

An Analysis of Cost Management at TEPLO Kyjov, spol. s r.o.

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ABSTRAKT

Tato bakalářská práce se zabývá analýzou řízení nákladů ve společnosti TEPLO Kyjov spol. s r.o. Cílem této práce je analyzovat příslušné náklady a zhodnotit jejich současné řízení.

Práce se skládá ze dvou částí – teoretické a praktické. V teoretické části bylo provedeno zpracování teoretických poznatků z oblasti řízení nákladů na základě literárních pramenů. Praktická část se pak zabývá samotnou analýzou řízení nákladů společnosti, která je na začátku představena, srovnání sledovaných veličin s odvětvím a tvorba ceny a rozpočtu.

Klíčová slova:

Analýza nákladů, fixní náklady, variabilní náklady, rozpočet, kalkulace

ABSTRACT

This bachelor thesis deals with an analysis of cost management at TEPLO Kyjov spol. s r.o. The main aim of this thesis is to analyze given costs and evaluate their current management.

This thesis consists of two parts – theoretical and practical. In the theoretical part was realized the processing of the theoretical findings from the area of cost management based on the literary sources. Then the practical part deals with the analysis of cost management at the company that is introduced at the beginning and with the comparison of monitored statements with the industry and the formation of the price and budget.

Keywords:

cost analysis, fixed costs, variable costs, budget, costing

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INTRODUCTION

Nowadays the costs are a very important part of management, they can be found in financial accounting as well as in managerial accounting. They are relevant because every company wants to make a profit and to calculate it the accounting uses the difference between the total earnings and the total costs. So the amount of costs defines whether the company will be profitable or not. If the costs were higher than the earnings, the company would have a loss. Therefore the managers should look at the costs from the long-term view and try to control them precisely. In my bachelor thesis I examine the cost management theory and then the cost management in the company TEPLO Kyjov spol. s r.o. The aims of this thesis are to evaluate the costs, their management and the strengths and weaknesses of this management in the company and to provide some possible recommendations.

In my bachelor thesis, in particular in the practical part, I analyze the cost management of the company TEPLO Kyjov spol. s r.o. which deals with the production and distribution of thermal energy. I introduce the company and also the industry in which the company is included. Then I focus on their cost classification, the break-even point analysis and also on the formation of price and budget.

The theoretical part of my bachelor thesis is divided into several chapters about the cost management that I draw from the literary sources. So the first chapter is about the cost management and the difference between financial accounting and managerial accounting. Next chapter informs about managerial accounting itself, mainly the cost classification is determined and also different types of costing. And the last part discusses the budgeting, the function of budgets and their relationship towards the managerial accounting. Also different types of budgets are mentioned. I use these findings in the practical part of the thesis and analyze the costs and in the end I recommend possible improvement for the cost management.

I. THEORY

1 COST MANAGEMENT – THEORY

While running a company the managers encounter a lot of economic disciplines which handle information fundamental to proper function of a corporation. These economic disciplines collect, sort, transform and provide information necessary for the managerial decision making. Among these disciplines belong:

- Financial accounting and financial statements reports of statement of balances (balance sheet, profit and loss statement, cash-flow statement);
- Intradepartmental accounting, by another name managerial (or management) accounting and costing;
- Budgeting; (Synek 2010, 283)
- Business statistics and analysis (it uses information from financial accounting and also from managerial accounting and costing according to users requirements who need them for the decision making process and it also includes an analysis of finance as it evaluates the development of a company). (Synek 2010, 295)

The function of accounting is to provide information to their receivers, therefore to the users who can be divided into several groups in term of the need of given information:

- Owners of the company;
- Creditors of the company;
- Managers;
- Employees and concerned community;
- Competition and their companies;
- Financial government agency. (Synek 2010, 285)

1.1 The Difference between Financial and Managerial Accounting

Basically the managers distinguish between two types of accounting – financial and managerial. This subchapter discusses the main differences between these types.

Financial accounting is obligated to follow generally accepted accounting principles, in the Czech Republic it is Accounting Legislation, and also other legislations and regulations. These legislations guarantee an integrated interpretation of accounting and an objective display of economic reality. Also the pieces of information, connected with financial accounting, differ from managerial accounting information by the extent and details. This depends on the receivers of information. (Hanušová 2007, 3)

So financial accounting provides information for the outsiders – the external decision makers. (Horngren 2012, 2)

Managerial accounting depicts and explores the economic reality. It searches, files, sorts, analyzes, groups and orders information about the company's activity into different statements and summaries – they help to improve the decision making process and management of a company. Used information can be external, internal, economical or technical, their form can be in kind or financial and they can come from cost or financial accounting but also from the sources outside accounting entity. (Hanušová 2007, 3)

The pieces of information provided by managerial accounting are calculated for the insiders – the internal decision makers such as managers. (Horngren 2012, 2)

In the following table Horngren differentiates between financial and managerial accounting according to their primary users, purpose of information, focus and time dimension of the information, rules and restrictions and scope of information.

Table 1: Difference between Financial and Managerial Accounting (Horgren 2012, 776)

	Financial Accounting	Managerial Accounting
1. Primary users	External - investors, creditors, and government authorities	Internal - the company's managers
2. Purpose of information	Help investors and creditors make investment and credit decisions	Help managers plan and control operations
3. Focus and time dimension of the information	Relevance and reliability of the information and focus on the past—example: 2013 actual performance reported in 2014	Relevance of the information and focus on the future—example: 2014 budget prepared in 2013
4. Rules and restrictions	Required to follow GAAP. Public companies are required to be audited by an independent CPA	Not required to follow GAAP
5. Scope of information	Summary reports primarily on the company as a whole,	Detailed reports on parts of the company (products,

	usually on a quarterly or annual basis	departments, territories), often on a daily or weekly basis
6. Behavioral	Concern about adequacy of disclosures; behavioral implications are secondary	Concern about how reports will affect employee behavior

If we look at these economic disciplines, this bachelor thesis will discuss managerial accounting, costing and budgeting. Managerial accounting itself deals with the costs and their classification and management. Also it deals with costing that is used to calculate expenses incurred and finally budgeting is part of managerial accounting as well.

2 MANAGERIAL ACCOUNTING

Managerial accounting focuses on information to help the managers with their decisions for the future and also with the planning and controlling business operations. (Horngren 2012, 774)

In other words managerial accounting was created for management, therefore especially for the managers and it represents a harmony between management and accounting. Earlier from the perspective of management accounting just recorded the facts about certain phenomenon but later the function of control and analysis of the phenomenon started to be perceived. (Čechová 2011, 3-4, 2011)

2.1 Historical Review of Management Accounting

The origins of today's management accounting can be found in the nineteenth century during the industrial revolution. In the mid-1980s, most of the management accounting practices, were in use and had been developed by 1925. For the next 60 years there was stagnation in management accounting. Owners of business needed to monitor the effective stewardship of investment and this led to the development of financial accounting. Statutory obligations were created and companies had to follow certain set of rules known as Generally Accepted Accounting Principles (GAAP) and also they had to publish audited annual financial statements. So costs were allocated between cost of goods sold and inventories. But these costs were not sufficiently accurate for decision-making purposes and for distinguishing between profitable and unprofitable products and services. Through the years companies were still using the cost systems of the 1920s so in the mid-1980s the management accounting systems did not change and therefore they were no longer relevant to the changing competitive and manufacturing environment. Because of that, management accounting change since the mid-1980s thanks to academics who implement new techniques that made management accounting relevant again. (Drury 2004, 20-21)

2.1.1 Managerial Accounting Objectives

Serve the needs of company's management that is the main objective of managerial accounting and because the management consists of many decision making processes, managerial accounting provides information to help make these decisions. The objectives can be divided into these following eight groups which are mutually connected:

1. Information about the cost classification – the basic two: the nature of expense classification and the function of expense classification;
2. Information about the outputs;
3. Information about the particular units of a company;
4. Creation of costing system;
5. Responsibility management;
6. Control of the costs;
7. Budgeting;
8. Decision objectives. (Čechová 2011, 5-6, 2011)

2.2 Cost Classification

Costs are defined as incurred economic sources expressed in the form of money and spent on certain given function in advance. But overall the costs do not represent a homogeneous unit but they are made from different inhomogeneous parts. (Král 1997, 40, 52)

This chapter handles different classification of costs that can occur in a company.

2.2.1 Nature of Expense Classification

The most common type of cost classification is the nature of expense classification. It is also used in financial accounting and when creating standard financial statements, for example the profit and loss statement. Among the basic costs type belongs:

- Usage of material, energy and external services;
- Personnel expenses (e.g. social expenses, wages and salaries);
- Depreciations of tangible and intangible investment assets;
- Usage of external services;
- Financial expenses. (Popesko 2009, 34-35)

Incoming costs types have three basic characteristics:

- Prime costs are generically incurred expenses which reflect while inputting to the company;
- External costs originate from usage of products or services of another subjects;
- Elementary costs are costs that cannot be divided into other units. (Král 2006, 65-66)

The nature of expense classification serves as information background to secure proportions, stability and balance between outer surroundings and the need of these

sources in a company, and this is the main value of this classification. But the nature of expense classification do not imply the purpose of using these costs, therefore it is necessary to combine this classification with other cost classifications because of the management requirements. (Král 2006, 66-67)

2.2.2 Function of Expense Classification

To classify costs correctly the function is a very important factor, to find out why the costs were spent, i. e. the action evoking their creation. The nature of expense classification do not include the function, therefore the function of expense classification is being used. (Hradecký 2003, 25)

So to identify the relation of the costs to the company's outputs and their effectiveness, several different classifications are used:

Engineered costs – they are somehow connected or are evoked by a technology;

Service and management costs – in this category belongs e. g. expenditure of power in offices, heating in the buildings or payment of clerical personnel, i. e. those who have something to do with the technological process; (Popesko 2009, 37)

Unit costs – these costs result from the technological process, the growth is directly proportional regarding the number of outputs and they are connected with one type of production and calculated on cost unit;

Overhead costs – the costs used on tender and management, the growth is not directly proportional regarding the number of outputs and they are connected with different types of production, they are calculated by using different methods. (Hanušová 2007, 50)

Direct and Indirect Costs

This classification is a special type of the function of expense classification and basically it expresses direct and indirect connection between the costs and a certain final or partial output. Therefore these costs are divided into two groups: direct and indirect. (Hanušová 2007, 51)

“Direct costs are those costs that can be specifically and exclusively identified with a particular cost object. Indirect costs cannot be identified specifically and exclusively with a given cost object.” (Drury 2004, 28)

2.2.3 Cost Classification by Behavior

Considering cost management this type of classification is one of the most significant and used. Unlike previous types of classification focusing on expenses already incurred, this classification is targeted on the future volume of production and it is becoming a very important tool to the decision making process. The volume of production can be measured by using a wide range of indexes, e. g. the number of sold or manufactured items, working hours etc. These costs are further divided into variable, fixed and semi-variable costs. (Popesko 2009, 39)

Variable costs

Variable costs can be simply defined as those costs that change with the volume of production. Further the variable costs are classified into proportional, over-proportional and under-proportional costs. Proportional costs change directly proportionally to the volume of production, an example of this is a piecework pay or usage of direct material. Increasing costs grow faster than the volume of production, for example the wage of production workers, if they are forced to work at weekends or overtime due to the growth of production. If the costs grow slower than the volume of production, the costs are called decreasing, e. g. some items of material costs, when the supplier offers us quantity discount. (Popesko 2009, 39-40)

Fixed costs

Fixed costs unlike the variable ones do not change with the volume of production in a certain period of time. This can be for example depreciations of buildings or leasing. Fixed costs are also further divided into total fixed costs and unit fixed costs. The total fixed costs stay still the same whereas the unit ones (costs fall on the unit of production) decrease with the growth of volume of production. (Popesko 2009, 40)

Semi-variable costs

Some costs cannot be certainly classified into variable or fixed costs. Sometimes certain costs include the fixed item as well as the variable item therefore they are marked as semi-variable costs. (Popesko 2009, 41)

2.2.4 Cost-Volume Profit Analysis

To ensure that the fixed and variable costs are covered is the main task of this analysis. A term connected with the analysis is **break-even point** - the point at which the company does not make profit or loss. Another term connected with this analysis is **contribution**

margin – a price of production minus unit variable costs of production. The result is a sum that will remain in a company after realization and sale of production and the sum is used to cover the existing fixed costs. When the number of production is sufficient to cover the total fixed costs, the sum starts to make profit. This is how the relation is defined:

Contribution margin per unit = revenues per unit – variable costs per unit

Contribution margin = revenues – variable costs (Popesko 2009, 43 – 44)

The break-even point states how many contribution margin the company has to generate to cover the total fixed costs:

$$q = \frac{\text{fixed costs}}{(\text{revenues per unit} - \text{variable costs per unit})}$$

q – break-even point

So the break-even point is a point where the total fixed costs equal the total revenues. (Popesko 2009, 44)

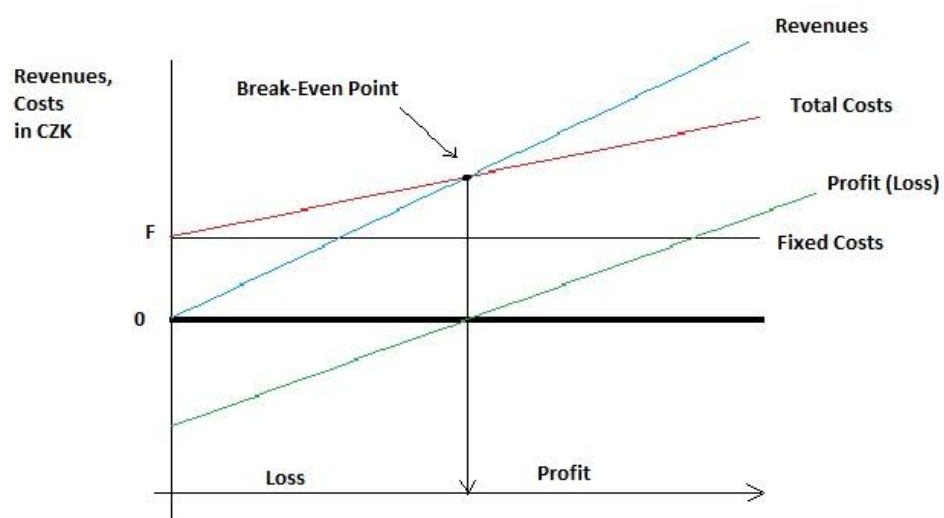


Figure 1: Graphical Representation of Break-Even Point (Zámečník 2007, 47)

2.2.5 Relevant and Irrelevant Costs

The costs result from the evaluation whether they change in connection with the considered decisions and their variations. It is assessed based on the applied variation that will affect the costs.

Relevant costs – their amount changes according to made decision made. The difference between the costs before considered change and after the change is expressed by so-called differential costs that are a special form of relevant costs.

Irrelevant costs – the decision made does not affect the amount of these costs. (Král 2006, 82-84)

2.2.6 Sunk Costs

Expenses incurred in the past and the decisions made in the future cannot change their amount. They are characteristic because of:

- They are spent before the start-up of production;
- Their total amount cannot be influence again;
- The only option to reduce them is the antagonistic investment decision;
- Depreciations of fixed assets belongs here;
- What is typical for them is the relatively distant period of time between the expense and formulation of the cost. (Popesko 2009, 42)

2.2.7 Opportunity Costs

They represent profit loss from decision that was not chosen. These costs are not filled in the accounting and therefore they come under the implicit costs. In terms of managerial decision making the implicit costs are as important as the explicit costs, so the ones which are filled in the accounting. (Popesko 2009, 42)

2.3 Costing

Essentially costing is the main tool used by management and today it is also the one that is used the most. Every manager needs to set the costs which are spent on the output of the company and how many these outputs actually costs. Profitability, contribution margin and even the price can be calculated by using costing. (Popesko 2009, 55)

The term costing is possible to understand in three main meanings:

- As action leading to state or set the costs on particular output of the company;
- As the result of this action;

- As separated part of the informational company's system. (Hanušová 2007, 91)

To state the amount of costs, it is necessary to use *costing methods*. Before using these methods, it is important to set *the object of costing*. As the object of costing can be considered all types of outputs in the company and the object of costing is determined on unit of calculation and estimated amount. *The unit of calculation* is particular company's output, it can be type different and also it can be expressed by unit of measurement. The total number of unit of calculation, that are used to set the total costs, is then called estimated amount – this helps to set the share of indirect costs on the unit. The direct and indirect costs have to be distinguished by the object of costing. The direct costs directly refer to executing the output and they can be quite exactly stated (e. g. material usage on one product). On the other hand the indirect costs include more outputs of the company (e. g. wages of workers, depreciations) and the final amount on the unit of calculation has to be calculated. (Hanušová 2007, 92-93)

2.3.1 Costing System

There are several types of costing in a company. It depends on the size, type or the production of the company. The costing system itself represents these types of costing and their mutual connection, they also ensure the continuity of individual costing. Therefore this system divided costing into preliminary and actual. (Hradecký 2003, 13-14)

2.3.2 Types of Costing – By the Time of Compilation

I. Preliminary Costing – as the title itself suggests, this type of costing is set before the process of production or any other production. Further the preliminary costing can be divided into:

- *Estimate Costing* – this method is used concerning a new product when the product is not technically clarified yet;
- *Plan Costing* – repetitive and stabilized production use this method. The method should be used only if all the possible changes are clearly determined;
- *Operational Costing* – this method should reflect all the changes that may occur during the production process;

II. Actual Costing – after the process of production is finished the actual costing is set and serves to control the preliminary costing. (Hradecký 2003, 14-22)

2.3.3 Types of Costing – By the Completeness of Costs

There two types of this costing - absorption and variable costing:

I. Absorption Costing

- *Division Costing* – the easiest type of costing, however it can be used only in a company with homogeneous production (e. g. the production of electricity, the distribution of energy, etc.). If the outputs of a company are not entirely homogeneous, but differs only in certain measurable parameter, the costing by equivalent units is used; (Popesko 2009, 62)
- *Overhead Rates Costing* – it is used in serial or mass production and the cost division is direct and overhead. The direct costs are calculated on cost unit and the overhead cost are calculated by chosen base in advance and a clearing rate as additional charge to the direct costs. The additional charge is a percentage or rate; (Zámečník 2007, 69-70)
- *Joint and By-product Costing* – if a technological procedure creates several types of products, this method is used. The costs are calculated by joint product costing or by-product costing methods; (Zámečník 2007, 70)
- *Standard Costing* – determines the amount of costs in advance as a standard and establishes the difference between this standard and the actual costs; (Zámečník 2007, 71)

II. Variable Costing – not every product induces the fixed costs and makes profit, this type of costing binds to certain period of time. Variable costing focus only on the variable costs and the sum a product contributes to covering the fixed costs and the profit. This sum is called a contribution margin. (Zámečník 2007, 73)

2.3.4 Nontraditional Costing Methods

In case of difficult cost allocation to the unit of calculation, the nontraditional costing methods replace the traditional methods. Methods as activity based costing or target costing capture the change in the structure of costs that the previous methods do not. (Zámečník 2007, 76)

I. Activity Based Costing – the method do not assign the overhead costs to the unit of calculation but to the individual activities that are related to these costs. Also called ABC method states the relationship of costs to the cause of their formulation in the best possible way and these costs assign to the company's outputs that are required

by the individual activities (certain working process or procedure). The main advantage is the detection of costs to the individual fractional activities though the disadvantages of this method are high expensiveness and also the consumption of time. (Zámečník 2007, 76)

II. Target Costing – this method focuses on the market and the customer. It is based on the price accepted by the market and the customer. Subsequently the profit that the company wants to achieve is subtracted from the price and what remain are so called tolerable costs of product, thus the costs connected with a manufacture of the product. (Zámečník 2007, 77)

3 BUDGETING

Budgeting is a careful planning of company's finances. It is a creation of financial plan that identifies objectives and the actions crucial for achieving them. When doing a financial plan we should also consider control. We use control to receive feedback on our actual performance. (Hansen 2009, 250)

The main task of budgeting is to quantify the monetary development of costs, revenues, profit, assets, liabilities, incomes and expenditures:

- For certain period of time (depends on the level of management)
- For certain volume and structure of activity (produced and sold products)
- For company as a whole or for hierarchically lower level of management
- Expected changes of condition at production process (Fibírová 2007, 350)

Budgets manage stock and flow variables. A stock variable is determined by a certain state to a given moment. Fixed assets, working capital, an equity, long-term or short-term other sources belong to stock variables and they are important mainly for budgets compiled on longer period of time. On the other hand a flow variable constantly changes during given period and it is stated regularly. Costs and revenues, incomes and expenses (cash flow) or a profit fit in flow variables and they are significant in all intervals because they can be calculated to different periods of time. Therefore budgets are divided into long-term and short-term budgets. (Čechová 2011, 106-107)

Short-term budgets are compiled for calendar year or also so called budget year. These budgets are described as operational plans and can be compiled for a shorter period of time – quarter or months and thereby to specify them more. (Čechová 2011, 107)

Long-term budgets are compiled for more years, for example strategic plans are usually compiled for three till five years, sometimes even for more. These plans depend on the company's needs. (Čechová 2011, 107)

3.1 Functions of Budget

By the fact that the short-term budget defines the goals of a company as a whole and simultaneously also the goals of other units and executives the budget implements several main functions:

1. The budget has a planning function. It sets the goals in the development of costs, revenues, profit, assets, liabilities, incomes and expenditures in the certain period of time;

2. The budget has a coordination function. It coordinates the activity of units inside the company;
3. The budget has a motivational function. It motivates the executives of units to achieve subtasks in accordance with the company's goals;
4. The budget has a control function. It controls the actual development of costs, revenues, profit, assets, liabilities, incomes and expenditures and their amount determined by the budget;
5. It has a function of measuring the performance. It measures the performance of the executives. (Fibírová 2007, 352 - 353)

3.2 Budgeting and Managerial Accounting

The view at the relationship between managerial accounting and budgeting has changed. But nowadays the budgeting is considered to be a part of managerial accounting and that are mainly the budgets compiled for internal management, not the company's budgets connected with financial accounting and financial analysis. (Král 1997, 198 – 199)

3.3 Characteristics of a Good Budgetary System

An ideal budgetary system is described as one that achieves organization's goals and although it probably does not exist, there are some key features that were identified and show us what the ideal budgetary system should include:

- frequent feedback on performance
- monetary and nonmonetary incentives
- participative budgeting
- realistic standards
- controllability of costs
- multiple measures of performance (Hansen 2009, 276)

3.4 Information for Budgeting

Before setting a financial plan, a company should focus on gathering information. There are a lot of sources a company can use such as historical data, but just this type can tell a company what to expect in the future. What should be considered is – forecasting sales and forecasting other variables. (Hansen 2009, 252)

3.5 Classification of Budgets

Flexible budget or fixed budget – flexible budget sets the costs to the certain activity, whether it implies the fixed or variable costs. This budget also represents the limit of expenditure that cannot be exceeded. It is used particularly when the fixed and variable costs are difficult to determine, expensive to differentiate or when the difference between the planned costs and the reality is insignificant. Thereafter the fixed budget is either recalculate, therefore it is used when the output is not bind to the input and determines certain limit of expenditure, or it is recalculate as a whole, so it does not matter when it came to the change of output and whether it was fixed or variable part of budget. (Čechová 2011, 107-108)

Incremental budget or zero-based budget – incremental budget is compiled using the budget and results from the previous year. The budget's percentages are adjusted by the change of planned production volume and the actual results from previous year reflect on the future year's budget. Zero-based budget only evaluates the planned activities and in the new terms, the budget does not view the previous year at all. Thus it obliges the managers to think about what is needed to fulfill the planned activities. (Čechová 2011, 109 – 110)

Rolling budget and budget for a fixed period – rolling budget is compiled on the whole budgetary year and also on short periods, therefore the short periods serve to actualize the total budget and to specify other budgets. Budget for a fixed period is then compiled on the whole budgetary year and does not take in account any changes. It is formed on short periods, in the case of a longer period the inaccuracies may occur. (Čechová 2011, 110)

Overall budget and partial budget – overall budget is compiled for individual items of total business activity. Partial assets budgets view the costs according to the cause of their creation, therefore this classification is more accurate, but time-consuming. (Čechová 2011, 110)

Limit budget and open-ended budget – limit budget sets an item from the area of costs or revenues that should be exceeded. If it comes to exceeding of the item, the approval is necessary and it determines how to dispose with this item further. Open-ended budget is formed on the level of estimated amount. There is no further approval needed, but the budget can become an economy management tool. (Čechová 2011, 112)

4 SUMMARY OF THEORY

The costs are viewed from the point of view of financial accounting and managerial accounting. Financial accounting looks at the costs as loss of finances and on the other hand the managerial accounting views the costs as resources spent on certain given function in advance. So managerial accounting classifies the costs into several different groups.

The cost classification is a very important action for every company as the right division of costs and their management is essential for the proper function of the company. Nature of expense classification, function of expense classification or cost classification by behavior are just some groups where the costs can be included in. The cost classification by behavior evaluates the costs according to the volume of production – the variable costs change with the volume of production and the fixed costs do not. Related to this classification is the break-even point – the point where the total fixed costs equal the total revenues and the company does not make profit or loss.

The main tool used by management is costing. Costing is used for setting the costs and also the price or the profitability can be calculated using costing. Also there is several types of costing as preliminary or actual costing, then absorption or variable costing and some nontraditional costing methods (Activity based costing or target costing).

Planning of company's finances is called budgeting. Every year company compiles its budget where they consider the following period usually by taking into account the budget from the previous year. So they think about the costs, profit and also about price. The companies choose their own way of budgeting and operate according to it.

The finding from the literary sources I will use in the practical part of my bachelor thesis dealing with the cost management of the company TEPLO Kyjov spol. s r.o.

II. ANALYSIS

5 DESCRIPTION OF COMPANY TEPLO KYJOV, SPOL. S R.O.

In this part of my bachelor thesis I will introduce the company TEPLO Kyjov, spol. s r.o., its scope of business. Then I will get acquainted with the company's organizational structure and its development of economy from 2009 to 2011 in comparison with the industry. The reference period of industry is also from 2009 to 2011 and these statistics are provided by the Ministry of Industry and Trade of the Czech Republic.

5.1 Introduction of company

Business name:	TEPLO Kyjov, spol. s r.o.
Residence:	the Czech Republic, Kyjov, Svatoborská 27
Legal form:	Limited Liability Company
Classification D:	Electricity, gas and steam production and distribution
CZ-NACE:	D 35301- Production of district heating D 35302 - Distribution of district heating
Earlier OKEČ:	D 35.3 – Electricity, gas and steam production and distribution

5.2 TEPLO Kyjov, spol. s r.o.

The company TEPLO Kyjov, spol. s r.o. was founded on October 31 1996 as a limited liability company. The company is located in the town Kyjov and the town itself is a founder and an owner of this company. A person representing and acting on behalf of the company is the executive director who has the power of attorney. The company has several scopes of business: a production of thermal energy, a locksmithing, a water plumbing, a heat engineering, a production of heat, a distribution of heat, a retail of second-hand goods, a specialized retail, a mediation of services, a washing, ironing, repairs and maintenance of clothes, household textile and personal products, an administration and maintenance of real estates. A registered capital is CZK 1,200,000.

In this bachelor thesis I focused on the main scope of business which is the production and distribution of thermal energy. The company takes care of several heat exchanger stations and residential boiler rooms. Every year they calculate the price per one gigajoule (GJ) of thermal energy.

5.3 Description of Industry

Classification D - Electricity, gas and steam production and distribution

This section of CZ-NACE includes the distribution electricity, gas, steam, hot water etc. through the permanent networks of infrastructure, conduit or pipeline. The extent of the networks is not crucial. Distributed areas are usually industrial areas and residential buildings. These facilities produces, regulates and distributes electricity or gas, also it includes the production and the distribution of heating, conditioned air and ice. (Český statistický úřad)

In 2009 Section D employed 1.2 million persons in the member states of European Union. Added value of electricity supply subsector was 80.7% (the largest part of the network energy sector). The gas supply subsector was next largest with 14.9% share and with 4.4% share the supply of steam and air conditioning was the last. (European Commission – Eurostat)

5.4 Employees and Organizational Structure

The company TEPLŮ Kyjov, spol. s r.o. has a simple organizational structure with just five employees and this number did not change throughout the researched three years.

Table 2: Number of Employees of TEPLŮ Kyjov, spol. s r.o. (own creation)

	2009	2010	2011
Total number	5	5	5
*Administration	2	2	2
*Service	3	3	3

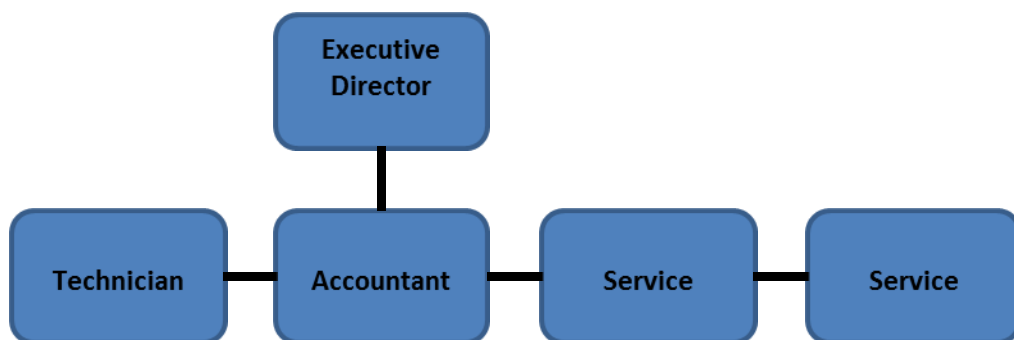


Figure 2: Organizational Structure of TEPLŮ Kyjov spol. s r.o. (own creation)

5.5 The Basic Economic Results of TEPLO Kyjov, spol. s r.o.

In the following two tables the company's revenues and expenses are presented.

Table 3: The development of net income in the period of 2009 – 2011 TEPLO Kyjov spol. s r.o. (own creation)

In thousands CZK	2009	2010	2011
Total Expenses	35,496	35,750	33,263
Total Revenues	35,499	35,817	33,330
Net Income of the current accounting period	3	67	67

Company's net income increased rapidly between the year 2009 and 2010. In 2011 the net income remains the same as in 2010. In the year 2009 the operating net income is lower than in the following two years (see table 4 below) because the company's operating revenues increased more than the operating expenses. Then the financial net income achieves negative values in all three years as it mainly consists of car insurances and of the leased buildings insurances paid by the company. Due to these slight changes the resulting net income totaled only CZK 3,000 in 2009 and in 2010 and 2011 increased.

Table 4: The development of net income in the period of 2009 – 2011 TEPLO Kyjov spol. s r.o. and industry (own creation)

In thousands CZK	Net Income of TEPLO Kyjov spol. s r.o.			Industry		
	2009	2010	2011	2009	2010	2011
Net Income						
Operating Net Income	93	156	156	101,304	63,548	63,318
Financial Net Income	-90	-85	-87	-7,990	-13,766	-23,069
Net Income from Extraordinary Activity	0	0	0	0	0	0
EAT	3	67	67	86,690	61,059	69,759
EBT	3	71	69	109,294	77,314	86,387
EBIT	3	71	69	101,303	63,548	63,318

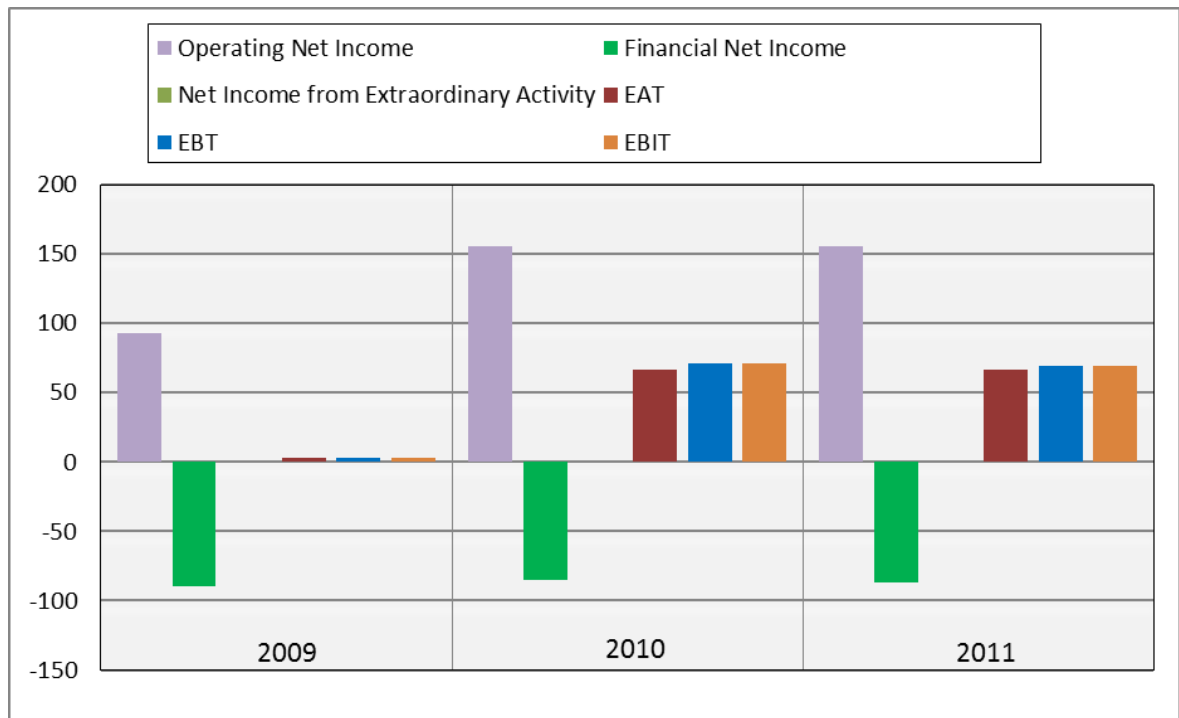


Figure 3: The development of net income in the period of 2009 – 2011 TEPLO Kyjov spol. s r.o. (own creation)

The company TEPLO Kyjov spol. s r.o. has a positive net income during the three years period. Between the years 2009 and 2010 the operating net income increased. Also EBIT and EBT remain the same throughout the monitored period because the company does not have any bank loans. In comparison with the industry, the company makes insignificant profit due to its size and only local activity in the town Kyjov.

6 COST ANALYSIS BY TYPE

In this chapter the company's development of economy is covered during the years 2009 – 2011. The selected ratios of TEPLO Kyjov, spol. s r.o. are compared with the industry (2009 – 2011).

To evaluate the absolute indicators – the data from the financial statements – a horizontal and a vertical analysis are used.

Table 5: Percentage analysis of revenues and expenses of TEPLO Kyjov, spol. s r.o. – vertical analysis (own creation)

		2009		2010		2011	
In thousands CZK		CZK	%	CZK	%	CZK	%
I.	Revenues from sold goods	1,187	3.34%	1,201	3.35%	1,198	3.59%
II.	Production	34,271	96.54%	34,554	96.47%	32,050	96.16%
II. 1	Revenues from own products and services	34,271	96.54%	34,554	96.47%	32,050	96.16%
IV.	Other operating revenues	40	0.11%	60	0.17%	81	0.24%
XI.	Other financial revenues	1	0.003%	2	0.01%	1	0.003%
	Revenues	35,499	100%	35,817	100%	33,330	100%
A.	Expenses on sold goods	1,185	3.34%	1,201	3.36%	1,198	3.60%
B.	Production consumption	32,105	90.45%	32,345	90.48%	29,870	89.80%
C.	Personnel expenses	2,078	5.85%	2,071	5.79%	2,058	6.19%
D.	Taxes and fees	10	0.03%	3	0.01%	3	0.01%
E.	Depreciations of intangible and tangible assets	27	0.08%	23	0.06%	44	0.13%
H.	Other operating expenses	x	x	16	0.04%	x	x
O.	Other financial expenses	91	0.26%	87	0.24%	88	0.26%
Q.	Income tax on ordinary income	x	x	4	0.01%	2	0.01%
	Expenses	35,496	100%	35,750	100%	33,263	100%
	Net Income	3		67		67	

In the table 5 above, that compares the development of revenues and expenses of TEPLO Kyjov spol. s r.o. in 2009-2011, the revenues come mainly from the production and in all three years it is about 96%, also the expenses derive from the production consumption and the percentage in the monitored years is about 90%. So it reflects the main activity of the company.

Table 6: *Percentage analysis of revenues and expenses of the industry – vertical analysis (own creation)*

		2009		2010		2011	
	In thousands CZK	CZK	%	CZK	%	CZK	%
I.	Revenues from sold goods	122,716	14.37%	100,591	11.84%	107,284	12.13%
II.	Production	731,174	85.63%	749,309	88.16%	776,842	87.87%
II. 1	Revenues from own products and services	731,211	85.63%	752,098	88.49%	769,841	87.07%
II. 2	Change in inventory of own products	-528	-0.06%	-3,333	-0.39%	6,569	0.74%
II. 3	Capitalization	490	0.06%	543	0.06%	432	0.05%
	Revenues	853,890	100%	849,900	100%	884,127	100%
A.	Expenses on sold goods	122,496	16.46%	98,995	13.02%	104,373	12.70%
B.	Production consumption	583,445	78.39%	629,695	82.82%	685,808	83.47%
C.	Personnel expenses	15,699	2.11%	15,381	2.02%	14,816	1.80%
D.	Taxes and fees	22,605	3.04%	16,254	2.14%	16,628	2.02%
	Expenses	744,245	100%	760,325	100%	821,626	100%

Also in the industry (table 6) the highest item in revenues is the production (about 87%) and in expenses the production consumption (about 82%). The industry also incurred about 14% of expenses on sold goods and this reflects in the revenues as well.

Table 7: *Trend analysis of revenues and expenses of TEPLŮ Kyjov, spol. s r.o. – horizontal analysis (own creation)*

		2009	2010	2010/2009	2011	2011/2010	2011/2009
	In thousands CZK	CZK	CZK	%	CZK	%	%
I.	Revenues from sold goods	1,187	1,201	1.18%	1,198	-0.25%	0.93%
II.	Production	34,271	34,554	0.83%	32,050	-7.25%	-6.48%
II. 1	Revenues from own products and services	34,271	34,554	0.83%	32,050	-7.25%	-6.48%
IV.	Other operating revenues	40	60	50.00%	81	35.00%	102.50%
XI.	Other financial revenues	1	2	100.00%	1	-50.00%	0.00%
	Revenues	35,499	35,817	0.90%	33,330	-6.94%	-6.11%
A.	Expenses on sold goods	1,185	1,201	1.35%	1,198	-0.25%	1.10%
B.	Production consumption	32,105	32,345	0.75%	29,870	-7.65%	-6.96%
C.	Personnel expenses	2,078	2,071	-0.34%	2,058	-0.63%	-0.96%
D.	Taxes and fees	10	3	-70.00%	3	0.00%	-70.00%

E.	Depreciations of intangible and tangible assets	27	23	-14.81%	44	91.30%	62.96%
H.	Other operating expenses	x	16	x	x	x	x
O.	Other financial expenses	91	87	-4.40%	88	1.15%	-3.30%
Q.	Income tax on ordinary income	x	4	x	2	-50.00%	x
	Expenses	35,496	35,750	0.72%	33,263	-6.96%	-6.29%
	Net Income	3	67		67		

If the three years are compared in the table 7, the expenses between the year 2009 and 2010 grew about 0.72% and between the year 2010 and 2011 they dropped about 6.96%. So the company reduced their cost in production consumption (between the year 2010 and 2011 it was cut about 7.65%). Worth noticing is also the item depreciations of intangible and tangible assets where the expenses decrease between the year 2009 and 2010 and then increased between 2010 and 2011 about 91.3%.

Table 8: Trend analysis of revenues and expenses of the industry – horizontal analysis (own creation)

		2009	2010	2010/2009	2011	2011/2010	2011/2009
	In thousands CZK	CZK	CZK	%	CZK	%	%
I.	Revenues from sold goods	122,716	100,591	-18.03%	107,284	6.65%	-12.58%
II.	Production	731,174	749,309	2.48%	776,842	3.67%	6.25%
II. 1	Revenues from own products and services	731,211	752,098	2.86%	769,841	2.36%	5.28%
II. 2	Change in inventory of own products	-528	-3,333	-531.15%	6,569	297.10%	1343.98%
II. 3	Capitalization	490	543	10.78%	432	-20.53%	-11.96%
	Revenues	853,890	849,900	-0.47%	884,127	4.03%	3.54%
A.	Expenses on sold goods	122,496	98,995	-19.18%	104,373	5.43%	-14.79%
B.	Production consumption	583,445	629,695	7.93%	685,808	8.91%	17.54%
C.	Personnel expenses	15,699	15,381	-2.02%	14,816	-3.67%	-5.62%
D.	Taxes and fees	22,605	16,254	-28.09%	16,628	2.30%	-26.44%
	Expenses	744,245	760,325	2.16%	821,626	8.06%	10.40%

Comparing these three years in the industry in the table 8, the amount of total expenses grow during this period, between the year 2009 and 2011 it increased about 10.40%. The largest growth is recorded in the item production consumption – 17.54% between the year 2009 and 2011. The production in revenues increased during the monitored period.

According to these statements the company's main activity is the production activity because about 96% of revenues come from production of own products and services and only about 3% of revenues derive from sold goods. On the other side about 90% of expenses come from production consumption because of the company's main activity. About 5% of expenses also originate from the personnel expenses. But overall the revenues grew faster than the expenses during the selected years, therefore the company is profitable. When comparing the industry to the company, the whole industry gains higher values than the company.

7 COST ANALYSIS AND THEIR CLASSIFICATION

This chapter covers the cost analysis of given company and their classification by behavior and also direct and indirect cost classification

7.1 Direct and Indirect Cost Classification

In this part I try to distinguish between the direct and indirect cost classification. The company itself does not use this type of classification because they provide just one type of service. If I compare the revenues from sold good and the revenues from own products and services, the relation will be 3:96. So the company is based on the production by 96%, so I will focus on costs from this activity.

7.1.1 Direct Costs

In this classification belong the costs connected with the direct production and distribution of the thermal energy, in other words with the main activity of the company. These costs are detectable and attributable to the certain units (heat exchanger stations and residential boiler rooms). The direct costs are:

- **Fuel** – in this case it is natural gas. The company supplies the heat exchanger stations and residential boiler rooms and they calculate how much they provided. This item accompanies the main activity of the company.
- **Purchase of the thermal energy** – the main service provided by the company. The thermal energy is instilled to the customers, so again the company knows exactly how much they provided.
- **Purchase of the electrical energy** – same as with the fuel, it is a secondary activity linked with the main one.
- **Purchase of the technological water** – as with the fuel and the electrical energy, these costs accompany the main service provided by the company and are calculated.

7.1.2 Indirect Costs

Indirect costs cannot be assigned to the certain heat exchanger stations and residential boiler rooms. So they represent the rest of the costs associated with the running of the company. The indirect costs are:

- **Wages and insurance** – so the wages of all the five employees of the company are placed here – the executive director, the accountant, the technician and two service employees. And also a statutory health insurance and a statutory social insurance are classified here. The wages are all time wages therefore they belong to the indirect costs.
- **Repairs and maintenance** – the entire repairs and maintenance connected with the running of the company.
- **Depreciations / Leasing** – the company's all depreciated tangible and intangible assets.
- **Tenancy** – the entire premises rent by the company.
- **Production Overhead** – the expenses incurred on meal, telephones, revision of technology, analysis and treatment of water and other financial expenses.
- **Administrative Overhead** – here belongs expenses spent on the postage or car and other insurances.

Table 9: Summary of direct and indirect costs in 2011 (own creation)

Direct costs	2011	Indirect costs	2011
Fuel	1 701 437	Wages and insurance	528 194
Purchase of the thermal energy	21 966 532	Repairs and maintenance	327 552
Purchase of the electrical energy	1 058 313	Depreciations / Leasing	102 717
Purchase of the technological water	2 417	Tenancy	724 227
		Production overhead	752 633
		Administrative overhead	901 180
Total direct costs	24 728 699	Total indirect costs	3 336 503

The direct costs form the larger part of the overall costs. The difference between direct and indirect costs amounts CZK 21,392,196.

7.2 Cost Classification by Behavior

The company TEPLA Kyjov spol. s r.o. distinguishes the variable and fixed costs in their evidence. In other words they look at their costs considering the volume of production and how the volume of production changes. The data used in this analysis come from the actual costing statement.

7.2.1 Variable Costs

As was explained in the theory, the variable costs are the ones that change with the volume of production. So when the volume of production increases, the variable costs increase as well and vice versa.

The variable costs of the company are (the used data are from 2011):

- **Fuel** – it is represented by the natural gas. This item changes with the volume of production because the volume of its consumption depends on it. The overall amount was CZK 1,701,437,210 in 2011.
- **Purchase of the thermal energy** – the highest item in this cost classification (CZK 21,966,531,560). It corresponds with the main activity of the company and it changes with the demand.
- **Purchase of the electrical energy** – similar to the thermal energy item. The company buys the energy from supplier to run the business successfully. It is the second highest item with CZK 1,058,312,900.
- **Purchase of the technological water** – the water used during the production and distribution of the district heating (CZK 2,417,190).

Table 10: The development of variable costs in 2009-2010(own creation)

	2011		2010	2009
		Share on TVC		
Fuel	1 701 437	6.88%	2 219 151	2 079 693
Purchase of the thermal energy	21 966 532	88.83%	23 341 594	23 450 450
Purchase of the electrical energy	1 058 313	4.28%	1 015 429	1 166 775
Purchase of the technological water	2 417	0.01%	8 607	17 577
Total variable costs	24 728 699	100.00%	26 584 781	26 714 496

It is obvious from the table 10 that the highest item of variable costs is the purchase of the thermal energy. As said before it is because of the company's main activity, in 2011 the purchase of the thermal energy item reached almost 89% of the total variable costs. But it is visible that the amount of variable costs decreased from the year 2009 to 2011.

7.2.2 Fixed Costs

As it was mentioned in the theoretical part, the fixed costs are not influenced by the volume of production change.

The fixed costs of the company are (the used data are from 2011):

- **Wages and insurance** – the company includes a time wage, a statutory health insurance and a statutory social insurance in this item. The overall amount was CZK 528, 194 in 2011.
- **Repairs and maintenance** – incurred costs on the entire repairs and maintenance are involved here. In 2011 the amount made CZK 327,552.
- **Depreciations / Leasing** – the depreciations from tangible and intangible fixed assets and leasing are implied in this item with the amount of CZK 102,717 in 2011.
- **Tenancy** – the costs connected with the leased premises. The company rents the premises either from the town Kyjov or from private owners. The tenancy amounted CZK 724,227.
- **Production Overhead** – this item covers all other services the company used. For example the meal expenses, the costs connected with phones, the analysis and treatment of water and the revision of the technology belong here. It totaled CZK 752,633.
- **Administrative Overhead** – the company comprises items as the postage, the protective equipment, the travel expenses or the car insurance in this place. It was CZK 901,180 in 2011.

Table 11: The development of variable costs in 2009-2010(own creation)

	2011		2010	2009
		Share on TFC		
Wages and insurance	528 194	15.83%	483 200	512 947
Repairs and maintenance	327 552	9.82%	929 265	609 589
Depreciations / Leasing	102 717	3.08%	113 658	22 653
Tenancy	724 227	21.71%	699 598	677 956
Production overhead	752 633	22.56%	659 239	684 185
Administrative overhead	901 180	27.01%	948 561	894 590
Total fixed costs	3 336 503	100.00%	3 833 520	3 401 919

Table 12: The share of fixed and variable costs on the total costs in 2009-2010
(own creation)

Cost Classification by Behavior	2009		2010		2011	
	CZK	%	CZK	%	CZK	%
Fixed costs	3 401 919	11.30%	3 833 520	12.60%	3 336 503	11.89%
Variable costs	26 714 496	88.70%	26 584 781	87.40%	24 728 699	88.11%
Total costs	30 116 415	100.00%	30 418 301	100.00%	28 065 202	100.00%

The total costs of the company in 2009-2011 decreased as the production also decreased. From the table above is noticeable that the variable costs dropped between the years 2010 and 2011 and also the amount of fixed costs was slightly reduced.

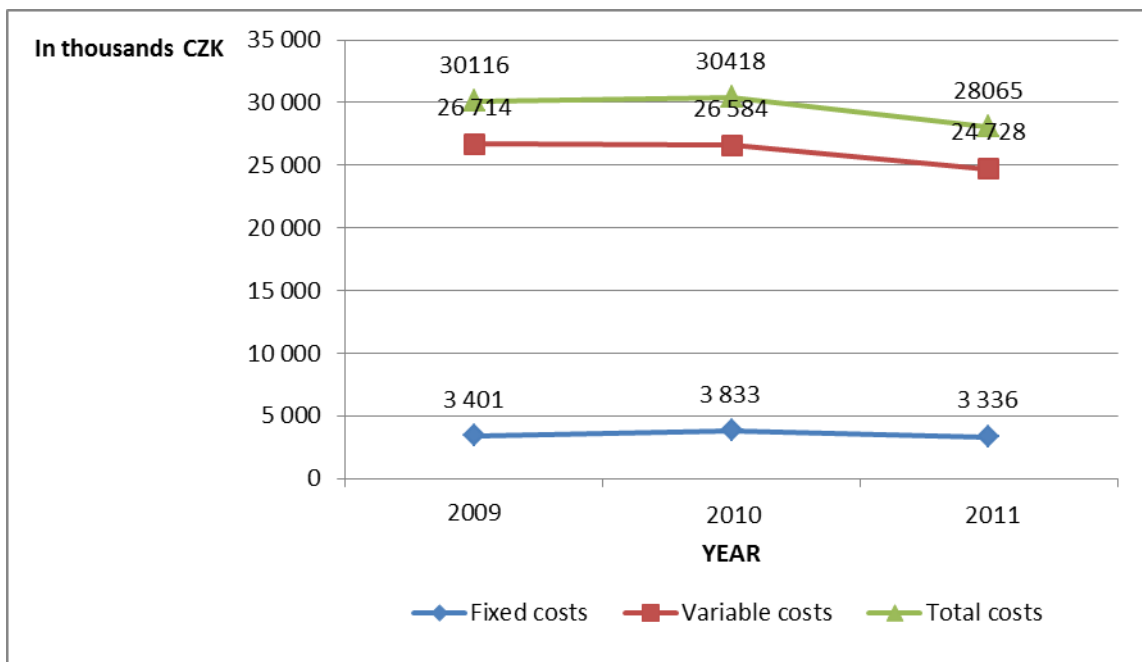


Figure 4: Graph – fixed, variable and total costs in 2009-2011 (own creation)

In figure 4 the graphical representation of fixed, variable and total costs shows the development of these costs in the period of 2009-2011. Overall the costs decreased during this period.

7.2.3 Break-Even Analysis

As the theory defined, the break-even point is a point at which the company does not make profit or loss. The volume of production (q) occurs when the total fixed costs equals the total revenues. The basic statements necessary for the calculation of the break-even point

are stated in the table 12 below. The statements are expressed in Czech crowns and gigajoules.

The calculation of the break-even point in 2011:

$$q = \frac{3\,401\,919}{(522 - 461.64)}$$

q – break-even point

The result is in GJ.

To determine the result in CZK, the break-even point is multiplied by price per gigajoule (p).

Table 13: The break-even point in the period 2009-2011 (own creation)

	2009	2010	2011
Revenues (in thousands CZK)	35,499	35,817	33,330
Expenses (in thousands CZK)	35,496	35,750	33,263
Fixed costs	3,401,919	3,833,520	3,336,503
Profit (in thousands CZK)	3	67	67
p	522,00	496,11	533,63
b (variable costs/actual quantity) - CZK/GJ	461,64	431,87	468,49
q (GJ)	56,360.48	59,667.43	51,212.22
Break-even point (CZK)	29,415,753	29,601,514	27,328,388

In the range of 51,000 gigajoules to 60,000 gigajoules the company reaches the break-even point during the monitored three years and the average break-even point is CZK 28,781,885. In the following table 14 I compared the break-even point with the revenues and found out that the company exceeded the break-even point in all three years approximately about 17.5% (in thousands CZK it is about 6,100). So the company is profitable and also stable – no large deflections. We can say that the use of the fixed and variable costs is balanced.

Table 14: Comparison of break-even point with revenues (own creation)

In thousands CZK	2009	2010	2011
Revenues	35,499	35,817	33,330
Expenses	35,496	35,750	33,263
Break-even point	29,416	29,602	27,328
Difference between revenues and break-even point (%)	17.14%	17.35%	18.01%
Difference between revenues and break-even point (CZK)	6,083	6,215	6,002

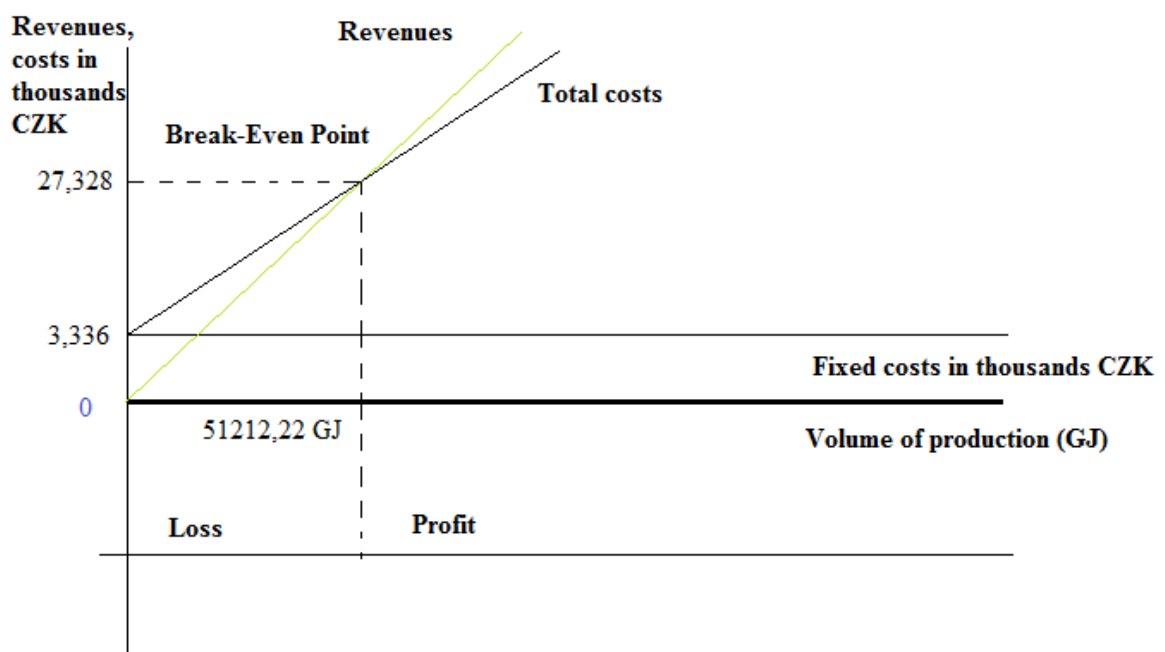


Figure 5: Graphical representation of break-even point 2011 (own creation)

In the figure 5 the graphical representation of break-even point from the year 2011 is demonstrated. We can see that the volume of production is about GJ 51,212.22 the fixed costs are CZK 3,336,503. The company reaches the break-even point when the sum in CZK is 27,328,388.

8 THE FORMATION OF PRICE AND BUDGETING

The chapter three of the theoretical part was focused on the budgeting. As stated the budgeting is a planning and subsequently a creation of financial plan when the company identifies its objectives and handles how to achieve them.

In the Czech Republic the price of energies is influenced by Energy Regulatory Office and the conditions that have to be followed are covered in the Promoted Energy Sources Act. So the company determines the price on the basis of this Act.

The accounting period of TEPLO Kyjov spol. s r.o. is the calendar year (from January 1 to December 31). In the company the formation of price is closely related to the budgeting. There are a lot of factors that influence the price and hence the budget.

As discussed in the chapter 6.2, the company classifies their costs as variable and fixed. When compiling the budget the company follows the budget from the previous year. Usually the fixed costs do not change significantly so the costs remain approximately the same. What concerns the company more are the variable costs. The results from the previous budget are taken into account - how many gigajoules of thermal energy they provided, what their profit was and also if there will be some extra expenses in the following accounting period, etc. Then the company predicts whether the demand will be higher or lower and considers all the factors that could possibly cause a change. So they have to think about the energy market – changes in price of electricity, gas and the heat. Generally the big suppliers of these energies notifies in advance about the possible changes.

After considering all the factors that might influence the costs, the company estimates a conceivable profit. Next they can calculate the price per gigajoule. The total costs and the profit are summed up and then divided by the estimated amount of gigajoules which leads to the price without value added tax. The tax is added afterwards.

So basically the company uses the costing for budgeting and formation of price. The preliminary costing determines the possible amounts and in the end the actual costing is created with the real results achieved during the accounting period.

Table 15: The actual costing (own creation)

Item	
1. Variable costs [CZK]	
Fuel	Natural gas
Purchase of thermal energy	
Electrical energy	
Technological water	
2. Fixed costs [CZK]	
Wages and insurance	
Repairs and maintenance	
Depreciations / Leasing	
Tenancy	
Production overhead	
Administration overhead	
3. Profit [CZK]	
Fixed costs and total profit	
Total costs and profit	
The amount of thermal energy [GJ]	
Price without VAT [CZK/GJ]	
Price with VAT [CZK/GJ]	

9 RECOMMENDATION

This bachelor thesis is focused on the analysis of cost management at TEPLO Kyjov spol. s r.o. At first I examined the organizational structure of the company and its basic economic results to do that I went through the company's profit and loss statements from the years 2009, 2010 and 2011. What I found was that the net income changed between the year 2009 and 2010 by CZK 64,000 because the operating net income was higher in 2010, but the operating expenses change just slightly therefore the difference between the net incomes in 2009 and 2010. In 2011 the net income remains the same as in 2010 and that indicated the stability.

Worth noticing is also the negative value of the financial net income in all three monitored years. The company achieves only small revenues from the financial activities. However the financial expenses create quite relevant amount which is negative and therefore it affects the final net income of the company. A large part of these expenses is made by the insurances which the company pays – car insurances and building insurances (mainly the buildings that the company rents), so to reduce these costs the company might look for a better price of the insurances. It is also interesting that the financial expenses of the whole industry achieve the negative results as well.

Then I conducted the vertical and horizontal analysis of the company and also of the whole industry. The vertical analysis or in other words percentage analysis of revenues and expenses is expression of the items as a percentage share to a chosen base (100%). The horizontal analysis or the trend analysis records the data development in the time series expressed as a percentage. Due to its size and local orientation (as the company is situated in the small town Kyjov and all their activities are dependent on the local demand) the company generated insignificant results compared to the industry. However the industry also includes the production and distribution of electricity, gas, steam or hot water so the range is wider.

Next I divided the costs into direct and indirect. The company itself does not use this type of classification as they provide just one type of service and it is complicated to determine these costs exactly. So to classify these costs I used the classification alike as the company itself actually uses. They apply a classification that is used by all the companies dealing with the production and distribution of the energy and that is the cost classification by behavior that covers the detailed classification into the fixed and variable costs. The

amount of the fixed costs is approximately 12% and as this share is quite low, it is good for the company because the fixed costs are harder to cut. Thus the highest items come from the variable costs as they are connected with the production itself – the purchase of thermal energy, natural gas and electricity. Considering the amount of the variable costs to reduce them the company might consider a change of suppliers of thermal energy, natural gas or the electricity, as maybe other suppliers could offer them a lower price or maybe some discounts. Also TEPLO Kyjov spol. s r.o. works closely with the company Teplárna Kyjov a.s. (as the name suggests the company is also situated in Kyjov) and there would be also a possibility to negotiate a lower price with this facility.

The amount of thermal energy provided decreased between the year 2010 and 2011. In 2010 the sold amount was 61,556 GJ and in 2011 it dropped to 52,782 GJ. Therefore the company does not fully utilize its volume of production. What is uncertain is that if they increase the production, it does not ensure that they will find new subscribers. Also the expansion of the market is very unlikely as mentioned earlier the company is only local oriented.

Regarding the formation of price and the budgeting, the company has to follow certain rules established by Energy Regulatory Office. Hence the opportunity to raise the price is limited by legislations.

The big strength of this company is their position on the market. As they are owned by the town Kyjov itself they provide the thermal energy to almost every building possessed by the town so they have regular customers. Therefore they have a big advantage considering the possible competition in this area. They also handle their cost management quite well as there are no large fluctuations.

What is the weakness of this company as mentioned before they are just local oriented and they do not provide their service to customers living in the private houses. The lack of new opportunities to develop limits the company and their conceivable enlargement. The company may think about some new offers that might attract new customers (those living in the private houses or housing estates) who use the service of the competition.

So there are not many possibilities how to reduce the costs of the company but few opportunities appeared and also their management and classification could be more detailed for better evaluation.

CONCLUSION

The main aim of this bachelor thesis was to analyze the cost management at TEPLO Kyjov spol. s r.o. This company is small and local oriented. I begin with their basic economic results and I compare them to the industry. I found that the company takes an insignificant position on the market due to its size. Next I did the horizontal and vertical analysis and again compared the company with the industry. Then I classified the costs into two groups – the direct and indirect costs, and then the variable and fixed costs. The whole thesis is divided into two parts – theoretical and practical.

The theoretical part was focused on the literary sources related to the cost management. So the first chapter was about some basic theory about cost management, the difference between financial and managerial accounting. Next chapter discussed the managerial accounting itself, the different types of cost classification and costing and the last chapter was about the budgeting.

Thereafter in the practical part I introduced the company TEPLO Kyjov spol. s r.o. providing basic information about it and then also information about the industry where the company belongs. I dealt with the organizational structure and the basic economic results. Further I did the horizontal and vertical analysis using the cost classification by type. Afterwards I focused on the cost classification – the direct and indirect cost classification and the cost classification by behavior (the variable and fixed costs). As connected with the variable and fixed costs I made a break-even analysis and summarize the results. At the end I discussed the formation of price and budgeting and in conclusion I valorized the situation of the company and recommend some changes.

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LIST OF SYMBOLS AND ABBREVIATIONS

CPA	Certified public accountant
CZ-NACE	Czech statistical classification of economic activities
EAT	Earnings after taxes
EBT	Earnings before taxes
EBIT	Earnings before interest and taxes
GAAP	Generally accepted accounting principles
TFC	Total fixed costs
TVC	Total variable costs
VAT	Value added tax

APPENDICES

P I Profit and Loss Statement 2009

P II Profit and Loss Statement 2010

P III Profit and Loss Statement 2011

APPENDIX P I: PROFIT AND LOSS STATEMENT 2009

Minimální závazný výčet informací podle vyhlášky č. 500/2002 Sb.

VÝKAZ ZISKU A ZTRÁTY
v druhovém členění

ke dni **31. 12. 2009**

jednotky: 1000 Kč

Rok	Měsíc	IČ
2009	1 2	2 5 3 1 5 8 9 7

Obchodní firma nebo jiný název účetní jednotky
TEPLO Kyjov , spol. s

Sídlo nebo bydliště účetní jednotky a místo podnikání (liší-li se od bydliště)
Svatoborská 27
Kyjov
69701

Označ.	VÝKAZ ZISKU A ZTRÁTY	číslo řádku	Skutečnost v běžném účetním období	
			sledovaném	minulém
a	b		1	2
I.	Tržby za prodej zboží	01	+1 187	+1 180
A.	Náklady vynaložené na prodané zboží	02	+1 185	+1 177
+	Obchodní marže	03	+2	+3
II.	Výkony	04	+34 271	+32 997
II. 1.	Tržby za prodej vlastních výrobků a služeb	05	+34 271	+32 997
B.	Výkonová spotřeba	08	+32 105	+30 609
B. 1.	Spotřeba materiálu a energie	09	+30 075	+29 015
B. 2.	Služby	10	+2 030	+1 594
+	Přidaná hodnota	11	+2 168	+2 391
C.	Osobní náklady součet	12	+2 078	+2 268
C. 5.		16a	+2 078	+2 268
D.	Daně a poplatky	17	+10	+1
E.	Odpisy dlouhodobého nehmotného a hmotného majetku	18	+27	+22
IV.	Ostatní provozní výnosy	26	+40	+40
*	Provozní výsledek hospodaření	30	+93	+140
XI.	Ostatní finanční výnosy	44	+1	
O.	Ostatní finanční náklady	46	+91	+96
*	Finanční výsledek hospodaření	48	-90	-96
**	Výsledek hospodaření za běžnou činnost	52	+3	+44
***	Výsledek hospodaření za účetní období (+/-)	60	+3	+44
****	Výsledek hospodaření před zdaněním	61	+3	+44

Seřazeno dle: 2 1 . 0 6 . 2 0 1 0	Podpisový záznam statutárního orgánu účetní jednotky nebo podpisový záznam fyzické osoby, která je účetní jednotkou Tychtí Miroslav
Právní forma účetní jednotky společnost s ručením omezeným	Předmět podnikání Výroba a rozvod tepla
	Pozn.:

APPENDIX P II: PROFIT AND LOSS STATEMENT 2010

Minimální závazný výčet informací podle vyhlášky č. 500/2002 Sb.

VÝKAZ ZISKU A ZTRÁTY
v druhovém členění

ke dni **31. 12. 2010**

jednotky: 1000 Kč

Rok	Měsíc	IČ
2010	1 2	25315897

Obchodní firma nebo jiný název účetní jednotky
TEPLO Kyjov , spol. s

Stálo nebo bydliště účetní jednotky a místo podnikání (liší-li se od bydliště)
Svatoborská 27
Kyjov
69701

Označ.	VÝKAZ ZISKU A ZTRÁTY	číslo řádku	Skutečnost v běžném účetním období	
			sledovaném	minulém
a	b		1	2
I.	Tržby za prodej zboží	01	+1 201	+1 187
A.	Náklady vynaložené na prodané zboží	02	+1 201	+1 185
+	Obchodní marže	03	0	+2
II.	Výkony	04	+34 554	+34 271
II. 1.	Tržby za prodej vlastních výrobků a služeb	05	+34 554	+34 271
B.	Výkonová spotřeba	08	+32 345	+32 105
B. 1.	Spotřeba materiálů a energie	09	+29 909	+30 075
B. 2.	Služby	10	+2 436	+2 030
+	Přidaná hodnota	11	+2 209	+2 168
C.	Osobní náklady součet	12	+2 071	+2 078
C. 5.		16a	+2 071	+2 078
D.	Daně a poplatky	17	+3	+10
E.	Odpisy dlouhodobého nehmotného a hmotného majetku	18	+23	+27
IV.	Ostatní provozní výnosy	26	+60	+40
H.	Ostatní provozní náklady	27	+16	
*	Provozní výsledek hospodaření	30	+ 156	+93
XI.	Ostatní finanční výnosy	44	+2	+1
Q.	Ostatní finanční náklady	45	+87	+91
*	Finanční výsledek hospodaření	48	-85	-90
Q.	Daň z příjmů za běžnou činnost	49	+4	
Q. 1.	- splatná	50	+4	
**	Výsledek hospodaření za běžnou činnost	52	+67	+3
***	Výsledek hospodaření za účetní období (+/-)	60	+67	+3
****	Výsledek hospodaření před zdaněním	61	+71	+3

Sestaveno dne: 1 3 . 0 5 . 2 0 1 1		Podpisový záznam statutárního orgánu účetní jednotky nebo podpisový záznam fyzické osoby, která je účetní jednotkou Tychtí Miroslav
Právní forma účetní jednotky společnost s ručením omezeným	Předmět podnikání Výroba a rozvod tepla	Pozn.:

APPENDIX P III: PROFIT AND LOSS STATEMENT 2011

Minimální závazný výčet informací podle vyhlášky č. 500/2002 Sb.

VÝKAZ ZISKU A ZTRÁTY
v druhovém členění

ke dni **31. 12. 2011**

jednotky: 1000 Kč

Rok	Měsíc	IČ
2011	1 2	25315897

Obchodní firma nebo jiný název účetní jednotky
TEPLO Kyjov , spol. s

Sídlo nebo bydliště účetní jednotky a místo podnikání (i-li se od bydliště)
Svatoborská 27
Kyjov
69701

Označ.	VÝKAZ ZISKU A ZTRÁTY	číslo řádku	Skutečnost v běžném účetním období	
			sledovaném	minulém
a	b		1	2
I.	Tržby za prodej zboží	01	+1 198	+1 201
A.	Náklady vynaložené na prodané zboží	02	+1 198	+1 201
+	Obchodní marže	03	0	0
II.	Výkony	04	+32 050	+34 554
II. 1.	Tržby za prodej vlastních výrobků a služeb	05	+32 050	+34 554
B.	Výkonové spotřeby	06	+29 870	+32 345
B. 1.	Spotřeba materiálu a energie	08	+27 868	+29 909
B. 2.	Služby	10	+2 002	+2 436
B. 3.		10a		
+	Přidaná hodnota	11	+2 180	+2 209
C.	Osobní náklady součet	12	+2 058	+2 071
C. 5.		16a	+2 058	+2 071
D.	Daně a poplatky	17	+3	+3
E.	Odpisy dlouhodobého nehmotného a hmotného majetku	18	+44	+23
IV.	Ostatní provozní výnosy	26	+81	+60
H.	Ostatní provozní náklady	27		+18
*	Provozní výsledek hospodaření	30	+ 156	+ 156
XI.	Ostatní finanční výnosy	44	+1	+2
O.	Ostatní finanční náklady	45	+88	+87
*	Finanční výsledek hospodaření	48	-87	-85
Q.	Daň z příjmů za běžnou činnost	49	+2	+4
Q. 1.	- splatná	50	+2	+4
**	Výsledek hospodaření za běžnou činnost	52	+67	+67
***	Výsledek hospodaření za účetní období (+/-)	60	+67	+67
****	Výsledek hospodaření před zdaněním	61	+69	+71

Označ.	VÝKAZ ZISKU A ZTRÁTY	číslo řádku	Skutečnost v běžném účetním období	
			elektrovaném	minulém
a	b		1	2
Sešláno dne 31.05.2012		Podpisový záznam statutárního orgánu účetní jednotky nebo podpisový záznam fyzické osoby, která je účetní jednotkou Tychtí Miroslav		
Právní forma účetní jednotky společnost s ručením omezeným		Předmět podnikání Výroba a rozvod tepla		Pozn.:
		TEPLO Kyjov spol. s r.o. Svatoborská 27, 697 01 Kyjov tel.: 518 612 467 IČO: 253 15 897 DIČ: CZ25315897		