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302

Finance and Accountancy for Sustainable Development – Sustainable Finance

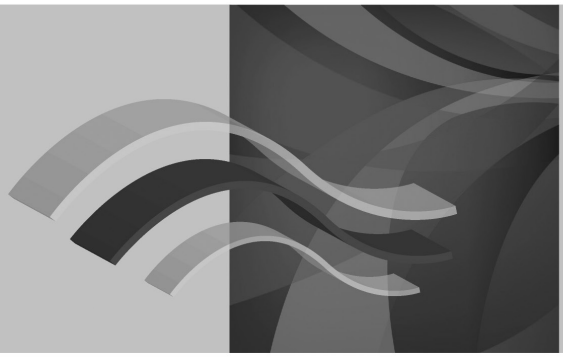

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Table of contents

Streszczenia

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GOING CONCERN ASSUMPTION AND FINANCIAL ANALYSIS

Abstract: The paper deals with the "going concern assumption" issue and its hidden displays in the economic theory as well as clear declaration in financial accounting. It reveals the perspectives for determination whether a certain business entity follows the going concern principle or not. A practical example shows the evaluation of results of the business entity that did not follow the above-mentioned principle.

Keywords: going concern assumption, financial factors, ISA 570, prediction.

1. Introduction

The going concern assumption is one of the basic assumptions valid in all domestic as well as international arrangements of financial accounting.[1] This assumption may be even found well hidden in multiple economic theories. It is revealed as the theory examines the behaviour of economic entities in a long-term perspective. See for instance the profit maximization theory in a long-term perspective. We can say that – in terms of long-term stability and existence of an enterprise – this is the most important goal and also the most frequently discussed theme in the literature dedicated not only to business management and accounting, but also to pricing policy [McCloskey 1993; Vysušil 1994; Tomek 1992]. One of the most cogent opinions on profit maximization in a long-term perspective can be found in the literature where D.N. McCloskey gives reasons for such profit maximization [McCloskey 1993]. H.R. Varian deals with this topic also in the consideration of business risks [Varian 1995]. He says that in the world of certainty it is obvious that the maximization of the current value of profits represents a similar goal as the maximization of enterprise value in a long-term perspective.

The conception of long-term reporting, measuring and evaluation of economic phenomena in practice is based on a certain assumption about the period of future

[1] In the Czech Republic for instance see section 7, par. 3 of the Act No. 563/1991 Coll. on Accounting, Ministry of Finance of the Czech Republic, http://www.mfcr.cz/cs/legislativa/legislativni-dokumenty/1991/zakon-c-5631991-sb-3339.

enterprise existence. In an accounting we talk about the assumption that an entity will permanently remain in business for the foreseeable future. The assumption of continuous business existence is included in multiple U.S. accounting standards. It is one of the basic presumptions that form the content and form of information coming out of accounting. In more details the going concern principle is covered in U.S. GAAP Statement on Auditing Standards No. 1.[2]

The estimation of company perspective is a basic decision-making task for each potential investor or accounting information user. Therefore all the information should be neutral and presented in a way so that the going concern/liquidation assumption results from decisions made on the basis of the information available. In no case the information should be prepared on the basis of assumptions. Estimations of a company's existence perspectives are based not only on accounting data, but also on financial analysis methods. Quite often various methods produce contradictory results and we can say that the future of a business enterprise is often influenced by facts and decisions that do not come out from accounting or financial analysis.

2. Factors signalizing doubts regarding the going concern assumption

The going concern assumption is one of the basic principles applied by the accounting unit while compiling the financial statements. Pursuant to this assumption, the accounting unit is considered as an entity that will remain in business for the foreseeable future, does not intend or is not forced to go into liquidation. The assumption is applied by the company management at least for the next twelve months following the balance sheet day. While evaluating this assumption, the company management considers future results in relation to external/internal conditions and especially the potential risks. The main disadvantage of such evaluation is the fact that it is mainly based on the information available at the time of the evaluation that immediately pertains to size, complexity, sphere and nature of business.

The international standard on auditing ISA 570 shows examples of events or conditions that, individually or collectively, may cast significant doubt about the going concern assumption. They are classified in three groups:

1. Financial factors:

– net liability or net current liability position (compared to assets),
– excessive or long-term use of short-term borrowings to finance long-term assets,
– negative operating cash flows,
– adverse key financial ratios,
– substantial operating losses or significant deterioration in the value of assets used to generate cash flows,

[2] AICPA *Statements on Auditing Standards* No. 1 and *Procedures*, Section 341: The auditor's consideration of an entity's ability to continue as a going concern.

– inability to pay creditors on due dates,
– change from credit to cash-on-delivery transactions with suppliers,
– inability to obtain financing for essential new product development or other essential investments.

2. Operating factors
– management intentions to liquidate the entity or to cease operations,
– loss of key management without replacement,
– loss of a major market or principal supplier(s),
– labour difficulties,
– emergence of a highly successful competitor.

3. Other factors
– changes of legislation or state policy with a negative impact on the entity,
– pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy,
– uninsured or underinsured catastrophes when they occur, etc.

The factors above do not appear all at the same time, some other factors may appear as well and not all of them must necessarily operate in the same direction. The weight of some of these factors may be reduced by influence of other factors. And also not all these factors may be assessed using the available financial statements only.

3. Financial analysis and its predicative abilities

The above-mentioned financial factors may be examined and analysed using the methods of financial analysis. For decade economists all over the world endeavour to be able to read from the financial statements not only the history but also the future development of a business entity. The attention is usually focused on cases and situations of extinction or financial distress of serious nature. The company is then unable to apply *the going concern principle* thoroughly.

The abilities to predict financial distress of companies have been examined by theoretician as well as practitioner economists for years. The first problem however is how to define the term "company in financial distress" and also the company without assumption of future existence. According to R. Grünwald and co-authors financial distress is an opposite extreme to complete financial health of an entity (but again the definition of the term "complete financial health" is missing) [Grünwald et al. 1992, p. 86].

Financial situation of a company may not be satisfactorily quantified using one or more indicators. It is therefore obvious that also one quantitative characteristic does not allow for determining the state when petty financial problems evolve into a serious financial distress. Therefore the financial distress is mostly defined verbally. One of the definitions is as follows: "Financial distress is a financial state of

a company undergoing serious payment issues that can only be resolved by radical change of company activities or structure" [AICPA, *Statements*…, p. 44].

The direct analysis of ratio indicators of profitability, activity, liquidity, indebtedness and capital market indicators provides the indicators having only a limited predicative ability. Moreover their isolated assessment may result in serious mistakes. These indicators are often used by the company management to assess its financial situation.

3.1. Financial distress prediction

Relatively insufficient predicative ability of individual indicators of financial analysis is one of the reasons why various groups of indicators have been applied both in theory and practice in a long-term perspective, covering multiple influences that affect the company financial situation [Černá et al. 1997, p. 82].

In market economies certain methods of financial analysis were developed that make the use of ratio indicators for the prediction of probable financial distress or bankruptcy.

The first financial analyst to use statistical methods was W.H. Beaver who dealt with difficulties of companies to settle their financial liabilities. Beaver tested 30 financial indicators, but not all of them had the similar level of statistical relevancy for predictions and financial forecasts. The statistic indicators were monitored in two groups of companies – challenged and unchallenged. Challenged companies were those which – during the period from 1954 to 1964 – reported bankruptcy, failed to meet their obligations under the issuance of bonds, their bank accounts were overdrawn or failed to pay out the dividends from priority stocks on time. Some of these criteria are quite tough considering the conditions that are commonly experienced in the Czech market.

The evaluation of financial distress of companies was researched by E.I. Altman, who applied the statistical method of discriminant analysis to determine the weights of individual ratio indicators. In his research (like Beaver) he used two groups of companies – prospering and bankrupting. During his researches he developed two basic models. The first one was for listed public limited corporations and the second one for other companies. Some economists state it was just an improved version of the original Altman's model. Altman came with the following assessment equation:

$$Z_i = 0.717\, X_{1i} + 0.847\, X_{2i} + 3.107\, X_{3i} + 0.420\, X_{4i} + 0.998\, X_{5i},$$

where:
$i = 1 – n$ are individual periods,
coefficients are weights assigned by means of discriminant analysis to independent variables X_{1i}–X_{5i},
X_{1i} = short-term assets – short-term liabilities/total assets,
X_{2i} = undistributed profit/total assets,

X_{3i} = pre-tax profit + interests/total assets,
X_{4i} = book value of owned capital/nominal value of debts,
X_{5i} = revenues/total assets,

During the process of development above, variable X_{4i} changed. Originally it was defined as follows:

X_{4i} = market value of priority and ordinary stocks/nominal value of total debts.

At the same time the so called grey area was determined. Altman himself considered the companies with $Z_i < 1.2$ as non-stable firms with a long-term risk of bankruptcy. On the other hand the probability of survival of companies with $Z_i > 3.0$ may be considered as practically sure. Companies in the so called grey area with the coefficient values within the range 1.23–2.90 (originally 1.81–2.99) are considered as problematic as no statistically demonstrable prognosis is available for them. We may characterize them as financially average companies with a minimum risk of bankruptcy in a short-term horizon. In 1995 Altman came up with a new model that excludes the variable X_5. According to the author this model is rather intended for non-production companies. It should be pointed that the Altman's model was verified in multiple countries with various groups of companies and the difference between the average values of Z_i coefficient was quite significant in all the cases. This was probably the reason for the analysis of the situation in the Czech market to develop a similar instrument with a predicative capability for companies in the Czech Republic. It should be noted that the following model was developed in the period after 1989, i.e. the period of rather unstable and hardly predicable situation in the Czech Republic economy (in a long-term perspective).

Similarly as Altman's *Z*-score, also *IN* index (index of credibility) is used for the assessment of financial health of a company and its credibility. This indicator was developed by Czech specialists on a similar principle as Altman's model. It should be used for assessment of economic situation of domestic companies operating in the conditions of the Czech Republic. This cumulative indicator went through various changes. Six individual indicators are used and weighted based on their relevancy. Individual indicators are divided into three groups of assessment: indebtedness, profitability and activity, liquidity. The assigned weights reflect the relevancy of each individual indicator. Weights V_2 and V_5 are identical for all branches. The other weights differ based on the branch classification of economic activities.

Here is the cumulative indicator for the Czech Republic:

$$\text{Index } IN = V_1 X_{1i} + V_2 X_{2i} + V_3 X_{3i} + V_4 X_{4i} + V_5 X_{5i} + V_6 X_{6i},$$

where:
$i = 1 - n$ are individual periods,
X_{1i} = total assets/foreign resources,
X_{2i} = EBIT (operating earnings)/interest expense,

X_{3i} = EBIT (operating earnings)/total assets,
X_{4i} = revenue from sale of products, services and goods/total assets,
X_{5i} = short-term assets/short-term liabilities + short-term bank credits,
X_{6i} = liabilities after maturity/revenue from sale of products, services and goods.

If the resulting value of *IN* index exceeds 2.0, we can conclude that the company is healthy in terms of its finances. Should the resulting value be between 1.0 and 2.0, the company health is sustainable, but subject to various risks of financial problems. The value under 1.0 points to a bad financial situation of a company. The calculation is – similarly to Altman's model – based on the values for the period of one year. This means that also the monitoring of the history of *IN* index over time makes sense.

3.2. Other methods

In the economic theory and practice there are few other methods and models used. The similar approach as Altman was displayed in Great Britain by R. Tafler who also used the discriminant analysis as a basis for calculation. Tafler not only emphasized the value of *Z* indicator itself, but especially its development in time. Brigham and Gapenski state that the above mentioned types of models derived from the discriminant analysis method are not only used in companies, but also in investment banks such as Salomon Brothers or Morgan Stanley for valuation of stocks at acquisitions and mergers. The biggest advantage of indicators assessing the financial situation of an entity using a single value is the ease of their comparing in time and space.

As for other methods, we can mention so called fast test. The author based the fast test on the group of absolute and relative indicators. The input values are represented by 22 absolute values from the balance sheet and the profit & loss statement. The original fast test covers six groups of ratio indicators testing productivity, profitability, costs, liquidity, solvency, and structure. These groups can be used to compile 96 indicators. From the fast test seven ratio indicators may be selected that represent the system of early warning. The method of early warning may be assessed in two ways: using the standard values of ratio indicators or using the growth standards of ratio indicators.

The disadvantage of this method is the fact that the business assessment depends on the standard values of indicators and there may be differences in individual companies, spheres of business and industrial branches. Growth standards are used to determine the rate of growth. With regard to assessment of the company health and its future, this method is considered as tentative only.

4. Assessment of the particular business entity's ability to continue in business based on the selected financial factors pursuant to ISA 570

In the following text we will try to evaluate the going concern ability of a particular business entity engaged in glass-making industry. The evaluation will be based on the data taken from financial statements (balance sheet and the profit & loss statement) for the past four years. We know that as of 30.9.2011 the company ended its business activities. While assessing the company we will follow the requirements of the International Standard on Auditing – ISA 570 and then we will use the Altman's model. With regard to each indicator we pay more attention to the history of analysed values over time than the level of individual indicators. We will start with the financial factors.

Liabilities or short-term liabilities are higher than assets

Table 1. Assets and short-term liabilities

	2007 31.12.07	2008 31.12.08	2009 31.12.09	2010 31.12.10	2011 30.9.11
Total assets (gross) in thousand CZK	92 727	89 805	78 069	71 514	37 459
Correction	–48 392	–43 553	–39 413	–37 917	–22 252
% depreciation	52.2	48.5	50.5	53.0	59.4
Total assets (net) in thousand CZK	44 335	46 252	38 656	33 597	15 207
Short-term liabilities in thousand CZK	6 572	5 377	2 190	1 723	553
Short-term liabilities/assets (gross) in %	7.09	5.98	2.80	2.41	1.48
Short-term liabilities/assets (net) in %	14.80	11.63	5.66	5.13	3.64
Long-term liabilities	0	0	0	0	0

Source: authors' own work based on input data.

From Table 1 it is obvious that:

a) the company has no long-term liabilities and that the share of short-term liabilities in the total value of assets (gross as well as net) is minimum and is declining over time. These are especially the liabilities towards employees and liabilities from trading. We can conclude that the company runs the business without the support by banks.

b) total value of assets (net book and acquisition values) was declining until the date of financial statements for 2010 (almost by 25%). At the same time we can say that the company worked with relatively worn machinery and during the analysed period no renewal attempts and innovations were registered.

Another financial factor pursuant to ISA 570:

Extensive or long-term use of short-term foreign resources for financing of long-term assets

From Table 2 as well as Figure 1 it is obvious that the share of short-term foreign resources in the financing of long-term assets (the difference between the values DA net and own resources) has existed since 2007. It was of a long-term nature but the significance of it was rather low and it was declining as the liquidation approaches.

Table 2. Relation between long-term assets and own resources

	2007 31.12.2007	2008 31.12.2008	2009 31.12.2009	2010 31.12.2010	2011 30.9.2011
Total LT assets (gross)	92 727	89 805	78 069	71 514	37 459
Total LT assets (net)	44 335	46 252	38 656	33 597	15 207
Own resources	**37 205**	**39 040**	**35 984**	**31 681**	**14 654**
Short-term liabilities	6 572	5 377	2 190	1 723	553

Source: authors' own work based on input data.

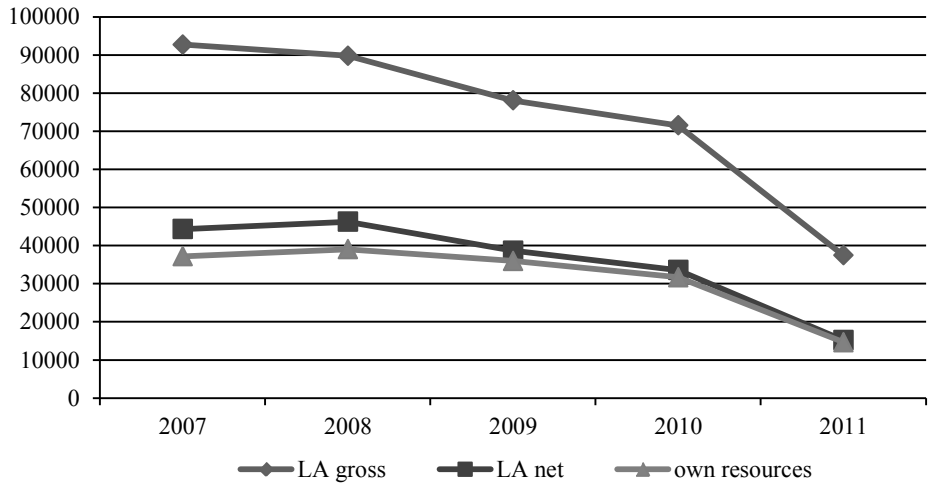


Figure 1. Relation between long-term assets and own resources

Source: authors' own work based on input data.

Unfavorable key indicators of financial analysis

The following indicators are considered as key indicators of financial analysis: profitability, activity, liquidity and indebtedness. The following values are prepared for the years 2007–2011. The values from 2011 must be understood as informative only, as they are based on the final financial statements prepared as at the liquidation date of the accounting unit.

Profitability analysis. Profitability indicators are the most intensively monitored indicators determining the ability of a company to generate a certain amount of revenues. In theory we have multiple types of profitability indicators, such as earning capacity, profitability, rate of return, etc. In our case, for the evaluation of company situation, we make use of profitability indicator based on the company profit. In the first case we have the indicator with economic result before tax and interests in the numerator and total expended capital of the company in denominator.

Return on assets = Net profit + interests (1 – tax rate)/∅ Assets (total).

Return on equity = Net profit/∅ Equity.

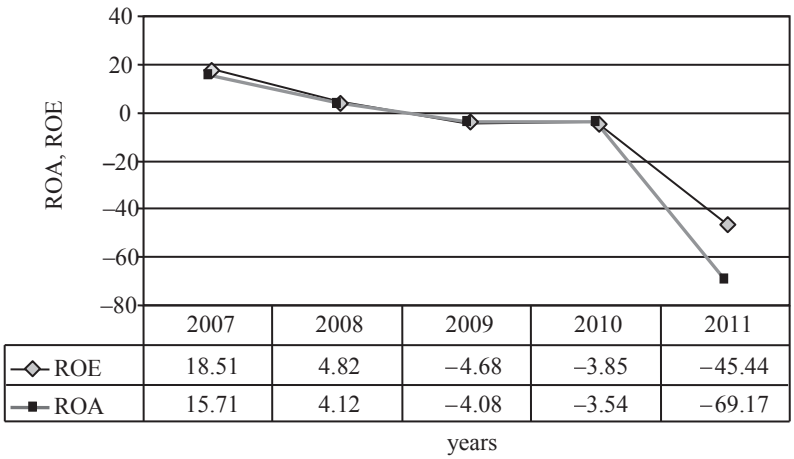


Figure 2. Profitability indicators (in %)

Source: authors' own work based on input data.

The second indicator of profitability shows the share that will fall on partners and shareholders per one unit of means invested in the company and generated by the company. It is obvious that both types of profitability were declining in the period 2007–2010 from significantly positive values down to negative values. Negative values are caused by decrease of the profit indicator in numerator in 2009 to red numbers. The history of both types of indicators of profitability points to **undesirable development** in the company, in spite of the fact that negative profitability is nothing unusual for many companies in a short-term perspective.

Activity analysis is aimed at the indicators of turnover rate that may be presented in two ways – as indicators of turnover rate or assets/liabilities turnover time (in time units). Turnover rate indicators characterize relative time during which the capital is bound in form of certain assets. The manufacture in the company analysed is quite demanding in terms of materials, therefore we selected the inventory turnover rate indicator. This indicator is not only affected by the technology of production, but

also by the method and amount of valuation of individual types of inventory. The optimum value of this indicator cannot be determined. On the basis of the cumulative indicator we cannot find out whether the structure of inventory was changing during the years (e.g. the share of input materials is decreasing and the number of no more wanted finished products is growing).

Inventory turnover rate = ∅ Inventory/∅ Daily earnings = ∅ Inventory/ Earnings/365.

Despite this, from Figure 3 it is obvious that the inventory turnover rate between 2007 and 2010 extended almost twice, which is – in the view of the company financing – **very unfavourable**.

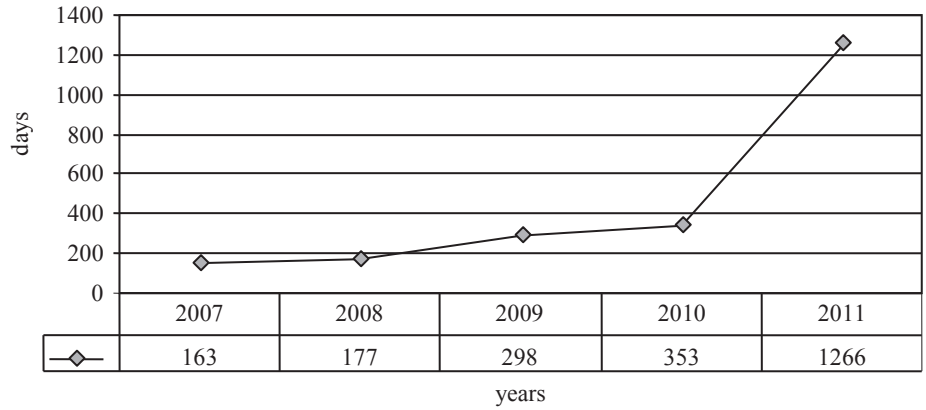


Figure 3. Inventory turnover rate

Source: authors' own work based on input data.

Receivables turnover rate in Figure 4 has not been growing as fast as the inventory turnover rate, however, it has been extending over the years, which results in higher capital costs and also higher administrative burden.

Receivables turnover rate = ∅ Receivables (short-term + long-term)/earnings/365.

At the same time it signals that on the part of the clients there may be a risk of change of financial situation from good to worse, which may in turn result in more receivables after maturity. While assessing the receivables turnover ratio based on the balance sheet we cannot determine reliability and number of clients or the methods of payments of the receivables. We can only conclude that the turnover rate has been extending which is in general considered as **unfavourable effect**.

Liquidity analysis. In general liquidity represents the ability of the company to convert its assets into cash to be able to cover its liabilities [Ross et al. 2005]. In terms of time we for instance have assets liquid within 10 days, within a month or in other term. Based on the required level of liquidity measuring certainty, assets with various liquidity (i.e. convertibility to cash) are entered into numerator. In most cases

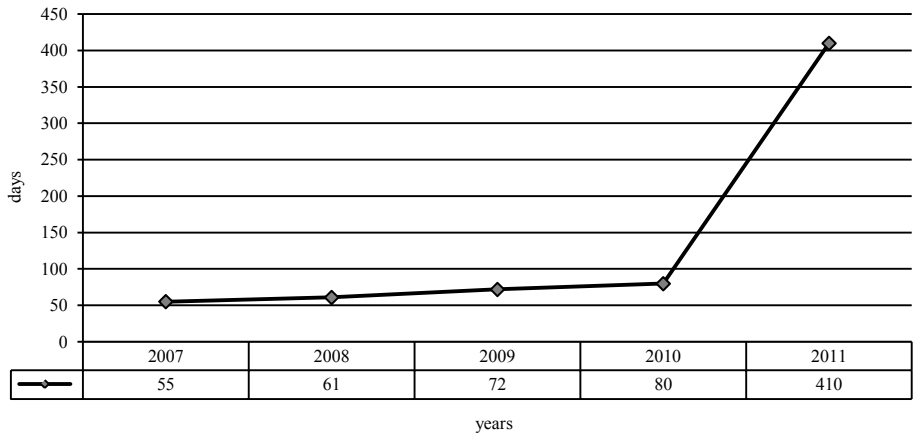


Figure 4. Receivables turnover rat

Source: authors' own work based on input data.

the short-term assets are used. Under certain circumstances the short-term liabilities higher than the short-term assets (and vice versa) do not necessarily mean the company is managed poorly. The key is the company strategy. The commonly used liquidity indicators are based on the balance sheet. It is, however, a statistical statement with values valid at the certain moment of time, which means that more relevant is the trend of the indicators. From all the liquidity indicators below it is obvious that the values are rising. This may be caused either by increase of value in the numerator or decrease of value in denominator.

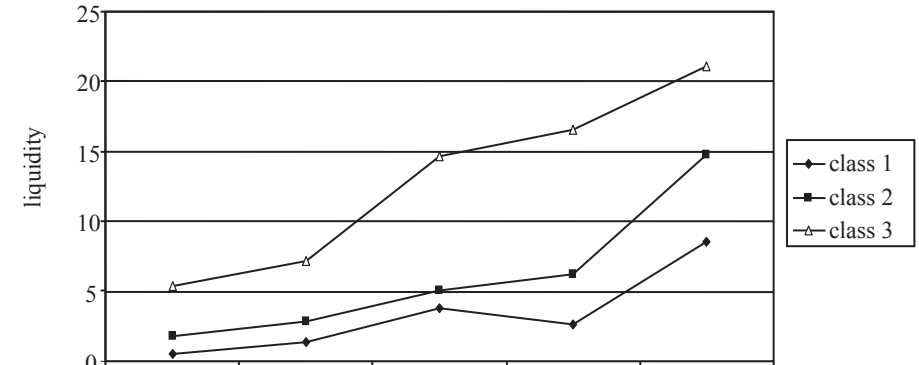
1st level liquidity (immediate) = cash/short-term liabilities,
2nd level liquidity (ready) = (short-term assets – inventory)/short-term liabilities,
3rd level liquidity (common) = short-term assets/short-term liabilities.

According to A. Knápková et al. [2012] the 1st level liquidity should vary from 0.2 to 0.5. Even if these standard values are ignored, it is obvious that high values of the indicator point to inefficient use of financial means that exceed the short-term liabilities multiple times.

The indicator of 2nd level of liquidity should vary from 1 to 1.5. By comparing these values with the previous level of indicator, it is obvious they are higher and also considerably higher than the standard. The values are rising in time which again signalizes **an adverse trend**.

3rd level liquidity is also referred to common liquidity. It states how many times the current (short-term) assets cover the short-term foreign liabilities of an entity. Again the rising trend is obvious. High liquidity leads to lower revenues and lower risks or higher costs. In this case the negative effect from the high level of liquidity is especially caused by:

– too high ratio between long-term liabilities having the nature of own resources only and the short-term foreign resources,
– high portion of unfinished production.



	2007	2008	2009	2010	2011
Class 1	0.527	1.36	3.805	2.63	8.595
Class 2	1.765	2.827	5.038	6.174	14.759
Class 3	5.413	7.123	14.664	16.578	21.06

years

Figure 5. Liquidity indicators

Source: authors' own work based on input data.

In any case, while managing the liquidity, the strategy of the relevant company is the decisive factor. During the analysed period all the above three levels of liquidity increased almost three times, which is mainly caused by a considerable decrease of short-term liabilities (see Table 3). A considerable share from the short-term liabilities is represented by trading liabilities, which may point to a controlled or forced (due to circumstances) attenuation of business activities.

Table 3. Values of current (short-term) assets and short-term liabilities

Years	2007	2008	2009	2010	2011
Total short-term assets	35 888	38 615	32 430	28 879	11 646
Short-term liabilities	6 572	5 377	2 190	1 723	553

Source: authors' own work based on input data.

Indebtedness analysis is based on the measuring of three basic variables: equity, foreign capital and total capital invested. To analyse the indebtedness, many forms of indicators are used. In our particular case we use the indicator of creditor's, i.e. the ratio between the foreign capital and the total capital (equity + foreign capital). With

the increasing indebtedness, the value of this indicator should be rising (provided that the company has not a negative equity).

Indebtedness = *Total liabilities + leasing instalments / total capital (Σ assets)*
(creditor's risk indicator)

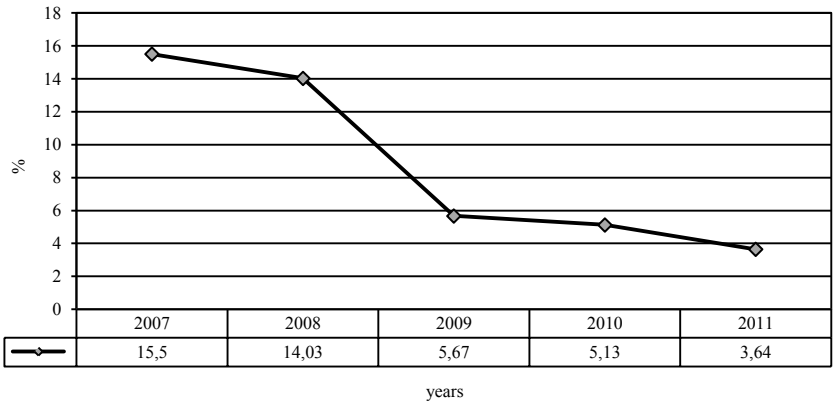


Figure 6. Indebtedness

Source: author's own work based on input data.

The company has no long-term foreign resources, the short-term resources are decreasing faster than the value of the total capital invested. The company indebtedness is decreasing which points to a **favourable trend**.

By summarizing the development and predicative ability of financial analysis indicators used, we get the following characteristics:

– profitability indicators – negative trend,
– activity indicators – negative trend,
– liquidity indicators – negative trend,
– indebtedness indicator – positive trend.

Now let us examine the conclusions we got using the prediction of Altman's *Z* score indicator (Figure 7). Its characteristics can be found in section 3.1 herein. It is the second type of Altman's model that was developed for non-listed public limited corporations.

From Figure 7 it is obvious that the predicative ability of Altman's model in our case completely failed, as it predicts trouble-free future development and growth of the company. There may be two explanations:

1) Altman's model is completely unsuitable for this particular company,

2) the values of individual indicators covered in the Altman's model.

From Table 4 it is obvious that the indicator X_4 has a clearly growing tendency. It represents the share of own equity to foreign capital. In this particular company foreign capital is represented by short-term liabilities only (towards employees and

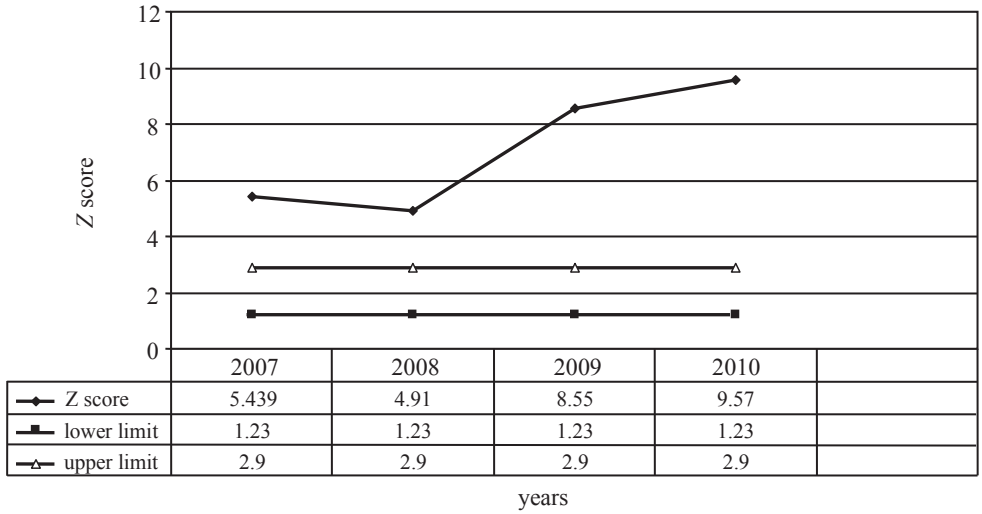


Figure 7. Altman's Z score model

Source: authors' own work based on input data.

suppliers). The growing tendency is given by a strong decline of the value of short-term liabilities in denominator of the individual indicator. The indicator X_4 is the indicator of indebtedness that affected the value of Altman's model more than significantly.

Table 4. Altman's model indicators

Indicator	2007	2008	2009	2010
X_1	0.47	0.52	0.57	0.57
X_2	0.64	0.64	0.70	0.70
X_3	0.53	0.13	–0.21	–0.26
$\boldsymbol{X_4}$	**2.27**	**2.53**	**6.90**	**7.72**
X_5	1.53	1.09	0.64	0.84

Source: authors' own work based on input data.

At the end we can agree with D. Kovanicová and P. Kovanic who said that: "models influencing the economic reality are only simplified approximations of imperceptible complex matter of fact and even a successful model is only a partial phase in the exploration of such reality" [Kovanicová, Kovanic 1995, p. 378].

The analyses of company financial situation described above have not brought the clearly negative implications and effects regarding the impairment of the going concern assumption. The company faced excessive inventory and especially the constantly decreasing revenues. This situation resulted in the growth of bound capital

and with the decreasing revenues the production efficiency declined. A considerable amount of assets was bound in the form of cash on bank accounts that brought a minimum effect only.

5. Assessment of the ability of a particular company to continue the business based on the operational factors and other influences pursuant to ISA 570 standard

These are the factors that cannot be relevantly assessed externally. Considering the general situation in the glass-making industry in the Czech Republic we can assume it is a significant negative factor. The intention of the company management to liquidate the company or to discontinue the manufacture is not clearly stated here, but considering the significant decline of the volume of orders, maturity and no effort to renew the machinery and equipment, aging of management, the consequences of these intentions on grounds of the recent economic results are strong.

Loss of important market. The business entity was a traditional producer of hand-cut components for crystal chandeliers. Its products were distributed not only to domestic market, but also to foreign countries. Long-term clients came from the former Soviet Union, Poland, France and partially Japan. In 2000 and 2001 the crisis hit this business sphere significantly. The most significant decline of total revenues was registered during the period from 1999 to 2004 (by approx. 65%) – according to our opinion this was a breaking point for the company and the management. An intense decline continued also in 2009 – almost 82% compared with 1999. According to our opinion this was one of the main reasons for extinction of the company.

6. Conclusions

Quantitative indicators for the assessment of companies should be respected, but never overrated. Each of the ratio indicators evaluates the company situation or its development by a single number – it only measures one particular attribute of very complex process. We must be aware that economic process has many attributes and there are various links amongst indicators. The truth is that what seems to be an indicator of health and growth for the one company may be a prediction of soon end for the others. According to the results presented in this paper the business entity should – according to three indicators – be in economic troubles, but according to the last indicator and also according to the cumulative indicator, the company situation seems to be favourable.

Business entities operate under the constantly changing conditions of technological and economic nature. On the background of these conditions a major role is played by mental strength and decisions by owners, investors or management. This

phenomenon is especially obvious in small and medium-sized companies. These are the factors that cannot be quantified, but in many cases they are decisive for business continuation.

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ZASADA KONTYNUACJI DZIAŁALNOŚCI A ANALIZA FINANSOWA

Streszczenie: W artykule omówiono „zasadę kontynuacji działalności" oraz jej ujęcie w teorii ekonomii i rachunkowości finansowej. Przedstawiono perspektywy pozwalające określić, czy dany podmiot gospodarczy postępuje zgodnie z zasadą kontynuacji działalności, czy nie. Zamieszczony w pracy przykład z praktyki gospodarczej pokazuje ocenę wyników przedsiębiorstwa, które nie dostosowało się do tej zasady.

Słowa kluczowe: zasada kontynuacji działalności, czynniki finansowe, ISA 570, prognozowanie.