

**Evropský polytechnický institut, s.r.o. Kunovice**

**Programme: Finance and taxes**

**MANAGEMENT AND ECONOMY  
OF A SMALL FIRM**

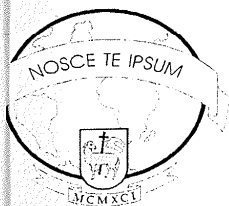
**(in period with respect to joining the European union)**

**(Diploma work)**

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### Zadání bakalářské práce

Vážený studente, vážená studentko,

jako téma Vaší bakalářské práce ve studiu oboru Finance a daně Vám zadávám

**Řízení a ekonomika malé firmy  
(v období před vstupem ČR do Evropské unie)**

- Osnova: 1. Stanovení hypotéz a cílů  
2. Teoretická východiska – základní pojmy potřebné pro poznání oblasti  
3. Charakteristika firmy a analýza její ekonomické situace  
4. Řízení, organizování a odměňování pracovní činnosti  
5. Malé a střední podnikání v rámci Evropské unie  
6. Zhodnocení studie a návrhy na řešení zjištěné problematiky

Bakalářská práce bude zpracována pro: M. Sedlák – AUTODOPRAVA, Horní náměstí 441,  
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Tento dokument je součástí Vaší bakalářské práce.

S pozdravem

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## **Declaration**

I declare that I am the sole author of this work. In enclosed list I show used literature and basic documents. The enterpriser agrees with utilizing of these documents in terms of school needs, he does not allow their external publishing.

Humpolec, 20th April 2005

*Olga Gudiálová*

## **Acknowledgment**

I would like to thank Mrs. Ing. Libuše Měrtlová for her invaluable assistance and advice.

## Summary

This diploma work evaluates specific problems of a small firm, which provides transport services. It analyses the reasons of its economic growth, the efficiency of its activities and contemporary fall its outputs.

It reveals the pitfalls in contemporary regulations, which are valid for the operation of small organizations, taxation and other economic acts.

This diploma work is composed of the following paragraphs:

1. Introduction

The problems in general line with taking to contemporary conditions

2. Theoretic part

Basic concepts necessary for understanding of this area, rules of the enterprise

3. Characteristic of the firm

Basic information, the past and the present of the firm, enterprise specialization

4. Analysis of economic situation

Evolution of incomes and expenses, economic result, firm's property and commitments, taxation matters

5. Company's prospects

Company's prospects with respect to joining the EU

6. Conclusion

Summary of knowledge, the company's prospects

## Resumé

Bakalářská práce hodnotí specifické problémy malého podniku poskytujícího přepravní služby. Analyzuje příčiny jeho hospodářského vývoje, efektivnost jeho činnosti a současný pokles výkonů.

Upozorňuje na úskalí současných předpisů platných pro provoz malých organizací, daňových i ostatních ekonomických zákonů.

Studijní práce se skládá z těchto částí:

1. Úvod

Problematika v obecné rovině s přihlédnutím k současným podmínkám

2. Teoretická část

Základní pojmy potřebné pro poznání této oblasti, pravidla pro podnikání

3. Charakteristika firmy

Základní informace, historie a současnost firmy, podnikatelské zaměření

4. Analýza ekonomické situace

Vývoj příjmů a výdajů, výsledek hospodaření, majetek podniku, závazky, daňové záležitosti

5. Perspektiva dalšího podnikání

zejména s ohledem na vstup do EU

6. Závěr

Shrnutí veškerých poznatků, další existenční možnosti podniku

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## Introduction

The base of economy in the European Union is formed above all by small and medium sized companies. Their share is 99 % of registered firms. In the Czech Republic, which is already a member of the EU, small and medium sized companies employ 62 % of all economically active inhabitants and they share 52 % of achievements in our economy. Although the comparison of the above mentioned data is difficult, it is possible to express that the base of our economy is different; middle and large companies in the Czech Republic provide GDP more than the European average.

In the Czech republic, the summary of activities provided by companies and citizens is called the national economy. These activities have their own structure and they are divided according to different standpoints, i. e. the so-called economic sectors.

The sectors are divided to:

- a) primary - basic industry: soil cultivation, obtaining raw materials from nature
- b) secondary - manufacture: production of material property, building industries
- c) tertiary - services: transport, business, education, banking, tourist industry, culture, accommodation, municipal services and others.

This diploma work is aimed at the tertiary sector, namely transport.

Road transport is a field of business, that is influenced by regulative procurations of the state, with many legal rules. In the Czech Republic, these regulations are often reviewed and open to change. It is really difficult to keep an actual track of all these rules, which include enterprise regulations in road transport, regulations of road transport enterprise, legal regulations of road traffic as well as tax duty, insurance and labour protection.

The contract about joining the European Union includes a chapter about "transport", which says that transport will bring to the Czech Republic the main contribution in chances of unlimited entrance to the markets of single member states in the area of international road, air, marine, inland water transport and gradually also in the area of railway transport. The European Union even negotiated a five-year interim period for full liberalization of intrastate freight traffic.

To maintain the intents written above and to remove current problems, there must be good and multiple development of the whole economy.

All negative impacts which exist in the whole country (influenced mainly by the movement of crude oil prices) affect especially this field. Especially small and medium sized companies are really vulnerable. They provide the transport services to inhabitants, either transport of goods or people. The effectiveness of their economy depends on crude oil prices much more than in other fields. Due to competition reasons they cannot regulate their tariffs proportionately to the increase of fuel and oil prices, so they are easily absorbed (or dissolved) by large firms which were formed especially from previous regional formations of CSAD. Hence there is a possibility of return to previous times.

The aim of my bachelor work is to verify the justification of the above mentioned speculations as well as to find out other possible reasons for problems going along with the activities of small and medium sized companies.

To insure the quality of this work it was necessary to study some fundamental theoretic information in advance. Due to it the educational work was divided as follows:

- theoretical part
- practical part.

To check intents in practice, I chose a small firm providing transport services, namely the one that is most endangered with current liberal policies of the state and with gaps in legislature. However, the solution of the defects concerned in rules and laws is not possible for a student. The open analysis will perhaps at least show to our economists what this situation causes in small business enterprises and then they should consider if it is in conformity with their aims. The question is also the participation of the enterprisers in eventual undesirable development.

## Theoretical part

### 2. The Market and the enterprise

Every enterpriser is dependent on customers, suppliers and competition, he must have a definite capital and he also must adhere the rules of the enterprise given by the law - first of all by Trade Code, Commercial Code, Civil Code, Law about book-keeping, Labour Code and by others.

#### 2.1 The Market

In the market economies every company is linked to the market which forms natural environment to it. Then every company must adapt to it and at the same time use it actively according to its prospectus.

The market is denoted as a system, where it is possible to exchange goods on the basis of the structure between the seller and the buyer. Here the buyers ask for the needed goods and its price and the seller offers it to them for a definite price. The price of goods (if it isn't controlled by the government) and its value is in the end determined by the market, namely by interaction of supply and demand.

The supply can be distinguished:

- *an individual supply* = the supply of one producer of definite goods or service,
- *a submenu* = the supply of all producers of definite goods in a definite region,
- *an aggregate supply* = the supply of all producers of all kinds of goods in one country.

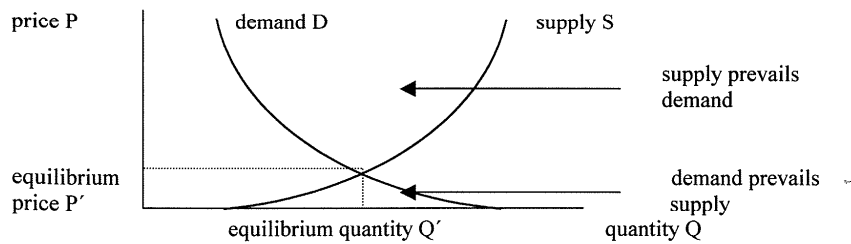
The demand can be distinguished:

- *an individual demand* = the demand of one buyer of definite goods or service,
- *a partial demand* = the demand of all people from definite region for definite goods or service,
- *an aggregate demand* = the demand of all people in one country for all possible kinds of services and goods.

Regardless of the fact whether we follow the individual, partial or aggregate supply and demand, we can make out the following market laws:

1. **the law of supply** = the supply of goods is increasing with increasing price;
2. **the law of demand** = the demand for goods is falling down with increasing price.

**Graph 1: The interaction of supply and demand**



**The curve of demand** implies the behaviour of buyers. **The curve of supply** implies the behaviour of producers. The penetration of both curves shows so-called equilibrium quantity and the corresponding equilibrium price. The demand and the supply are well-balanced at this point and the market equilibrium occurs.

Market economy presents the whole complex of interconnected markets:

1. **goods and service market** - it forms the price of goods or service by equating supply and demand
2. **employment market** - it forms the price of labour force; employees offer their manpower, the enterpriser demands it and accepts it for negotiated wage or salary
3. **money market**, it means money supply and demand; there the rate of interest is formed which helps to determine the interest (it is a price which the money is lent on credit for or a price which banking institution pays for the deposit of money)
4. **capital market** – it means securities trading. This market forms the profit rate which determines the lower bound rate of enterprise profit.

## **2.2 The enterprise and the business**

We consider **the enterprise** as the activity of every company which tends to filling of definite aims of productive, business or different character, determinated mainly by Trade Code and Commercial Code. The main aim of its effort is profit or prosperity. The achievement of profit is the main purpose of all enterprisers. It stimulates them to be economical in all activities.

The enterprise is also connected with the economical risk. The enterpriser produces goods for market or sells it in the market and it makes him obtain the best information about the situation on the market where he wants to participate in.

**The business** is the enterprise that requires a trade certificate.

The business is not activity:

- determined to the state by the law,
- which is based on Copyright Act, Invention Act and other special laws,
- of so-called occupation of doctors, vets, lawyers and commercial lawyers, experts, tax consultants, exchange stockbrokers and brokers and others,
- of organizers of cultural performances and exhibitions,
- agricultural and silvicultural, of gardeners and breeders,
- which is based on special laws.

The mentioned activities are not business, but they may be considered as the enterprise as far as it is allowed by the pertinent special law for given activity.

The law differs the business according to conditions that must be answered by a businessman, to notifiable and licensed business. The notifiable business may be run by discharging the conditions on basis of notification and licensed business may be run only on basis of the licence granted by the state.

The notifiable business is divided on:

- **free**, the professional competence is not necessary,
- **professional**, the professional competence acquired by training in a branch is necessary.  
The enterpriser makes it out by:
  - a certificate and evidence of fulfilment of a three-year practice in the branch,
  - a certificate about passing studies at secondary professional school and evidence of fulfilment of a three-year practice in the branch,
  - diploma or other evidence of graduating bachelor or magister studies and evidence of fulfilment of a year practice in the branch.
- **regulated trade**, the professional qualification is necessary to be proved;
  - university education and fulfilment of a three-year practice in the branch or secondary education ended with the leaving examination and a five-year practice in the branch.

The licensed business is, for example:

- producing weapons,
- exchange activity,
- taxi service,
- providing telecommunication services,

- running travel agencies etc.

For all kinds of business the businessman must answer general and special conditions.

The general conditions are:

- **full age** (to achieve the age of 18 years),
- **legal capacity** (a competence to perform legal acts),
- **integrity** (the person must not have been sentenced for crime incidental with subject of the enterprise).

The special conditions are:

- **professional and other qualification**

For the licensed business there is also required the reliability, namely the reliability of the enterpriser and the employees.

According to the subject of the enterprise we distinguish these kinds of business:

- trade
- manufacturing
- providing services

The trade certificate can be obtained by a physical entity or by a corporation that answers general and special conditions. The certificate of trade licence is the Trade Certificate for notifiable business and the Trade Licence for licensed business.

The enterpriser can provide more trades if he has a trade licence for each of them (with the exception of trade provided by industrial way).

### **2.2.1 The aim of enterprise**

The main aim, regardless of proprietary forms and the enterpriser tendency, will be the effort of profit achievement.

The ways to the firm prosperity assurance are different and they depend on objective and subjective factors.

We can consider as the most important factors:

- cost reduction,

- raising of the labour productivity,
- exploitation of modern technology and super techniques,
- increasing of prices depending on macroeconomics influence,
- improvement of the work organisation and managing, successful competition,
- marketing.

It also depends on general economical level of a company, and on the way to prosperity chosen by the enterpriser.

The next aim of entrepreneurial activities is an economical and effective firm activity, it means the exploitation of all material and intangible sources of the enterpriser: savings of material and energy, correct usage and exploitation of principal capitals, exploitation of workers ability as well as working hours.

The effort of the enterprisers has to be also goodwill. It is impossible to underestimate this aim because goodwill provides its long-term economic success.

All lines of entrepreneurial activities written above must take into account particular social and ecological standpoints. The enterpriser who takes care of antipollution measures, acquires respect and recognition not only of the employees, but also of inhabitants in places where he enterprises.

### **2.2.2 The Enterpriser**

The enterpriser is a person, who starts a firm and runs its activity (links the work, capital and next productive agents with the aim to achieve contractors profit by providing activities for satisfaction of other people needs). At the same time he bears the risk of all expended capital loss.

The enterpriser must have necessary skills in a given branch (knowledge, experience, organizational skills) and personal characteristics (hard-work, pertinacity, curiousness etc.). He must be good at dealing with people and able to make correct decisions.

The enterpriser can be a physical person (every citizen) or a juridical person (a group of people, another company or a state), registered in the list of enterprisers which is led in the form of so-called indexes (public lists). All the data asked by the law are put into them.

The physical persons are:

1. *enterprisers* - self-employed on basis of the trade licence, or self-employed on basis of other law titles.
2. *employees* – people able to enter industrial and legal relationship with their employers.

The juridical persons are:

1. **companies** - according to Commercial Code there are:
  - general co-partnership
  - Limited Partnership
  - Limited Liability Company
  - Joint-stock Company
2. **cooperatives** - again according to Commercial Code
  - agricultural and building,
  - housing,
  - consumer and producer,
  - handicraft and others
3. **public enterprises** according to the law about the state enterprise.

Having obtained the necessary trade licence the juridical person must be registered in the business register kept by the registration court.

The enterprisers can associate without the rise of juridical person:

- *sleeping partner* (according to Commercial Code)
- *association or syndicate* (according to Civil Code)

### **2.2.3 The Company**

The company is the fundamental economic part of a national economy which subserves specific aims and discharges various functions. It means a subject of enterprise working separately that can have a different size, form of proprietorship, ways and purposes of entrepreneurial activities. The company is a set of material, personal and intangible components of enterprise. It means that the company is created not only by tangible property, but also by money ratable rights and substances as well as quality and possibility of human



manpower employed in the company. The company performs its fundamental function on basis of independent financing, it is an independent obtaining and usage of sources - capital. The company enters the market where it sells its feats and accomplishes a profit.

The company must have a law independence or law inwardness for an independent economic decision making. This is delimited by a valid law and it means that the company acts like a subject which carries a trade name and rights and performs its liabilities. We consider this company as a juridical person.

**The firm of juridical person** is its title written into a trade register. The component is also an addition giving a legal form of enterprise.

**The firm of physical person** is its name and surname. Further it can contain an addition which differentiates the person of enterpriser or the kind of enterprise.

Dissolution and foundation of a company is decided by the founder or other legal subjects.

We can distinguish companies according to forms of proprietorship:

- **state** companies, where the state owns over 50 % shares and thereby it keeps its influence;
- **private** companies, it means businesses, companies, etc;
- **cooperative** companies, which belong to all people associated in cooperation;
- **municipal** companies, that are owned by a municipality.

#### 2.2.4 The business property

The business property of enterpriser (who is a physical person) is a possession which belongs to the enterpriser and serves or is intended for his enterprise. The business property of enterpriser (who is a juridical person) is a set of all estates and liabilities.

The clean business property of a physical person is a business property after a deduction of liabilities arisen in connection with the enterprise; of a juridical person after a deduction of all liabilities.

**The fundamental capital** is a total deposit of shareholders' capital in monetary form. The partner shares the fundamental capital with his own deposit. The amount of the deposit is written in a partnership agreement which the partners signed up during foundation of a company or cooperation. The amount of fundamental capital is written in a trade register.

**Shareholders' capital** creates own financial resources of enterpriser's business property. In dual book-keeping it is shown out on liability side of a balance.

Shareholders' capital of a company is created by four sources:

1. imposed authorized capital,
2. capital funds,
3. funds formed from profit,
4. income.

In obligatory tax accounting (earlier simple book-keeping) there is a property difference between estates and liabilities. The difference between the property at the beginning of a period and at the end of a period is a profit or a loss.

### **3. The company's finance**

The economic success of the enterprise depends not only on economical production, on the quality of offered products or services and their sale but it depends also on the level of financial management.

The aim of a financial management is to provide the capital profitably and use it economically. Obtained financial means (money) then serve for the next operation, revival and development of a company and its activities.

However, the developing intents of a company cannot be always accomplished only from these obtained substances. It is necessary to provide advantageously also a foreign capital. It is necessary to use the own and foreign capital efficiently and economically.

The capital structure changes by using different kinds of a capital and by gradual congregating of a profit. It is necessary to decide how much of a profit we can reserve in a company and how much we can divide among shareholders. The data from accountancy books are the groundwork for following of this development.

We can evaluate financing in many ways:

1. division according to a financial resource,
  - form of funds (monetary, matter-of-fact)
  - form of relation of funds to the firm (inner, outer)
  - form of relation of funds to the firm owner (owned, foreign)
2. division according to time standpoints (short-term, long-term financing),
3. division according to standpoints of parties of financing (necessity to obtain and to offer finance),
4. complete division (according to the purpose and reference to firm estates)
  - according to purpose (common and extra charges financing)
  - according to reference to firm estates (real and unreal financing).

#### **3.1 The financial resources**

Financing is providing of financial sources which we need for preservation of an entrepreneurial position of a company and for securing of its development. Without financing

a company can gain the waste of dynamism – the loss of its internal power.

That is why the financial funds are needed. But how to provide them?

The enterpriser solves repeatedly serious decision problems:

- what is a general need of financial sources for realization of entrepreneurial intents, what returns these intents promise,
- how many own sources we have, where we can place them optimally,
- how many financial sources have to be kept ready for a composition of unexpectedly increased needs of free means of payment,
- how many foreign sources we can obtain, in which forms and under which conditions.

Most common division of financial resources:

1. *form of funds:*

- monetary (cash, outstandings, etc.)
- matter-of-fact (machinery, immovables, soil, etc.)

2. *form of relation of funds to the firm:*

- inner source (created by internal firm activity - profit, deduction, etc.)
- outer source (other funds - deposit of firm proprietor, loans, leasing, etc.)

3. *form of relation of funds to the firm proprietor:*

- own source (inner funds + shareholder's deposit, etc.)
- foreign source (supplier credits, unpaid salary and taxes, etc.)

### **3.2 Financial planning**

Financial planning belongs to the most intensive economic area of a company. It focuses on formulation and appreciation of economic results of realizing complex procurement which should be realized by a company in a given view. It is a process of formulation of the aims and ways how to achieve these aims.

The necessary component of planning is a plan budgetary control.

Financial planning is very important as we can avoid various surprises during changes of present conditions and presumptions with a big probability.

Financial planning covers:

- assesment of company financial aims,
- analysis of differences between real and objective state,
- total procuration needed for aims achievement.

We distinguish time backdrop during financial planning as well as during general planning. According to it, we distinguish a short-term and a long-term financial planning.

**A short-term** financial planning is a plan on time backdrop from several months to one year. It interrelates especially with common economic activity of a company. A short-term financial planning focuses first of all on planning of monetary flow of receipts and expenditures and then on obtaining of short-term outer financial sources aiming in solidity reservation.

**A long-term** financial planning is usually exerted in a view from 2 to 5 years. The function is to plan the financial funds with a several-year view. These financial sources will be used for extension of long-term estates, its revivals etc .

**A total long-term** financial plan proceeds from projects and next procurations which a company intends to realize during an elected time backdrop.

A financial planning is provided by a financial unit. The specific workload and structure of the financial unit depends on a size of a company and on its entrepreneurial activities.

The financial unit usually provides these activities:

- company financing,
- financial management and planning,
- book-keeping and statistics.

### **3.2.1 The entrepreneurial project**

The project generally means the term of proposal, subject, plan and total solution of intended task including the realization. It means also an idea, a resolution or an intention. First of all it is an effort for an innovation. The innovation proceeds from strategic aims, whereas the strategy leading to their achievement must be ensured.

The specification of projects leads to a better orientation in their diversity. It is possible to carry it out from standpoints of kinds or extent. From standpoints of kinds there can be

found capital projects, projects of development and adoption of new products production, organizational changes, but also humanitarian activities, etc.

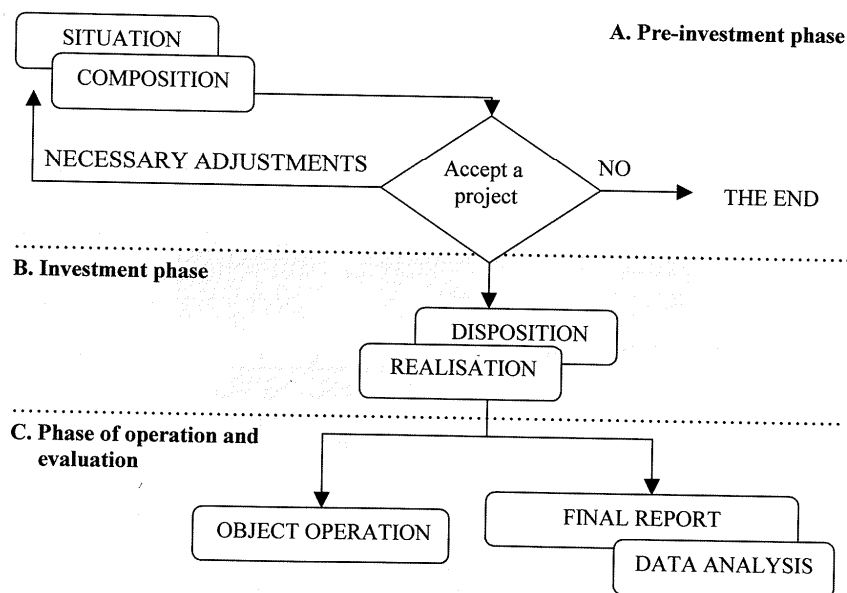
From the standpoints of extent projects can be divided :

- *complex projects* - long-termed, often unrepetitive, with many activities, asking for specific organisation of project works, high costs, etc.,
- *special projects* - medium termed, with lower extent of activities,
- *simple projects* - short-termed, small projects with simple aims, solved usually by one designer, with few activities.

All projects (small and big) are processed by an inferior worker or by supply company. These projects ask for the clear support of the firm – they are in its interest.

The entrepreneurial project is a system which is developed in a closed life cycle. It follows three phases A, B, C (each of them has its own start and end) in each project.

**Picture 1: Phases of life cycle of project**



A project control is changed passing from one phase into the second one. The most important part of the whole project is a pre-investment phase. The investment phase is the most expensive and the most work-intensive.

Its feasibility has to be checked from the beginning of work on the entrepreneurial project.

To appreciate different phases of project realization we can choose one of following methods:

- study of occasions and practicability,
- preliminary study of practicability,
- final analysis or evaluating report,
- financing project,
- analysis of cash flow, profit.

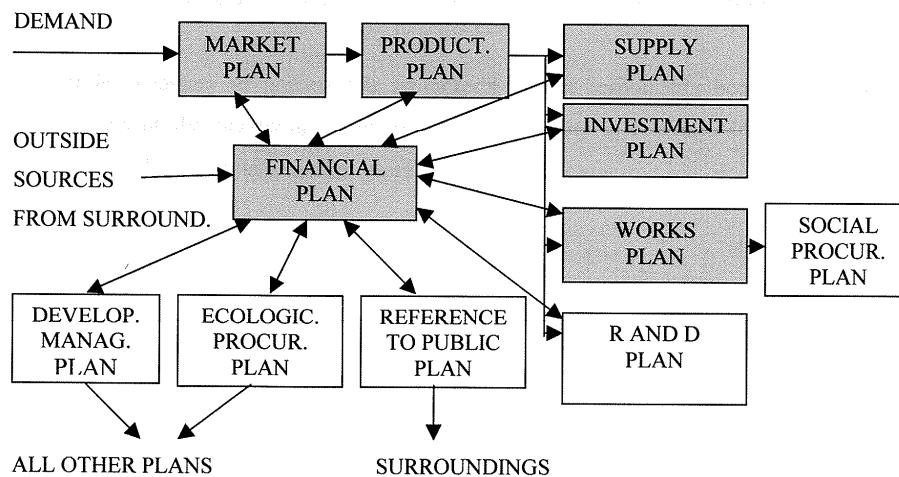
The project is important for realization of the prospectus.

### 3.2.2 The prospectus (business plan)

The prospectus, like the very first business plan, is one of entrepreneurial projects. It is a result of thinking about the company strategic aims fulfilment. In initial stage it can be only their list written on a sheet of paper. This list is gradually improved and the manners how to realise single prospectus are wanted.

The compilation of business plan must proceed from marketing analysis of effective demand and from adoption of the firm strategy.

**Picture 2:** Parts of business plan



The way of the prospectus financing must be supported by the matter-of-fact substance of solving problem and must be based on real presumptions, including the sales presumption.

The appreciation of prospectus is an important part of long-term planning. Especially in this area there are used the specific methods of appreciation, above all the calculation of credit pay-off period, testing the rate of profit by net present value of cash flow and the calculation of inner yield percentage.

The most important data are the results of balance-sheet of expected states and cash flows in particular years of construction and operation.

### **3.2.3 The promoter's budget**

In financial planning the compilation of the promoter's budget presents a special case. The total result is a balance-sheet or statement of estates and engagements which contain primary data about estates and capital structure. They are the basis for decision whether it is objective to obtain the needed capital and whether we can start the entrepreneurial activity.

The promoter's budget consists of two parts:

1. the cost and revenue budget - the enterpriser acquires the fundamental conception about annual firm economy and also finds out the income return of prepared enterprise
2. the budget of investment and operation capital and sources of its financing

It is necessary to process the promoter's budget responsibly because consequential decision about the beginning of entrepreneurial activity is relevant. It predetermines the success or failure especially in first years of enterprise.



## 4. The Book-keeping

Book-keeping is a system which must inform accounting entity as well as other entities like: revenue authority, banking institutions, suppliers, creditors. To satisfy the informative needs of the users, the book-keeping has its unreplaceable methodical features.

Methodical features of book-keeping are:

- accounting documentation,
- balance-sheet and balancing principle,
- account books and transactions in them,
- duality of book entries,
- stocktaking and appraisalment.

Methodical features of book-keeping constitute the substance of book-keeping and they depend on accounting department system - whether the accounting department system is single or double.

In the end of the year 2003 the law about book-keeping was updated by the law No. 437/2003 and the law of income tax by the law No. 438/2003. They set the following changes in single entry book-keeping:

- from 1.1.2004 the single entry bookkeeping was replaced by obligatory tax accounting,
- a physical person must proceed to double-entry accounting in cases when the income of ratepayer for taxable fulfilment according to the value added tax law (including exempt fulfilment) exceeded during the instant previous year 6 000 000,-- crowns. Then the book-keeping must be changed from the beginning of the following accounting period.

The tax accounting is based on the same principle like single entry book-keeping.

Because the object of this educational work enterprises on basis of the licence deed (and trade licence) the attention is presented only to the form of obligatory tax accounting.

### 4.1 Tax accounting

Tax accounting is regarded a special (selective) form of dual accounting department system. A special form means that the tax accounting selects only some sorts of estates from

object of book-keeping, such as - funds, outstandings and liabilities and these are under increased attention.

Its main disadvantage is a non-system access to the object of book-keeping and a rambling checking system. This tax accounting in contradistinction to dual book-keeping is not based thoroughly on accounting methods and common accounting fundamentals, but on fundamental principles.

The fundamental principles of obligatory tax accounting are:

1. principle of bookless accounting,
2. estimative fundamentals,
3. reckoning of monetary economy and accounting funds in a cash book,
4. separate accounting of estates and liabilities in auxiliary books,
5. stocktaking of estates and liabilities,
6. final accounts.

The tax accounting system base is reckoning of monetary economy in a cash book which means accounting of funds movement (receipts and expenditures) in cash and on checking account chronologically and with contemporary systematic organization.

The main sign of tax accounting system is:

- separate reckoning of monetary economy,
- separate reckoning of tangible property, outstandings and liabilities.

The aim of tax accounting system is:

1. to lead conclusive accounting of estates and liabilities of the enterpriser,
2. to ensure the accounting of monetary means in cash, on checking account and so-called money on the way during transmission between the safe and checking account,
3. to offer to the enterpriser (accounting entity) some information for managing, analyses and economic analyses,
4. to show out the correct result of operations as the difference between receipts and expenditures of the enterpriser for tax purposes.

Technique, way and form of tax accounting system is not given by any legal regulations. It depends on the enterpriser how to account - either in a cash book or on computer, on his own or by other physical or juridical person.

## **4.2 The accountancy**

The book-keeping base is the exact accounting, it means writing information either by hand or by means of a computer. The accountancy is written in accounting books.

Single transactions in accounting books are called accounting entries. All accounting entries can be done only on basis of accounting documents.

### Actuals documents:

- receipt and charge cash voucher,
- bank statement,
- sales slip, invoice,
- inner actuals document etc .

All actuals documents have to be numbered and arranged in order to evidence their succession and not to get lost - they are also a part of accountancy books.

### **4.2.1 The accounting books**

- **a cash book:**
  - with ready and credit transfer receipts (diversifying the data after the principle of income tax),
  - with ready and credit transfer expenditures (diversifying the data for achievement, preservation and ensuring income),
  - with running sums,
  - with survey about value added tax.
- **a book of outstandings and liabilities**
- **a book of sales and purchase ledger**
- **an inventory book of tangible property and small tangible property**
- **auxiliary accounting to VAT and road tax**
- **wage accounting, attendance accounting**
- **stock records**

## **4.3 The final accounts and closing of books**

All accounting entities are (according to the law) obliged to close the accounting books to the last day of accounting period and to set the final accounts to that day. The final

accounts provide a definite final set of information gained from book-keeping during one accounting period.

In tax accounting system the final accounts consist of:

- the survey about receipts and expenditures
- the survey about estates and liabilities

The compilation of final accounts goes from the data written in single accounting books (cash book, book of outstandings and liabilities and auxiliary books). There are many operations provided in advance which edit and support further accounting transactions (deductions, reserves etc.). This operation is called closing of books.

It is necessary to write into a cash book all receipts and expenditures which are relative to a given taxable period or to check whether all accounting transactions were written before the beginning of closing works.

By closing of accounting books we find out:

- total remittances of the data written in a cash book, especially:
- total receipts and expenditures in a cash desk and on checking accounts,
- balance on running sums,
- total of general receipts and expenditures and their division (for tax purposes),
- the states of unsettled outstandings and liabilities
- the states of estates and reserves
- the states of other accounting entries and auxiliary books

Subsequently a difference between receipts and expenditures is found out - it is the income of operations that is only the output of book-keeping and has no influence on the income-tax calculation.

## Practical part

How is noted in introduction, a small firm provided transport services is a subject to discuss.

### 5. Characteristic of the firm

#### 5.1 Primary data

Trade name: M. Sedlák-ROAD TRANSPORT

Place of business: Horní náměstí 441  
396 01 HUMPOLEC

Associated workplaces: Assembling shops  
Petrovice 11/2  
396 01 HUMPOLEC

Petrol station and goods vehicles parking place  
Nádražní ul.  
396 01 HUMPOLEC

Subject of enterprise: - intrastate and occasionally foreign traffic  
- purchase of goods with the view of resale and sale  
- repairs of motor vehicles

#### 5.2 The history and the present of the firm

The enterpriser established the firm in 1991 as a physical person on basis of Licence Deed and Trade Certificate. He started his activity with two Avia lorries and a motor vehicle. It was for an incidental transport of goods for various consumers.

In 1993 the enterpriser assumed (bought) four further lorries (Ifa and Avia) from Bernard brewery and made a contract with the brewery on beer transportation. In the first decade the transportation extended gradually. The firm then had at average 20 employees, 15 lorries and 2 motor vehicles and it covered all needs of the brewery.

Rolling-stock was mostly renovated. Three new cars with thermal bodies were bought due to the leasing contract, the oldest and often repaired lorries were set aside.

Later, however, the consumer created his own wholesale stores and he began to restructure the direct delivery of goods (beer) into single shops and restaurants in the republic. This step effected the transport firm, namely because the influence of nation-wide economic recession did not allow to hold the current extent of activities. The enterpriser was obliged to adapt the company capacity to new enterprise conditions and to reduce the state of motor park and man effort.

In 2002 the contract with Bernard brewery was cancelled. It was necessary to keep the company by transporting for several smaller consumers, the experiments in the area of sales (spare parts, oil) and in repair service were made. This side activity, however, wasn't very successful, according to the momental capital. The efforts for external transport services were not very profitable as well. That's why the enterpriser returned to intrastate transportation.

Subsequently the enterpriser made the contracts with regular customers. They are above all Skrobarny Pelhrimov, Top Trans Highway Melnik, then Exekutorsky urad Jihlava, CD sped. Prague.

The constitution of rolling-stock was adapted according to requirements of new customers. The enterpriser bought on hire purchase two large-surface automobile suites (container Man, semitrailer truck Daf). Older lorries Avia, Liaz have been set aside or put in deposits step by step.

The volume of transport services was stabilized in 2004. The consumers written above handled 80 % of company capacity. In the end of the year the company was able to use 10 lorries including trailers and there were 6 people employed.

Recently the economic development of a small businessmen has been, however, negatively influenced by the simultaneous reform of public finances. The tax laws have been changed, taxes have grown up generally, the enterprisers have paid more for medical and national insurance. All the time the prices of fuel and oil, the prices of highway marks, the expenses on lorry insurance, etc. have been increasing.

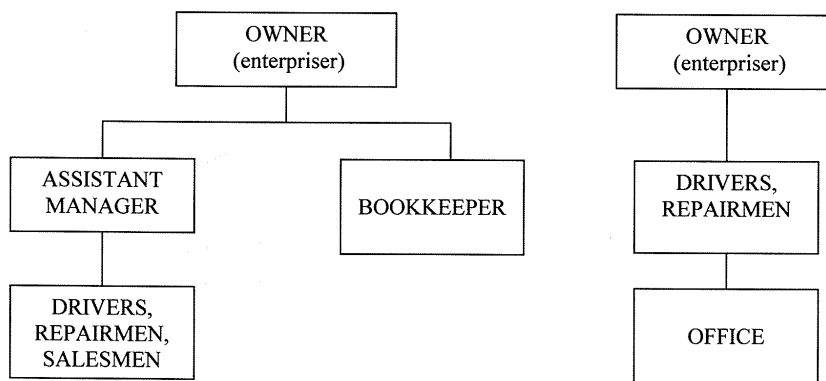
### 5.3 The organizational set-up

M. Sedlak - ROAD TRANSPORT firm employed into the year 2001 at average 20 workers (drivers, co-drivers, repairmen). The course of the company was provided by the owner (enterpriser), the bookkeeper and operational part was provided also by the assistant manager (who worked also as a driver). Organizational set-up of this company is simple.

**Picture 3:** Organizational set-up of the company

a) original structure

b) the organizational structure from 2004



It is necessary to say that accounting work and coherent tax activity, intercourse with banking institutions, as well as with social and medical authorities are provided in cooperation with a family. None of them then is in occupational conditions.

Provision of contracting relations with consumers, personal arrangements, purchase of material, spare parts and capital activity are provided by the enterpriser himself.

### 5.4 Bookkeeping of company

According to the contemporary extent of activities of the transport company as well as to the amendment of the act about book-keeping (law No. 437/2003 Sb.), the firm M. Sedlak - ROAD TRANSPORT runs only so-called obligatory tax accounting from 1.1.2004; because its annual incomes don't reach 15 mil. crowns. This accounting is based on the same principle as previous single book-keeping.

The firm pursues according to terms written above:

- a) all receipts and expenditures, diversifying the data needed for tax purposes
- b) income from operations (the difference between receipts and expenditures)
- c) state and movement of liabilities
- d) state and movement of outstandings
- e) state and movement of estates, their division
- f) stocking material, its purchase and usage
- g) development of funds, withdraws from banking accounts

The firm keeps:

**Cash book**

The most important accounting book in tax accounting system (single book-keeping) is a cash book where the accounting entity accounts during the accounting period in time succession about economic operations.

A cash book is calculated for reckoning of:

- a) receipts and expenditures provided in cash,
- b) receipts and expenditures provided by a bank,
- c) running sums (transfers between a cash desk and bank account and transfers between bank accounts and transfers between cash desks),

All entries in a cash book must contain only financial operations, except accounting during closing of accounting books – a cash book where the last entry must be followed by closing book-keeping operations:

- revenues comprised into income tax base,
- expenditures for income achievement, reservation and preservation

In a cash book there are not written operations of a special character: payments, levy, exposed and received statement of account (invoice), etc.

The form, way and technique of accounting in a cash book is not prescribed. Final accounting is provided in the end of accounting period, which is a calendar year.

**The book of outstandings and liabilities**



Outstandings and liabilities to other subjects are written in a book of outstandings and liabilities or if necessary in a few books according to activities of an accounting entity.

The base of this accounting is a book of received and exposed invoices (customer-supplier terms). This book must provide to the enterpriser at least this information:

- a separate evidence of single outstandings and liabilities based on accounting documents,
- documents specification,
- commencement date of outstandings or liabilities,
- amount,
- maturity date and reimbursement method.

### **Subsidiary books**

#### **The inventory book (cards) of long-term material and intangible estates**

The material and intangible long-term possession (including the expenditures for its acquisition according to single subjects) is written in an inventory book or on inventory cards. The accounting of these long-term estates is in purchase prices.

Obligatory parts of inventory book (cards) are:

- a title or description of material and intangible long-term estates including small intangible estates and their state, or numeral marking,
- appraisement,
- date of acquisition and line-up,
- data about elected way of tax deductions,
- remittances of tax deductions during the taxable period,
- date and way of rendering.

#### **Wage accounting (statement of remuneration)**

Salary roll of workers is written on statements of remuneration. The enterprisers, who pay income-tax of a physical person, are obliged to keep these statements of remuneration for their employees. They are also obliged to summarize all taken pre-taxes and taxes for every month as well as for the whole taxable period.

The groundwork for transactions in statements of remuneration are papers that must include:

- a) calculation of wage,
- b) assesment of deliveries of medical and national insurance,

- c) assesment of wage deduction including the income pre-tax,
- d) amount of advance wage payment.

The accounting entity must document the wage payment to the worker on pay-rolls.

The statement of remuneration must cointain for purposes of income-taxation:

1. name and surname of the employee (also former surname),
2. personal identification number,
3. address,
4. names and personal identification numbers of people that the employee exerts for decrease of tax base and height of single tax-free remittances,
5. every calendar month:
  - a) total salary roll,
  - b) tax-free remittances,
  - c) insurance,
  - d) basis for pre-tax calculation,
  - e) tax-free remittances of tax base,
  - f) taxable wage,
  - g) pre-tax,
6. sum of data during a taxable period.

#### **Further subsidiary books**

The inventory book of financial estates

Book (cards) of reserves

Book for accounting of excise taxes

Book of valuables etc.

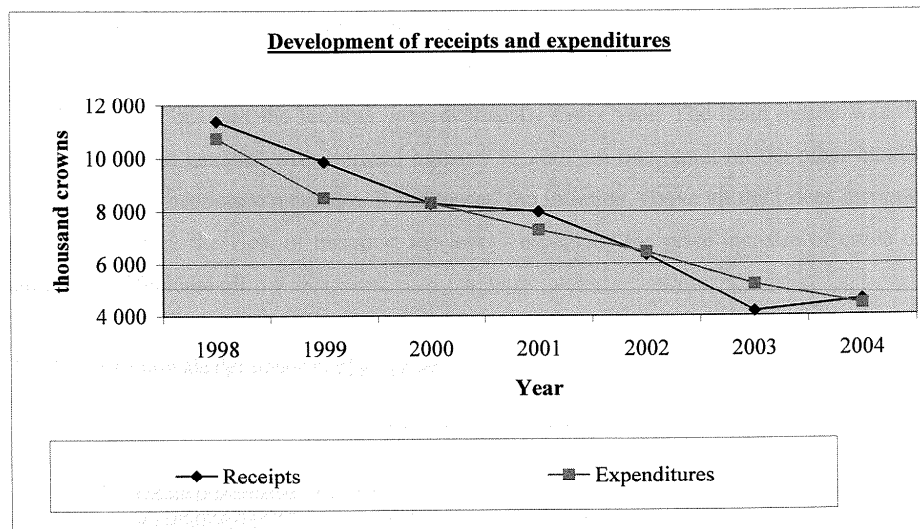
All accounting and reckoning are provided by hand. The firm also provides (in a way of contain and time) groundworks needed for social, medical and financial administration. It has also the sufficient information about the economic development of the company. The firm watches the development of nation-wide macroeconomic policy by the help of the internet.

## 6. Economic situation

The company provides its activity, as written above, on basis of Licence Deed and Trade Certificate and keeps obligatory tax accounting. The result of its economy is therefore the difference between the reached receipts and expenditures expended on achievement, preservation and ensuring of income.

At the time of starting work on this study (analysis), the firm economy was influenced by the loss of advantageous customer, as well as by the general economic crisis in our republic and throughout European Union. In the end of 2004 the company reached only 40 % of funds of the fundamental economic indicators in the starting year (1998).

**Graph 2:** Development of receipts and expenditures



Source: *Internal materials*

A view on development of economy is better in absolute figures:

**Tab. 1:** Receipts and expenditures during last seven years (1998 till 2004) in thousand crowns

	1998	1999	2000	2001	2002	2003	2004
Receipts comprised into tax base	11 388	9 856	8 276	7 973	6 351	4 166	4 595
Expenses to reservation of receipts	10 744	8 502	8 314	7 279	6 456	5 219	4 427

## 6.1 Development of receipts

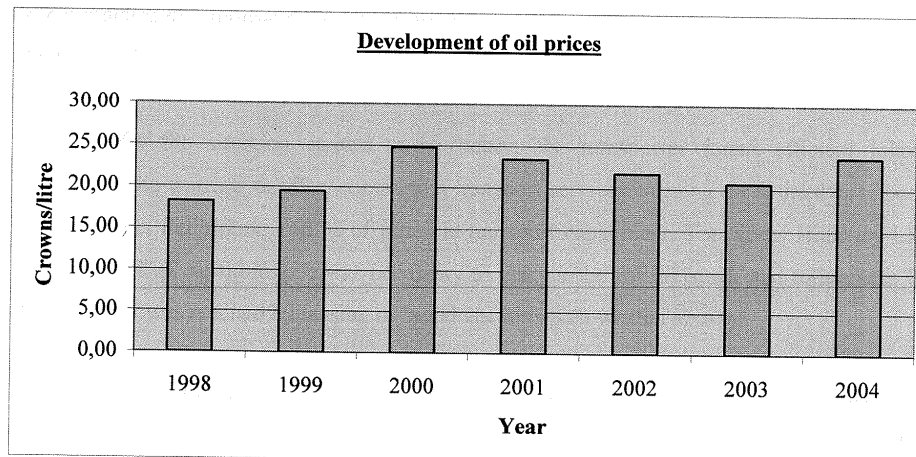
**Tab. 2:** Division of receipts comprised into tax base

Revenue/year	1998	1999	2000	2001	2002	2003	2004
From transport	11 379	9 839	8 264	7 909	5 412	3 026	4 571
From transport abroad					8	131	
From sales (oil)					931	673	
Others	8	17	12	64		336	24
From capital estates	1	0.2					
<b>Total</b>	<b>11 388</b>	<b>9 856</b>	<b>8 276</b>	<b>7 973</b>	<b>6 351</b>	<b>4 166</b>	<b>4 595</b>

The basic source of firm revenue are receipts from transport services realized in our republic. They created till the year 2001 99.9 % of all revenues, other receipts (of spare parts sales, goods sales and receipts for repairs) were insignificant – they did not mostly exceed 10 thousand crowns in single years. The reason of this situation was the contract with Bernard brewery which covered full capacitive chances of the company.

Despite of this fact the receipts were decreasing every year. The main reason was the conclusion of the contract with Bernard brewery in 2002 on one hand, on the other hand it was a spreading economic recession. It influenced the inflation, above all the prices increase, and (at least from the view of transport services) - especially the price increase of crude oil and prices of fuel and oil.

**Graph 3:** Nation-wide development of oil prices



Source: Department of Transport

Except the year 2002 the oil prices in 2004 increased the most in the last seven years. The development was influenced especially by the war conflict in Persian Gulf and major or minor troubles in this area have kept high prices of crude oil up to the present days.

Besides this the enterpriser could not reach a corresponding improvement of transportation rate with contracting consumers during the whole period. At Bernard brewery the average rate for 1 motor vehicle and a kilometer of journey was increased about 1.40 crowns in 5 years (till 2002), while the oil price was in conditions of the company 22.80 crowns per a litre.

Comparing to the monitored data it was then 4 crowns higher and the graph above shows that this increase follows also national development.

There was a big change after 2002 when the present customer (Family Bernard brewery) asked the enterpriser for agreement to change the contract. That would mean for the transporting firm expressive downgrade of transport conditions. Then it was necessary to cancel this contracting relation.

That was a beginning of a period when the enterpriser was obliged to look for reserve programme in transport services and to provide smaller liabilities (Burgess brewery Havlickuv Brod, Manatech Llc. Humpolec, Manuli Hydraulics Brno) or to provide an incidental (one-shot) rides. Hence the productivity of achievement was reduced (while in 1998 it reached 495 thousand crowns on worker annually, it dropped in 2002 to 451 thousand crowns).

In 2004 the situation started to be better, the transporter found efficient inland customers, who warrant steadier, contracting transport services. Among them there have been Skrobarny plc. Pelhrimov (46 % of possible transport capacities), Top Trans Highway Llc. Melnik (36 % of capacities). It was necessary to change the rolling stock and to increase its tonnage. That was reached by leasing of broadcast lorries as written above.

In new conditions the enterpriser has reached up the average rate 21.10 crowns (its calculation comes from price level in 2003). The price of oil did not stay on the level of this year, because it has been increasing gradually (as written in a chapter about expenditures).

Nowadays it is not possible to enforce the increase of transport rate due to reasons of competition.

New, bigger motor vehicles handle a higher growth of labour productivity. While in 1998 it reached 495 thousand crowns on a worker (without overhead workers - 711 thousand crowns), in 2004 it reached already 757 thousand crowns which is advantageous mainly for customers.

It is impossible to ensure the further increase of receipts volume depending on transportation outputs. Obtaining major steadiness and credibility of sales services and mainly improving of economic record, the enterpriser wants to restart the sales of fuel and oil which was temporarily canceled in 2003 for lack of funds on acquisition of starting store.

## 6.2 Development of expenditures

**Tab. 3:** Expenses to reservation and preservation of revenues

Expenses/year	1998	1999	2000	2001	2002	2003	2004
Material, goods	4 762	3 233	4 035	3 891	3 329	2 644	1 939
Wages including the tax	1 961	1 779	1 586	1 390	1 145	728	630
Social, medical fees	975	1 022	1 085	645	741	298	234
Operation costs	2 704	2 049	1 217	1 172	1 126	1 467	1 595
Depreciations	342	419	390	182	114	81	28
<b>Total</b>	10 744	8 502	8 313	7 280	6 455	5 218	4 426

In years 2000, 2002 and 2003 the expenses were higher than the achieved revenues and they distinctively shared in a shown loss. In 2000 a sizable reconstruction of business was started in Petrovice and during the whole year the amount of 1, 566 thousand crowns was spent. The major amount of material was bought, the need of fuel and oil increased, some car repairs had to be provided out of the own workroom. The year 2002 was, from standpoints of the company development, a shocking year in a special way. As written above the contract with Bernard brewery was canceled and the stability of the firm was dislocated for a definite time. The negative influence of this situation has been transferred into other, following years of existence of this small transport company.

### Material and goods

This item has the biggest share in total expenditures. It practically accomplishes one half of their volume.

**Tab. 4: The survey according to single kinds**

	1998	1999	2000	2001	2002	2003	2004
Fuel and oil	2 668	2 078	2 674	2 770	2 499	2 065	1 560
Oil and car-liquids	134	60	81	67	21	18	15
Pneu and accessories	452	268	281	213	106	90	87
Storage, batteries	1 225	620	730	669	545	387	230
Small tangible property	47	88	105	65	41	5	2
Other materials	236	119	164	107	117	79	45
<b>Total</b>	4 762	3 233	4 035	3 891	3 329	2 644	1 939

The survey shows that the biggest expenses are put into the purchase of fuel and oil. It is an indicator which distinctively influences the economy of the company. The development of prices in this commodity is a struggle measurement of profitability of this transport company. The price of 1 litre of oil was in conditions of firm:

- in 1998 – 18.80 crowns
- in 1999 – 19.50 crowns
- in 2000 - 24.80 crowns
- in 2001 - 23.90 crowns
- in 2002 - 22.80 crowns
- in 2003 - 22.10 crowns
- in 2004 - 24.70 crowns

Since 1998 the oil prices have developed accordingly to growth of oil prices abroad. According to the Statistical Office, however, the oil price increased from January to December 2004 from 30 dollars to 45 dollars per a barrel, it is about 50 %.

The fall of expenditures on fuel and oil, which the company shows in 2002, is as a result of beginning of its own sales. There we can see also a good effect of wholesales prices which the enterpriser bought the oil for.

The changes in a number of lorries in a car park and gone kilometres in a given year influence the amount of fuel and oil costs. In the survey there are typical years 1999 (when Bernard brewery built in some localities so-called wholesales stores, and in consequence of

this the volume of the enterpriser's transportation decreased) and 2002 (when the contract with Bernard brewery was canceled).

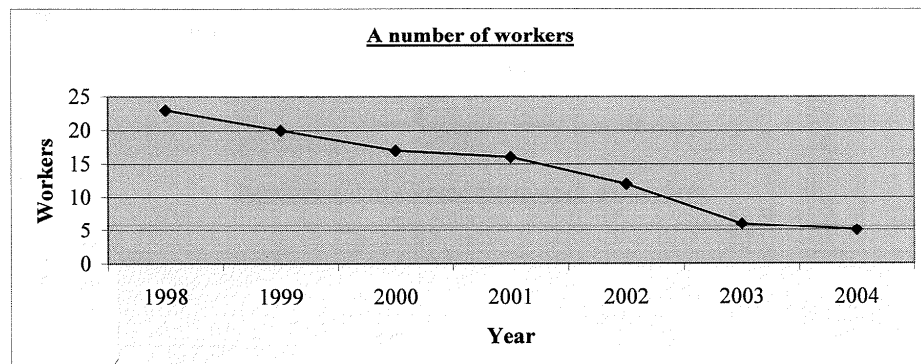
Other material costs directly depend on the level of the development of a total output. In the last years some savings were reached in consumption of oil and car liquids, as well as in tyres and spare parts. That depends on the innovation of rolling-stock (new cars).

Only expenses on small tangible property are a bit different from this trend. However, their volume is an insignificant item. Its height is given by operation needs in different years, there is no influence of the level of output.

### **Pay-roll, manpower**

In 1995 the enterpriser provided the contracting requirements of the main customer (Bernard brewery) with 15 lorries and he employed 13 drivers, 9 co-drivers and 2 repairmen. Having established the wholesale stores in chosen localities, the Bernard brewery began to restrict the transport demands in the 1990s, till finally he expelled the contract of transport completely. Concurrently with the decrease of transportation the number of employees had to be reduced:

**Graph 4: Development of a number of workers**



*Source: Internal materials*

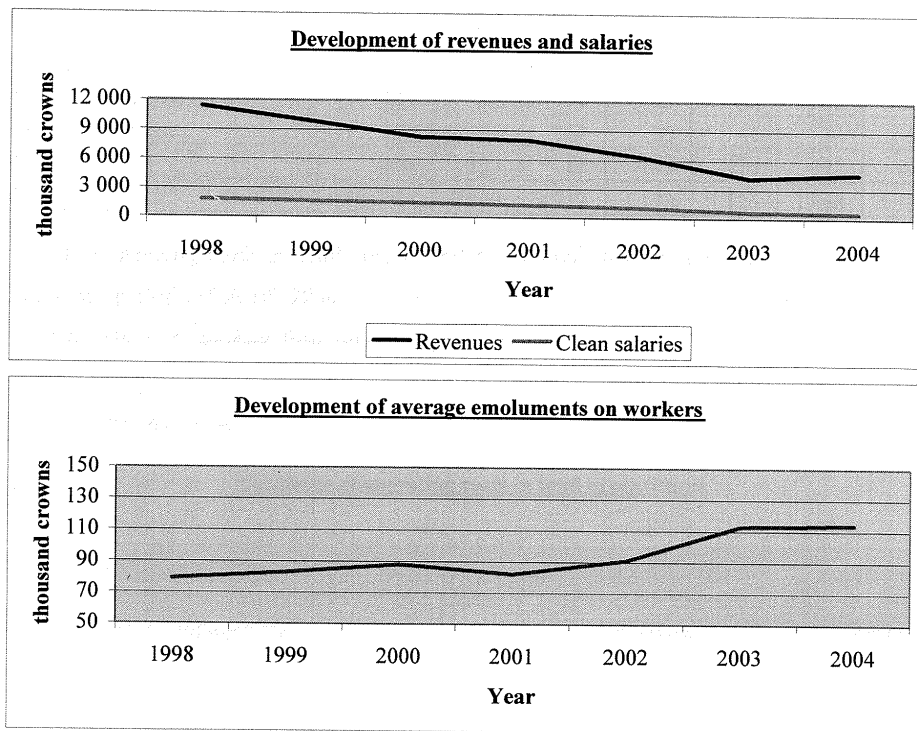
In 2004 the reconstruction of rolling stock was stopped on a capacity corresponding to needs of contemporary customers. It consists of two motor trucks (Man, Daf), 2 lorries (Nissan), a delivery van (Peugeot). The other, older types of motor vehicles are or will be deposited. It is being considered about their sale or disposal. This state appertains to number of six workers.



The costs on pay-rolls including the tax move concurrently with the development of receipts. The average month wage is, however, different because it depends on other indicators (the level of lorry, drivers, number of covered kilometres). If the enterpriser wants to keep his best workers for himself, he must increase the average pay-rolls (also according to development of nation-wide inflation), although his outputs fall and he reaches a loss.

Since 1998 the average month income has grown from 6 600,-- to 9 521,-- crowns, it is about 44 %. These average numbers are more or less deformed because in number of work forces there are calculated also the employees who were paid sickness benefits instead of a wage (e.g. in 2004 1 employee was ill during the whole year). Similar situation was also in 1998 when there were 23 workers in the company and 3 of them were absent during the whole year (they were paid sickness benefits instead of a wage or they joined the army).

**Graph 5: Development of revenues, salaries and average emoluments**



Source: Internal materials

Contributions to the State Budget include 26 % of gross wages for national insurance, 9 % of gross wages for medical insurance as well as the payment of social and medical insurance of the enterpriser (calculated according to data for income tax in previous year).

There is paid an income pre-tax in an amount 15 % or 20 % (recently) of taxable wages. The final accounting of this tax must be provided next year by the end of March according to the law of income tax.

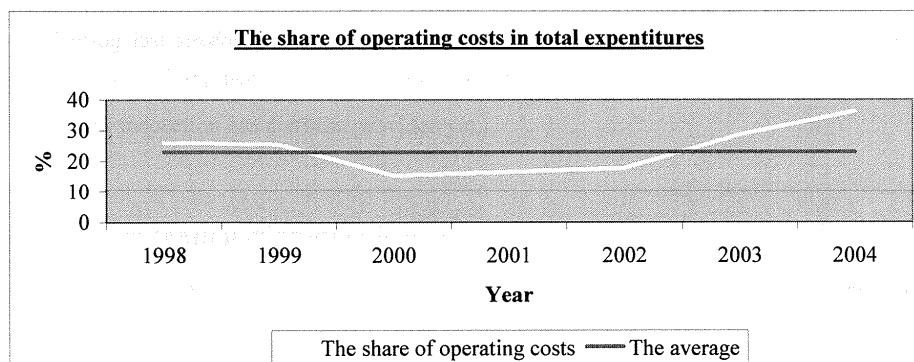
### **Operating costs**

**Tab. 5:** The survey of single units (in thousands of crowns)

<b>Operating costs/year</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Lease instalments	1 184	812	234	185	197	644	804
Taxes	207	218	219	190	196	196	15
Travel expenses compensation to staff	234	201	188	175	127	60	45
Insurance rate	146	378	54	192	166	158	212
Motorway labels	76	32	105	83	81	42	57
Interests, charges	54	52	60	55	71	83	76
Phones	71	54	59	69	74	85	87
Rental including services	69	52	54	55	58	59	40
Installations, repairs	165	125	162	25	46	14	62
Others	498	125	82	143	110	127	197
<b>Total</b>	<b>2 704</b>	<b>2 049</b>	<b>1 217</b>	<b>1 172</b>	<b>1 126</b>	<b>1 468</b>	<b>1 595</b>

The operating costs generally present relatively high share in total expenditures. In the monitored period (1998 till 2004) the share was 23 %. However, in single years this share oscillated about the average from minus 7 up to plus 14 percentual points.

**Graph 6:** Operating costs



Source: Internal materials

This situation is mostly influenced by lease hire contracts because the contracts made 36 months ago were paid step by step in the period from 2000 till 2003; but in the period from 2002 till 2004 new contracts were made (especially the lease of Man and Daf vehicles).

Also the current trend of national economy after the year 2000 affected the share in cost growth. That can be seen in the general growth of charges, interests, insurance, telecommunication and other expenditures. In passed 7 years the volume of these operating expenditures has increased accordingly to a nation-wide recession. E.g. charges and interests have increased about 40%, insurance rate about 46%, telecommunication charges about 23%.

On the other side it was necessary to reduce the staffing level after the nullification of the contract with Bernard brewery and it resulted in decreasing of travel expenses compensations. With smaller number of lorries being in operation there are smaller demands on their repairs. The tangible property depreciations, that also belong to operating expenses, are reduced too. However, they are calculated in the end of the year, parallelly with stocktaking.

The survey of the tangible property depreciations:

- 342 thousand crowns in 1998
- 419 thousand crowns in 1999
- 390 thousand crowns in 2000
- 182 thousand crowns in 2001
- 114 thousand crowns in 2002
- 81 thousand crowns in 2003
- 28 thousand crowns in 2004

During last several years a new tangible property (vehicles, machinery) has not been bought because of the lack of financial funds, building investments have been left underdone and a house inspection has not been provided yet.

### **6.3 The evaluation of trading income**

The trading income is given in single years by the difference between receipts and expenditures. It was:

- plus 645 thousand crowns in 1998

- plus 1,354 thousand crowns in 1999
- minus 38 thousand crowns in 2000
- plus 694 thousand crowns in 2001
- minus 105 thousand crowns in 2002
- minus 1,054 thousand crowns in 2003
- plus 168 thousand crowns in 2004

The loss, that is shown in 2000, 2002 and 2003, is besides the internal economic situation influenced also by the small help of the state to small businessmen. There is a complicated legislation, inconvenient pricing policy, increasing tax burden (according to information of TV news from half of March 2005, in 2004 the Czech businessmen together with Maltian businessmen paid the highest taxes in EUROPEAN COMMUNITY), increasing bank charges and interests as well as insurance rates, etc. However, the trading income is also influenced by the competition (it is impossible to compete through the quality of service because there are many well financial situated firms put together (as e.g. former CSAD)); by many customers delayed with payment and at last by groups of customers who demand exceedingly long time maturity of invoices (30 till 45 days - and still these are not kept).

There are also many problems with the quality of employees (young people are not motivated to work so they prefer exploitation of health and social benefits - and as far as they are already disposed to work they have no sufficient experience which is bad for the employer). Bigger companies in the region and its surroundings can pay more to qualified employees while smaller companies can employ only unexperienced drivers. For example, in last two years the enterpriser employed a few 20-year-old drivers who had several accidents and caused damage for about 500,000 crowns.

## 7. Company property

According to accounting rules, the property is divided to:

- a) a long-term tangible property,
- b) a long-term intangible property (not owned by the monitored company)
- c) a financial possession and valuables,
- d) reserves,
- e) outstandings.

### 7.1 A long-term tangible property

A long-term tangible property means subjects whose market entry price is higher than 40 thousand crowns and their availability is longer than 1 year.

The tangible property of the firm M. Sedlak - ROAD TRANSPORT is recorded in the inventory book like:

#### - **buildings and lots**

The firm runs the repair service in the community of Petrovice (body repair shops, garages, stocks). The object has been repaired and modernized since 1998, it has been still left underdone.

On cadastral area of Humpolec there is a petrol station (at the moment out of order, the place is used meanwhile for parking).

#### - **vehicles**

On 31.12. 2004 there was on call:

- 1 Liaz lorry
- 2 Nissan lorries
- 1 Peugeot delivery van
- 1 Daf truck with a semitrailer
- 1 Man special-purpose truck
- 2 motor-vehicle trailers (with 2 axles and 1 axle)
- 1 BMW car

Further there are 4 serial and 1 tanker Avia lorries in the firm. These lorries are temporarily deactivated - deposited (their licence plates are deposited at the department of transport on Municipal office in Humpolec). The reason is the lack of job openings or the presumption of their gradual liquidation.

- **other equipment**

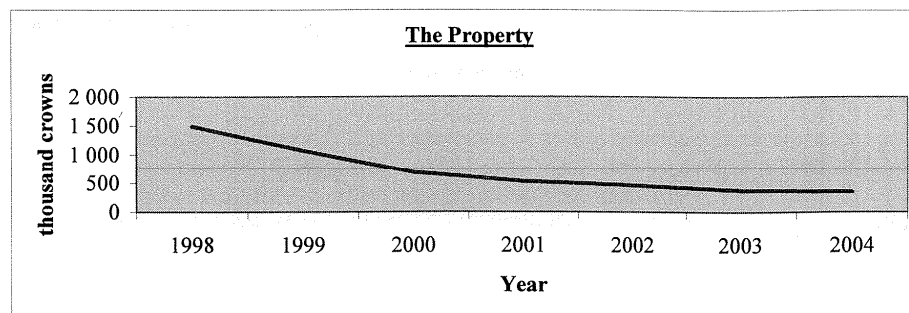
It includes the workshop machinery (e.g. a welding machine for welding in protective atmosphere, a turning machine, a take-off dolly, a hot-air heating for waste oil combustion), then a plastic building cell, a fuel tank, office furniture, a photocopier and a hi-fi set.

Except the tangible property written above the firm owns also a small tangible property. These are subjects with a purchase price up to 40 thousand crowns per unit, necessary for shop operating (various repair tools), vehicle equipment, office equipment, rooms for the staff, tools for maintenance of buildings and surroundings and at last also a tangible property bought and paid-up on the hire contract (recorded in a residual value).

The purchase of a long-term tangible property is recorded in a purchase price, its value is written in a cash book into the cell of property purchase, that are expenses which do not influence the tax base. Every investment is recorded also in an inventory book where there are commentaries about the time of acquisition, its sale or liquidation and about the depreciation development. In the end of every year the total depreciations are recorded into a cash book. The amortization amount is the part of expenditures which influence the calculation of income tax.

The purchase of a small tangible property is accounted directly into the consumption. It is the expense for reservation and preservation of revenues. The level of single subjects is judged at annual stocktaking. Devaluated or lost subjects are recorded in a protocol.

**Graph 7: Development of property**



Source: Internal materials

## 7.2 Financial possession

The firm has no financial readiness or only minimum balances at the end of every year. However, it makes use of a current credit every year (since its beginning). Using the credit the firm solves the protection of swings between the receipts for realization of transport services and the payments for supplies of goods, wages, taxes, etc.

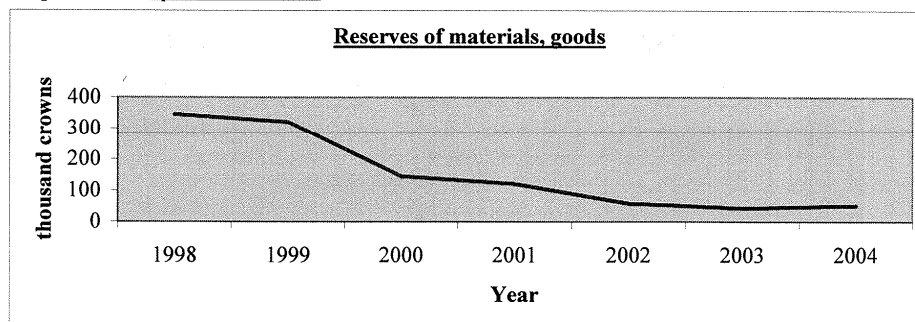
The investment credit (which was granted by a banking institution for protection of building operations in connection with a firmyard modification for fuel and oil sale and for parking of vehicles) has been paid since 2003. The final instalment of credit will be paid in 2005.

At the end of the year there is usually no balance for valuables (e.g. stamps, postage stamps, motorway labels).

## 7.3 Reserves of material, goods

According to accounting books there were bought reserves in a total value of 1,939 thousand crowns during the whole year. The reserves include fuel, oil, motor lubricants, tyres, generally the reserves which are exploited immediately, their turn is short-termed, it means from 3 to 5 days. So there are minimum reserves in the stores or in the vehicles. According to provided stocktaking, the average amount of reserves is 155 thousand crowns in the end of a monitored period. In 2004 the amount was even lower - 52 thousand crowns – however, it was not because of a price influence but because of the result of capacity restriction of transport services.

Graph 8: Development of reserves



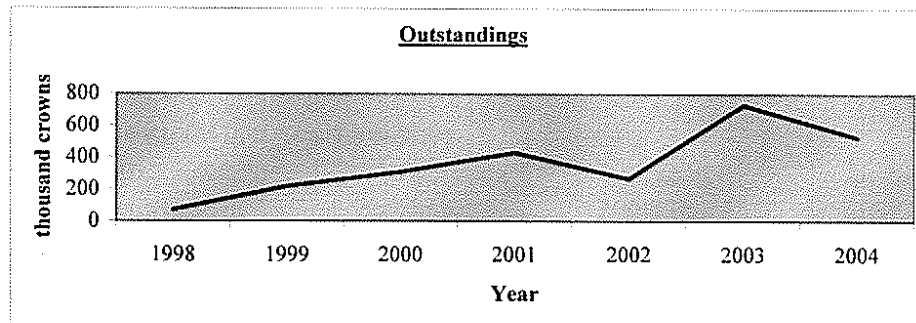
Sources: Internal materials

## 7.4 Outstandings

The amount of outstandings in the end of 2004 was 527 thousand crowns. In spite of the decreasing of this amount (compared to previous year about 205 thousand crowns - after a number of customers decrease) is this height still unbearable and it is also a reason of bad economic results of the company during last years.

Especially the reality, that more than one third of these outstandings (36 %) is of a long-term character, is unpropitious. Several customers have owed for two years and their number has been rising. Thanks to liberalism of legislation even the outstandings on schedule of maturity are not short-termed. There are the customers, who in sense of relatively sufficient offer of transport services in surroundings, demand the assesment of a long time maturity in advance (before the realization of transport (as written in chapter 6.3)) till 45 days which is the term that used to be considered as the time after the maturity of invoice. The survey of the outstandings development in single years can be obviously seen in the following graph.

**Graph 9:** Development of outstandings



Sources: *Internal materials*

It is possible to find the main reasons of this influence in a bad economy of the firm generally. In wider conception an unfavourable effect is committed by this way - so-called chain reaction - increasing of insolvency which is obviously displayed also in the amount and payment of liabilities.



## 8. Liabilities

Company liabilities are divided in conditions of the firm on:

- liabilities to the state
- liabilities to banking institutions
- motor-vehicle insurance liabilities
- liabilities to staff
- liabilities to leasing companies
- liabilities to suppliers

The company takes care of covering all these liabilities and the current operations make payment of these liabilities possible. Specific problems are only in covering liabilities to suppliers, namely regarding to the insolvency due to customers outstandings mentioned above.

### 8.1 Liabilities to the state

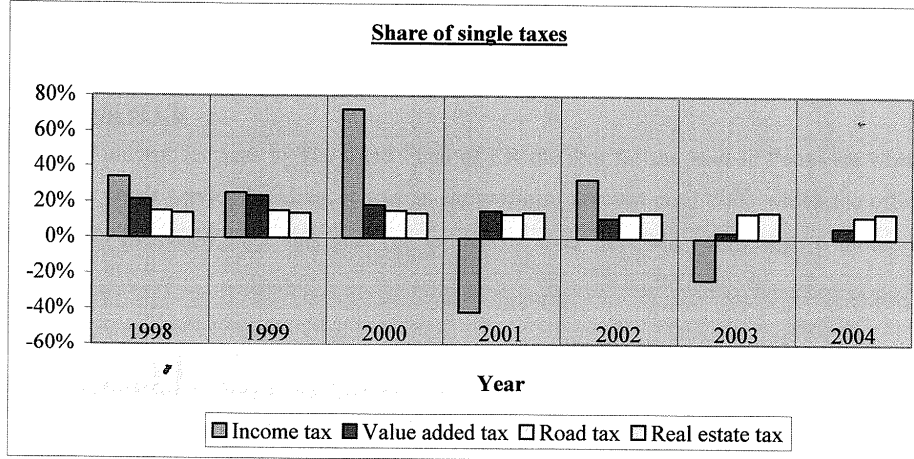
There are above all liabilities to The Revenue Authority and LFCR (Land Fund of the Czech Republic). The firm is registered to pay:

- a) income tax
- b) value added tax
- c) road tax
- d) real estate tax

Accordingly to mentioned taxes, the enterpriser paid 6,973 thousand crowns for passed period, while the biggest share on this remittance, 72 %, belongs to the value added tax, 20 % to the road tax, 7 % to the income tax and 1 % to the real estate tax. In accordance with previous sections about the economic result of the company (revenues, expenses) and with the amount of tax burden it is evident that fiscal policy of the state is more than hard. Almost seven million crowns spent on taxes in comparison with the final profit in amount of 1,664 thousand crowns, which the enterpriser reached in monitored seven years, is sufficiently obvious.

Further details about the tax burden development can be seen in the following graph.

**Graph 10: Share of single taxes in general tax burden**



Source: Internal materials

#### **Income tax**

The tax up to year 2000 (including) was paid in advance payments according to the notice No. 586/92 Sb., namely on basis of the last known tax duty. In 2000, and then in 2002 and 2003, after decrease of the transportation volume, the receipts fell and the loss occurred. It caused the fall of income tax share in general tax payment.

#### **Value added tax**

The firm pays the value added tax monthly on basis of accounting of realized and received taxable operations. During most taxable periods (months in a year) the tax on output predominated, it means that realised taxable operations (transport charges) were higher than received taxable operations (than material and goods purchase). Only in 2002 and 2003 the realised taxable operations were lower than received taxable operations for two months and The Revenue Authority paid the excessive tax deduction back to the company. In spite of this the value added tax shares most (72 %) in the total tax burden of the firm.

#### **Road tax**

The road tax is, from the standpoints of operating activities, the second tax which burdens the taxpayer most of all. However, its height fell down after decreasing of rolling stock capacity and in 2004 it shared only 12.5 % in total tax payment.

### **Real estate tax**

The real estate tax has risen a bit after 2001, namely after the purchase of other lots. It is paid then, except the basic building in Petrovice, also for two lots in Humpolec. It shares only 1% in total tax payment.

### **Land Fund of CR**

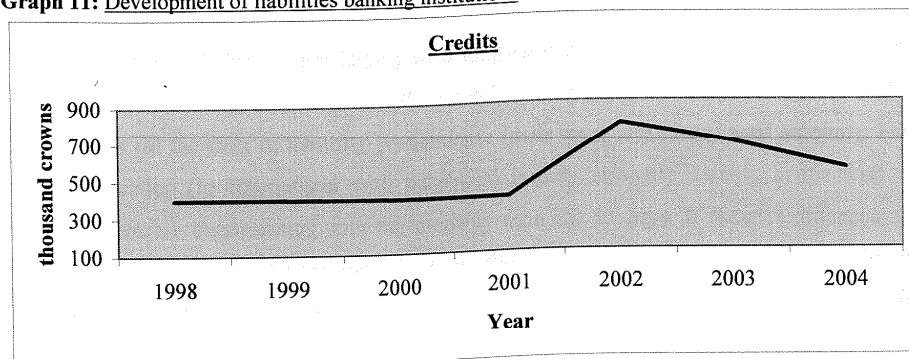
The enterpriser pays to The Land Fund of CR the rent for the land in Petrovice where there is a repair service building. It was an insignificant amount until 2003 which the office has visibly increased since this year (on amount to over threefold - almost to 6 thousand crowns).

## **8.2 Liabilities to banking institutions**

The firm wants to eliminate the influence of inequality in customers requirements for transport services, occasional fluctuations and financial backing of some goods supplies. Hence it makes an annual contract with Czech Savings Bank about the provision of a short-term bank overdraft up to 400 thousand crowns which is used to discharge the mentioned inequalities.

In 2002 there was also made the contract about the provision of a medium-term investment credit for reconstruction of the operational object in Humpolec (the adjustment of place for possible sales of fuel and oil and for lorries parking), again with the Czech Savings Bank, up to 420 thousand crowns. In passed two years the credit was partly paid-up (two thirds). Its balance to 31. 12. 2004 was only 130 thousand crowns.

**Graph 11: Development of liabilities banking institutions**

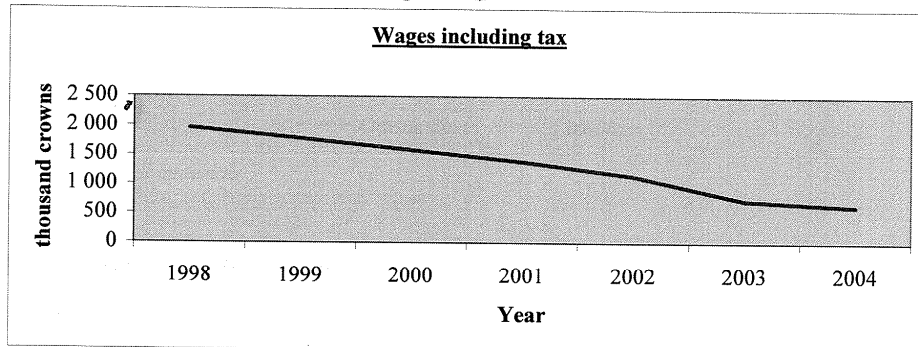


Source: Internal materials

### 8.3 Liabilities to staff

Wages paid to staff in passed seven years reached 18 % of total firm expenditures realized in the same period. In the last two years their share in consequence of reorganization (after transport capacity decline) has fallen to 14 % of total expenditures. In principle it is the result of low achievements and then of the decrease of work force. However, it is also influenced by the changed transportation character (e.g. bricks instead of beer). More detailed estimation is introduced in chapter 6.2.

**Graph 12:** Development of wages (including the tax)



Source: Internal materials

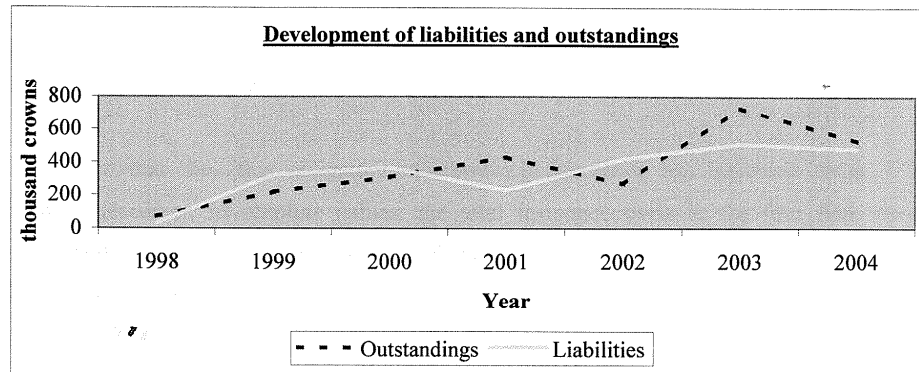
### 8.4 Liabilities to suppliers

Liabilities to suppliers are equal in volume to outstandings because in the end of 2004 their amount was 480 thousand crowns. In case of full outstandings payment, the firm would show out in its benefit the sum of plus 47 thousand crowns. However, this comparison would be quite simple.

The company liabilities are largely of a long-term character (invoices unpaid after the maturity share 90 % of total amount), the situation is opposite for outstandings. So-called outstandings till the term of maturity predominate (their share is 65 % of total amount). This positive situation (in comparison with liabilities) is only apparent because in the term of maturity there are outstandings with the maturity term till 45 days. If these remittances are modified to a common 10-day maturity term, then it is obvious that there is no invoice in maturity term in the end of the year. Then it is necessary to say that the comparison of

liabilities and outstandings is for the firm an undesirable indicator from a financial standpoint. It can be also seen in the following graph.

**Graph 13: Development of liabilities and outstandings**



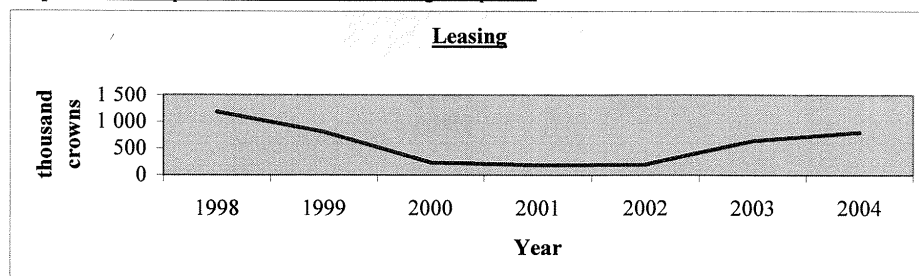
Source: Internal materials

### 8.5 Liabilities to leasing companies

In 2000 and 2001 two contracts about financial lease with successive purchase of leased subject were made (components necessary for enlargement and repair of rolling stock). The total amount was 722 thousand crowns, monthly refunds were 13 thousand crowns.

In 2003 two further contracts of this kind of financial lease were made (it means with successive purchase of leased subjects) – about the Daf vehicle – a semitrailer and the special Man vehicle. The total amount was 1,657 thousand crowns, monthly refunds are 53 thousand crowns. Till the end of 2004 the debit balance was 945 thousand crowns. The final refunds are planned for the months of April and October 2006.

**Graph 14: Development of liabilities to leasing companies**



Source: Internal materials

## 8.6 Motor-vehicle insurance liabilities

In first years of the company existence the height of legal insurance oscilated on one level. After 1999 the state supervision was not so strict and the insurance of responsibility for claims caused by vehicles was liberalized (it moved from the caregory of legal insurance into the caregory of mandatory contractual insurance). Insurance companies decided the height of collection of premium themselves.

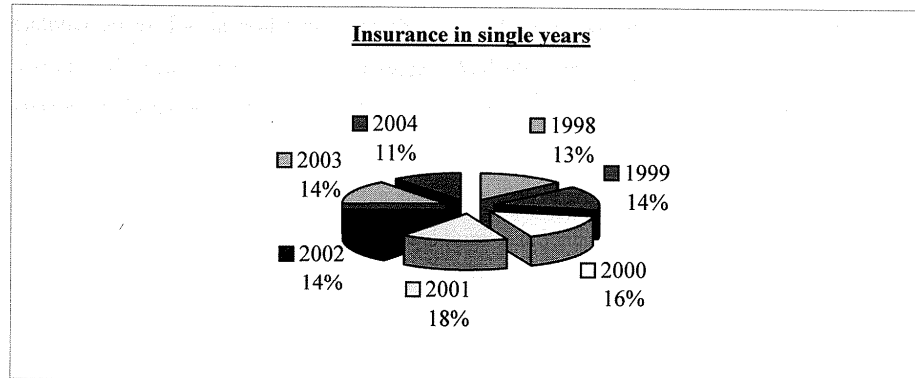
Since that time this obligatory motor-vehicle insurance has increased about 7 % annually. However, in absolute values, the total insurance costs in the firm have risen, although the structure of rolling stock was changed and it even, in many cases, declined. Only the penetrative fall of the vehicles number in 2004 (to a half of amount in 1998) influenced the level of insurance.

Tab. 6: The survey of insurance in single years

Year	1998	1999	2000	2001	2002	2003	2004
Insurance	145 680	158 724	174 503	182 840	156 913	158 196	118 821

In 2002 and during the next two years some vehicles, especially older ones, were set aside and their technical licences were cancelled (registered by Czech police or by Municipal Office). This situation and then the fall of transport services volume caused the fall of insurance height.

Graph 15: Share of insurance



Source: Internal materials

## **9. Small and medium sized enterprise and the European Union**

On May 1, 2004 new member states joined the European Union. One of them was the Czech Republic. The membership of full rights indicates the direction of our country for a long time as well as the character of enterprise in all economic fields.

Entering the European Union will be a significant change. Above all there will be bigger competition that will be multiplied by a bigger capital background of current companies in the European Union. Our small and medium sized companies account for a smaller rate of return of own capital as well as a low productivity of labour. It is also possible to expect higher demands for business ethics; the demands for fulfilment of technological standards and rules will grow; it will be necessary to cope with duties of ecological demands observance, to cope with rules of prevention of occupational accidents and disease for employees and inhabitants.

All these facts will lead at first to the fall of financial profitability of small and medium sized companies. Due to this the lower operating costs (initial advantage which we enter European Union with) will disappear. Our enterprisers should prepare for that situation very well.

This situation of apprehension and uncertainty involves also companies providing transport services. Although this form of enterprise has been prohibited by some important member states for several years (on their own territories), there are still many states that permit and even expect transport services. And also transit must be considered. Transport services at home and abroad will be influenced by the development in prices of crude oil, spare parts and service base.

On the other hand the small and medium sized firms will enjoy some advantages by joining European Union, too. Above all they will join the united European Market without any barriers. The trade will be administratively simple and the main thing is that our products and services will lose that former east european label. The entrepreneurial environment will be made stable. The legal protection of enterprise will increase, there will be clear rules of economic competition. Being influenced by the best experience from abroad, our entrepreneurial position of small and medium sized firms will improve.

There will be easier access to capital, better investment opportunities in other member countries of the European Union. By entering the European Union our small and medium sized companies will reach a bigger opportunity to use money of structural funds and of funds of European Union solidarity.

All the facts mentioned above should be the guarantee of an excellent future for our enterprise. However, the reality too date has not been so good in the experience of the small firm.

For writing my school work, I had to study a lot of different materials and it was also necessary to study the background of the European Union. In this case, especially, because of the fact that the firm M. Sedlak - ROAD TRANSPORT tried to use its free transport capacities abroad for a monitored period. However, its careful attempt in this area failed after a short time due to insufficient profitability on realised operations. There were high operating costs (respecting customs and other charges, purchase of fuel and oil abroad, payment of travel expenses and wages), then it was necessary to consider the question of uncertain regularity of transport and its volume as well as the language barrier. To express it simply, the transport returns from abroad were not attractive.



## Conclusion

My working experience during my college studies was in a small family company. I worked as a bookkeeper doing single entry accounts, tax preparation, processed data for value added tax, income tax, road tax and I made the return to the tax office. I also kept the sales and purchase ledger and nominal ledger. I registered payments for contract hire lease, handled cash and non-cash payment in banking institutions and attended to correspondence. All mentioned work extended my theoretical knowledge, acquired in my studies.

That is why I have decided to aim my school work at the analysis of this company, and the evaluation of the circumstances which influenced its activity, also the causes of any failures in economic efficiency as well as at its future prospects especially after entry to the European Union by the Czech Republic.

The economic analysis of the small firm, which I evaluated in this work, shows that small and medium sized firms are supported in our country neither by law nor in the mind of our politicians. Above all I mean the area in the legal and tax acts, that are often changed, many regulations in the area of insurance, banking, labour protection, different customs decisions as well as confusion and insufficient arrangements in road transport. It is very difficult for the enterpriser to keep up with all these ever changing spheres, especially if they handle all office work with minimum staff or even with unpaid family help. Unable to reach a realistic commercial income makes it impossible to employ sufficient staff.

Taxes are high; the purchase prices of materials (especially of fuel and oil) are increasing; there is not a sufficient funds for the innovation of rolling stock since the services are expensive, especially due to poor quality of roads and to average age of vehicles. Nationwide recession in economics is adverse especially to small and medium sized enterprisers providing transport services. They mostly cooperate - service repairs, exchanges of batteries and tyres, purchase and sale of fuel and oil and then there occurs the chain payment inability. Obviously, also the customers stop paying or they delay with payment. The current legislature makes all of this possible. Responsible authorities are built into the role of so-called "dead beetles". The enterprisers increasingly get into debts and most of them are gradually forced to dissolve their organisations.

At the end of 2004 seventeen thousand, two hundred enterprisers concluded their business (according to data of CSSZ) and in January of this year next ten thousands of people interrupted their enterprise. The failures were due mainly to the burden of tax as well as health and social insurance payments that do not allow a sufficient standard of living. Today businessmen are shocked by the duty to pay a minimum tax even in case of loss.

Unless the entrepreneurial conditions improve, in the short term only large companies which can get over adverse trading conditions more easily will survive (there is a threat of the return to monopolistic system). Unified regulations and laws do not create a level playing field for the enterprise of small and big companies. Laws are more complicated, many new law amendments make orientation more difficult (e.g . only the law about income tax No. 586/92 Sb. has got 76 amendments till 1. 1. 2005, Commercial Code No. 513/91 Sb. 39 amendments, Labour Code No. 65/65 Sb. 45 amendments, etc.), tax forms are more extensive and more intensive. Where are the times of our grandparents - businessmen who needed only a simple daybook for accounting of receipts and expenditures. Now a computer, the internet and obviously a tax consultant are necessary – supposing there is someone in the family who is able to provide office work.

According to all these facts the entrepreneurial conditions in our country have been getting worse all the time. There is more various paperwork and the power of all sorts of clerks has been increasing. Bad legislature guided by difficult enforcement of law as well as indemnity of state power intensify the contemporary unpropitious state in entrepreneurial activities.

At the same time many political parties in their programmes make a point of the development of the small enterprise, above all due to higher employment rates and increases in social services. Small and medium size businessmen or licensees at the same time provide cheaper services and it was said that they should have been the guarantee of resolute economy of the state.

I believe that in my diploma work I have referred to all problems: I presented the position of a small firm providing transport services today - and also the firm's prospects in its dimension (traffic capacity) in the future, after the European Union entry. I also tried to

find out if there is a chance to recover the small and medium sized companies in order to guarantee the economic development of our country (as I show in a preamble of my work).

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