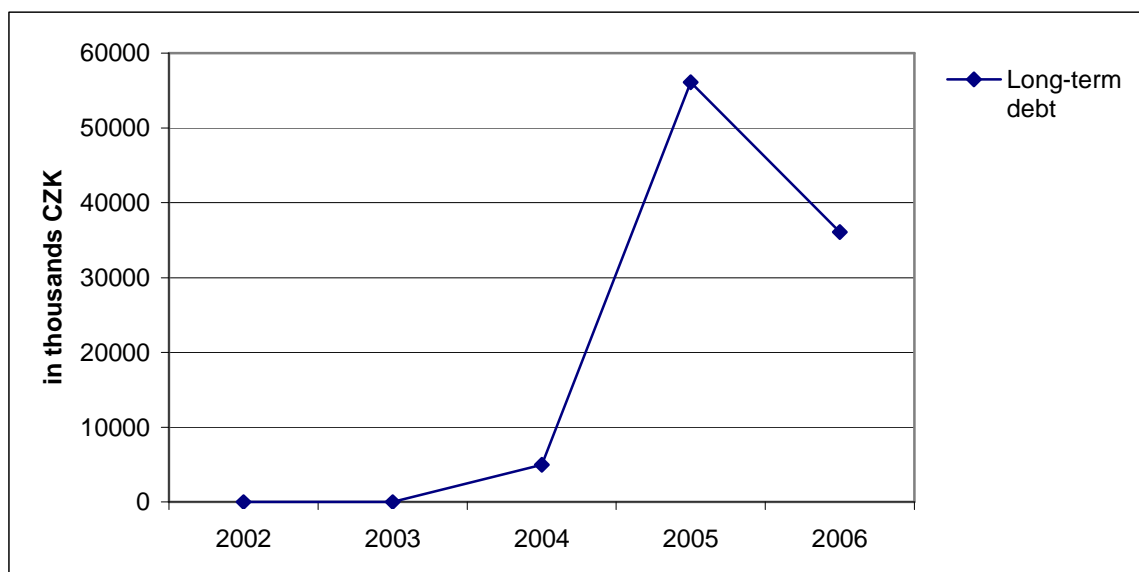
Graph no. 3: Trend development of liabilities (in thousands CZK)



Source: authors' calculation

Liabilities did not increase continuously during studied period. There was a small decrease of current liabilities and long-term debt in year 2003 by 8,02 % which was by 4,00 mil. CZK relatively. This decrease was caused by decrease in long-term liabilities of the company. From 2003 to 2005 it raised from 45,97 mil. CZK to 97,78 mil. CZK which is raise by 212,70 % in relative values. This was due to taking of bank loans for the investments into the company (see graph no. 4). However in year 2006 there was substantial decrease of long-term debts. The decrease was by 35,57% from the total of 56,12 mil. CZK to 36,06 mil. CZK relatively. This substantial decrease was because of repayment of dotations that were asked for in 2005 and obtained after the end of all investments in 2006. Current liabilities were more likely to decrease, which means that the company improved it's payments to their suppliers or some current liabilities were part of the investment. The lowered by 7,74 %.

Graph no. 4: Trend of acquired bank loans (in thousands. CZK)



Source: authors' calculation

Horizontal analysis of profit and loss statement

All results from the horizontal analysis of profit and loss statement are listed with absolute and relative changes. I've selected some of the most important elements of this financial statement and they are listed in table no. 3 below. This table is divided into two parts, revenues and costs for better understanding of each group.

The results of horizontal analysis show that the main source of the revenues was from company's production. This production had sustainable state during all examined periods. The overall rise from year 2002 – 2006 was only 4,84 %, in relative values it was from 198,82 mil. to 208,43 mil. CZK and it fluctuated around 200,00 mil. CZK. The highest production was in year 2004 where it reached the top of 234,47 mil. CZK. In year 2005 the production decreased by 13,58 % because the company was in reconstructions so they had to reduce the production which had impact on total revenues. A close relation to production has production consumption. Production consumption is the most important factor influencing total costs and this has negative impact on total revenues. It is so because of ups downs of inputs to the production, especially meat. It increased during the

examined period by 5,75 % from value of 176,57 mil. CZK to the value of 186,71 mil. CZK. From the table can be seen that in year 2005 the production consumption decreased by 21,72 % and production by 13,58 %. The difference of 8,14 % was caused mainly due to lowering the costs on energy. A part of the investment was passing on different and cheaper types of energy sources as natural gas. The rest was because of shortage of the production explained above.

Table no. 3: Horizontal analysis of profit and loss statement from years 2002 - 2006

Content of the cell	2003	2002	Absolute change in CZK	Relative change in %	2004	2003	Absolute change in CZK	Relative change in %
TOTAL REVENUES	272600	246368	26232	10,65%	287248	272600	14648	5,37%
Revenues from sold goods	44458	46852	-2394	5,11%	52042	44458	7584	17,06%
Production	227290	198821	28469	14,32%	234476	227290	7186	3,16%
Revenues from disposals of fixed assets and materials	527	306	221	72,22%	30	527	-497	-94,31%
Other operating revenues	55	86	-31	-36,05%	108	55	53	96,36%
Extraordinary revenues	0	0	0	0,00%	0	0	0	0,00%
Interest revenues	5	4	1	25,00%	0	5	-5	0,00%
Other financial revenues	265	299	-34	-11,37%	592	265	327	123,40%
Net income	3709	4051	-342	-8,44%	317	3709	-3478	-93,67%
Income before taxation	5494	5665	-171	-3,02%	231	5494	-5177	-94,23%
TOTAL COSTS	264924	240068	24856	10,35%	281060	264924	16136	6,09%
Expenses on sold goods	40102	39112	990	0,00%	42501	40102	2399	0,00%
Production consumption	196919	176570	20349	11,52%	208732	196919	11813	6,00%
Personnel expenses	24782	22041	2741	12,44%	26255	24782	1473	5,94%
Taxes and fees	58	54	4	7,41%	44	58	-14	-24,14%
Depreciation of intangible and tangible assets.	2911	2124	787	37,05%	3424	2911	513	17,62%
Net book value of disposed fixed assets and materials	117	132	-15	-11,36%	0	117	-117	0,00%
Other expenses	35	35	0	0,00%	104	35	69	197,14%

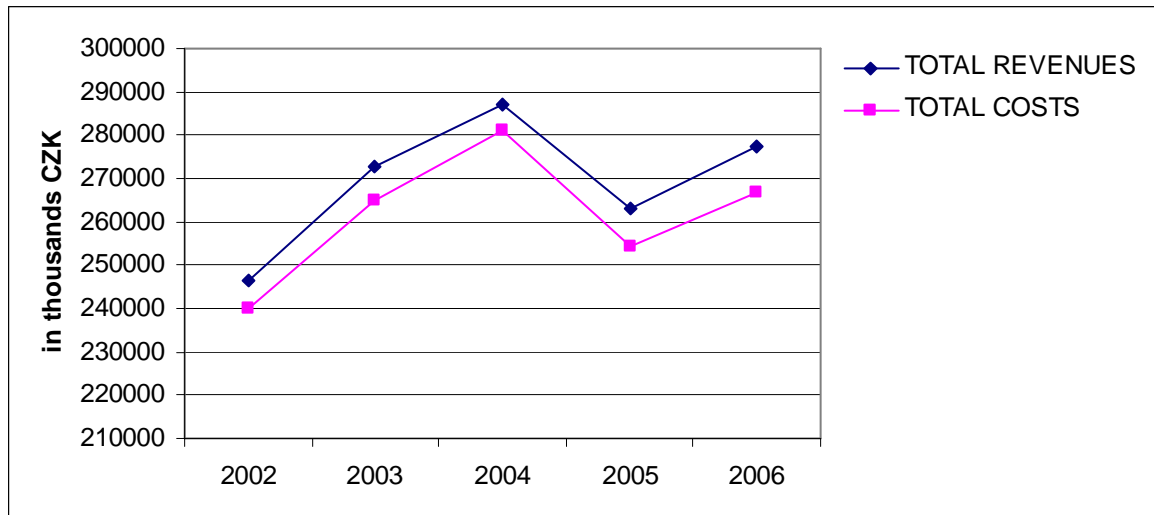
Content of the cell	2005	2004	Absolute change in CZK	Relative change in %	2006	2005	Absolute change in CZK	Relative change in %
TOTAL REVENUES	262926	287248	-24322	-8,47%	277343	262926	14417	5,48%
Revenues from sold goods	58844	52042	6802	13,07%	66669	58844	7825	13,30%
Production	202642	234476	-31834	-13,58%	208439	202642	5797	2,86%
Revenues from disposals of fixed assets and materials	0	30	-30	0,00%	141	0	141	0,00%
Other operating revenues	0	108	-108	0,00%	569	0	569	0,00%
Extraordinary revenues	0	0	0	0,00%	0	0	0	0,00%
Interest revenues	0	0	0	0,00%	3	0	3	0,00%
Other financial revenues	1440	592	848	143,24%	1522	1440	82	5,69%
Net income	2474	317	2243	971,00%	2595	2474	121	4,89%
Income before taxation	3485	231	3168	999,37%	3387	3485	-98	-2,81%
TOTAL COSTS	254097	281060	-26963	-9,59%	266782	254097	12685	4,99%
Cost of sales	60182	42501	17681	0,00%	52583	60182	-7599	0,00%
Production costs	163392	208732	-45340	-21,72%	186718	163392	23326	14,28%
Personnel expenses	26475	26255	220	0,84%	27031	26475	556	2,10%
Taxes and fees	46	44	2	4,55%	64	46	18	39,13%
Depreciation of intangible and tangible assets.	3736	3424	312	9,11%	0	3736	-3736	0,00%
Net book value of disposed fixed assets and materials	0	0	0	0,00%	0	0	0	0,00%
Other operating expenses	266	104	162	155,77%	386	266	120	45,11%

Source: Authors' calculation on the basis of financial statements of the company Jaromír Steinhauser s.r.o.

Total revenues had increasing character with exception of year 2005. In total, the revenues increased by 12,57 % which is 30,97 mil. CZK. The highest increase occurred in during year 2003 by 10,65 % which was 26,23 mil. CZK relatively. Total revenues had problems with production in 2005 due to reconstructions in the company. This decrease was by 8,47 % which was 24,32 mil. CZK less then in year before. Total costs are just below total revenues and have almost the same changing. Both curves are listed in the

graph no. 5. It can be seen on the graph that from years 2004, 2005 are total cost smaller which was caused by the investment and reduced production.

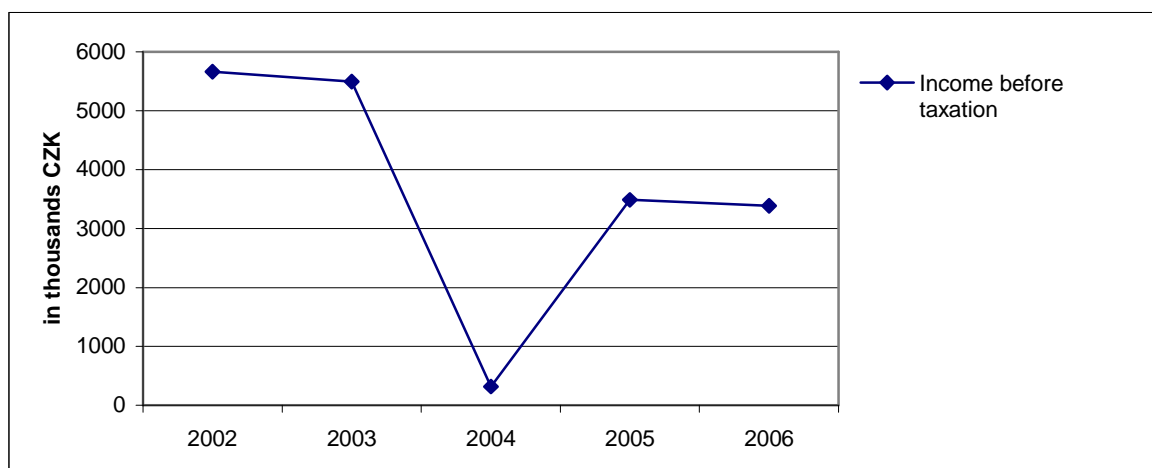
Graph no. 5: Relation of total revenues and total costs (in thousands CZK)



Source: authors' calculation

One more element that is very important should be mentioned. It is the income from operations. The horizontal analysis showed us that the income is very unstable and fluctuates. The first analyzed year it was 4,05 mil. CZK and the last year it was 2,59 mil. CZK (see graph no. 6). Every year it was positive, which means that the firm is profitable, but the firm should generate higher incomes to pay its long-term debts. It can be assumed that it was caused by the investment to new technologies and overall improvement of the plant. In year 2004 there was big underflow of the profit. It was caused by financial operating profit which was very low with value of -5,63 mil. CZK. Main portion of this had other operating costs. These costs were connected with implementing new machinery, technology and development of new products. This new technology was not performing well the first year which can be seen in incomes from year 2006. However now it is in good performance and the improvement should be seen in year 2007.

Graph no. 6: Fluctuation of income (in thousands CZK)



Source: authors' calculation

4.2.2. Vertical analysis

Through vertical analysis there are compared the financial statements of chosen year with financial statements of previous years. By analyzing the absolute indicators they will find out the magnitude of each element to the overall balance of the company.

Vertical analysis of the balance sheet

At first I composed the vertical analysis of assets. From the table no. 5 below, it can be seen what elements are the most important for this company. Total assets are generated more than two thirds by current assets. Accruals have only a small part in total assets and the rest is compounded by fixed assets.

The most important part of current assets is generated by two main elements. Inventories, which created the current assets in year 2002 by 19,87 % and their importance raised to the value of 37,35 % in 2006. This means almost twice as much as in year 2002. Short term receivables generate the main part of current assets. In year 2002 it was 61,66 % then during two year it was rising to 78,27 % in 2004 of all current assets and then in

returned back to 61,13 % in 2006 which is almost the same as in 2002. The company should be aware of this fact because it is possible that the account receivables remain outstanding for a long time and the company will not be able to justify the costs.

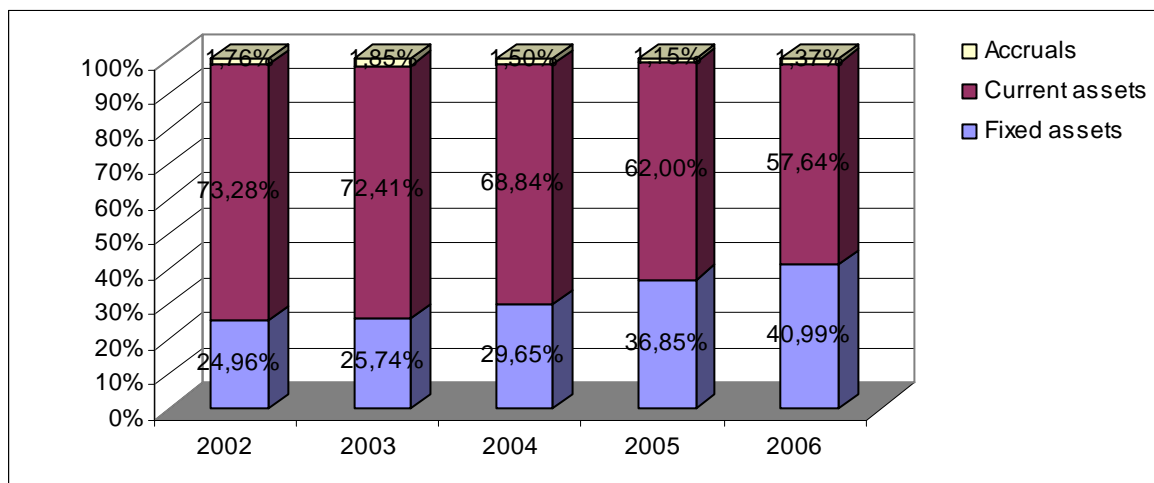
Table no. 4: Vertical analysis of assets of the balance sheet from years 2002 - 2006

Content of the cell	2002	2003	2004	2005	2006
TOTAL ASSETS	100,00%	100,00%	100,00%	100,00%	100,00%
Fixed assets	24,96%	25,74%	29,65%	36,85%	40,99%
Current assets	73,28%	72,41%	68,84%	62,00%	57,64%
- Inventories	19,87%	30,25%	30,77%	23,42%	37,35%
- Short term receivables	61,66%	64,98%	78,27%	74,62%	61,13%
Accruals	1,76%	1,85%	1,50%	1,15%	1,37%

Source: Authors' calculation on the basis of financial statements of the company Jaromír Steinhäuser s.r.o.

The graph no. 7 shows the changes in each element of assets during all examined periods of the vertical analyze.

Graph no. 7: Development of the structure of total assets (in %)



Source: authors' calculation

In dependence on lowering the portion of current assets raised the portion of fixed assets. In 2002 the portion was 24,96 % and it was rising during all examined periods up to 40, 99 % in 2006 of all assets.

Structure of liabilities is shown in table no. 5. There are listed all basic elements and their portions in the structure of total liabilities in all examined periods.

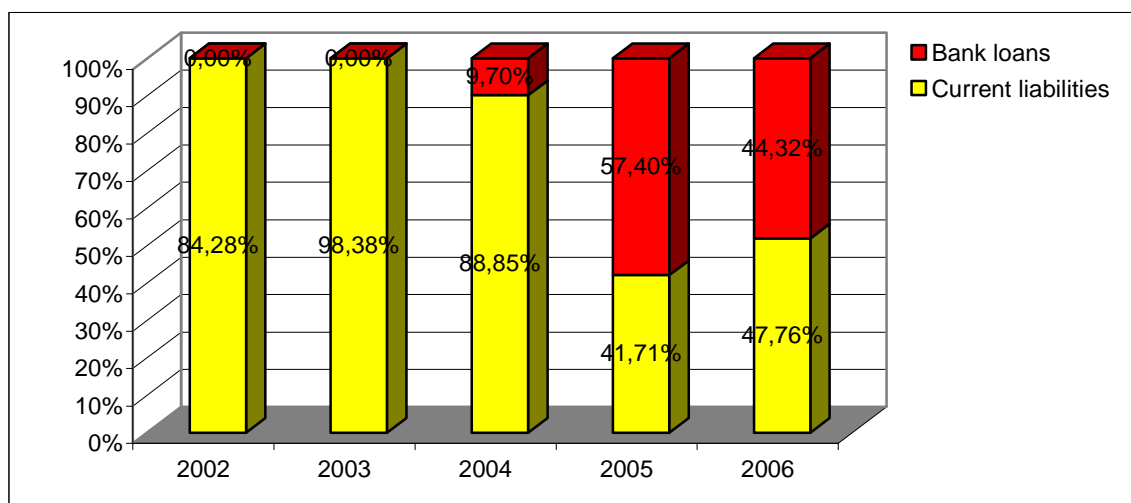
Table no. 5: Vertical analysis of liabilities of the balance sheet from years 2002 - 2006

Content of the cell	2002	2003	2004	2005	2006
TOTAL LIABILITIES	100,00%	100,00%	100,00%	100,00%	100,00%
Owner's Equity	19,48%	36,30%	33,89%	22,73%	27,76%
Liabilities	78,13%	63,10%	65,92%	77,27%	72,24%
- Current liabilities	84,28%	98,38%	88,85%	41,71%	47,76%
- Bank loans	0,00%	0,00%	9,70%	57,40%	44,32%
Accruals	0,08%	0,00%	0,00%	0,00%	0,00%

Source: Authors' calculation on the basis of financial statements of the company Jaromír Steinhauser s.r.o.

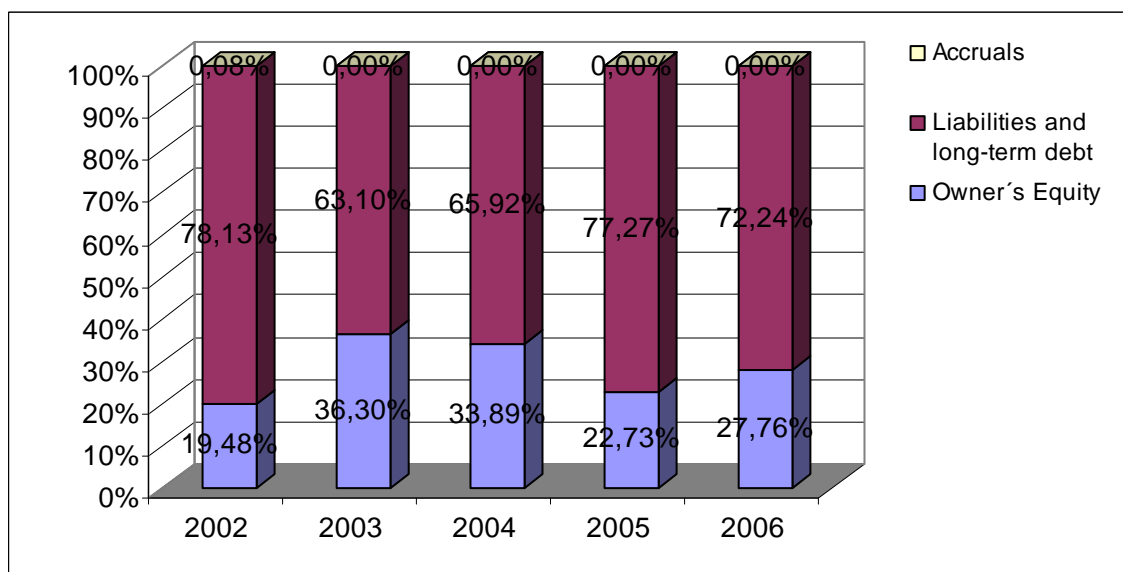
The table shows that main part of total liabilities is in virtue of foreign funds (current liabilities and long-term debt). In all periods it is more then two thirds of total liabilities. In 2002 they reached the highest portion of 78,13 % and following year it had the lowest portion of 63,10 %.because of increase in owner's equity. The portion of owner's equity raised in 2003 to the amount of 36,30 % and then it was decreasing until the end of studied period where was a slight increase. Liabilities and long-term debts had two main elements. The first one were current liabilities, which generated almost all liabilities and long-term debts in 2002 and 2003. In years 2004 and 2005 the company took bank loans and the current liabilities decreased by the portion of the bank loans (see graph no. 8). Following graph no. 9 shows the structure of total liabilities in all examined periods.

Graph no. 8: Structure of foreign funds (liabilities) (in %)



Source: authors' calculation

Graph no. 9: Development of the structure of total liabilities (in %)



Source: authors' calculation

Vertical analysis of profit and loss statement

Because the main objective of the company is sale of own goods and services, it is considered that the total revenues form the decisive part.

Table no. 6: Vertical analysis of profit and loss statement on basis of total revenues from years 2002 - 2006

Content of the cell	2002	2003	2004	2005	2006
TOTAL REVENUES	100,00%	100,00%	100,00%	100,00%	100,00%
Revenues from sold goods	19,02%	16,31%	18,12%	22,38%	24,04%
Production	80,70%	83,38%	81,63%	77,07%	75,16%
Revenues from disposals of fixed assets and materials	0,12%	0,19%	0,01%	0,00%	0,05%
Other operating revenues	0,03%	0,02%	0,04%	0,00%	0,21%
Extraordinary revenues	0,00%	0,00%	0,00%	0,00%	0,00%
Interest revenues	0,00%	0,00%	0,00%	0,00%	0,00%
Other financial revenues	0,12%	0,10%	0,21%	0,55%	0,55%

Source: Authors' calculation on the basis of financial statements of the company Jaromír Steinhauser s.r.o.

It is obvious that main part of total revenues consists of production and revenues from sold goods. The portion of revenues from sold goods was in 2002 19,02 %, then it decreased the following year by 2,68 % and the it had increasing character until year 2006 where it reached the portion of 24,04 %. The portion of production on the other hand had decreasing character from year 2003 where the amount was 83,38 % till the end of examined period to 75,16 % of total revenues.

To know what the main costs of the company are there were considered the total costs as a decisive part and there were examined chosen elements of the profit and loss statement which can be seen in table no. 7.

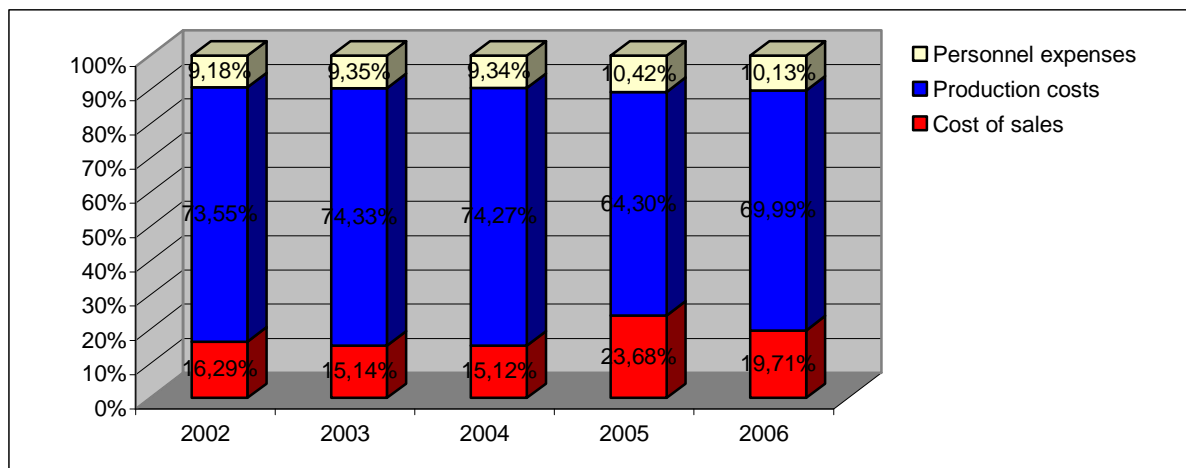
Table no. 7: Vertical analysis of profit and loss statement on basis of total costs from years 2002 - 2006

TOTAL COSTS	100,00%	100,00%	100,00%	100,00%	100,00%
Cost of sales	16,29%	15,14%	15,12%	23,68%	19,71%
Production costs	73,55%	74,33%	74,27%	64,30%	69,99%
Personnel expenses	9,18%	9,35%	9,34%	10,42%	10,13%
Taxes and fees	0,02%	0,02%	0,02%	0,02%	0,02%
Depreciation of intangible and tangible assets.	0,88%	1,10%	1,22%	1,47%	0,00%
Net book value of disposed fixed assets and materials	0,05%	0,04%	0,00%	0,00%	0,00%
Other operating expenses	0,01%	0,01%	0,04%	0,10%	0,14%

Source: Authors' calculation on the basis of financial statements of the company Jaromír Steinhauser s.r.o.

There are three elements influencing the most the total costs. Production consumption that has a portion of almost 70 % in all studied periods, expenses on sold goods that were fluctuating between 15 % - 20 % and personnel costs that are very important and the company should count with them. They had raising character in almost all studied periods and reached a portion just above 10 % of total costs. For better understanding of the structure of total costs see graph no. 10.

Graph no. 10: Structure of total costs (in %)



Source: authors' calculation

4.3. Ratio analysis

With help of financial ratios there can be obtained an overview of the financial characteristics of the company that will help us to assume the overall financial situation.

4.3.1. Liquidity ratios

When analyzing the liquidity, there were used basic ratios that are commonly used in many analytical studies.

1) Current ratio

$$\text{Current ratio} = \text{Current assets} / (\text{Short-term liabilities} + \text{Short-term bank loans})$$

This ratio shows us how many times is the company able to satisfy its creditors if it changes all current assets on cash.

Table no. 8: Current ratio

Current ratio = current assets / current liabilities					
Year	2002	2003	2004	2005	2006
Current ratio	1,11	1,17	1,18	1,92	1,67

Source: authors' calculation

The optimal value of current ratio is 2. It can be seen that in any of examined year this value wasn't reached. From years 2002 – 2004 quite similar values of the ratio were obtained, and that was about 0,9 below the optimum. It was caused by having too much of current liabilities. This means that the company would be able to pay its current liabilities with its current assets, but the company does not have many options to do when there will be some unexpected outflows. In years 2005 and 2006 it is getting better because the values are above 1,6. Even in year 2005 it almost reached the level of 2. It can be said that the assets are well used and there are no implicit costs.

2) Quick ratio

$$\text{Quick ratio} = (\text{Current assets} - \text{Inventory}) / (\text{Short-term liabilities} + \text{Short-term bank loans})$$

Table no.9: Quick ratio

Quick ratio = (current assets – inventories) / current liabilities					
Year	2002	2003	2004	2005	2006
Quick ratio	0,89	0,81	0,81	1,47	1,05

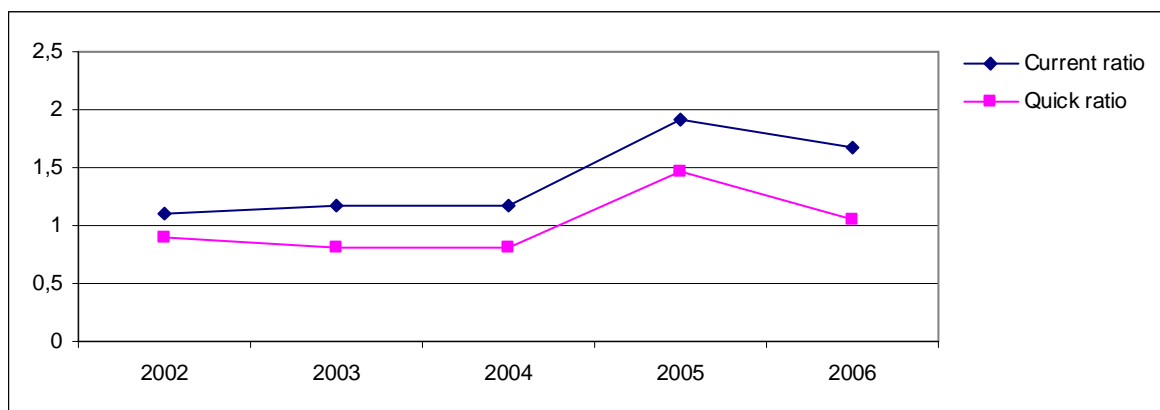
Source: authors' calculation

The optimal value of quick ratio is between 0,5 – 1,0 but to assume this as good ratio, it should be more than 1,0. The table shows that quick ratios are in the optimal values and moreover in years 2005 and 2006 it has good values.

should remember that companies pay bills with cash and that the liquidity exists only when cash is available to pay for a bill. So the analyst should check a company's cash balance and marketable securities in addition to current and quick ratios when assessing liquidity. The highest obtained ratio was in year 2005 where on 1,47 CZK of liquid asset fall on 1 CZK of current liability.

In the graph no. 11, there are shown the current and quick ratios development. They are not show together to compare them but they are together to see the same trend development.

Graph no. 11: Development of current and quick ratios (in %)



Source: authors' calculation

4.3.2. Debt ratio

The debt ratios measure the impact of using debt capital to finance assets.

1) Total debt ratio

$$\text{Total debt ratio} = \text{Liabilities} / \text{Total assets}$$

It is expressed as a percentage and shows the extent to which debt finances total assets. The lower the debt, the lower is the financial leverage.

Table no.10: Total debt ratio

Total debt ratio = total liabilities / total assets					
Year	2002	2003	2004	2005	2006
Total debt ratio	78,13%	63,10%	65,92%	77,27%	72,24%

Source: authors' calculation

The table shows that the company is involved in debt. In all studied periods the debt rate is in some years two times higher than own capital. The debt rate has decreasing trend but it is very slow. The average debt rate from year 2002 to 2006 was 71,33 and lower rate was obtained only in year 2003 where it was 63,10 % and in year 2004 where it was 65,92 %. From year 2002 to 2003 the debt ratio was decreasing, but then from year 2004 where there were the investments it raised again. can see that the company is using too much of foreign capital so it is overextended. This fact should warn the company to use more own capital and reduce foreign capital.

2) Debt-equity ratio

It is an alternative of total debt ratio and is calculated as:

$$\text{Debt-equity ratio} = \text{Total debt} / \text{Common equity}$$

Table no.11: Total debt-equity ratio

Total debt to equity = total liabilities / shareholder's equity					
Year	2002	2003	2004	2005	2006
Total debt to equity	4,01	1,74	1,95	3,4	2,6

Source: authors' calculation

In this table is shown how many times the total liabilities higher than the owner's equity are. If the values would be less than 1, would be able to say that the indebtedness is low. Actually these values are too high and need to be decreased.

3) Equity multiplier

This is second alternative to find the total debt ratio. The equity multiplier is the value of total assets per equity:

$$\text{Equity multiplier} = \text{Total assets} / \text{Equity}$$

Table no.12: Equity multiplier

Equity multiplier = Total assets / Common equity					
Year	2002	2003	2004	2005	2006
Equity multiplier	5,13	2,75	2,95	4,40	3,60

Source: authors' calculation

4) Current debt ratio, Long-term debt ratio

$$\text{Current debt ratio} = (\text{Short term liabilities} + \text{Short-term bank loans}) / \text{Total assets}$$

$$\text{Long-term debt ratio} = (\text{Long-term liabilities} + \text{Long-term bank loans}) / \text{Total assets}$$

Table no.13: Current and long-term debt ratios

Year	2002	2003	2004	2005	2006
Current debt ratio	65,85%	62,07%	58,56%	32,23%	34,50%
Long-term debt ratio	12,28%	1,03%	7,35%	45,04%	37,74%

Source: authors' calculation

Current debt ratio creates higher risk than long-term debt, but can see from the table that it has decreasing character. It decreased from the value of 65,85 % in 2002 to the value of 34,50 % in 2006. Still it is too big current debt ratio and should be lowered, but in case there would not be long-term debts it would be quite good. In 2004 the company took operation credit to pay some of its obligations so the current debt ratio lowered in 2005. Long-term debt ratio had increasing character from year 2004 because of new bank loans which started decreasing in year 2006. Again there is shown that the company has too many debts.

5) Times interest earned

It calculates the coverage of interest expense.

$$\text{Times interest earned} = \text{EBIT} / \text{Interest expense}$$

Table no.14: Times interest earned

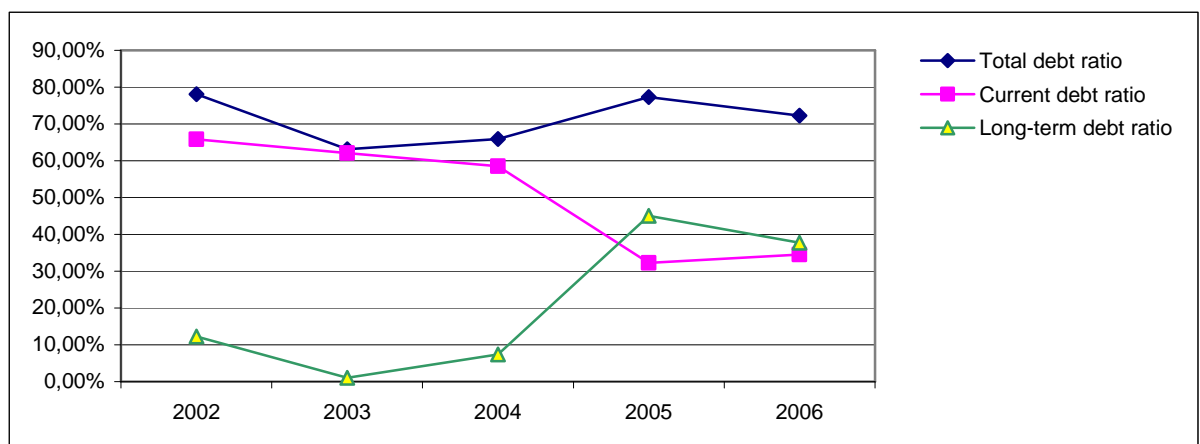
Times interest earned = EBIT / Interest expense					
Year	2002	2003	2004	2005	2006
Times interest earned	7,98	2,52	3,37	5,39	3,47

Source: authors' calculation

This company had the indicators in all periods positive. In 2002 was the profit 7,98 times higher than interests and the lowest rate was in 2003 which was only 2,52 times higher than interests. From this year it started to grow again. The company should be aware of times interest earned because it took loans in 2005 and must be able to pay interests.

Graph no. 12 shows the development of debts.

Graph no. 12: Development of debt ratios (in %)



Source: authors' calculation

4.3.3. Turnover (Activity) ratios

With this ratios there will be calculated the performance and activity of the company in selected years.

1) Total asset turnover ratio and fixed asset turnover ratio

$$\text{Total asset turnover} = \text{Sales} / \text{Total assets}$$

$$\text{Fixed asset turnover} = \text{Sales} / \text{Fixed assets}$$

Table no.15: Turnover ratios

Turnover ratios					
Year	2002	2003	2004	2005	2006
Total Asset turnover	3,85	3,74	3,67	2,08	2,46
Fixed Asset turnover	15,43	14,53	12,39	5,64	6,01

Source: authors' calculation

In case of assets turnover try to find the highest volume of revenues which is the company able to create when there is participation of capital. The turnover of total assets had decreasing character during studied period. The highest value was obtained in year 2002, 3,85. In case of fixed asset turnover can see also decreasing trend from the beginning to the end of examined period. The highest value obtained in year 2002 was 15,43.

2) Average collection period

With this ratio are able to calculate the average number of days an account receivable remains outstanding so can evaluate the credit policy of the company.

Table no.16: Average collection period (in days)

Average collection period					
Year	2002	2003	2004	2005	2006
Av. collection period	62	67	78	118	76

Source: authors' calculation

Because the company was supplying big part of its production to the super and hypermarkets in years 2002 – 2004 where the collection period is about 60 days, can say that the credit policy good. In 2004 and 2005 where the company lost some customers like Carrefour and decrease of sales in TESCO chain. This led the company to find some new customers and the control of credit policy was not very effective. However in year 2006 the day of outstanding receivables decreased to 76

days which still is not very effective but it was a big move from 2005 where the collection period was 118 days. The company has to be careful while reducing collection period because it could have negative impact on customers and they could pass over to our competitors.

3) Inventory turnover ratio

It is important to know if the turnover is high to have more inventories on stock and not to run out of it so frequently.

$$\text{Inventory turnover} = \text{Cost of goods sold} / \text{Average inventory}$$

Table no.17: Inventory turnover ratios

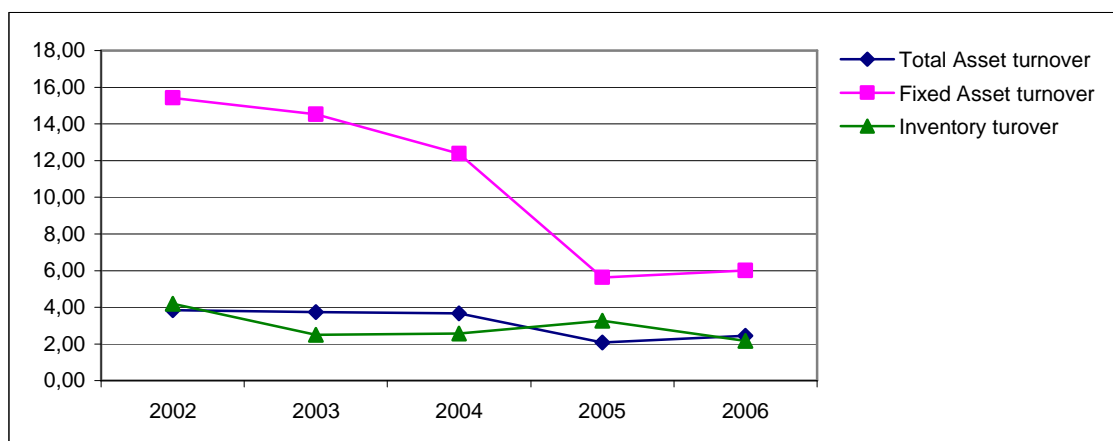
Inventory turnover ratio = Cost of goods sold / Average inventory					
Year	2002	2003	2004	2005	2006
Inventory turnover	4,20	2,51	2,57	3,27	2,17

Source: authors' calculation

The turnover ratio has decreasing trend in analyzed period. In year 2002 the ratio was 4,20 and till 2006 the ratio decreased to 2,17. must consider that the inventory will be held for some time by the company in way not to hold it ineffectively.

All examined turnovers can be seen in graph no. 13 where there are listed the development trends of each ratio. In this company the inventory changes every day and it is not stable. Because of dealing wit fresh products, there must be quick sale and especially at the end of the year there are great sales. That's why this turnover ratio was changing so much.

Graph no. 13: Development of turnover ratios



Source: authors' calculation

4.3.4. Profitability Ratios

Calculation of profitability ratios is important to see how the company is able to generate profits.

1) Net profit margin ratio

$$\text{Net profit margin} = \text{Earnings after tax (EAT)} / \text{Sales}$$

Table no.18: Net profit margin

Net profit margin = Earnings after tax / Sales					
Year	2002	2003	2004	2005	2006
Net profit margin	0,016	0,014	0,001	0,009	0,009

Source: authors' calculation

Net profit margin tells us that in year 2002 by selling of a value of 100 CZK obtained 1,60 CZK of profit. This was the highest ratio of all examined periods. The ratios aren't very high so the company should take more care of profit margin. It also depends on number of supplied supermarkets, because there are very low profit margins. The trend development of income is in graph no. 7.

2) Return on investment ratios

The ratio of earnings after taxes to total assets measures return on total assets (ROA):

$$\text{Return on assets} = \text{Profit for the accounting period (Earning after taxes)} / \text{Total assets}$$

The ratio of earnings after taxes to common equity (total shareholder equity) measure return on common equity (ROE):

$$\text{Return on common equity} = \text{Profit for the accounting period (Earnings after taxes)} / \text{Equity}$$

Table no.19: ROA and ROE

ROA an ROE					
Year	2002	2003	2004	2005	2006
ROA (non-taxed)	6,33%	5,09%	0,41%	1,95%	2,30%
ROA	7,13%	7,11%	0,38%	2,32%	2,97%
ROE	32,51%	14,02%	1,20%	8,60%	8,30%

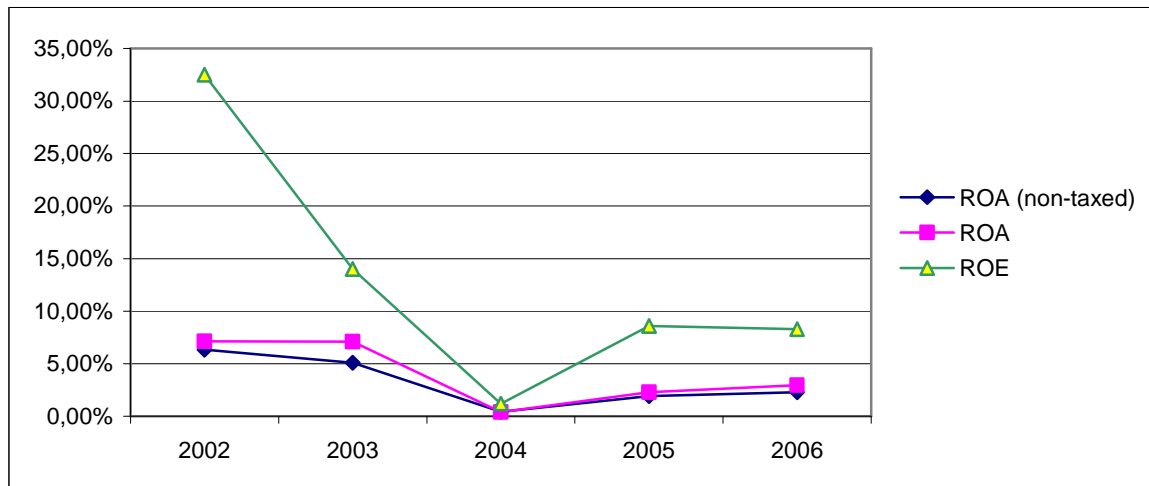
Source: authors' calculation

From the table can see that ROA and ROA non-taxed had positive values during all studied periods. The highest return was in year 2002 where it reached the maximum value of 7,13 % of taxed income where every invested Czech crown of capital bring us back 1,0713 CZK as a revenue. In year 2004 the returns felt down rapidly to only 0,38 % and from year 2005 it was getting better, till the end of the studied period where it reached 2,97 %. The maximum of non taxed value was also in year 2002 with value of 6,33 %. The taxed version had in all periods better values than the non-taxed version.

ROE had decreasing character until the end of examined period. The highest obtained value was in year 2002, 32,51 % and it continuously decreased till 8,30 % in year 2006. The graph no. 15 shows the relation between these ratios.

The rapid fall in year 2004 was caused by very low operating financial profit. It had value of -5,27 mil. CZK and this value reduced the profit. This operating profit was the lowest from all analyzed years.

Graph no. 14: Profitability ratios



Source: authors' calculation

4.4. Assessing the overall financial situation

4.4.1. Du Pont model (ROA)

It is an equation that relates total assets turnover and profit margin to return on assets:

$$\text{Return on total assets} = \text{After-tax profit margin} * \text{Total asset turnover}$$

This equation with after-tax profit margin and total asset turnover show that this equation is true:

$$\text{Return on total assets} = (\text{Earnings after taxes} / \text{Sales}) * (\text{Sales} / \text{Total assets})$$

I calculated these two returns in separate tables with different inputs and I obtained the same results, as they should be according to these formulas. To see how the Du Pont functions, I did a special diagram for year 2006 that is divided into two determinant branches (see appendix 7). When multiplying profit margin by total asset turnover, it shows us reasons why has the company low or high ROA.

Table no. 20: Du Pont model

Return on assets = Net profit margin x Total Asset Turnover					
(Net operation Profit after taxes / Sales) x (Sales / Total assets)					
Year	2002	2003	2004	2005	2006
ROA	6,33%	5,09%	0,30%	1,95%	2,30%

Source: authors' calculation

Table no. 21: Return on assets

Return on assets (non-taxed version) = Net income / total assets					
Year	2002	2003	2004	2005	2006
ROA	6,33%	5,09%	0,30%	1,95%	2,30%

Source: authors' calculation

4.4.2. Extended Du Pont model (ROE)

The extended Du Pont model has the same basis as normal Du Pont model and it is extended by the debt management dimension to calculate return on common equity (ROE):

$$ROE = \text{After-tax profit margin} * \text{Total asset turnover} * \text{Equity multiplier}$$

$$\text{Earnings after tax} / \text{Equity} = (\text{Earnings after tax} / \text{Sales}) * (\text{Sales} / \text{Total assets}) * (\text{Total assets} / \text{Equity})$$

ROA equals after-tax profit margin times total asset turnover and if simplify this equation, get:

$$ROE = ROA * \text{Equity multiplier}$$

The firm's capital faces two dimensions of risk. Both business risk and financial risk can be seen in a special diagram that was created only for year 2006 where all elements can be seen (see appendix 8).

First one is business risk or the riskiness of the firm's assets if it uses no debt. The second one is financial risk, which is the additional risk placed on the common stockholders as a result of the firm's decision to use debt.

4.5. Financial distress

Predicting financial distress is very important part of financial analysis. I decided to use the most common model of financial distress called Altman Z-score. This model is quite accurate when there are used good sources of information and it can predict the bankruptcy within three years.

4.5.1. Altman Z-Score

Altman Z-score is computed as:

$$Z = 0,717 X_1 + 0,847 X_2 + 3,107 X_3 + 0,420 X_4 + 0,998 X_5$$

A Z-score of less than 1,20 suggests a high probability of bankruptcy, while Z-score above 2,90 imply a low probability of bankruptcy. Sector between 1,20 and 2,90 are in the gray or ambiguous area. This trend can be seen in the table no. 20 below where there are all analyzed periods.

Table no. 22: Altman Z-score

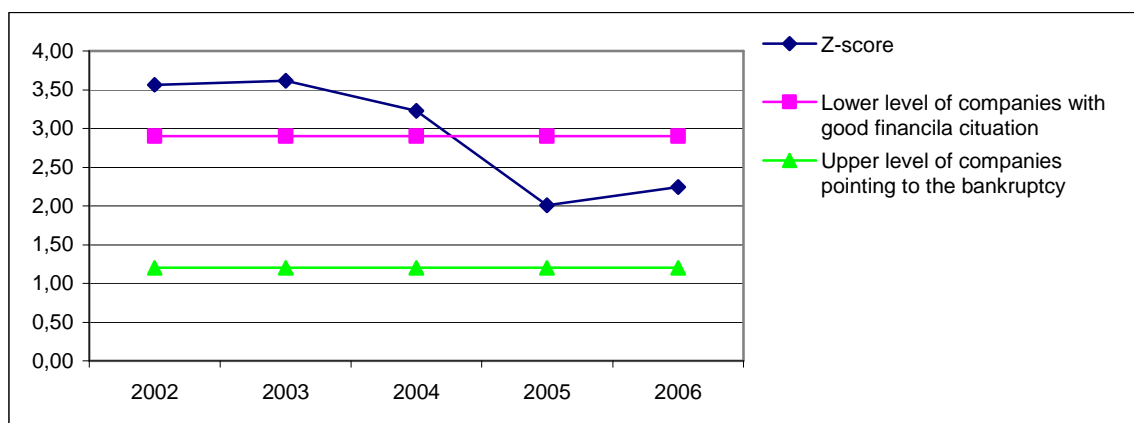
Content of the cell	Factor	2002	2003	2004	2005	2006
Liability = (Working Capital/Total Assets)	X1	7,43%	10,33%	10,28%	29,78%	23,14%
Aim of firm = (Retained Earnings/Total Assets)	X2	6,33%	5,09%	0,30%	1,95%	2,30%
Profitability = (EBIT/Total Assets).	X3	8,86%	7,54%	0,41%	2,75%	3,01%
Financial structure = (Shareholder's Equity/Total Liabilities)	X4	19,48%	36,30%	33,89%	22,73%	27,76%
Capital Turnover rate = (Net Sales/Total Assets)	X5	310,79%	311,97%	299,96%	160,13%	185,02%
Z-score	Z	3,56	3,62	3,22	2,01	2,24

Source: authors' calculation

Z-score was in all analyzed years greater than 1,20, it means there are no indicators alarming bankruptcy. In first 3 analyzed years, the company had good financial situation, because the Z-score was over the level of 2,90. However when the company started to invest to new technologies in year 2005, the level of Z-score decreased rapidly to 2,01 and

in 2006 it started to increase again. can say that the company had from year 2005 till the end of analyzed period a neutral financial situation. The development of Z-score can be seen in graph no. 15.

Graph no. 15: Development of Z-score ratio



Source: authors' calculation

5. Conclusion

This financial analysis was done according to commonly used methods where information was gathered especially from balance sheet and profit and loss statement from years 2002 – 2006 and additional information from accounting department of the company Jaromír Steinhauser s.r.o. The company made quite sizable investments and developed to modern processing unit in the studied period. This modernization empowered the specialization on specific groups of products and further development.

The trend of development of assets had an increasing character in all the analyzed periods. During year 2002 – 2006 total assets increased by 76,10%. This increase was mainly seen in years 2005 and 2006 where the firm made sizable investments. The goal of these investments was to specialize in the production of specific group of products, minimize production costs and to fulfill all hygienic restrictions of European Union to gain competitive advantage on the market. The company invested into new equipment of production and made overall reconstruction of the old building. The goals of the firm were successfully fulfilled which eventually helped the firm to obtain certificates ISO9001, ISO14001, HACCP, and started exporting meat and meat products to other EU member states.

The fixed assets had slowly increasing character during first three years, but then in 2005 there was an increase of 101,18% in comparison with previous year. This main increase was caused by the acquisition of new machinery and reconstruction of whole building.

More important and greater part of total assets was generated from current assets which had similar growth to fixed assets. In year 2005 there was an increase of 45,81% compared with previous year and it consisted mainly from inventories and short term receivables. After the reconstructions in 2006 the position of the firm became more stabilized, it started using new technology and developed new products. There was an increase of 38,50% in current assets from the beginning to the end of studied period.

Total liabilities and owner's equity as well as total assets had the same growth rate. Owner's equity had its major growth in year 2003 where reserve funds increased by 10 mil. CZK. This increase was done systematically to prepare the firm for the investments as it could be used as compensating balance and as a form of security when applying for bank loans. After this year till the end of studied period, owner's equity grew every year from the retained earnings that was ploughed back into the company. Current liabilities and long-term debts weren't so optimistic since there was an increase in current liabilities in the first two years. In 2004 the company need additional working capital and therefore took a loan from the bank and this resulted in a decrease in current liabilities by almost 11% in the following year. In 2005 the company took another credit of 51,12 mil.CZK for financing both its long and short term investments and this increased the total liabilities to an amount of 126,55 mil. CZK. However in 2005 the company needed additional financial support and since it was qualified to apply for a subsidy from state it did so and it was granted. This subsidy was paid in 2006 by which time all the company had finished making all its new investments so the amount received was used to defray part of bank loans taking by an amount of 36,06 mil CZK. The results obtained during the analysis of the times interest earned ratio in all the observed period was slightly above two which is quite a small figure and could be very alarming to the management of the company. In the years when the company took the loans, the ratio was slightly higher

When analyzing the liquidity ratios, it could be seen that some of the ratios had unsatisfactory results. The current ratio was in first three year very low, about 1,15 which is below the optimum of 2. In 2005 the situation improved significantly with a result of 1,92, but still did not reach the optimum, and it again decreased in 2006. This is quite alarming because the firm could have problems with paying its obligations in the future. The quick ratio had better results in all studied years. First three years it showed an average of about 0,84, but eventually increased to 1,05. This tells us that the liquidity of the inventory is not very good, but all the same can assume that the amount of current assets is sufficient for the operation of the company.

The debt ratios have shown us very unsatisfactory results. The company's debt ratio in all the studied years was greater than 63% that means the company is using too much

foreign capital. First three years the company used too much foreign capital for financing but decreased in 2004 at the expense of long-term debts.

The turnover ratios showed quite good results. Until 2004 the asset turnover was very positive but after the investments in 2005 the values of this ratio dropped rapidly. There are two explanations to this fact: Before the investment the firm was using old machines and health and safety requirements of meat production weren't so high but due to strict EU legislation which required the implementation of new production procedures and the installation of new equipments, the acquisition of new assets had to be made. The decrease in 2006 indicates that, the new assets acquire due to the new EU regulations are not fully utilized.

The average collection period of account receivables was in all studied periods around 71 days with exception of the 2005 due to investments. The collection period for customers should be in the average of 30 days for smaller firms and 60 days for supermarket. The obtained results of 71 days tells us that it is far above 60 days maximum granted to all customers, which is not very good and affects the company's finances. As a result the company started factoring its accounts receivable in 2006 to shorten the collection period.

In all studied periods the company generated profits and the rate of return on investments differed. The return on asset decreased from the beginning until 2004 the result obtained during these period indicated that every 100 CZK invested generated only 0,41 CZK. This bad situation slowly recovered after the investments in 2006 to 2,30 CZK of profit generated from every invested 100 CZK. Return on equity had similar results. The generated profit fell from 32,51 CZK from every 100 CZK of invested own capital to only 1,10 CZK in 2004. This fall was caused by the supply of large quantities of meat to some big supermarkets at very low profits. The company eventually recognized its low profits generated by supplying the big stores and therefore changed its attitude and focused more on different customers where they could generate better profits. At the end of 2006 the profit generated from its own capital increased to 8,30 CZK.

According to obtained values from Altman Z-score model it could be said that the firm is in the gray area. This mean that bankruptcy is not expected but the firm is not very

well financed since it uses too much debt. The detailed analysis showed that between 2002 and 2004 the results were very good, that was above 3,20 and financing in these was very good without any observation of bankruptcy. However in 2005 the company took big bank loans and fell from the healthy area to the grey area. In 2006 some part of the debt was repaid and this improved the result from 2,01 obtained in 2005 to 2,24 of Z-score. According to this can say that by lowering the long-term debt the Z-score will slowly improve. can also assume that after repaying all the long-term debts the firm could be better financed.

It could be said that the overall assumption of this financial analysis of the company Jaromír Steinhauser s.r.o. is quite positive. The company's plans during the studied period were to make investments to gain some competitive advantage and to satisfy most customers. The aims and objectives of the plan were achieved to a maximum satisfaction esp. the development of meat exports to other countries and the production and distribution of new products to the Czech market is very efficient. However the company's management should increase the volume of production to fully utilize all assets or sell some unused and obsolete assets that are costly to the firm. This step would decrease the costs of production and this could have positive impact on profits. The company now employs almost 100 employees and should control the effectiveness of human resources which is every year more and more costly. Effectiveness could be improved by educating or eliminating surplus employees. All these would lead to generating higher profits which is very important for repaying the long-term debts. The company is heavily indebted as a result of the investments made; therefore the main objective of the firm should be the lowering of these debts. The company should try to become more solvent to be able to oblige its short term obligations which could lead the company to take advantage of buying cheaper inputs and thereby lowering the production costs. They could achieve it by better control of outstanding receivables because the collection period from some customers is very high so there would be more cash available in the company.

If the company will follow these recommendations it could solve the present situation of indebtedness and could become a very viable and financially stable on the Czech market.

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8. Used abbreviations

BS – balance sheet

P&L – profit and loss statement

EBIT – earnings before interests and taxes

EAT – earnings after tax

NI – net income

ROA – return on asset

ROE – return on equity

9. Appendixes

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