

# Financial Management of Construction Companies

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## 1 Introduction

Financial management of companies, not exclusively construction companies, represent one component of important strategic management. Financing is not only reflected in the indebtedness of the selected company and its liquidity, but also in providing cost-effectiveness, *i.e.* profitability. The Ministry of Industry and Trade publishes quarterly, semi-annual and annual statistics on financial indicators for individual sectors. This means that the closest sector to this research is construction industry. The total number of samples for the whole Czech Republic for these statistics was 85 companies. However, these statistics do not reflect the size of the company. The research was focused on the survey of selected financial indicators according to the categories corresponding to company sizes. The selected financial indicators for the research were mainly: the percentage share of fixed and current assets on total assets, percentage share of own and external capital (financial resources) on liabilities and other indicators that confirm basic financial rules for each size category of construction company doing business in the construction industry.

## 2 Present State References

Act No. 563/1991, on Accounting (1991) in Section 1b defines the categories of accounting unit sizes (companies) as micro, small, medium and large. This division is governed by the balance sheet data, at which the thresholds for the amount of assets, the total net annual turnover and the average annual number of employees are defined. EU Recommendation 2003/361/EC (2003) of 6 May 2003, published by the Ministry of Industry and Trade and the Office for the Protection of Competition, also defines the sizes of companies as micro, small and medium-sized companies.

## 3 Methodology

From a methodological point of view, the research was run on 17 samples for all categories of construction companies. The principle that at least 5 samples should fall within a given category has always been observed. In order to obtain input data from public sources, just the following categories were taken into account: small, medium and large.

Financial indicators were processed using the basic method of financial analysis, namely

vertical analysis. The principal of the vertical analysis is the ratio between the examined quantity and the basic quantity stated as a percentage.

The basic financial rules for efficient and sound company management are based on three pillars:

- 1<sup>st</sup> golden rule of risk equalization: the ratio of own and external resources should be 1:1,
- 2<sup>nd</sup> golden balance rule: fixed assets should be covered by long-term resources,
- 3<sup>rd</sup> golden “pari” rule: fixed assets should be covered by equity.

## 4 Results

Financial indicators were monitored within the research using the vertical method, which is classified as an elementary method of financial analysis: own resources (equity), external resources, fixed assets, current assets, long-term resources, short-term resources.

## 5 Conclusions

It was concluded from the overall research survey that the second and third financing rules were confirmed for all company sizes, unlike the first rule on company indebtedness was almost confirmed for medium-sized companies. The analysis of indebtedness showed that small companies use own resources more for financing their activities and, conversely, large companies use external resources more for financing their activities. This article represents a basic input into the overall investigation into the financial management of companies according to their size.

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