**Firm´s Performance - example**

**EXAMPLES TO PRACTICE**

**Example 1:**

The firm achieved an Earning before Interest and Taxes totalling 18 mil. CZK. Equity totals 60 mil. CZK, bank loans total 40 mil. CZK at 12 % interest rate. The income tax is 19 %.

Example:

Express the Profitability Ratios.

Solution:

Profitability Ratios:

**Example 2:**

Calculate the value of EBIT the firm must achieve, if its Equity totals 160 mil. CZK and Payables total 40 mil. CZK at 12 % interest rate; the income tax is 19 %. The desired Return on Equity (ROE) is 15 %.

Solution:

**Example 3:**

Evaluate the development of financial position of the company M based on the selected data from financial statements in two successive years.

Assignment:

1. Calculate the items missing from the statements.
2. Calculate the Profitability Ratios, Financial Leverage (Debt) Ratios, Liquidity Ratios, Activity Ratios and Labour Productivity Ratios .
3. Determine the value of Altman Z-score:
4. Assemble the Du Pont system.

|  |  |  |
| --- | --- | --- |
| Item | 2019 | 2020 |
| **BALANCE SHEET** in thousands of Czech Crowns |
| **Assets** |
| Fixed Assets | 35 000 | 38 200 |
| Current assets | 22 600 | 25 300 |
| Inventory | 9 800 | 10 800 |
| Receivables | 11 600 | 13 100 |
| Cash and bank accounts | 1 200 | 1 400 |
| Assets Total | **57 600** | **63 500** |
| **Liabilities** |
| Registered Capital | 34 300 | 38 600 |
| Profit/loss - current year (+/-) | 4 800 | 5 200 |
| Profit – previous years | 5 010 | 4 950 |
| Payables  | 23 300 | 24 900 |
| Short-term Payables | 12 400 | 11 700 |
| Long-term Payables | 10 900 | 13 200 |
| Liabilities Total | **57 600** | **63 500** |
| **PROFIT/LOSS ACCOUNT** in thousands of Czech Crowns |
| **Operating revenues** | 38 500 | 44 500 |
| **Personal expenses** | 7 400 | 8 100 |
| Operating expenses | 34 600 | 39 000 |
| **Financial revenues** | 15 000 | 12 500 |
| **Interest expenses**  | 3 200 | 3 500 |
| **Financial expenses** | 12 900 | 11 700 |
| Income tax | 1 200 | 1 300 |
| **Profit/Loss before tax** | 4 800 | 5 200 |
| **Additional information** (from the balancing accounts appendix) |
| Number of Employees | 65 | 66 |

Solution:

1), 2) and 3) Calculations of the missing data, ratios, Z-score:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Ratio | unit of measurement | 2019 | 2020 | index |
| **Calculations of missing data:** |
| Total revenues | in thous. CZK |  |  |  |
| Total costs | in thous. CZK |  |  |  |
| EAT  | in thous. CZK |  |  |  |
| EBT  | in thous. CZK |  |  |  |
| EBIT  | in thous. CZK |  |  |  |
| **Profitability Ratios:** |
| ROA (EAT) | % |  |  |  |
| ROA (EBIT) | % |  |  |  |
| ROE (EAT) | % |  |  |  |
| ROS (EAT) | % |  |  |  |
| **Financial Leverage (Debt) Ratios:** |
| Debt Ratio | % |  |  |  |
| Interest Coverage ratio | multiple |  |  |  |
| **Liquidity Ratios:** |
| *Current Ratio* |  |  |  |  |
| *Quick Ratio, Acid Test* |  |  |  |  |
| *Cash-position Ratio* |  |  |  |  |
| **Activity Ratios:** |
| Total Asset Turnover | number of turns |  |  |  |
| Average Inventory Period | in days |  |  |  |
| Average Collection Period | in days |  |  |  |
| Average Payable Period | in days |  |  |  |
| **Labour productivity:** |
| Revenue per 1 worker | in thous. CZK |  |  |  |
| Personnel costs per 1 worker | in thous. CZK |  |  |  |
| Personnel costs per 1 CZK of revenue  | in CZK |  |  |  |
| **Altman Z-score:** |
| Financial leverage (Assets/Equity) |  |  |  |  |
| Working capital | in thous. CZK |  |  |  |
| Retained earning/Assets |  |  |  |  |
| Equity/Payables |  |  |  |  |
| Z-factor (Z-score) |  |  |  |  |

1. The Du Pont Pyramid:
* for 2019:
* for 2020: