Analyzing Financial statement of

5 M s.r.o.

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BACHELOR'S THESIS
ASSIGNMENT

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Conduct a financial position and performance analysis.
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ABSTRAKT

Hlavní účel této práce je referovat finanční pozici 5M s.r.o. z roku 2007 do roku a poskitnout možná doporučení pro tuto orgabizaci aby dosáhlli věčího úspěchu. Tato práce se zkláda ze dvou částí, teoritická část bude prezentovat obecnou informaci ohledně finančního postoje a znalostí. Podle rozdilních účelů, ruzných technologii a nástrojů by měly být používany individuálně. Z praktické části, tyto indikátory a metody jsou demonstrovány v konkretním případě. Také rozdílné typy poměrů, pomůžou uživatelům aby udělali duležité finanční rozhodnutí. Na konci, hodnocení a návrhy budou prezentovány na základě finančního výkonu.

Klíčová slova: Finanční pozice, finanční postoj, technologie, doporučení

ABSTRACT

The main purpose of this thesis is to report the financial position of 5M s.r.o. from year 2007 to 2009 and provide possible recommendations for this organization in order to achieve bigger success.

This thesis consists of two parts, the theoretical part will present general information about financial statement and knowledge. According to different purposes, various technologies and tools should used individually. From practical part, those indicators and methods are demonstrated in particular case. Also different kinds of ratios will help users to make important financial decision. In the end, evaluation and suggestions will be presented on the basis of financial performance.

Keywords: Financial position, financial statement, technology, recommendation.

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DECLARATION OF ORIGINALITY

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

May 6, 2011

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INTRODUCTION

"Happiness is lies not in the mere possession of money; it lies in the joy of achievement, in the thrill of creative of effort." The president of United Stated of American Benjamin Franklin once said that. From his personal point of view, every individual has them own way to define things. That is why people also have different concepts to measure the result of success.

The financial statement is the result of an entity's activity during a particular period. It is irreplaceable annual report and as a significant indicator to make users understand what exactly was going on in a company. Financial statement is used for providing information for decisions making and developing business plan. And all of the data which entity get after analyzing can be used as important reference for financial decision and improve company's effectiveness. For those people who are not working in the entity but work with. The result of financial analyze provide the most obvious and valuable information about organizations. Related users such as suppliers, customers, they rely on this information to make better decisions in pursuing their own goals.

Usually, financial statements are prepared in few different types of documents. The first one would be Balance sheets; it is a statement of the financial position of a business which states the assets, liabilities, and owners' equity at a particular point in time. The second part is Income statement; it is presented by a company to its shareholders, and the public on a quarterly, semi-annual, or annual basis. It shows how revenue is reduced to net income according to generally accepted accounting principles through the subtraction of various expenses. The third part is statement of Cash flows; it is responsible for reporting cash receipts and cash payment during a particular period, according to different purposes of cash flows, it is divided into three categories, such as operating operation, investing operation and financing operation. The statement of cash flows addresses important questions such as summarizing and reporting a company's financial situation.

This study is not only intended for explain the usage of the main tools and commonly use techniques of financial statement analysis in theoretical point of view. But also to demonstrate how those techniques and ratio analyzes work in real world with particular case. It also contributes basic knowledge for people who just started with them accounting as their career path.

This thesis consists of two parts. In theoretical part, users can find the fundamental information about financial statement and its usage for analysis, which based on the different indicators and techniques. In practical part it has been estimated and analyzed financial situation of Czech company, 5M S.O.R. This company is developing and manufacting composite and sandwich materials. The evaluation of primary data from 2007 to 2009 will describe the fianacial position of the company within those three years, and present data analyze accurately. Also it gives the possible recommendations after the anaylsis the three years fianacail position of 5M company.

I.   THEORY

1   CHARACTERISTICS OF FINANCIAL STATEMENT ANALYSIS

In order to provide financial information, accounting is important for the efficient operation or evaluation of performance of any organizations. Financial statement is one of the sources which can be considered as most valuable information to assist in making business plan. Additional analyses such as ratios analysis that can be used to make financial decisions regarding to the result of evaluation. That is why financial statement can be seen as a summary or indicator for an entity to reveal its financial condition over a specific period. And users should notice that according to different role in an entity or outsider, financial statement has various usages and prospects for decision making or other relevant study.

1.1   Purpose and Target of Financial statement

Financial statement analysis is focused on one or more elements of a company's financial condition and performance. General purpose financial statements are part of financial reporting; it refers to the communication of relevant information. There are four areas to describe and demonstrate the value of company. (John J. Wild 2003)

- Liquidity and efficiency- ability to meet short-term obligations and to efficiently generate revenues.
- Solvency- ability to generate future revenues and meet long-term obligations.
- Profitability- ability to provide financial rewards sufficient to attract and retain financing.
- Market prospects- ability to generate positive market expectations.(John J. Wild 2003)

The result of analysis is able to help users in various ways to make better business decisions and reach to them target easier. In order to meet strategic gold within an operation, the capacity of financial statement studies is significant and vital for financial manager.

The primary objective of accounting is to provide information that is useful for decision making. Accountants must give consideration to intended users, the purpose for information is analyzed. Because of the many categories of users have different levels of knowledge. In the process of information analyze, there are several different methods and techniques. Users can select methods according to their individual needs. (Edmons, Edomons. Tsay 2000)

1.2 The users of financial statement

As article mentioned in the previous section that ultimate users of financial statement can be divided into several group of people according to different usages of information and also they can be partitioned from outside or inside of company. Hereby, in this thesis, users will refer as internal and external user.

The internal users of financial information are those people who work within in an entity and got involved either in management or operation of an entity. Those people who have capacity to improve company situation, and people who make company's strategy and operation decisions. Usually, employees who are at higher position in the company, such as manger of financial department, they are taking full responsibility of carrying out shareholders' policies and directives.

Internal users are including:

- Managers
- Officers
- Auditors
- Consultants

Internal users apply financial information to provide information helpful in improving the company's efficiency and effectiveness in providing products, services and keeping company running in the right track. (John J. Wild 2003)

On other hand, external users of financial information are not directly getting involved in running the company, when they compare with internal user, they are more like observers.

External users are including:

- Lenders
- Customers
- Suppliers

They are affected by company's decision and rely on the financial statement analysis to make better chose which way is easier to achieve them own target and to get maximum profit.

Financial statement is prepared to be used by different types of users rather than being aimed at one or two specific group. It is the main reason that in a complete financial statement, it has different data from different financial point of view, and the same information may not important to you but it is vital to others. Different forms of

analysis are necessary to identify the information that is most relevant to a particular decision. (Edmons, Edomons, Tsay. 2000)

Now, let's identify the purpose for some of those groups. Those parts of analysis are considered as the most significant data for following users.

Shareholders/creditors- Those people would like to focus on the parts like measures of profitability and the value of the stock they have. The lending and investing decisions make which from company prospects.

Manager- As an executor of shareholders' policies. Also take responsible for effectively running business. They more care about whole situation rather than one technique analysis.

Employees – To be considered as part of the company, have strong power to influence company's performance. They need to see how their work influences to the company.

Suppliers – They have same interest as bank and loan companies. Because they need to make sure that company can pay back in time. So they more care about ratio analysis of the respective entity.

Investors – They have interested as owners and shareholders. As well as they are interested in company's profitability and growth. Using financial statements they make decision regarding whether invest or not into a company.

Customers- They analyze financial statements in order to decide whether to establish relationship with the cooperation or not.

2 SOURCES OF FINANCIAL ANALYSES

A publicly traded company's financial situation is most frequently reported by Annual report. It is a comprehensive report about all the activities of this entity and financial position or performance in the previous year. Annual report usually consisted with following components.

- Financial Statements
- CEO'S report
- Auditor's report
- Notes to Financial Statements
- Auditor's Report
- Summary Financial Data
- Corporate Information

As we can see here, financial statement is the only report which gathers original financial data from company. All of the initial data are from everyday financial activities within firm. Elementary and advanced users are able to check the performance directly through the results of the analyses, and also they can make common, evaluation on the statement.

The typical financial statement including four parts:

- Balance sheets
- Income statement
- Cash flow
- Owner's equity

Each of them has their own responsibility to report financial position from different point of view. Balance sheets concern about relationship between company's assets, liability and stockholders' equity. Income statement focuses on liquidity of the cash and direct ratio of revenue and expenses. Cash flow divides all of the operations in to three parts. They are operational cash flow, investment cash flow and financial cash flow. It is measure "a project" during specified period of time, deal with ROE value and business liquidity. Owner's equity, also known as Stockholders' Equity or Statement of Retained Earnings, anther basic financial statement as Generally Accepted Accounting Principles(GAAP). People usually focus on the result which is known as retained earnings. It deals with some items connect with creditor; those

items can influence the profit or the losses of creditor, such as dividends paid, issued new stock.

In this thesis, the balance sheets and income statements will be introduced as important information sources. The general knowledge and its usage in practice will be presented. As vital information, the row material for practical analysis, it consider as accurate financial data to show financial position and company performance in the given years.

2.1 BALANCE SHEETS

Reporting is one of the biggest and major responsibilities for accounting. It has to be done with perfectly record of every single activity during a period of time. Accountants must have available information when users need it to trace the performance. To keep accountants in systematic and effective way to organize financial record, it requires that good knowledge of accounting and a set of practical technique.

The simplest form of an account consists of three parts. 1) A title, that means the name of the item which is being recorded in accounts. 2) A space to write down amount of money. 3) A space for recording decreases in the amount of the item, also in monetary terms. (Fess,P.E.1987, 53)

Title

Left side	Right side
Debit	Credit
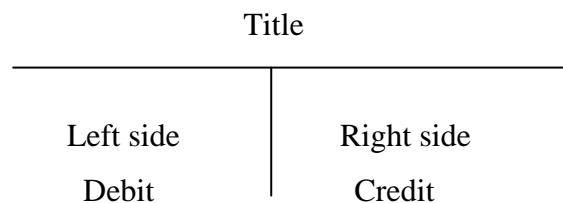
As the chart above, it is the demonstration of T-account. This is the basic account method, and also principle of Balance sheets. The volume of the left side is filled in with debited amount, the other side of the volume is the account which to be credited. The mention of T-account is for an illustration to explain general rule of the Balance sheets. It is about manner of recording data in accounts and its relationship between Debit and Credit. There are parts in standard Balance sheets, assets, liabilities and ownership's equity, and Balance sheet includes the current/not-current distinction for both assets and liabilities. In general consideration, one year time would be the demarcation line between current/non-current assets or liabilities. (Solomon, P. 2004, 91-93)

Under the common situation, an asset is the value of the thing or the thing itself which is owned by an entity. And it is very important to identify them in to different categories. Those items blow are very frequently to show up in a Balance sheet.

Current assets

- Cash and cash equivalents
- Inventories
- Account receivable

Non-current assets

- Intangible assets
- Tangible assets
- Long-term investment

Current liabilities

- Accounts payable
- Financial liabilities
- Bank loans and short-term notes

Non-current liabilities

- Total long-term liabilities

Notes that at the bottom of every Balance sheets, the total assets amount must be same as the amount which combined by total liabilities and ownership's equity. The formulation for Balance sheet should be:

Total assets= Total liabilities+ ownership's equity

2.1.1 The limitations of the Balance sheet

Accounting is a subject with high accurate and systematic science. And Balance sheet could be one of the typical products from accountant. The feature of accounting product needs to be as accurate as possible. But in reality, it is so hard to avoid mistake which caused by human. It is a fact that balance sheet can't indicate everything what we want to know about an entity. It does have limitations in way to survey one's performance.

Few of problems in Balance sheet and the areas got ignored in balance sheet have presented in this study. Users can study about it from different perspectives, and the most considerable thing is to learn how to avoid disadvantages of Balance sheet.

Balance sheet is depending on the primary data from an entity; those data are not being modified. Sometime balance sheet just simply disregarded the true value of the assets. If we talk about it in more detail, inflation has been neglected in balance sheet, it only record the value when company brought it, not the value in present time. If it has increased or decreased the value, market value is not reflected from the book value.

In the beginning of this sector it has been discussed about human. It could be considered with two different types of failures. The first, labor is one important initial resource out of three. Good employee is able to bring more profit either from tangible or intangible point of view. Balance sheet totally ignores the value of their employees and their potential. The second issue caused by accountant, it is nature of the human being to make mistake, but some of them could result into fatal situation. Estimated amount. When an accountant work with Balance sheet. Somehow she may needs to have sort of estimated amount. It can be rendered by several reasons, it could be something hasn't happened yet or it is not possible to know the exact number. For a clear explanation, when accountant calculate depreciation. It only could be a rough amount.

2.2   INCOME STATEMENT

Income statement can be referred as profit and loss statement (P&L); it is also one of fundamental statement in annual report. The major responsibility for income statement is to indicate the performance of cash allocation. In another word, it is revealed that how revenue being distributed and used, and how much money has been utilized over a specified period of time. Many of users are concerning about the result of Income statement. It is the most obvious way to shows investor or owner to decide whether they make loss or profit during that period.

It is essential to know that the result after all revenues and expenses have been accounted for, also known as the "bottom line". If the net amount (or bottom line) shows negative amount, it is called net loss. It could result in loss of your partner, investor, or they will think about it more carefully before they continue to invest, some time even disinvestment. But if the net amount (or bottom line) shows the positive amount, it is considered as net income. That's the best demonstration to show your potential clients or bank about successful management and company operates profitably.

The income statement is dealing with company's revenue and expenses. Despite there are different type of company (First industry, second industry and so on) and thousand items for revenue and expenses. In an income statement there are some of items required as elementary elements. For example, profit is represents the amount of revenue generated by the business. Cost of goods sold, the expenses which are written here is the directly connect with cost of making products or services, also including the expenses which expended in the manufacturing process.

2.3 Cash flow

Profitability is considered as very important goal for most of manger or owner, but it is not the only goal for them. A company cannot reach to their target or maintain profits without thoughtful management and cash position monitoring. Cash flow like a supervisor to keep record every event related to cash position and transactions affect on cash. Especially for those transactions which are identified from operation investment and financing activities. All in all, the purpose of statement of cash flow is to report all major cash inflows and cash outflows during a period, and result of cash flow could highly influence decision makers in many certain ways. (John J. Wild 2003, 524)

3 METHODS AND TECHNIQUES

To understand financial statement well, it is necessarily to use different methods or techniques for particular need. Only with a scientific system, the financial statement can provide readable and indispensible information. There are many ways to analyze financial data; some common used techniques and methods are given in following section.

3.1 Comparative financial statement

For those primary users, after picking row material in to Balance sheet and income statement or other financial tools which are used to measure an entity's performance. They may not totally understand the true value of the results and it is not easy to be aware of the consequences, sometime even get confusion.

Therefore, the comparative financial statement makes users much easier to understand the company's financial situation and assess the manifestation over a period. The object of reference provide obvious visual impact, users could make judgment or better understanding about entity. Usually, standards for comparison consist of following parts.

Intercompany- Basically, it makes comparison within in entity itself. Present financial situation performance compare with last year. Objectively indicate company's development and financial position.

Competitor- It is a critical comparison between one or more than one direct competitors. This assessment shows the competitiveness in the same market which is the company's field.

Industry- Industry statistics can provide the information about productiveness. Based on the industry statistics, user can evaluate company running either effective or ineffective in whole industry.

Guidelines- It is similar with intercompany comparison also called rules of thumb. It makes judgment or suggest based on experiences from past development. (Wild, J. J 2003, 576)

3.2 Absolute indicators

There are two frequent financial analysis usages for absolute indicators. Both of them are highly connecting with Balance sheet and Income statement. They are Horizontal analysis and vertical analysis.

3.2.1 Horizontal analysis

Horizontal analysis also referred as trend analysis. It focuses on increases and decreases between connected items in comparative financial statement. The comparison between two years, the earlier year's data is used as the base. If the contrast data more than two years. Either it can be used the same way as the comparison between two years or the earliest date may be used as the basis for comparing all later dates or period. Horizontal analysis is facilitated by showing changes between years in both money amount and percentage form. Horizontal analysis is done for both income statements and Balance sheet. The figures for the different heads under the income statements and the balance sheets are placed side-by-side so that the readers can compare the two and understand how the company is doing. The value of horizontal analysis lies in its usefulness in comparing the results of one company over time to determine whether its financial situation is improving and whether the company has good performance. It most useful point is when comparing companies in the same industry, because metrics such as gross margin can vary widely from one industry to another. (Edmonds,T. P. 2000, 529) (Fesss, P. E. 1987, 875-877)

3.2.2 Vertical analysis

A method of financial statement analysis for compares the data within one statement. In balance sheet total assets and total liabilities are represented as total account. Each item is stated as a percentage of some total of which that item is a part. The total account of income statement consists of net sales, revenue, expense etc. Those accounts are proportion of the total account. The main advantages of vertical analysis are that the balance sheets of businesses of all sizes can easily be compared. It also makes it easy to see relative annual changes within one business.

Vertical analysis is also referred as common-size analysis. It presents the relationship between significant financial statement items. The common-size analysis reports the percentages of current period with past periods or to compare one business with another one. A common-size percent is measured by dividing each individual financial statement item under analysis by its base item. (Fesss, P. E. 1987, 881-882) (Wild, J. J. 2000, 582)

3.3 Subtractive indicators

Subtractive indicators are also indispensible to analyze one company's financial situation. It can be considered as relationship between Assets and liability. More important in subtractive indicator is the capacity of measurement of solvency and liquidity. Among many of subtractive indicators, the most important indicator is called Net working capital.

$$\text{Net working capital} = \text{Current asset} - \text{Current liability}$$

Net working capital has more power to report from solvency point of view. The capacity of paying back in short- time is revealed through the result. Negative amount of net working capital means that Current assets are less than current liabilities. It is indicate company unable to meet short-time obligations as consequents. Conversely, the positive amount shows good solvent ability.

3.4 Ratios Analysis

For financial statement analysis, balance sheet and income statement are essential. Users are able to understand general financial position by checked out all items in report. For those users who have specific purpose, they will be interesting in the parts are related with them and the parts can be influence them decisions. Ratio analysis is the perfect tool for studies individually item and considered as the best indicator for certain way to survey company's performance.

According to different aspect emphasize on reporting ability, there are four varieties of ratios analysis.

Solvency ratio- Solvency Ratio indicates the extent to which the business is reliant on debt financing. To measure the ability of short time or long time's debt paying back. It also may find the good way of capital structure of a company.

Liquidity ratio- Liquidity Ratios are ratios which have selected items come from the Balance Sheet and hence measure the liquidity of the company as on a particular day. These ratios indicate the ease of turning assets into cash. Efficiency of assets utilization is the key point.

Profitability ratio- Profitability ratios measure the ability of one entity to earn the income. In other word, company use assets and control expenses try to create maximum profit. The ratio is for assess how much an entity get or loss.

Market prospect- The ratio is responsible for analyzing corporation with public stock. These market measures use stock price, which reflects on public's expectation for company. (Wild, J.J. 2003, 593-594)

3.4.1   Profitability ratio

Gross profit margin

Gross profit is the money left after deduct cost of goods and major expenses. Profit margin is the terminology to describe the ability of earning gross income from total revenues. The result has higher number it indicate that entity has more efficiently to produce profits. In order to increase Gross profit margin, company could either operate more systematic management to raise sale or to keep control the cost of the goods. For a publishing company the recommended profit margin would between 10% and 15%. (Wild, J. J. 2003, 592)

$$\text{Gross profit margin} = \frac{\text{Net income}}{\text{Net sales}}$$

Return on Assets (ROA)

Return on assets also referred as Return on investment. The return on assets ratio indicates how effectively the assets of your business are working to generate profit. It use information from balance sheet and income statement. The significant responsibility for an entity is to decide whether or not to initiate a new project in short-time. Note that the final result of ROA should be presented by percentage. (Edmonds, T. P. and Tsay. 2000, 540)

$$\text{ROA} = \frac{\text{Net income}}{\text{Total assets}}$$

Return on Equity

Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. In most cases the net income amount is not up to the money shareholders have invested. Of course, it

would be nice that investor see the significant change in return. The ratio is determined by dividing net income by average equity, as same as ROA the final result presented by percentage. (Edmonds, T. P. and Tsay. 2000, 540-541 and Wild, J. J. 2003, 593)

$$Return\ on\ equity = \frac{Net\ income}{Total\ equity}$$

3.4.2 Liquidity ratios

Current Ratio

Current ratio provides a thought about current assets and current liabilities. It describes an ability which company can pay back the debt or liabilities with its current asset items in short-term. The higher ratio indicates company more capable to pay for its obligations. Recommended number in this ratio is 1.5 to 2.0. The lower ratio suggests that the company would be unable to pay off its obligations if they came due at that deadline, and it could be a dangerous sign for poor management. (Edmonds, T. P. and Tsay. 2000, 534)

$$Current\ Ratio = \frac{Current\ assets}{Current\ liabilities}$$

Quick Ratio

Quick ratio is an indicator of a company's short-term liquidity. It also known as acid-test ratio, the recommendation rate is 1 to 1.5. In current asset, some of items are less important than others if users consider from liquidity point of view. The quick ratio measures a company's ability to meet its short-term obligations with its most liquid assets. In other word, users select critical items to analyze for more valuable financial information. The entity has higher quick ratio shows where the better position of the company is. (Edmonds, T. P. and Tsay. 2000, 534)

$$Quick\ Ratio = \frac{Cash + short\ term\ investments + current\ receivables}{Current\ liabilities}$$

Cash ratio

This ratio reveals company's total cash and cash equivalents to its current liabilities. The cash ratio is most commonly used as a measure of company liquidity. It has similar function with Quick ratio. Moreover, the items selected in cash ratio are truly liquid current assets. Usually, 0.3% is considered as good result. (Robinson et al. 2009, 286)

$$\text{Cash ratio} = \frac{\text{Cash} + \text{marketable securities}}{\text{Current liablilities}}$$

3.4.3 Solvency ratios

Total debt ratio

Total debt ratio indicates what proportion of debt a company has relative to owners or creditors. The measure gives an idea to the leverage of the company along with the potential risks the company faces in terms of its debt-load. It is calculated by dividing total debt by total assets and also the result showing by percentage (Weygandt et al. 2008, 696)

$$\text{Total debt ratio} = \frac{\text{Debt}}{\text{Assets}}$$

Times interest earned

Times interest earned used to measure a company's ability to meet its debt obligations. It is calculated by taking a company's earnings before interest and taxes (EBIT) and dividing it by the total interest payable on bonds and other contractual debt. A higher result of times interest earned ratio indicates stronger solvency. (Weygandt et al. 2008, 697)

$$\text{Time interest earned} = \frac{\text{EBIT}}{\text{Interest expense}}$$

3.4.4   Assets utilization ratios

Asset turnover

Asset turnover measures a firm's efficiency at using its assets in generating sales or revenue. Companies with low profit margins are the company which have high asset turnover. Conversely, the company have low asset turnover. It also can be seen as indicates for pricing strategy. (Weygandt, Kieso and DeFranco 2008, 217)

$$\text{Asset turnover} = \frac{\text{Revenus}}{\text{Average assets}}$$

Receivables turnover

This technical tool used to quantify a firm's effectiveness in extending credit as well as collecting debts. The receivables turnover ratio is an activity ratio, measuring how efficiently a firm uses its assets. (Weygandt. Kieso and Defranco 2008, 215)

$$\text{Receivables turnover} = \frac{\text{Net sales}}{\text{Average receivable}}$$

II. ANALYSIS

4 COMPANY CHARACTERISTICS

4.1 Characteristics of Company

The 5M is a Společnost s Ručením Omezeným Company in Czech Republic which is focused on the development and manufacture of composite, sandwich materials and other chemical material. It has been provided that manufactures of products are suitable for a wide variety of customers in Europe. They specialize in demanding applications and special products, for which the application of these types of materials is excellent. Company's products are broadly used by vehicle, sport equipment, and electrical equipment manufacturers. Over the years they have brought to the market a number of new products and key innovations. 5M has made significant contribution to Czech composite and aircraft market. (Accessed, 1st April)

The 5M S.R.O. Company was established in 1992. The founders of company followed up on their earlier activities in area of adhesives, composites and sandwich materials. After several years' development, company became to top of the rank in this industry.

Company has been well developing for more than decade year. In the beginning period, firm focused on the domestic market, the ability to fulfill their customers' most difficult requirements resulted in the 5M Company being considered one of the leading players in the field of business, and they still hold the position tightly. In order to keep the leading position, company constantly develop new products, production processes, and new applications, such activities become to the fundamental routine for extension of the company.

In 1998, the company chosen by Dutch well-know company SABA as exclusive representative in the Czech Republic. This significant change has brought incredibly influence on company's financial situation.

In the year 2002, the 5M Slovakia s.r.o. subsidiary was established. In order to support company's business activities abroad, they have also established offices in Germany, Italy, Bulgaria and Slovenia, countries which are the destination for a significant volume of the goods produced by the company.

Lately, the company has built its own research & development centre with a modern laboratory which has gross building area more than 3000 square meters and 130 employees are working there. The Company invested about 8% of its annual turnover

in development. The new laboratory has 5 rooms, with lots of necessary laboratory equipment.

4.2   The scope of services

The customers for the products of the 5M s.r.o Company are manufacturers of:

- Aircraft (transport, training and ultra-light)
- Rail vehicles and their accessories
- Road vehicles (buses, transport and passenger vehicles)
- Electrical equipment and components
- Textile and printing machines
- Sporting goods (skis, hockey sticks, kayaks, paddles, masts for boats)
- Model airplanes
- Trolley lines and construction companies (reinforcing structures). (Accessed, 1st April)

The 5M Company is specialized in chemical material making. Its products are not only widely used in our everyday life, but also used in aircraft making and different type of vehicles. The noticeable thing is that 5M has their own laboratory in order to create newer and higher technology material. The whole products processes form researching phase to selling stage are able to be carried out by 5M itself. The management system is developing systematically and in this manner company can provide best service for customers.

Many years ago, from long term perspective point of view, company realized that only quality guarantee can assure the viability of the company. And there are many benefits if company becomes number of the ISO agreement. Hereby, company has a quality management system certified in accordance with CSN EN ISO 9001:2001 and many of products bear the relevant certificates and quality assessments. In order to increase the awareness of company, 5M joined in to a number of organizations likes founder-member of Moravian Aerospace Cluster and Czech Space Alliance, Czech Chamber of Commerce and also member of composed with composites. Enterprise influence and images are steady built-up.

The 5M Company is managed in a manner fully consistent with the requirements of CSN EN ISO 9001:2001 and with the regulations concerning environmental protection and work safety. Top management is always involved in continuing to sustain the Company's reputation and position in the global market for the supply of composites and sandwich materials and for providing a high quality service for its customers.

4.3 SWOT analysis

SWOT analysis is commonly use technical tool in order to evaluate the company's position in its whole industry field. The key value for SWOT is to identify the business project objectively through Strengths, Weaknesses, Opportunities, and Threats analysis.

After gathering information from internal employee, the SWOT analysis for 5M s.r.o is concluded as flowing list.

Strengths

- **From production to sales, company is able to do on their own** (One of the biggest advantage of 5M company, the business model decrease the costs to minimize level in order to achieve bigger amount of profit)
- **Own laboratory** (Company doesn't have to pay other entity for researching new product, as the thesis mentioned before, 5M is a company which pay full attention to new product)
- -**Skilled employees** (The company field is very specialized, it has high requirement to its employees who work in R&D department, as well as for employees who work in factory.)
- **Guaranteed with quality certificates** (The guarantee of quality is vitality of company, company not only provide good products but also with best after-sale service.)
- **Broad abroad expansion** (It is awarded in Czech Republic, the company has bigger picture about development in Europe, The future vision is fundamental of progress)
- **Customer interface and communication** (Company always keeps in touch with customer after selling product, collecting feedback from them.)

- **Wide product range** (Strong market survivability in multiple market make company has more competitiveness.)
- **Number of several important organizations** (The directly influence from well known organization, especially from reputation point of view.)

Weaknesses

- **Short history of the company** (The company popularity and trust of product are limited by the shortness of history.)
- **Not well-known Brand at broad** (The brand is not well-known in the new market yet)
- **Too much attention on customizations** (It is a good thing that company focus on individual customer, but it is not worth to pay extra attention, company should have clear target market.)

Opportunities

- **Commercial development space** (Development of new market at broad is huge opportunity for 5M to gain more reputation and profit.)
- **New technologies** (Due to a group of professional employee from laboratory, company is able to carry out full research of new product or technologies)
- **An active company easily to be aware** (The new products are constantly lunched to market, such actions are easily to attract customers attention.)
- **Resuscitate from economic crisis.** (The domestic market demand and also demand from foreign market.)

Threats

- **New competitor in Czech** (More and more factories which produce similar products.)
- **High competition at abroad** (New market bring more opportunities, and more competitors. High competition is one of the biggest consequences)
- **Economic crisis** (Economic crisis has strong impact on company's product than the impact on daily use product.)

Consideration from both external and internal elements, 5M Company has competitive advantage from domestic market; several important strengths have revealed that entity is toward to top position in its field. The primary issue for company is to keep the position in composite and sandwich materials. From inside perspective, company's strategy should more concentrate on general users and pay less attention to customize service in order to gain more profit and try to occupy the market shared as much as possible. Despite more and more competitors in Czech Republic and abroad showed up quickly and other threats company has big possibility to encounter. As long as head office in Czech Republic has healthy development. The representative offices at abroad will grow up steady in the near future.

5   ANALYSIS OF FINANCIAL STATEMENT OF 5M S.R.O.

5.1   Indicators analysis

The analysis part of this thesis starts with absolute indicators analysis, which consists of horizontal analysis and vertical analysis. The balance sheet and income statement will be presented as important indicators for this section. The second section is subtractive indicators; it shows the relationship between assets and liabilities in 5M s.r.o. in certain financial period.

5.1.1   Horizontal analysis

In horizontal analysis of 5M s.r.o. from 2007 to 2009, it shows the changes in its individual financial position result in actual number and also comparative result over three years shows in percentage. Comparative data are disclosed in percentage. The preceding year is used as the base year for the later year, which is year-to year approach applied both balance sheet and income statement.

Table1. Horizontal analysis of Balance sheet-5M s.r.o.

Horizontal analysis (In thousands)	2007	2008/2007	2008	2009/2008	2009	2009/2007
TOTAL ASSETS	64397	19.01%	76641	18.66%	90944	41.22%
Intangible/tangible assets and investment	**26891**	45.97%	**39253**	9.38%	**42936**	59.67%
Intangible assets	240	-11.25%	213	346.48%	951	296.25%
Tangible assets	26651	46.49%	39040	7.15%	41831	56.96%
Long-term investment	0	0.00%	0	0.00%	154	154%
Current assets	**37506**	-0.31%	**37388**	28.40%	**48008**	28.00%
Inventory	17786	-37.35%	11143	25.70%	14007	-21.25%
Long term receivables	0	0.00%	0	0.00%	0	0.00%
Short term receivables	14474	54.46%	22356	24.39%	27809	92.13%
Financial assets	5032	-29.01%	3572	70.46%	6089	21.01%
Accruals and deferrals	214	48.13%	317	-67.51%	103	-51.87%
TOTAL LIABILITIES	64397	19.01%	76641	18.66%	90944	41.22%

Capital	**20341**	28.87%	**26213**	31.88%	**34571**	69.96%
Basic capital	200	0.00%	200	0.00%	200	0.00%
Capital contribution	-142	4.23%	-148	-104.05%	6	-104.23%
Reserve funds and other funds	808	3.34%	835	4.91%	876	8.42%
Retained earnings	9418	105.71%	19374	30.21%	25227	167.86%
Profit(loss) for the current period	10057	-40.82%	5952	38.76%	8259	-17.88%
Liabilities	**44056**	14.46%	**50428**	11.79%	**56373**	27.96%
Provision	0	0.00%	5320	195.77%	15735	0.00%
Short term Liabilities	28117	1.84%	28635	-18.81%	23250	-17.31%
Long-term Liabilities	0	0.00%	350	275.43%	1314	0.00%
Bank loans& overdrafts	15853	0.75%	15972	-2.55%	15564	-1.82%
Accruals and deferrals	25	504.00%	151	237.75%	510	1940.00%

In generally, 5M s.r.o company has continually developed since year 2007. It is provided by several financial items change during the three year period. The most obvious evidence is amount of total assets, which increase around 20% for each year. Company is concentrate on long-term strategic development, because of the rapid rise of tangible assets in year 2008, it was increased 45.97% of total amount of 2007. The rise is coursed by purchasing of tangible assets like land, machines and cars in order to reinforce production capacity. In 2009, intangible assets was dramatically risen 346.48%, the cause is received certificates and awards. In table 1, we can tell that sales of the goods in 2008 are quite successfully, the inventory in 2007 was 17786 thousand CZK, 37.35% of the inventories are sold in 2008, also company's customers are not able to pay in cash. Sequentially, the short term receivables are increasing 54.46%. Decreasing of inventory and receiving cash from larger project in 2009 may cause the financial assets goes up. The change among inventory (-), short-term receivable (+) and financial assets (-) make current assets keep balance with previous year. Note that only in year 2008, the non-current assets slightly more than current assets, it is not a good signal for liquidity.

From liabilities point of view, the total liabilities had same growing speed as total assets. In those three years, capitals are steadily increasing around 20% for each year. Basic capitals are remaining the same number, but the changes in capitals are strongly influenced by retained earnings. In 2008, the retained earnings has rise 105.71%, and half of them came from surplus accumulation in 2007 and undistributed profits in 2007, another half part from the profits in 2008. After 2007, provision suddenly takes part of the liability in company. Company had 5.3 million CZK provision created in 2008 for expected drop-out sales as result of crisis. 275.43% was rapidly increased in 2008. In 2009 another 15.7 million CZK provision created for expected stop of major project and stop of production due to one production hall restructure. In 2009 company drawing of long term loan for financing purchase of cars, it makes long-term liabilities rise by 275.43%.

Table2. Horizontal analysis of income statement

Horizontal analysis (In thousands)	2007	2008/2007	2008	2009/2008	2009	2009/2007
Revenues	**128017**	10.21%	**141093**	-4.74%	**134412**	5.00%
Sales of goods	15654	-11.08%	13919	-16.65%	11602	-25.88%
Sale of production	106709	15.22%	122947	-4.26%	117714	10.31%
Sale of long-term assets and raw material	1177	18.01%	1389	-52.77%	656	-44.27%
Other operating income	1285	-19.77%	1031	232.30%	3426	166.61%
Income from sales of securities and shares	2208	-100.00%	0	0.00%	0	-100.00%
Interest income	8	37.50%	11	-63.64%	4	-50.00%
Other financial income	976	84.02%	1796	-43.76%	1010	3.48%
Cost	**117960**	14.57%	**135141**	-6.65%	**126153**	6.95%
Cost of goods sold	12959	-17.56%	10684	-15.78%	8998	-30.57%
Cost of sales	63304	2.39%	64820	-13.72%	55926	-11.65%
Staff costs	33976	20.23%	40849	-0.79%	40528	19.28%
Taxes and Charges	61	72.13%	105	-31.43%	72	18.03%
Depreciation of long-	1612	122.21%	3582	60.61%	5753	256.89%

term assets						
Net book amount longterm assets and raw materials sold	888	-22.07%	692	-44.22%	386	-56.53%
Increase/decrease in operation provisions	718	784.40%	6350	40.50%	8922	1142.62%
Other operating charges	793	78.94%	1419	-47.36%	747	-5.80%
Securities and hares Sold	50	-100.00%	0	0.00%	0	-100.00%
Interest expense	741	101.75%	1495	-45.62%	813	9.72%
Other financial expense	1226	127.81%	2793	-44.18%	1559	27.16%
Tax on profit or loss on ordinary activity	1632	44.12%	2352	4.12%	2449	50.06%
Profit (loss) before tax (+/-)	**10057**	-40.82%	**5952**	38.76%	**8259**	-17.88%

During the three years financial period, total revenues keep in the similar amount. The total revenue in 2008 was 10% higher than revenue in 2007, as in this thesis mentioned before. The inventory of 2008 in Balance sheet was dropped rapidly. In income statement we can find parallel item as reflective reference. Sale of goods was slightly dropped down by -11.08%, but sale of production is 15.22% higher than 2007. Another critical change in financial income in 2008 it was increased 84.02%, and in 2009 it decreased -43.76%. The reason for increase financial income in 2008 it was the subsidies company gets from European Unit.

Because company had more productivity in 2008, the total cost also increase 14.57%. Due to professional and skillful employees whom Company hired in 2008, Cost of goods sold continually decrease by -17.56%, -15.78% and -30.57% in year 2007 to 2009. Also in 2008, company has new technical machine and more systematic management, although Cost of sales has similar amount with 2007, but the products are more than 2007. Especially in 2009 the cost dropped -13.72%. The cost of depreciation of long-term assets has increased unnaturally by 122.21% in 2008. It has been proved that company had a huge amount of activities in 2008. The long-term assets are frequently used more than usual. Provisions is the biggest item in cost, as

thesis mentioned before, company started have provisions in year 2008. The cost was incredible rise to 6350 thousand CZK, it was 784.40% of provision cost in 2007, and this cost even higher in 2009.

5.1.2 Vertical analysis

In this section 5M.s.r.o.financial result on balance sheet and income statement for year 2007-2009 will be presented in percentage and original number. In order to compare items are more easily identified. On the balance sheet, total assets represent 100% as well as stockholder's equity and liability represent 100%. On the income statement production represents 100%

Table3. Vertical analysis of balance sheet-5M s.r.o.

Vertical analysis (In thousands)	2007	2008/2007	2008	2009/2008	2009	2009/2007
TOTAL ASSETS	64397	100.00%	76641	100.00%	90944	100.00%
Intangible/tangible assets and investment	**26891**	41.76%	**39253**	51.22%	**42936**	47.21%
Intangible assets	240	0.89%	213	0.54%	951	2.21%
Tangible assets	26651	99.11%	39040	99.46%	41831	97.43%
Long-term investment	0	0.00%	0	0.00%	154	0.36%
Current assets	**37506**	58.24%	**37388**	48.78%	**48008**	52.79%
Inventory	17786	47.42%	11143	29.80%	14007	29.18%
Long term receivables	0	0.00%	0	0.00%	0	0.00%
Short term receivables	14474	38.59%	22356	59.79%	27809	57.93%
Financial assets	5032	13.42%	3572	9.55%	6089	12.68%
Accruals and deferrals	214	0.57%	317	0.85%	103	0.21%
TOTAL LIABILITIES	64397	100.00%	76641	100.00%	90944	100.00%
Capital	**20341**	31.59%	**26213**	34.20%	**34571**	38.01%
Basic capital	200	0.98%	200	0.76%	200	0.58%
Capital contribution	-142	-0.70%	-148	-0.56%	6	0.02%
Reserve funds and other funds	808	3.97%	835	3.19%	876	2.53%

Retained earnings	9418	46.30%	19374	73.91%	25227	72.97%
Profit(loss) for the current period	10057	49.44%	5952	22.71%	8259	23.89%
Liabilities	**44056**	68.41%	**50428**	65.80%	**56373**	61.99%
Provision	0	0.00%	5320	10.55%	15735	27.91%
Short term Liabilities	28117	63.82%	28635	56.78%	23250	41.24%
Long-term Liabilities	0	0.00%	350	0.69%	1314	2.33%
Bank loans& overdrafts	15853	35.98%	15972	31.67%	15564	27.61%
Accruals and deferrals	25	0.06%	151	0.30%	510	0.90%
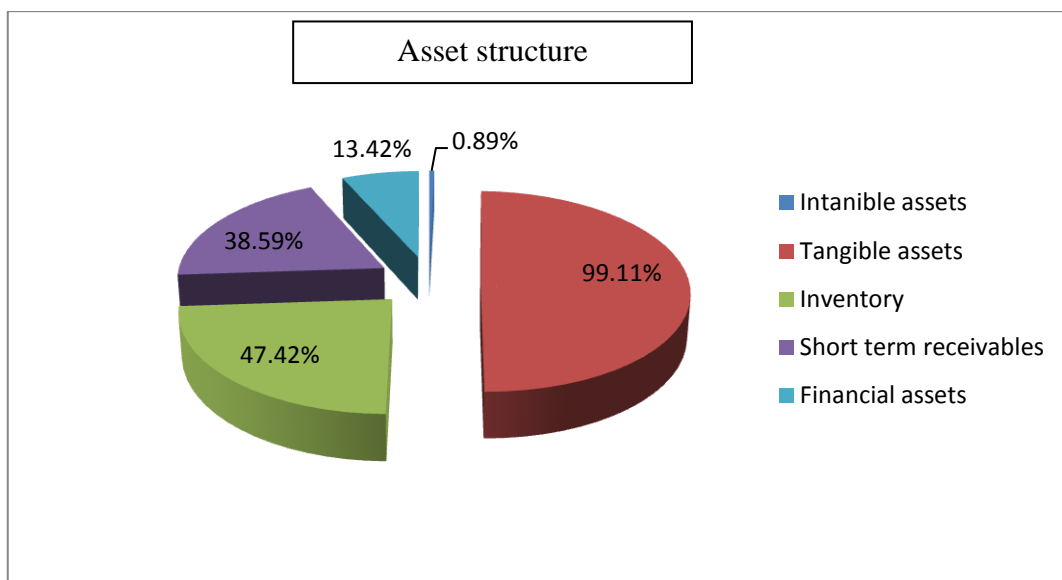
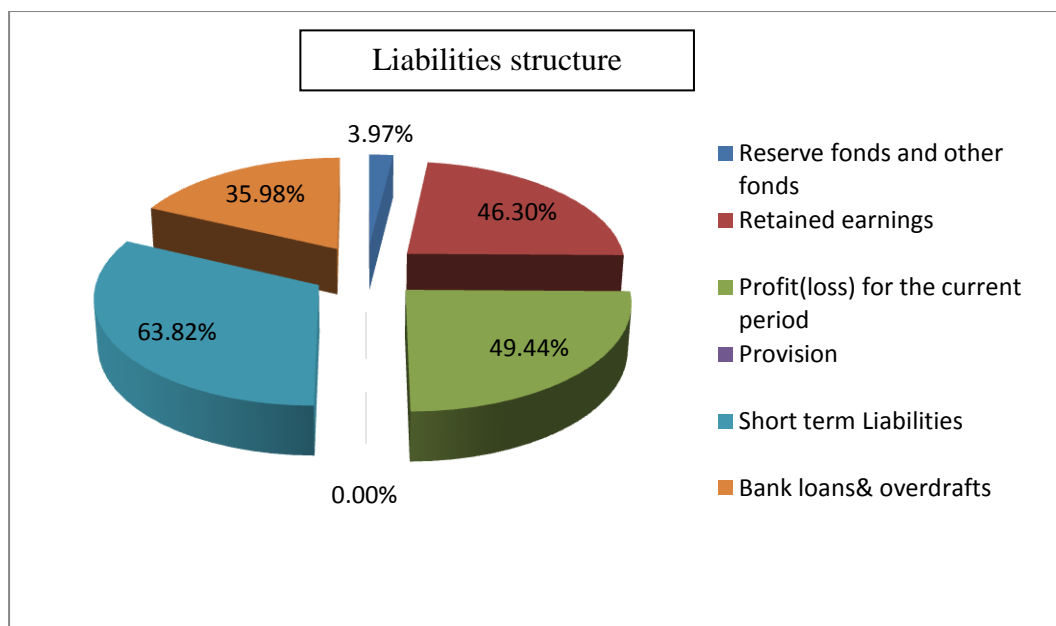*Figure1. Vertical analysis of 5M s.r.o. - Asset structure 2007*

Figure2. Vertical analysis of 5M s.r.o. – Capital &Liabilities structure 2007

According to the analysis of balance sheet (table3), we can detect that the proportion between assets and liabilities are almost same. In non-current asset, tangible asset is the strongest item; it makes up 99% of the non-current in year 2007-2009. In 2007 current assets were 58% of the total assets, which means company has good liquidity to payback short term debt. In 2008 current assets only take part of 48% in total assets, for grow up entity it is a very dangerous signal for financial poison from internal users' point of view. The year 2007, inventory has taken 47% of current assets and short term receivable take 39% of current assets as consequence. Conversely, in year 2008 and 2009 inventory didn't take part as big as 2007. After global crisis, customers are not paying in cash. So the short term receivables have bigger amount than 2007. In liabilities part, capital and liabilities have similar proportion in those three years. In 2007 retained earnings and profit (loss) for the current period make over 95% of capital, and 2007 is also the most profitable year. Even though, 2008 was the year had most of sold productions, but it wasn't as profitable as 2007, it only take 22.71% of capital. The proportion between total capital and total liabilities should be 1:1. From 2007 to 2009 in company 5M total liabilities are always 20%-30% more than total capital. It is phenomenon called thin capitalization.

In 2007-2009 the proportion of liabilities is very similar in long-term liabilities and bank loans& overdrafts. Nevertheless, it should be mentioned that company has pay back some of short term liabilities in 2009.

Table4. Vertical analysis of income statement-5M s.r.o.

Vertical analysis (In thousands)	2007		2008		2009	
Revenues	**128017**	100.00%	**141093**	100.00%	**134412**	100.00%
Sales of good	15654	12.23%	13919	9.87%	11602	8.63%
Sale of production	106709	83.36%	122947	87.14%	117714	87.58%
Sale of long-term assets and raw material	1177	0.92%	1389	0.98%	656	0.49%
Other operating income	1285	1.00%	1031	0.73%	3426	2.55%
Income from sales of securities and shares	2208	1.72%	0		0	
Interest income	8	0.01%	11	0.01%	4	0.00%
Other financial income	976	0.76%	1796	1.27%	1010	0.75%
Cost	**117960**	100.00%	**135141**	100.00%	**126153**	100.00%
Cost of goods sold	12959	10.99%	10684	7.91%	8998	7.13%
Cost of sales	63304	53.67%	64820	47.96%	55926	44.33%
Staff costs	33976	28.80%	40849	30.23%	40528	32.13%
Taxes and Charges	61	0.05%	105	0.08%	72	0.06%
Depreciation of long-term assets	1612	1.37%	3582	2.65%	5753	4.56%
Net book amount long term assets and raw materials sold	888	0.75%	692	0.51%	386	0.31%
Increase/decrease in operation provisions	718	0.61%	6350	4.70%	8922	7.07%

Other operating charges	793	0.67%	1419	1.05%	747	0.59%
Securities and hares Sold	50	0.04%	0		0	
Interest expense	741	0.63%	1495	1.11%	813	0.64%
Other financial expense	1226	1.04%	2793	2.07%	1559	1.24%
Tax on profit or loss on ordinary activity	1632	1.38%	2352	1.74%	2449	1.94%
Profit (loss) before tax (+/-)	**10057**		**5952**		**8259**	
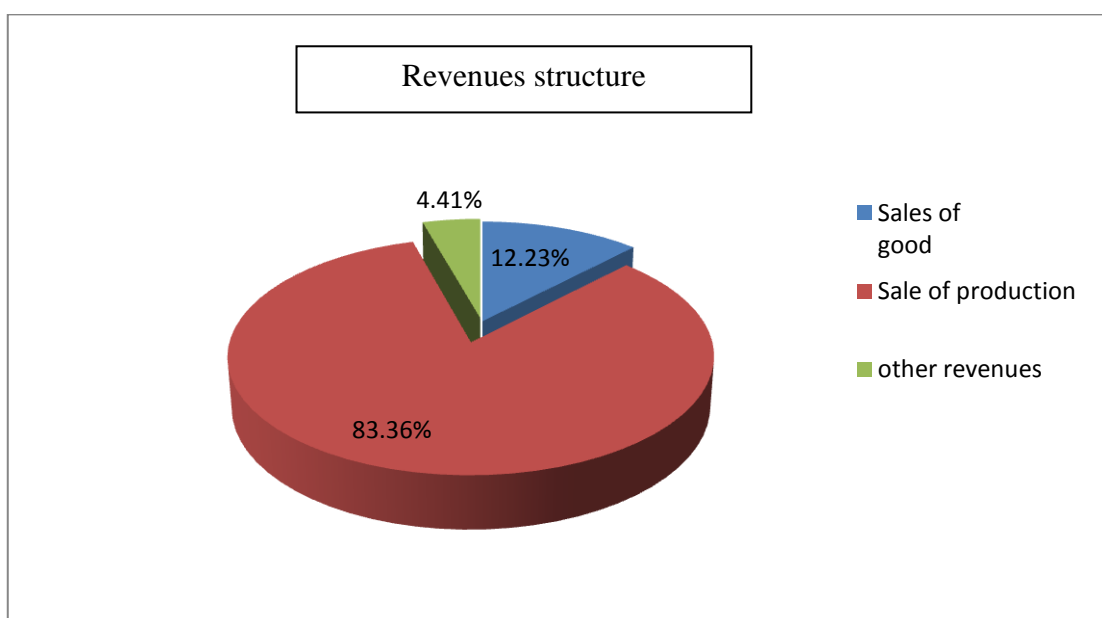
Figure3. Vertical analysis of 5M s.r.o. – Revenues structure 2007
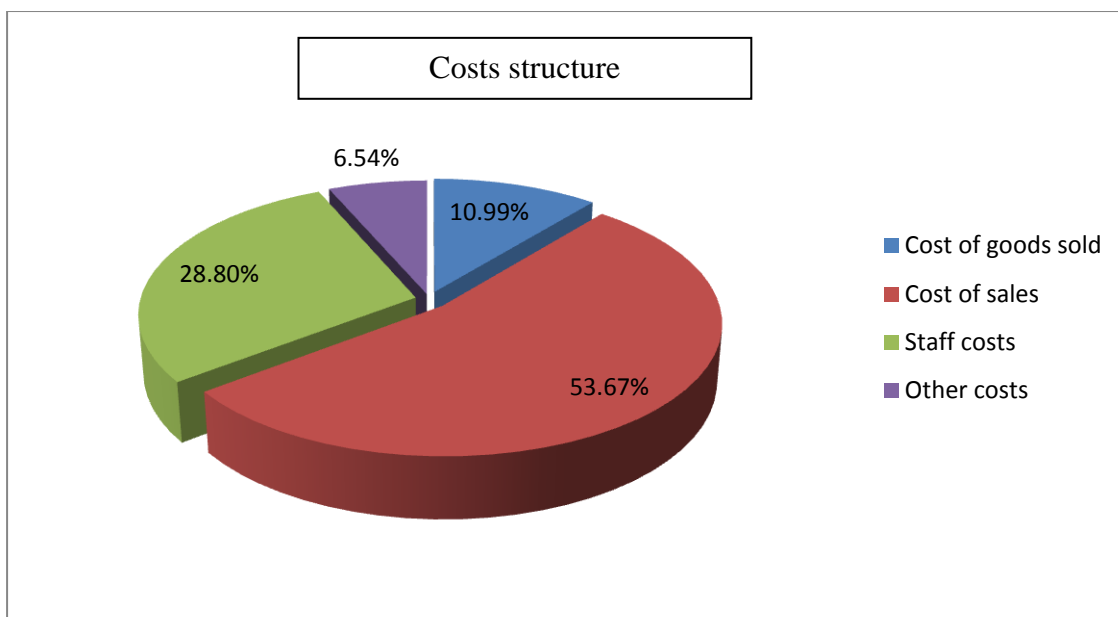
Figure4. Vertical analysis of 5M s.r.o. – Costs structure 2007

Looking at analysis of income statement (table 3, 4 and Figure 3, 4) we can say that most of revenues are come from sale of production, it takes almost 90% every year in 5M s.r.o. Another big proportion of revenues are from sales of good, more or less than 10% was contributed by it. In year 2008 and 2009, the sales of production are very similar, and both of them are higher than sale in 2007 around 5%.

Cost of sales, staff costs and cost of goods sold are the biggest items which make up around 85% of the total costs. It should be noticed that the company running in 2008 wasn't successfully as previous year. Due to the increasing of goods cost and staff cost and huge rise in depreciation of long-term assets along with provision expenses. The cost in 2008 is much higher than other years. The economic crisis has direct resulted in lower profits and higher costs.

5.1.3 Profit/loss development

Profit/loss indicator has rather strong reporting ability especially for external users who don't know too much about accounting. The reason of common used of the indicator is because of the sheet able to provide easy way to present how much money an entity have generated.

Table5. Profit and loss development 2007-2009-5M s.r.o.

Items	2007	2008	2009

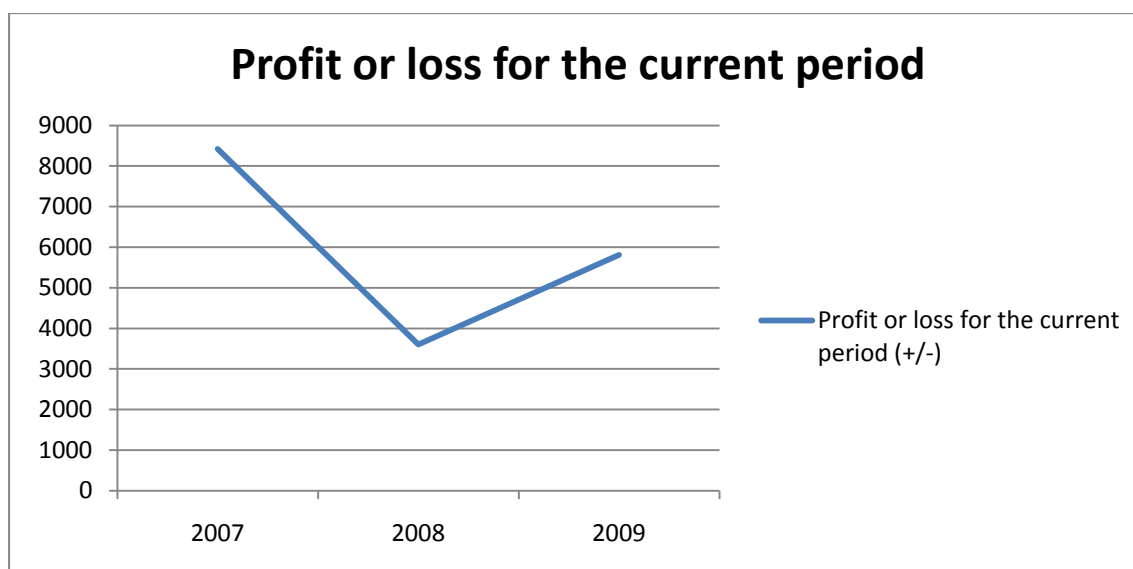| Profit or loss for the current period (+/-)	8425	3600	5810
Profit or loss before tax(+/-)	10057	5952	8259
Profit or loss before tax and interest costs	10798	7447	9072
Interest costs	741	1495	813
Income tax on ordinary activities	1632	2352	2449

Figure5. Profit or loss for the period- 5M s.r.o 2007 – 2009

If we only regard from the profit or loss point of view without other references, the most successful year was 2007. On the all, 5M s.r.o. had healthy financial development. It was undergoing with natural increase of profitability, despite the profit drop to 3600 thousand CZK in year 2008. The economic crisis can be considered as the biggest reason. Second reason is increases of the interest costs which caused by borrowing loan from back. After the economic crisis, company profit trend to continually grow up, the revenue in 2009 is higher than 2008, and interest cost are drop down to same level with 2007.

5.2 Subtractive ratios

Table 6 Net working capital development

	2007	**2008**	**2009**

Net working capital	9389	8753	24758

Table 6 illustrates shows how current asset was financed in 5M s.r.o. in years 2007-2009. Net working capital has more power to repot from solvency point of view. The capacity of paying back in short- time is revealed through the result. Negative amount of net working capital means that current assets are less than current liabilities. The positive amount shows good solvent ability. The company has more and more stronger ability for solvency.

5.3   Ratio analysis

In this part, all of the formulas for calculation of 5M s.r.o.'s financial statements are given. Furthermore, users may focus on the parts which they interested in, related with them and the parts can be influence their decisions.

5.3.1   Profitability ratios

Profit margin

Profit margin is the terminology to describe the ability of earning gross income from total revenues. It present in percentage. The table shows profitability of 5M s.r.o. in year 2007-2009.

Table 7 Gross profit margin- 5M s.r.o. 2007-2009

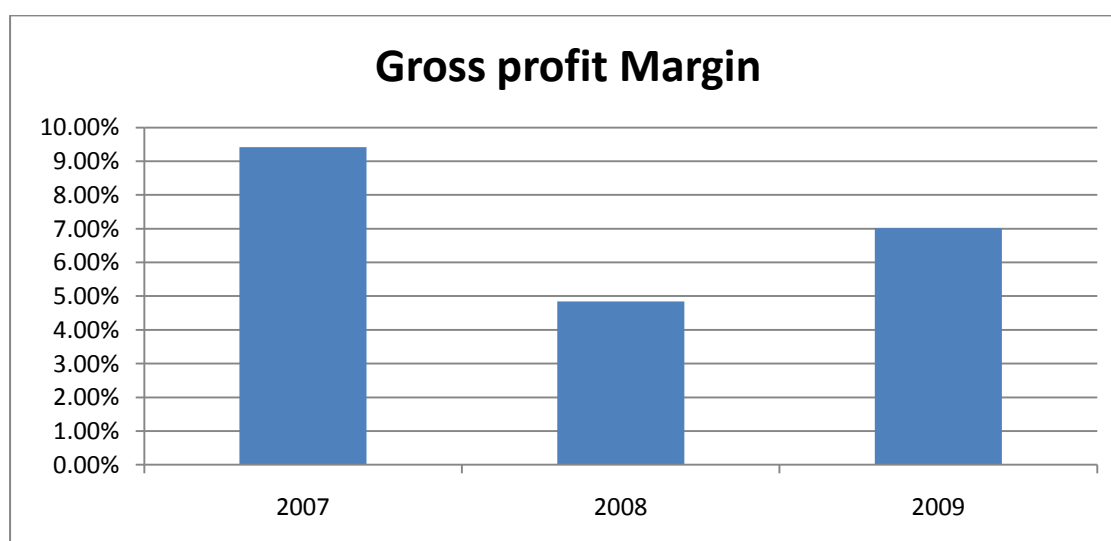|	**2007**	**2008**	**2009**
Gross profit Margin	9.42%	4.84%	7.02%

Figure6. Gross profit margin- 5M s.r.o 2007 – 2009

In 2007, when the new contract was signed, the sale of production was supported by it. From cost point of view, staff salary and operation provisions are much lower than 2008, 2007 become to the most profitable year among those three years. Although in 2008 the sale of production is the highest year, but in year 2008 company didn't generate great profit. There were two main reasons, 5.3 million CZK provision created in 2008 for expected drop-out of sales as a result of crisis. Under the global economic crisis environment, parts of costumers are not able to pay company in cash, short term receivables increases 54.46%. It is not surprised that profit margin in 2008 was dropped to 4.84%. In 2009 company has the lower cost than previous year, also company generate considerable profit 8259 thousand CZK, the profit margin rise to 7.02%.

ROA

Table 8 Return on assets - 5M s.r.o. 2007-2009

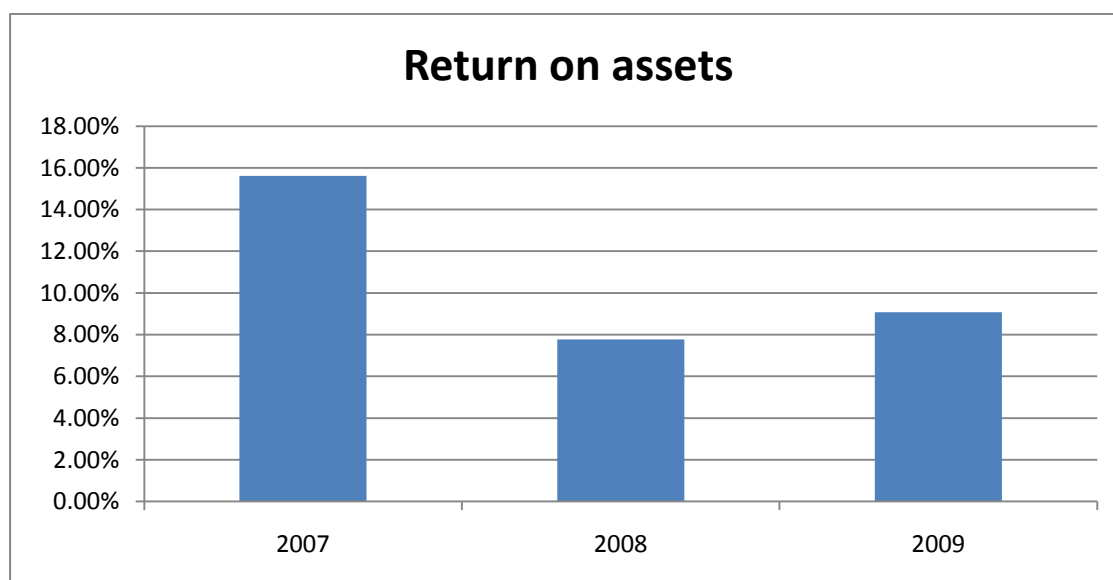|	**2007**	**2008**	**2009**
Return on assets	15.62%	7.77%	9.08%

Figure7. Return on assets- 5M s.r.o 2007 – 2009

The more efficiently the company uses the assets, the higher the rate of return will be.

Which means in 2007 company's assets or return on investment have best payoff. Tangible assets were 46.49% higher than 2007 which caused total assets increase 20% in 2008. As thesis mentioned in Gross profit Margin, net income was the lowest point. The assets ROA in 2008 is 7.77%, company didn't generate considerable net income is the main reason. The situation didn't have big fluctuation in 2009, both income and total assets have slightly risen. ROA faintly rises to 9.08%,

ROE

Table 9 Return on equity - 5M s.r.o. 2007-2009

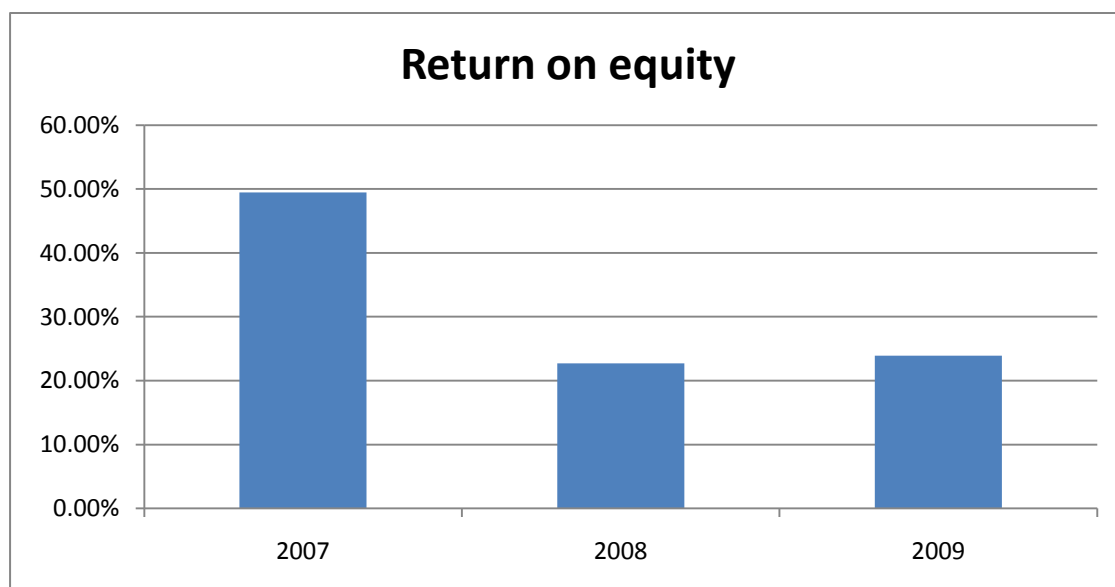|	**2007**	**2008**	**2009**
Return on equity	49.44%	22.71%	23.89%

Figure8. Return on equity- 5M s.r.o 2007 – 2009

5M s.r.o. Company had good return on equity in 2007; it was great that investors could see the significant change in return and it was almost 50% which means investors had good investment. Retained earnings is the key factor which influence company's equity grows 30% for each year. In 2008 retained earnings are sum of retained earnings of 2007 and plus profit, which was 10 million CZK, that's the reason it has increased by 105%. It is main reason for ROE dropped in 2008 by 22.71%. In general speaking of situation in 2008, the income was only half amount of

2007 and equity was 20% higher than previous year. In 2009 company's ROE had slightly raised, equity increased 30% and income increased 40%.

5.3.2   Liquidity ratios

Table 9 Current ratio - *5M s.r.o. 2007-2009*

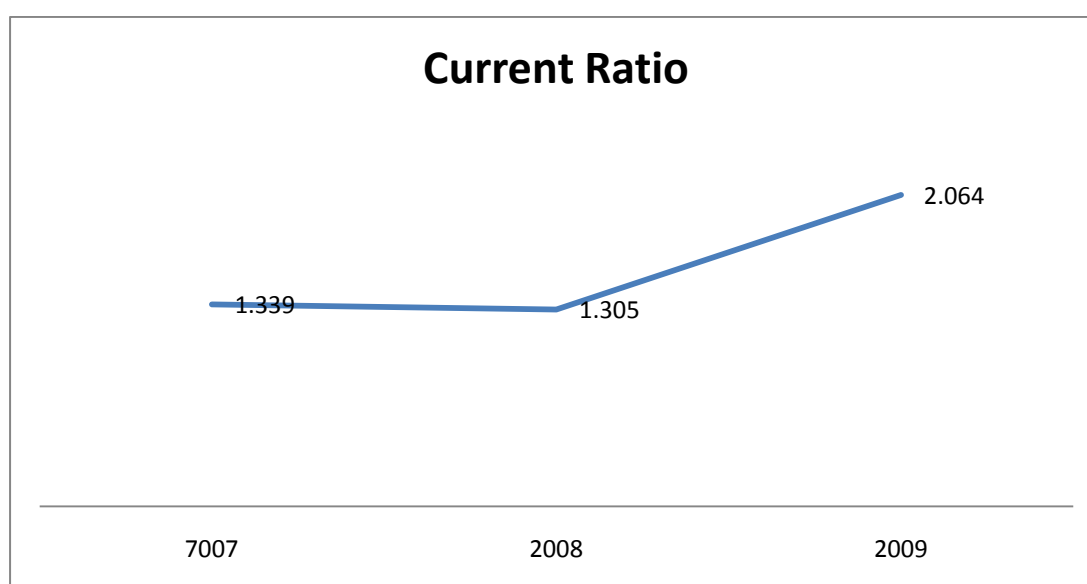|	**2007**	**2008**	**2009**
Current ratio	1.339	1.305	2.064

Figure8. Current Ratio - 5M s.r.o 2007 – 2009

Inventory in 2008 was drop 37.35%, as consequence the short term receivables increase 54.46% which make current assets almost same with 2007. Short term liabilities are also same between 2007 and 2008. In 2009 current assets increase 28.40%, there were two items influence a lot, financial assets increase 70.46% because company received cash from larger project and cash has remained on bank account and 24.39% increasing of short term receivable as a result of crisis, partners and customers had problems with payment morale. Current ratio more than 1.5 which means company would be able to meet with its short-term target. The recommendation rate for current ratio is between 1.5 and 2.0. Theoretically, only in 2009 the company has qualified current ratio. The higher number of ratio indicates the

more liquidity and strong ability to pay back its short-liabilities. Inventors should use cash to invest new project in order to gain more profit.

Quick ratio

Table 10 Quick ratio *- 5M s.r.o. 2007-2009*

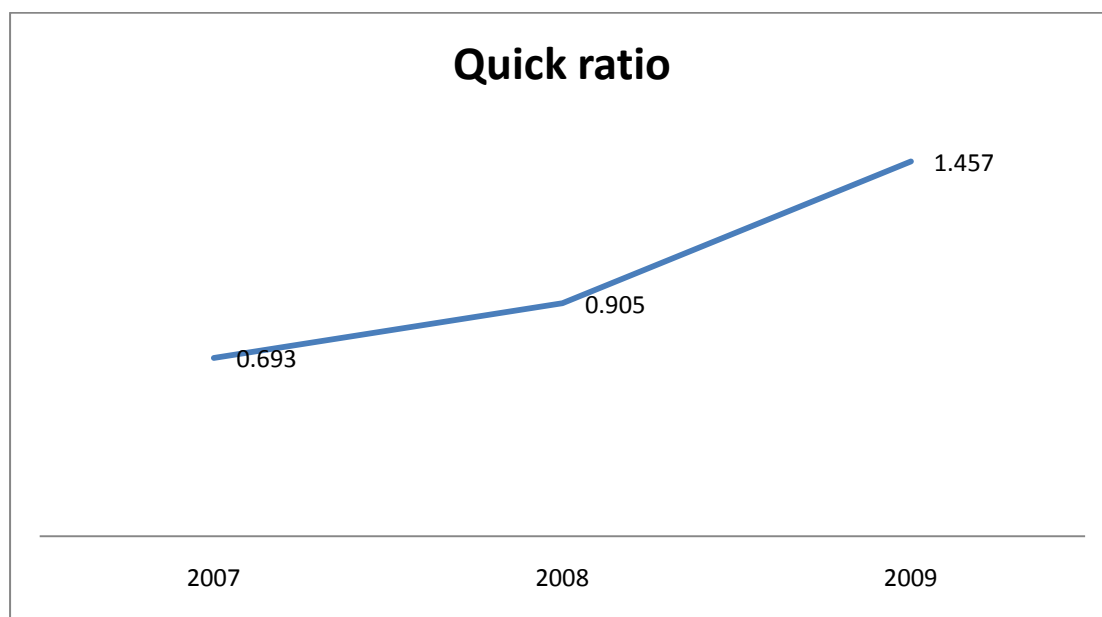|	**2007**	**2008**	**2009**
Quick ratio	0.693	0.905	1.457

Figure9. Quick ratio - 5M s.r.o 2007 – 2009

Quick ratio is more considering about liquidity rate than current ratio. The recommendation ratio for quick ratio around 1:1. In 2007 and 2008 financial period, short term liabilities remain the same level, in 2009, company pay back the money to business partner and bank, the short term liabilities decrease 18.81%. Income from short term receivable in 2009 was still increased. The Company has perfect quick ratio since 2008. Due to financial assets and short term receivables rise, company has very healthy quick ratio with 1.457 and 2.064 with current ratio, indicates that company has reliable liquidity. From anther hand, the quick ratio shouldn't be too high as well, if company holds too much cash, it will cost more opportunities cost.

Cash ratio

Table 10 Cash ratio *- 5M s.r.o. 2007-2009*

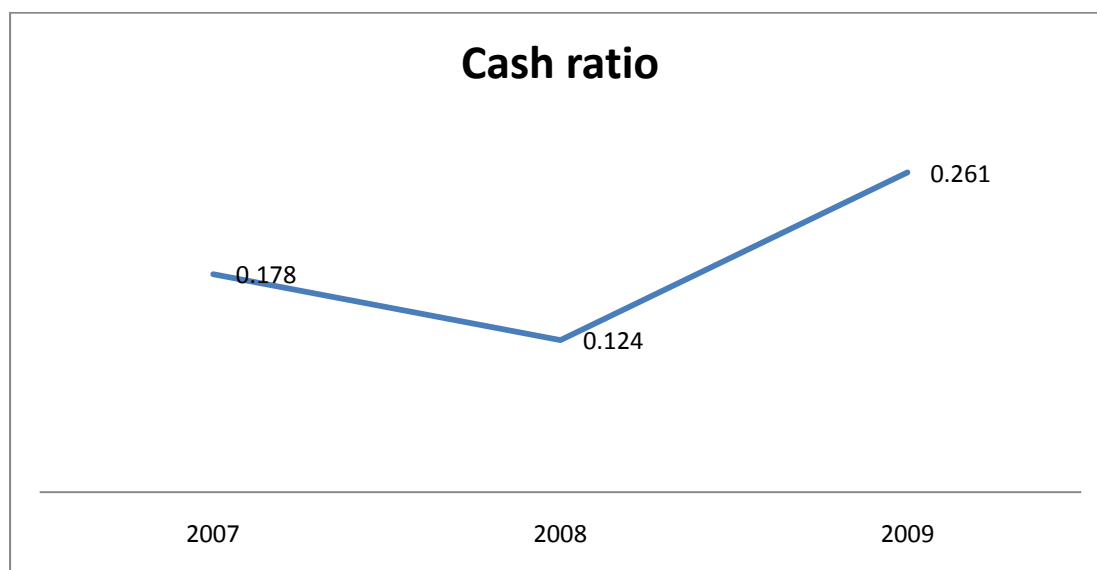|	**2007**	**2008**	**2009**
Cash ratio	0.178	0.124	0.261

Figure9. Cash ratio - 5M s.r.o 2007 – 2009

Because of the economic crisis in 2008, the company has much short term receivables and short term liabilities remained the same level with last year. Therefore, cash ratio dropped to the lowest point 0.124. In year 2009, company had big amount of financial assets from larger project and also payback part liabilities to partner and bank (around -18% less than 2008), the cash ratio back to 0.261 which is among in recommendation rate for cash ratio. (0.2-0.5)

5.3.3 Solvency ratios

Total debt ratio

Table 11 Total debt ratio - *5M s.r.o. 2007-2009*

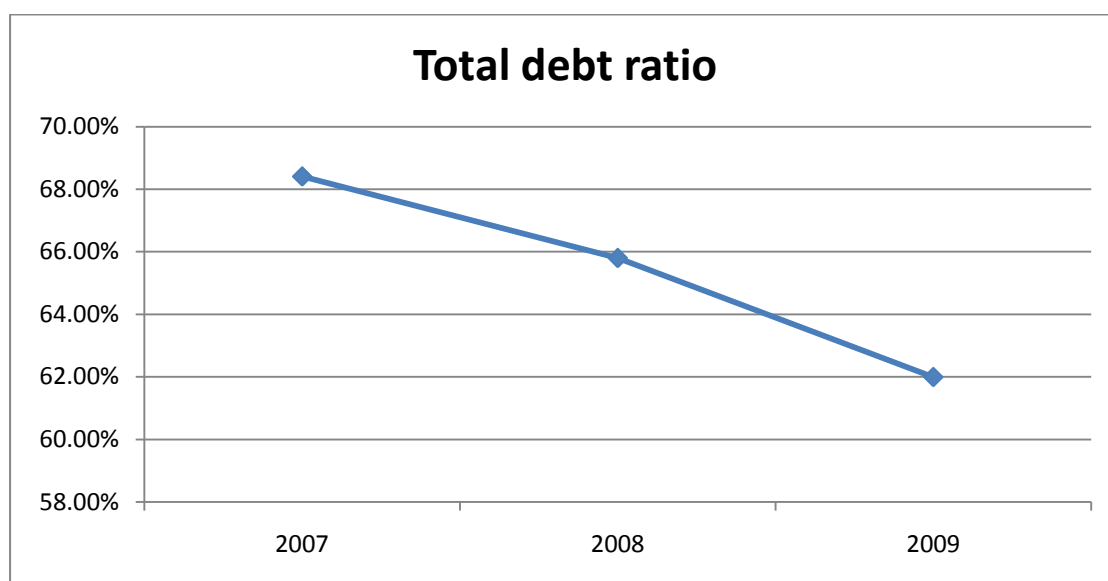|	**2007**	**2008**	**2009**
Total debt ratio	68.41%	65.80%	61.99%

Figure10. Total debt ratio - 5M s.r.o 2007 – 2009

The 5M s.r.o. company has healthy trend of total debt ratio since 2007. But total debt ratios in those three are much higher than 50%. It is a signal that company should not borrowing loan from bank if it is not necessary. Lack of liquidity is the main reason for low solvency. From 2007 the company has trend to reduce total debt ratio by increased the total assets, 20% of total assets are increase every year, most of them from increasing of tangible assets and short term receivables. Looking at liabilities, during three financial period, liabilities are remained the similar level, only in 2009, because 15.7 million CZK provision created for expected stop of major project and stop of production due to one production hall restructure in 2010, and drawing of long term bank loan for purchasing of fleet cars. Liabilities was risen by 11.79% Ultimately, compare 2009 with 2007, the total assets has risen by 41.22% and liabilities have risen only by 11.79%. Thereby, the total debt ratio dropped around 7%.

Time interest earned

Table 12 Time interest earned - *5M s.r.o. 2007-2009*

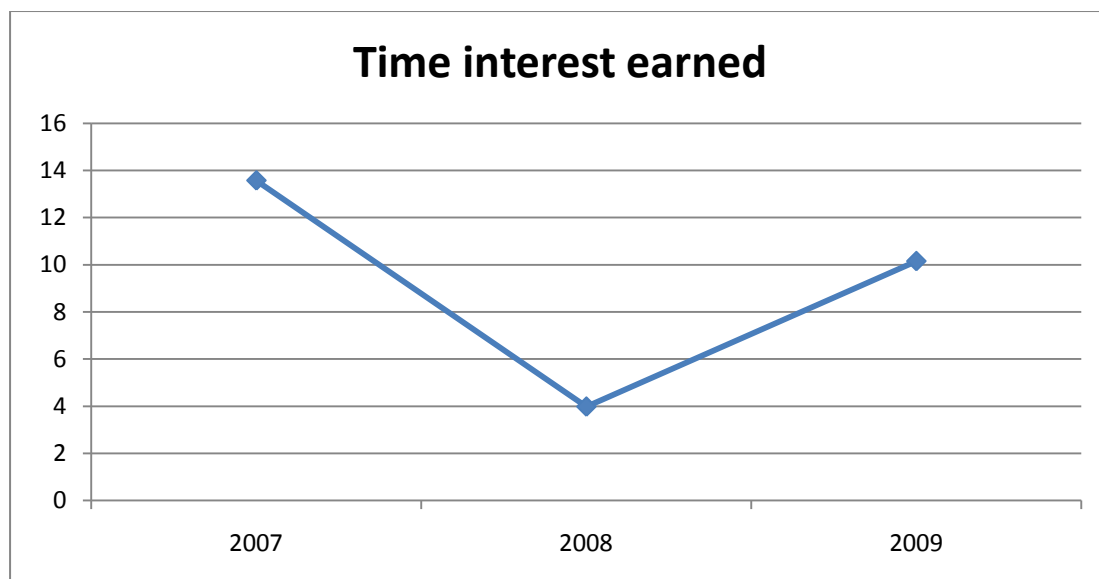|	**2007**	**2008**	**2009**
Time interest earned	13.57	3.98	10.15

Figure13. Time interest earned - 5M s.r.o 2007 – 2009

Company borrows money from bank and owes money from partners in 2008, unsatisfied profitable performance made company decreased time interest earned to the lowest point. The situation has changed in 2009, company makes more profit than 2008 and company pay back 18% of short term liabilities which decrease 45.62% of interest expense. As consequence, the time interest earned back to 10.15.

5.3.4   Assets utilization ratios

Asset turnover

Table 13 Asset turnover- *5M s.r.o. 2007-2009*

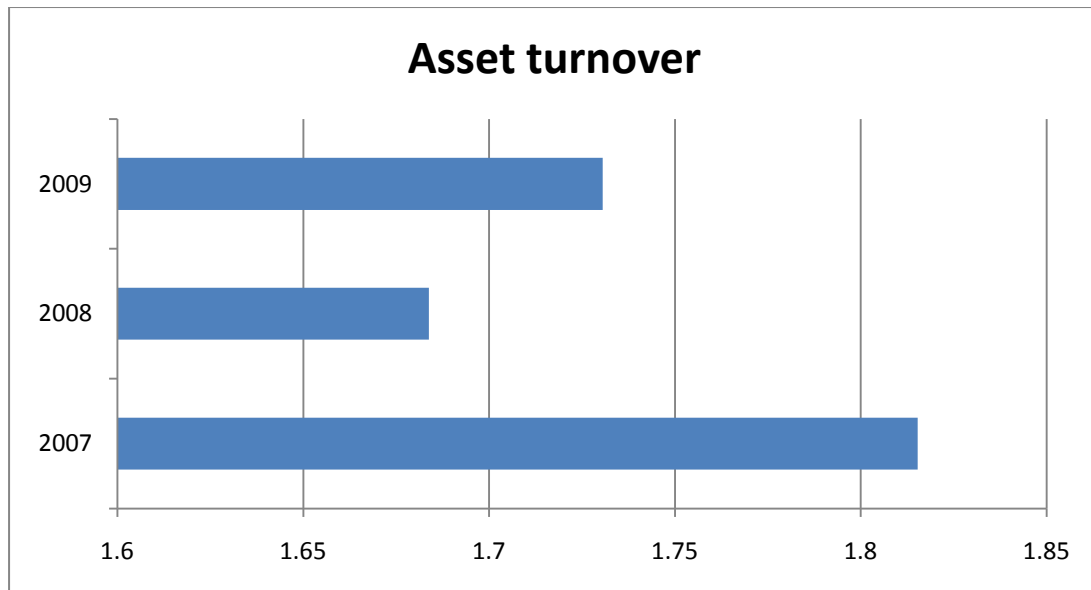|	2007	2008	2009
Asset turnover	1.81	1.68	1.73

Figure14. Asset turnover - 5M s.r.o 2007 – 2009

Asset turnover measures a firm's efficiency at using its assets in generating sales or revenue. From 207 to 2009, total asset increased from 64.397 million CZK to 90.944 million CZK. Revenues are increased 10% in 2008, but assets were increase 20%. Company is not using assets sufficiently.

Receivable turnover

Table 14 Receivable turnover- 5M s.r.o. 2007-2009

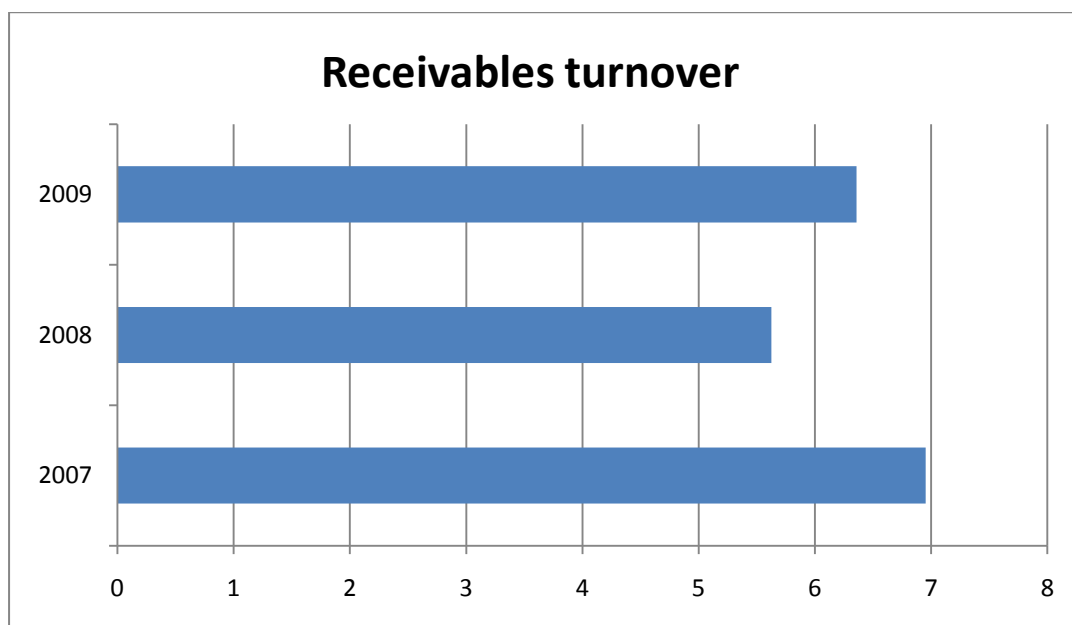|	2007	2008	2009
Receivables turnover	6.95	5.62	6.35

Figure15. Receivables turnover - 5M s.r.o 2007 – 2009

During the three year financial period, 2008 has the lowest receivables turnover, the main reason caused by global crisis which means that company partners and customers had problems with payment, that's the reason for increasing 54.46% of short term receivables. In costs, depreciation of long-term asset was risen by 122.21% provision was dramatically increased 784.4%. In 2007, the margin can be considered the best receivables turnover, company's policy had good result in collecting of accounts receivable.

CONCLUSION

The purpose of this thesis has two primary targets to achieve. As mentioned in the very beginning part, the first one is to introduce the different technical tools which are using to measure financial performance of one company. In this part, I emphasized on the usage of indicators analysis which are including horizontal and vertical analysis. Also I mentioned about four types of ratio in order to analysis the financial data according to different users' point of view. The second part is practical, it presented by analyzing a particular company' financial statement. Those technical tools which mentioned in theoretical part are fully demonstrated in this sector. The financial statement report basic on three years financial data. According to the result, it shows the company's running performance and financial position. Therefore, the evaluations are made by a set of measurements and possible recommendation which is totally depends on the result of analysis.

Horizontal and vertical analyze of 5M s.r.o. has revealed the development of company within three year. I would say that the best financial performance it was in year 2009, it is not because all the items have bigger amount, but also, it shows good financial position. In the beginning of the financial period, totally asset was only 64397 in 2007. Long term asset was strongly affected by tangible assets in 2008. Purchase of land and equipment is the determined reason for tangible asset rising by 46.49%. We could also see it from income statement that company borrows a loan from bank in order to make larger expansion. Compare with interest expense in 2007 more than 100% cost was expensed in 2008. Short term receivable was the reason for increase of current assets. Due to the big amount of sale from production which is the biggest sale in those three years, short term receivable was raised 54.46%, and Sale of production was raised by 15.22%. Expansion of the company directly results in increasing of cost in company, provisions was incredible rise to784.4%.

Vertical analyze is concern about company its assets allocation and utilization in particular year. From total assets perspective the proportion between fixed assets and current assets have showed positive healthy structure, there is no evidence to show company's payback ability in dangerous. Only in year 2007, company has 58.24% of current assets, most of them are made up with inventory and short term receivables. It can be considered as holding excessive cash.

We could make few recommendations through the result of Horizontal and vertical analysis. Company should have more investment and long term receivable to make sure the amount of sale of production will keep rising. At the same time use more effective management to control the cost of sales, cut down the staff costs like overtime. All of the factors directly connect with profitability. In order to increase revenues, company may use some of the strategies above. Also we could learn the disadvantage from SWOT analysis. The representative offices at abroad is not well known yet. For developing foreign market, the financial structure of headquarters in Czech Republic may shift enormously. Either from financial point of view or management point of view, company should have best use of assets, transfer of equity can be done only with circumstances which caused no serious harm to headquarter. Which means sustainable development is the only way to development for both headquarter and representative office.

Profitable rations are quite good in 2007 before it drop profitability in 2008. The best use of investment and also comparative high income indicate that company was profitable. The profit was around 10 percent out of total sale. The economic crisis in 2008 was a big strike to company. Exchange rate was the powerful factor which influences financial assets a lot. In ROE and ROA in 2009, company didn't get enough profit as return. That's the main reason that some of the ratios keep in low position. Company should control the cost of provisions and cut down the unnecessary assets in order to make considerable profit.

All of the total debt ratios are over 60% during those three years. Company should reduce the high percentage by increasing the total assets or decrease total debt. To make sure that pay back long term debt is more and more strong. Lower time interest earned show that company is not generating enough cash from its operations. So it is obviously to see the result from 2008, it was only 3.98. It would be better if company doesn't borrow any loans from back.

According to liquidity ratios result of 5M. It can be considered as stable company. All of Liquidity ratios have good result which indicates that company has enough cash in hand. Liquidity has best performance among other ratios, it make sure company has great ability to payback in short term liabilities. Quick ration in 2009 even exceed recommendation range.

I would suggest company use dormant capital to research new technology or invest high feasibility project in order to get more benefit and use company assets as much as possible. Try to avoid holding too much cash.

All in all, the primary objective for an entity is to generate profit as much as they can. From 2007-2009, company presents positive financial situation in general, though some of performances weren't very successful. The company still growth steadily with its precious experience.

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LIST OF FIGURES

LIST OF TABLES

APPENDICES

P I   Income statement of 5M s.r.o.

P II   Balance sheet of 5M s.r.o

APPENDIX P I: INCOME STATEMENT OF 5M S.R.O

I. Sales of good	**15654**	**13919**	**11602**
A. Cost of goods sold	**12959**	**10684**	**8998**
+ Gross profit	2695	3235	2604
II. Sale of production	106709	122947	117714
II.1. Sales of own products and services	99653	123620	116513
2. Change of inventories of own activity	3037	-1687	905
3. Own work Capitalized	4019	1014	296
B. Cost of sales	**63304**	**64820**	**55926**
B.1. Raw material and consumables	55222	57400	46595
2. Services	8082	7420	9331
+ Value addend	46100	61362	64392
C. Staff costs	**33976**	**40849**	**40528**
C.1. Wages and salary	23393	31070	31034
2. Emoluments of board members			
3. Social security and health insurance cost	10305	9389	9121
4. Other social costs	278	390	373
D. Taxes and Charges	**61**	**105**	**72**
E. Depreciation of long-term assets	**1612**	**3582**	**5753**
III. Sale of long-term assets and raw material	1177	1389	656
III.1. Sale of long-term assets	180	434	
2. Sale of raw materials	997	955	656
F. Net book amount longterm assets and raw materials sold	**888**	**692**	**386**
F.1. Net book amount longterm assets	100	434	
2. Net book amount raw materials	788	258	286
G. Increase/decrease in operation provisions	**718**	**6350**	**8922**
IV. Other operating income	1285	1031	3426
H. Other operating charges	**793**	**1419**	**747**
V. Adjustment to operating income			
I. Adjustment to operating expens			
Asterix: Operational result	10514	10785	12066

VI. Income from sales of securities and shares	2208		
J. Securities and hares Sold	**50**		
VII. Income from long-term investments			
VII.1. Income from investments in controlled entities			
2. Income from investments inother security			
3. income from other long-term investments			
VIII. Income from short-term investments			
K. Loss on investments			
IX. Gain on revaluation of securities and derivatives			
L. Loss on on revaluation of securities			
M. Increase/decrease in financial provisions			
X. Interest income	8	11	4
N. Interest expense	**741**	**1495**	**813**
XI. Other financial income	976	1796	1010
O. Other financial expense	**1226**	**2793**	**1559**
XII. Adjustments to financial income			
P. Adjustments to financial expense			
Asterix: Financial result	1175	-2481	-1358
Q. Tax on profit or loss on ordinary activity	**1632**	**2352**	**2449**
Q.1. current	1656	2063	2173
2. deferrd	-24	289	276
Double asterix: Profit or loss on ordinary activities after taxation	10057	5952	8259
XIII. Extraordinary income			
R. Extraordinary charges			
S. Tax on extraordinary profit or loss			
S.1. current			
2. deferred			
Asterix: Extraordinary trade income			
T. Profit share apportioned to partners			
Triple asterix: Net profit(loss) for the financial period	10057	5952	8259
Quatro asterix: Tprofit or loss before taxation	11689	8304	10708

APPENDIX P II : BALANCE SHEET OF 5M S.R.O

TOTAL ASSETS	64397	76641	90944
A. Receivables (for subscribed capital)			
B. Fixed assets	**26891**	**39253**	**42936**
B.I. Intangible assets (long term)	240	213	951
B.I.1. Formation expenses			
2. Intangible results of development			
3. Software	240	213	101
4. Ratable rights			525
5. Goodwill			
6. Other intangible assets (long term)			
7. Unfinished intangible assets (long term) – in process			325
8. Advances paid for long term intangible assets			
B.II. Long term tangible property	26651	39040	41831
B.II.1. Lands	186	186	186
2. Buildings	8498	19602	22874
3. Independent movable things	7783	15453	18645
4. Plants			
5. Animals			
6. Other long term tangible property			
7. Unfinished intangible assets (long term) – in process	10184	3799	
8. Advances paid for long term tangible assets			126
9. Adjustment to acquired fixed assets			
B.III. Long term investments			154
B.III.1. Investment in controlled entitiies			154
2. Investment in associates			
3. Other long-term investments in securities			
4. Intragroup loans			
5. Other long term financial investment			
6. Long-term investment in progress			

7. Advances paid for long term investment			
C. Short-term assets	**37292**	**37071**	**47905**
C.I. Inventory	17786	11143	14007
C.I.1. Material	8127	6532	8202
2. Unfinished production and intermediary products	2200	1628	1757
3. Finished goods	3032	1918	2668
4. Animals (low animals)			
5. Goods for resale	4427	1022	1380
6. payment for inventory		43	
C.II. Long term receivables			
C.II.1. Receivables from business relationships			
2. Receivables of managers			
3. Receivables – accountants			
4. Receivables of shareholders			
5. Long term provided advances			
6. Conjectural accounts active			
7. Other receivables			
8. Postponed tax receivable			
C.III. Short term receivables	14474	22356	27809
C.III.1. Receivables from business relationships	14378	14159	17390
2. Receivables of managers			
3. Receivables of accountants			
4. Receivables of shareholders			
5. Social security and health insurance			
6. State – tax receivables	6	10	13
7. Short term provided advances	22	3	5
8. Conjectural accounts active		8116	10332
9. Other receivables	68	68	69
C.IV. Financial assets	5032	3572	6089
C.IV.1. Cash in hand	188	283	293
2. Cash in bank	4844	3289	5796
3. Short term bonds and shares			

4. Acquired short-term financial property			
D.I. Accruals and deferrals	**214**	**317**	**103**
D.I.1. Prepaid expenses	214	317	103
2. Complex Prepaid expenses			
3. Accruals revenues			
TOTAL LIABILITIES	64397	76641	90944
A. Own capital	**20341**	**26213**	**34571**
A.I. Basic capital	200	200	200
A.I.1. Share capital	200	200	200
2. Own shares held			
3. Changes inregistered capital not yet registered			
A.II. Capital contributions	-142	-148	6
A.II.1. Share premium			
2. Otrher capital contributions			
3. Assets andliabilities revaluation	-142	-148	6
4. Merger revaluation reserve			
A.III. Reserve fonds and other fonds	808	835	876
A.II.1. Obligatory reserve fond/undividable fond	20	20	20
2. Statutory and other fonds	788	815	859
A.IV. Retained earnings	9418	19374	25227
A.IV.1. Undivided profit of past years	9503	19374	25227
2. Unpaid loss of past years	-85	0	
A.V. Profit(loss) for the current period	10057	5952	8259
B. Liabilities	**44031**	**50277**	**55863**
B.I. Provisions		5320	15735
B.I.1. Reserves under special law conditions			
2. Reserves for rents ETA			
3. Reserve for income tax			
4. Other Provisons		5320	15735
B.II. Long term liabilities		350	1314
B.II.1. Liabilities from business relationships			
2. Liabilities – managers			

3. Liabilities – accountants			
4. Liabilities – shareholders			
5. Long term received advances			
6. Bonds (issued)			
7. Long term bills to be payed			
8. Conjectural accounts passive			
9. Other liabilities			688
10. Deferred tax liabilities		350	626
B.III. Short term liabilities	28117	28635	23250
B.II.1. Trade payables	20787	20258	12021
2. Liabilities – managers			
3. Liabilities –accountants			
4. Liabilities – shareholders			
5. Liabilities to employees	200	275	3036
6. Liabilities – social security and health insurance	983	816	1412
7. Taxes and state subsidies payable	1632	2315	5178
8. Short term received advances	2830		966
9. Issued bonds			
10. Anticipated liabilities	14		54
11. Other liabilities	1671	1950	583
B.IV. Bank loans& overdrafts	15853	15972	15564
B.IV.1. Bank credits long term	9968	10564	7456
2. Bank credits short term	5885	5408	8108
3. Short term financial helps			
C.I. Accruals and deferrals	**25**	**151**	**510**
C.I.1. Expenditures of future periods	25	151	510
2. Revenues of future periods			