PN-ABW-181

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

REFERENCE CONTRACT NO. EUR-0014-C-00-1058-00

ENTERPRISE RESTRUCTURING AND PRIVATIZATION:

Delivery Order #11
Chemko Phase II

FINAL REPORT:
Restatement and Financial Analysis of Principal Divisions of Chemko Strázske

Coopers &Lybrand

Chemko š.p.

Contents

		Page
Executive Summary		1
I	**Company**	8
	Introduction Profit and loss account Balance sheet	
II	**Cyclo Division**	24
	Profit and loss account Assessment of profitability Plant closure Balance sheet	
III	**Glues Division**	41
	Profit and loss account Assessment of profitability Balance sheet	
IV	**Penta Division**	52
	Profit and loss account Assessment of profitability Balance sheet	
V	**Low Volume Division**	62
	Profit and loss account Assessment of profitability Balance sheet	

Appendices

A Basis of allocation of Company financial data to Divisions

B IAS adjustments

C Trail between Slovak and adjusted financial data

a

Executive Summary

General

1 Chemko š.p. ("the Company") manufactures chemical products for industrial use.

Divisional analysis

2 In this report we have analyzed and restated in accordance with International Accounting Standards ("IAS") the balance sheet at 31 December 1991 and the financial data for the two years ended 31 December 1993 for the principal divisions of the Company. Although our analysis indicates that the Company and certain Divisions have financial difficulties, all information is prepared on a going concern basis. The Divisions which are covered by this report are as follows.

Division	Main product(s)
Cyclo products	Cyclohexanone
Glues	Industrial glues
Penta	Pentaerythritol
Low Volume products	Dastib, Diamine

3 The above divisions were identified by management as representing the core business of the Company. We have not restated the financial statements of the Company as a whole.

4 Management originally requested that the financial data of Dastib and Diamine be separately analyzed. However, in view of the small numbers involved and the practical difficulties of separating these products, management later decided to present them together.

5 The Company's financial data was allocated to Divisions by the Company's staff. The basis for this allocation is set out in section I.

Scope of work

6 We have made certain adjustments to the financial data to present it in accordance with IAS. The adjustments were made at Divisional level. As part of our restatement we have reviewed the Company's financial statements to ensure that amounts were allocated to Divisions correctly. We have not performed a full restatement of the financial statements of the Company as a whole, because the purpose of this report was to provide Divisional data and analysis. However, where during the course of our review adjustments required at Company level were identified we made those adjustments to the financial statements.

7 We have not performed any audit procedures nor carried out due diligence. We have relied exclusively on information provided by management and their staff.

Profit and loss account

8 We summarize below the restated profit and loss accounts of the principal Divisions for 1992 and 1993:

1992	Low Volume 1)	Penta mil Kčs	Glues mil Kčs	Cyclo mil Kčs
Turnover	N/A	214	530	1,188
Gross profit	N/A	62	121	150
Operating profit/(loss)	N/A	10	55	(41)
Profit/(loss) before tax	N/A	(1)	34	(85)

1993	Low Volume mil Sk	Penta mil Sk	Glues mil Sk	Cyclo mil Sk
Turnover	47	207	487	965
Gross profit/(loss)	17	74	142	(49)
Operating profit/(loss)	(5)	7	19	(333)
Profit/(loss) before tax	(22)	2	8	(364)

1) The main products in this Division are Dastib and Diamine. The production and sale of these products only started in 1993

9 The most significant feature is the poor performance of the Cyclo Division in 1993. This was mainly due to three factors:

- a fall in world sales prices, which was not matched by cost reductions in the production inputs,
- an inefficient production process which requires approximately a 10 per cent higher level of inputs than technology used by competitors,
- an increase in the provision for doubtful accounts receivable of 84 million Sk.

10 The market for Cyclo products is analyzed in the marketing review from Vector Associates. The report concludes that an upturn of the market is unlikely within the next 2 to 3 years.

11 The efficiency of the production process was discussed with management. They estimate that with improved supply lines and investments of some 100 million Sk, maximum improvements of up to 5 per cent could be made. At current price and production levels this would lead to an annual saving of some 50 million Sk with regards to material and energy usage. If such savings were realised the Division would break even at gross profit level, but it would still incur significant operating losses if the existing level of overheads continues to be charged.

12 With regard to the bad debt position we note that the level of amounts outstanding from customers has risen further since 31 December 1993. The Division has thus not yet been able to reduce its exposure to bad debts.

13 Based on the above data it appears that the prospects for the Cyclo Division are poor. The report from Vector Associates discusses strategy options for this Division for both the long and short term including either temporary or permanent plant closure. For a more detailed analysis of the profitability of the Cyclo Division and the potential financial impact of a plant closure we refer to Section II of this report. We note however at this point that closure would involve significant one off costs, which will include the following:

- write down of assets to realisable value, which is likely to be substantially lower than book value
- restructuring remaining operations
- redundancy costs for employees
- settlement of existing liabilities of the Division

14 The Glue and Penta Divisions operated at a modest profit during 1992 and 1993. In both Divisions, however, profits have been reduced in 1993 through an increase in the bad debt provision. We recommend that the Company takes measures to improve its credit control. We further note that during 1994 the cost of methanol, a raw material used in both Divisions, increased significantly. Because both Divisions were slow to charge higher prices to customers, profitability in the Penta and Glue Divisions have reduced during the first half of 1994.

15 The Low Volume Division commenced production in 1993 of two new products, Dastib and Diamine. Both products are sold at a high margin. However, due to very low utilisation of capacity in 1993, the division incurred an operating loss. The situation was unchanged during the first half of 1994. The future profitability of this Division depends entirely on the success of the Company in marketing these products.

Balance sheet

16 We summarize below the restated balance sheets of the Divisions as at 31 December 1992 and 1993:

1992	Low Volume	Penta mil Kčs	Glues mil Kčs	Cyclo mil Kčs
Fixed assets	N/A	32	25	412
Current assets	N/A	52	136	346
Current liabilities	N/A	(36)	(128)	(376)
Amounts payable after one year	N/A	-	-	(39)
Net assets	N/A	48	33	343

1993	Low Volume mil Sk	Penta mil Sk	Glues mil Sk	Cyclo mil Sk
Fixed assets	160	44	31	377
Current assets	33	75	218	591
Current liabilities	(33)	(47)	(189)	(664)
Amounts payable after one year	(25)	-	-	(58)
Net assets	135	72	60	246

Fixed assets

17 The plant in the Cyclo Division was purchased in 1984, and at current depreciation rates will be fully depreciated in 1997. As mentioned above, the technology used requires approximately 5 to 10 per cent higher inputs than technology used by competitors.

18 Plant in the Glues Division and Penta Division was bought in 1974 and 1979 respectively and apart from subsequent additions is fully depreciated. The technology used in both divisions is comparable to that of competitors.

19 Plant in the Low Volumes Division is relatively new. Using the new technology, the Division claims it is now able to meet western quality standards.

20 In all Divisions management identified certain investments which were required in the short to medium term to improve the production process or to maintain competitiveness. These are summarised in the table overleaf:

Division	Investment	Amount mil Sk	Purpose
Cyclo	Modification of cyclohexanone recovery facility	100	Reduction of input requirements
Cyclo	Incineration of gases	45	Generation of energy from waste gases
Glues	Several projects	32	Improving of product quality
Glues	Water treatment plant	20	To treat waste water, presently treated centrally
Penta	Several projects	40	To maintain competitiveness
Low Volume	Storage tank hydrogen and nitrogen	20	Only required if Cyclo facilities would not be available
		257	

21 The above total of 257 million Sk represents management's estimate, but the Vector Associates report indicates that more substantial investments may be required to ensure the long term viability of the Company.

22 The Slovak financial statements included assets with a net book value of 78 million Sk which are not in use and recreational and accommodation facilities with a value of some 180 million Sk. We have written off these assets against reserves in the adjusted Company balance sheets at 31 December 1991, 1992 and 1993. Depreciation charges in the years under review were reversed out of the profit and loss account.

Stock

23 Stocks are valued at the lower of cost and net realisable value on a first-in, first-out basis. For the valuation of finished and semi-finished goods the Company uses standard costs which approximate to actual costs. Standards are calculated based on expected production levels.

24 Stocks held in the Divisions vary between 1 and 12 weeks of production and include no items for which provision is required for obsolescence. A provision of 5 million Sk was needed to reduce the Cyclo division's stock to net realisable value.

25 We note that the Slovak financial statements included spare parts held in other Divisions of the Company with a value of 10 million Sk, which are considered obsolete or redundant. We have excluded these assets from the adjusted Company balance sheets.

Trade debtors

26 Trade debtors in the Divisions under review (before bad debt provision) are summarized below:

	Low Volume mil Kčs/Sk	Penta mil Kčs/Sk	Glues mil Kčs/Sk	Cyclo mil Kčs/Sk
At 31 December 1991	N/A	6	96	83
At 31 December 1992	N/A	37	135	213
At 31 December 1993	11	71	261	518

27 All Divisions showed an increase in the level of trade debtors despite falling sales. This trend continued in 1994.

28 We have discussed the level of provision for bad debts with management. Based on the increase in gross debtors and an assessment of the outstanding amounts management advised us to calculate a provision for bad debts on the following basis.

i) a specific provision of 100 % against all outstanding amounts in court, from customers in liquidation or other amounts considered as lost by the management;

ii) a general provision of 50 % against all debts unpaid for a period longer than 360 days;

iii) a general provision of 30 % against all debts unpaid for a period longer than 90 days;

iv) a general provision of 1% against all other debts unpaid at the end of each year.

29 The bad debt provisions calculated in this way amounted to:

	Low Volume mil Kčs/Sk	Penta mil Kčs/Sk	Glues mil Kčs/Sk	Cyclo mil Kčs/Sk
At 31 December 1991	N/A	-	8	6
At 31 December 1992	N/A	4	20	8
At 31 December 1993	1	11	69	92

30 In our opinion these provisions are likely to be the minimum required and could be considerably higher.

Trade Creditors

31 Trade creditors in the Divisions under review are set out below:

	Low Volume mil Kčs/Sk	Penta mil Kčs/Sk	Glues mil Kčs/Sk	Cyclo mil Kčs/Sk
At 31 December 1991	N/A	12	29	60
At 31 December 1992	N/A	21	88	221
At 31 December 1993	4	15	65	399

32 The increase in trade creditors in the Cyclo Division reflects the difficult financial position of the Company. Due to recent losses and increasing amounts outstanding from customers the Company is short of cash to pay its suppliers. This has led both to interest costs being charged by suppliers and interruptions in the supply of goods thus aggravating the production inefficiencies.

I Company

Introduction

101 Chemko š.p. ("the Company") is a state owned enterprise based in East Slovakia. The Company produces and distributes chemical products for industrial use.

102 The Company prepares its accounts in Slovak koruna ("Sk"). On 8 February 1993 the currency was changed from the Czechoslovak koruna ("Kčs") to the Slovak koruna at an equal value although subsequent movements have resulted in the Czech and Slovak koruna no longer having parity.

103 At present the Company is preparing for privatisation. The purpose of this report is to provide financial data on a divisional basis in accordance with International Accounting Standards ("IAS"), so that potential investors can see the individual performance of the principal.Divisions. Although our analysis indicates that the Company and certain Divisions have financial difficulties, all information is presented on a going concern basis.

104 The Company's financial data was allocated to Divisions by the Company's staff. The basis for this allocation is set out below.

105 The financial data of the four principal Divisions, as defined by management, is analyzed in sections II to V. The Divisions described in this report are the Cyclo Division, Glues Division, Penta Division and Low Volume Division. Together these Divisions comprise 82 per cent of sales of the Company, 22 per cent of fixed assets and 72 per cent of current assets. The bulk of the Company's fixed assets are central production support facilities which are used by all divisions.

106 We have made certain adjustments to the financial data to present it in accordance with IAS. The adjustments were made at Divisional level. As part of our restatement we have reviewed the Company's financial statements to ensure that amounts were allocated to Divisions correctly. We have not performed a full restatement of the financial statements of the Company as a whole, because the purpose of this report was to provide Divisional data and analysis. However, where during the course of our review adjustments required at Company level were identified we made those adjustments to the financial statements.

107 We have not performed any audit procedures nor carried out due diligence. We have relied exclusively on information provided by management and their staff The individuals at the Company who provided us with the most important pieces of information included in this report were:

Names	Status or area of responsibility
Ing. J Giláni	Managing Director
Ing. V Hliva	Finance Director
Ing. L Harman	Marketing Director
Ing. E Kovaľ	Technical Director
Ing. P Mihalčín	Production Director
Ing. A Paulina	Head Accounting Department

108 We would like to thank all staff at the Company for their assistance over the course of this project.

Profit and loss account

109 The figures shown in this section are after those IAS adjustments which are summarised in paragraph 112 and detailed in Appendix B. These adjustments are limited to those identified during our review of the Divisions, set out in sections II to V, and are not considered to be a comprehensive restatement of the Company's accounts.

110 The Company's profit and loss accounts for the years ended 31 December 1992 and 1993 after the IAS adjustments referred to above are:

	1992 mil Kčs	1993 mil Sk
Sales	2,556	2,078
Material and energy costs	(1,804)	(1,597)
Direct labour costs	(106)	(106)
Gross profit	646	375
Indirect labour costs	(171)	(170)
Depreciation	(184)	(192)
Bad debts	(18)	(141)
Other operating costs	(209)	(218)
Operating profit/(loss)	64	(346)
Finance costs	(73)	(99)
Loss before tax	(9)	(445)
Tax	(58)	-
Retained loss	(67)	(445)

111 The principal contributor to the loss of the Company in 1993 is the Cyclo Division, which made a loss of 364 million Sk in the year. The operations of the Cyclo Division and its impact on the Company's profits are considered in more detail in Section II.

Reconciliation to Slovak accounts

112 The profit and loss account set out above was after the following IAS adjustments:

	1992 mil Kčs	1993 mil Sk
Profit/(loss) after tax per Slovak accounts	43	(139)
Creation of bad debt provisions	(18)	(141)
Depreciation not charged in the Cyclo Division	-	(75)
Interest on late payments	-	(24)
Reversing costs capitalised in 1993	-	(61)
Recognising unrealised exchange gains	-	26
Provision for net realisable value of cyclohexanone	-	(5)
Provision for non marketable stocks	-	(5)
Reversing depreciation on non-productive assets	8	8
Expensing of losses charged directly against equity in the Slovak accounts	(74)	-
Other reserve movements	(26)	(29)
Loss after tax per IAS accounts	(67)	(445)

113 We describe and explain in detail in Appendix B all the IAS adjustments made. In Appendix C we show a trail between the Slovak and adjusted profit and loss accounts and balance sheets for each account balance.

Sales, materials and energy

114 The Company's sales and material and energy costs can be allocated directly to Divisions based on production and sales reports. The Company's sales in 1992 and 1993 were made in the following divisions:

	1992 mil Kčs	1993 mil Sk
Cyclo	1,188	965
Glues	530	487
Penta	214	207
Low Volume 1)	n/a	47
Other	624	372
Total	2,556	2,078

1) The main products in this Division are Dastib and Diamine. The production and sale of these products only started in 1993.

115 The profit and loss accounts for the first 4 divisions, which comprise 82 per cent of sales, are analyzed in detail in sections II to V.

Labour costs

116 The Company employs 3,000 people. The Company's labour costs are analyzed as follows:

	1992 mil Kčs	1993 mil Sk
Cyclo	12	12
Glues	5	5
Penta	9	7
Low Volume	7	10
Other production divisions	73	72
Total direct labour costs	106	106
Finance, administration and management	52	51
Repair and maintenance	24	24
Research and development	10	10
Construction	64	64
Other	21	21
Total indirect labour costs	171	170

117 Other production divisions relate mainly to the production of semi-finished goods and energy. These Divisions transfer their products at full cost price to other Divisions. Through these inter divisional transfers the majority of direct labour costs are included in the profit and loss accounts of the Divisions analyzed in sections II to V.

118 The indirect labour costs are charged to the Divisions, based on allocation ratios which are summarized in Appendix A. The charge to each Division is shown in the Divisional profit and loss accounts in sections II to V as central overheads. Indirect staff costs comprise approximately 7 per cent of the Company's total operating costs.

Depreciation, bad debts and other operating costs

119 Depreciation and bad debts are analyzed as part of fixed assets and trade debtors respectively. Other operating costs comprise services purchased from third parties and relate to the following:

	1992 mil Kčs	1993 mil Sk
Repair and maintenance	56	71
Transport and distribution	39	51
Other costs	114	96
Total other operating costs	209	218

120 The other operating costs were allocated directly to production Divisions.

Finance costs

121 Finance costs can be summarised as follows:

	1992 mil Kčs	1993 mil Sk
Bank interest	66	84
Interest on late payments to suppliers	-	24
Exchange losses/(gains) (net)	7	(9)
Total	73	99

122 The increase in finance costs illustrates the Company's difficulty in financing its working capital. Finance costs were allocated to Divisions directly or based on the working capital in each Division.

Tax

123 Tax in 1992 was calculated at 55 per cent on profits recorded in the Slovak financial statements. Because the IAS adjustments identified would not have been tax allowable, we have not adjusted the tax charge. In 1993 the Company had a nil tax charge as it incurred a loss.

Balance sheet

124 The Company's balance sheets for 1991, 1992 and 1993 after the IAS adjustments referred to in paragraph 112 are set out below:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Fixed assets			
Tangible fixed assets	2,792	2,929	2,958
Investments	12	12	13
	2,804	2,941	2,971
Current assets			
Stock	469	444	430
Debtors	346	543	847
Cash	42	12	-
Current liabilities			
Bank loans and overdrafts	(460)	(365)	(417)
Trade creditors	(392)	(759)	(1,203)
Other creditors	(47)	(66)	(288)
Net current liabilities	(42)	(191)	(631)
Amounts due after one year			
Bank loans	(134)	(229)	(164)
Capital employed	2,628	2,521	2,176

125 The Company's balance sheet illustrates the difficult financial position of Chemko. Recent losses and increasing levels of debtors have led to a shortage of funds to pay suppliers The account balances are analyzed in detail below.

Analysis of account balances

Tangible fixed assets

126 A summary of the Company's tangible fixed assets at 31 December 1991, 1992 and 1993 is shown below:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Land	27	27	27
Buildings	1,327	1,295	1,297
Plant and equipment	912	798	996
Fixed assets under construction	561	894	840
Other	187	181	56
Non-productive assets (paragraph 130)	(222)	(266)	(258)
Tangible fixed assets	2,792	2,929	2,958

127 Fixed assets under construction at 31 December 1993 relate mainly to three projects, which are conversion of the armament Division, construction of an additional energy production unit and emergency storage tanks. None of these assets relate to the Divisions which are discussed in sections II to V.

Divisional analysis

128 The Company's fixed assets are held in the following divisions:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Cyclo	463	412	377
Glues	30	25	31
Penta	34	32	24
Low volume	79	76	160
Steam plant	764	700	658
Other production units	386	357	467
Transport	344	340	317
Other divisions	209	171	162
Productive assets in use	2,309	2,113	2,196
Assets under construction	561	894	840
Assets not in use (paragraph 130)	(78)	(78)	(78)
Total fixed assets	2,792	2,929	2,958

129 The assets held in the first 4 divisions are analyzed in detail in sections II to V. Depreciation costs relating to the steam plant and other production units are included in inter-divisional transfer prices (see paragraph 117). The majority of these costs are therefore included in the profit and loss accounts set out in sections II to V.

130 Management informed us the Company's assets include assets with a net book value of 78 million Sk which are not in use. We have excluded these assets from the adjusted Company accounts. We further note that the Slovak financial statements include recreational and accommodation facilities with a value of 180 million Sk at 31 December 1993. (1992: 188 million Kčs; 1991: 144 million Kčs). We have excluded these assets and the relating depreciation from the adjusted Company accounts.

Accounting policy

131 Tangible fixed assets, with the exception of land, are valued at cost less accumulated depreciation. Cost includes all expenditure incurred in order to put an asset into use. Land is not depreciated and is included at State prescribed rates per square meter.

Depreciation

132 The Company depreciates its assets at State prescribed rates, which were as follows:

	Range %	Average 1992 %	Average 1993 %
Land	0	0	0
Buildings	1.3-5	2	2
Plant and equipment	2-25	8	10
Other	3-20	7	7

Change in rates

133 From 1993 Slovak companies are free to set depreciation rates in accordance with economic useful lives. The State now only prescribes rates which are applicable for tax accounts. Chemko, however, has adopted the tax rates also for its commercial accounts. This has meant that certain plant is now depreciated at a lower rate, while other plant is depreciated at higher rates.

134 The new rates may be considered high, given the type of the plant used in the Company. However, we noted in our review that significant parts of the plant (Cyclo Division) are not efficient and further investments will be necessary if the Division is to return to profitability. We have therefore not made any adjustments to what appears to be a high rate.

135 We note that the Penta Division's assets (section IV) include assets with a cost of 29 million Sk, which are fully depreciated. No other divisions held significant amounts of fully depreciated assets.

Land

136 A breakdown of the land held by the Company is given below:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Main production site	26	26	26
Other productive	1	1	1
Total	27	27	27

137 Land is valued at State prescribed rates for non agricultural land in a non built up area, which is 3 Sk per m^2 at present. Management has advised us that it considers 3 Sk per m^2 a reasonable reflection of the value of the land.

Investments

138 Investments relate to shares held in Czech and Slovak companies, which include Chémia Bratislava (8.6 million Sk) and Chemapol (2.1 million Sk)

Stocks

139 A summary of the Company's stocks at 31 December 1991, 1992 and 1993 is shown below:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Raw materials	173	185	190
Spare parts and supporting material	146	103	113
Semi finished products	47	37	44
Finished products	103	119	83
Stocks	469	444	430

Accounting policy

140 Stocks are valued at the lower of cost and net realisable value on a first-in, first out basis. Cost is the historical cost of purchase, costs of conversion and other costs incurred in bringing the stock to its present location and condition. To approximate the costs of finished and semi-finished goods the Company uses standard costs.

141 Standard costs are determined by the planning department based on expected production levels and comprise direct material energies and wages, production overheads and administration overheads. Under IAS administration overhead should not be included in the value of finished products. However, we have calculated that the impact on the stock value at 31 December 1993 was less then 2 million Sk for the Company, which we consider not to be significant.

Raw materials

142 All raw materials held relate to production divisions or the steam plant. Management has informed us that it considers none of the raw materials to be redundant.

Spare parts and supporting materials

143 Spare parts are valued at cost

144 We have discussed the redundancy and obsolescence of spare parts with management at the Company. The Company has 54 million Sk of spare parts which have not moved in the last 3 years. However, the majority of these represents strategic stock which needs to be held in case of a breakdown of equipment.

145 Management has identified 9 million Sk worth of spare parts which relate to plant which is now permanently out of use. In addition, it has identified 1 million Sk of parts which are considered obsolete. We have therefore reduced the Company's stock by 10 million Sk.

Finished products

146 Finished products comprise the following:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Cyclo division	36	85	52
Glue division	3	5	3
Penta	23	7	2
Low volume	n/a	n/a	11
Other	41	22	15
Finished products	103	119	83

147 Finished products held in the first 4 divisions are discussed in sections II to V. A provision of 5 million Sk was made in the Cyclo division, as net realisable value was lower than the cost. The level of this provision was calculated as the difference between the cost of stock recorded in the accounts and the sales price in January 1994.

Debtors

148 A summary of the Company's debtors at 31 December 1991, 1992 and 1993 is shown below:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Trade debtors	306	529	664
Tax receivable	2	2	172
Other debtors	38	12	11
Debtors	346	543	847

Trade debtors

149 Trade debtors were allocated to the following divisions:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Cyclo division	83	213	518
Glue division	96	135	261
Penta	6	37	71
Low volume	n/a	n/a	12
Other divisions and unallocated cash	135	176	(25)
Bad debt provision	(14)	(32)	(173)
Trade debtors	306	529	664

150 Trade debtors in the Divisions under review are discussed in sections II to V. We understand the amount of debtors in other Divisions is significantly higher in 1991 and 1992 than in 1993, because the balance includes amounts receivable in respect of sales of products which the Company no longer deals in. The Company was unable to provide details of the level of debtors in other Divisions and of unallocated cash. We note that had unallocated cash been allocated, it would affect the level of debtors in the Divisions under review and thus the provision against doubtful accounts. However, in view of the level of accounts receivable in August 1994 we do not consider a reduction in the provision appropriate.

Provisions for doubtful debts

151 The Slovak balance sheet contains no provisions for doubtful debts. Under IAS a specific provision needs to be made for debts known to be at risk and a general provision against debts which may be at risk in view of their age. We have discussed the level of the necessary provision with management at divisional level. The total provision calculated for the 4 divisions was 173 million Sk at 31 December 1993, or 21 per cent of gross debtors. In our opinion these provisions are likely to be the minimum required and could be considerably higher.

Tax receivable

152 Tax receivable relates mainly to VAT and includes amounts which will be receivable only after amounts payable to the Customs Office (see paragraph 164), included in taxes payable, have been settled.

Other debtors

153 Other debtors at 31 December 1991, 1992 and 1993 can be broken down as follows:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Other receivables	38	10	5
Prepayments	-	2	6
	38	12	11

Creditors

154 A summary of the Company's creditors at 31 December 1991, 1992 and 1993 is shown below:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Trade creditors	392	759	1,203
Other creditors	47	66	288
Creditors	439	825	1,491

Trade creditors

155 Trade payables can be summarised as follows:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Goods received and invoiced	329	720	1,019
Goods received but not invoiced	63	39	184
Total	392	759	1,203

156 Trade creditors at the end of 1993 represented over 7 months of purchases.

157 The increase in uninvoiced supplies is due to the following factors

- During 1993 the Company started to use an agent to purchase benzene. The agent tends to send its invoices a longer time after the delivery than other suppliers.
- One supplier sent invoices which did not state the correct amount due. These invoices were cancelled and the correct amount was accounted for as an uninvoiced supply.
- Invoices are recorded when they are matched with orders. During 1993 the Company ordered ammonia both through its Purchase Department and the Export Department. As a result it took longer to match invoices with orders and therefore the deliveries were recorded as an uninvoiced supply.

Credit terms

158 Domestic suppliers grant the Company credit terms of fourteen days plus three days for delivery of invoice. Czech suppliers grant the Company credit terms in the range of 30 to 90 days. Other foreign suppliers grant the Company credit terms in the range of 30 to 60 days in the case of prompt payment and credit terms in the range of 30 to 180 days in the case of other payment methods (e.g. letter of credit). However, as the Company has often paid its suppliers late, many now demand payment in advance.

Cash flow

159 The increase in trade creditors reflects the difficult cash flow position of the Company as a whole. Due to losses and increased levels of trade debtors, the Company had to postpone payments to its suppliers.

160 The high amounts outstanding to suppliers has led to an increase in interest charges. In addition, most suppliers now only supply when deliveries are paid for in advance. We understand that as a result Chemko has not always been able to guarantee the deliveries of necessary inputs to production.

161 To secure deliveries, Chemko has entered into a number of financing methods. These include barter trade and financing of deliveries by major customers. Despite these measures, however, the Company has suffered from major suppliers stopping deliveries.

Payables in court

162 The management submitted to us a list of payables in court as at 31 December 1992 that amounted to 60 million Kčs and as at 31 December 1993 that amounted to 4 million Sk. The amount reduced between 1992 and 1993, because Chemko is now in negotiation with all its main creditors to establish repayment schedules.

Other creditors

163 Other creditors at 31 December 1991, 1992 and 1993 are summarized below:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
VAT	-	-	167
Other taxes	2	21	33
Social security	9	11	13
Barter payables	-	-	29
Deferred revenues	-	-	17
Other payables	36	34	29
	47	66	288

164 Taxes payable include VAT on imported goods. These amounts are payable to the Customs Office and later reclaimed. The Company has therefore included the amounts also in other debtors (see paragraph 152).

Bank loans

165 Bank loans and overdraft at 31 December 1991, 1992 and 1993 are as follows:

	1991 mil Kčs	1992 Mil Kčs	1993 mil Sk
Bank overdraft	-	-	7
Short term loans	460	365	410
Long term loans	134	229	164
Total	594	594	581

166 We set out overleaf a detailed analysis of the bank loans for the company at 31 December 1991, 1992 and 1993:

a. bank
b. purpose
c. balance outstanding split into short and long term portions
d. interest rate

		31 December 1991			31 December 1992			31 December 1993			Interest
		Total	Short	Long	Total	Short	Long	Total	Short	Long	rate %
WORKING CAPITAL LOANS											
VUB	Receivables	397	397	-	285	285	-	245	245	-	19
Post Bank	Receivables/Stock	-	-	-	-	-	-	10	10	-	21
Industrial Bank	Receivables/Stock	-	-	-	-	-	-	65	65	-	21
SUBTOTAL		397	397	-	285	285	-	320	320	-	
CAPITAL EXPENDITURE LOANS											
VUB	Miscellaneous (7 loans)	197	63	134	134	20	114	114	40	74	11 to 19
VUB	Compressor O_2	-	-	-	40	-	40	27	10	17	17,5
VUB	DK 105	-	-	-	4	-	4	10	3	7	18,5
Investments & Development Bank	Rectification FK 103	-	-	-	55	6	49	49	18	31	
		-	-		76	54	22	22	8	14	15
Commerce Bank	Rectification FK 103	-	-	-	-	-	-	3	1	2	19
		-	-	-	-	-	-	29	10	19	8
SUBTOTAL		197	63	134	309	80	229	254	90	164	
TOTAL		594	460	134	594	365	229	574	410	164	

Detailed repayment schedule

167 Bank loans are repayable as follows:

	million Sk
1994	410
1995	81
1996	44
1997	24
1998	12
1999	3
Total per schedule	574

We note that during 1994 the company had difficulty meeting its repayment schedule and is behind on repayment of some of its loans.

Bank loan interest

168 We have been informed that the interest on long term loans is capitalised while the investments are under construction. After completion of the asset, interest is expensed

Security

169 The Company has pledged assets as security for the bank loans as set out below:

Bank	Purpose	Total loan mil Sk	Description of assets pledged
VUB	Working capital	245	Machinery
VUB	Capital expenditure	150	Machinery Chemapol shares
IDB	Capital expenditure	71	Machinery
PostBank	Working capital	10	Recreational facilities in Vinné
Industrial Bank	Working capital	5	Storage tanks and machinery
Commerce Bank	Capital expenditure	32	Land plot #1831/1 Machinery in Cyclo Division
Consolidation Bank	Working capital	18	Machinery

Capital employed

170 The movements in equity are summarised below:

	million Kčs/Sk
Equity at 31 December 1991	2,628
1992 (loss)	(67)
Capital contributions	12
Movements in non-productive assets	(52)
Equity at 31 December 1992	2,521
1993 (loss)	(445)
Capital contributions	100
Equity at 31 December 1993	2,176

Capital contributions

171 The capital contributions relate to subsidies received from the State. In 1993 fifty per cent of the subsidies were received as a contribution to the conversion of the armament production, while the remaining fifty per cent are a contribution to repay part of the Company's loans. The subsidies received are considered to be part of the Company's equity and are therefore treated as an increase in capital.

Movements in non-productive assets

172 During 1992 the Company increased its recreational and accommodation facilities by 52 million Kčs at cost. We have charged these non-productive assets directly against equity.

II Cyclo Division

Profit and loss account

201 The profit and loss accounts for 1992 and 1993 after IAS adjustments are set out below:

	1992 mil Kčs	1993 mil Sk
Sales	1,188	965
Material and energy costs	(1,026)	(1,002)
Direct wages	(12)	(12)
Gross profit	150	(49)
Depreciation	(55)	(69)
Central overheads	(62)	(59)
Bad debts	(2)	(84)
Other costs	(72)	(72)
Operating loss	(41)	(333)
Finance costs	(44)	(31)
Loss before tax	(85)	(364)

Sales

202 Sales volumes in 1993 were approximately at the same level as in 1992. However, as a result of a fall in sales prices, the value of sales decreased by 19 per cent.

203 The Division's sales in 1993 are 87 per cent (1992 - 90 per cent) sales of cyclohexanone. Other products are cyclohexane and cyclohexanol. Cyclohexanone is used in the production of caprolactam, a raw material for the production of nylon. The main producers of caprolactam in Europe are BASF, DSM and Bayer. However, all these companies also have facilities to produce cyclohexanone. Sales to these companies are therefore limited.

204 The Division's main customers for the cyclohexanone are Spolana, a Czech company, and PCHZ, a Slovak company. Both companies produce caprolactam, which they sell, inter alia, to Chemlon, a Slovak company. These companies form an old Czecho-Slovak trade alliance. However, although management is confident it can maintain present sales levels to these customers, in future the old alliance may break down. Spolana and PCHZ naturally demand prices which compete with world prices, which is a problem for Chemko as it is a less efficient producer. Further, Chemlon has entered into a joint venture with Rhône Poulenc and may decide to choose new suppliers.

205 Approximately 10 per cent of the Division's sales are to customers outside Eastern Europe. These sales are generally made through trading agents. The Division wants to increase its sales mainly through direct exports and is currently performing marketing activities to investigate potential customers, both in Europe and elsewhere.

Losses on barter transactions

206 The Slovak financial statements include in 1993 a write off of 234 million Sk against equity. We have been informed that this relates to losses on barter transactions in 1991 (160 million Kčs) and 1992 (74 million Kčs).

207 During 1991 and 1992 the Division entered into a barter contract, whereby it traded benzene for cyclohexanone. The terms of the contract were unfavourable for the Company. The revenues per tonne of cyclohexanone were significantly lower than those in the ordinary course of business. The Company however appears to have recorded sales and costs as if they were at the ordinary level. Subsequentially, it had to significantly reduce recorded earnings, by cancelling certain sales invoices.

208 The Company accounted for this in 1993, writing the amount off against capital. To comply with IAS we have charged the amount against the years in which the loss was incurred. This has reduced the level of sales by 6 per cent in 1992. The 160 million Kčs loss incurred in 1991 was charged against equity at 31 December 1991.

Cost of sales

209 We set out below the main components of cost of sales in 1992 and 1993:

	1992 mil Kčs	1993 mil Sk
Benzene	681	589
Gases	144	144
Steam	187	199
Electricity	33	32
Other	25	24
	1,070	988
Changes in stock	(44)	14
Material and energy	1,026	1,002
Direct wages	12	12
Cost of sales	1,038	1,014

210 During 1993 the Division purchased approximately 65 per cent of its benzene supplies from Chemopetrol (a Czech refinery) and the remainder from Slovnaft (a Slovak refinery). At present, Chemopetrol is the main supplier, because early this year Slovnaft signed a contract to deliver benzene exclusively to a different customer and stopped deliveries to Chemko. Prices for benzene are negotiated quarterly with Chemopetrol and reflect world prices.

211 Gases are produced in Chemko and all used in the Cyclo division. They are valued in the Division's profit and loss account at total cost to the Company to produce the gases consumed in production, including overheads.

212 The Cyclo division uses steam and electricity which is produced in other divisions of Chemko. These supplies are also included in the profit and loss account of the Cyclo Division at total cost to the Company to produce the steam and electricity consumed in production, including overheads.

Central overheads

213 Central overheads are incurred by the Company and allocated to the Divisions based on the ratios shown in Appendix A. A detailed breakdown of central overheads is given in section I.

Other costs

214 Other costs can be summarised as follows:

	1992 mil Kčs	1993 mil Sk
Repair and maintenance	43	30
Selling	14	30
Administration	15	12
Total	72	72

215 All costs included in other costs can be attributed directly to a Division. Selling costs relate mainly to transport costs of finished products to customers and are thus considered to be variable. The increase in transport costs is caused by an increase in transport prices

Tax

216 We have calculated a notional tax position for the Division as follows:

	1992 mil Kčs	1993 mil Sk
Loss before tax	(85)	(364)
Non deductible items:		
Increase bad debt provision	8	84
Creation provision for net realisable value of stock	-	5
Interest on late payment to suppliers	-	6
Total loss for tax purposes	(77)	(269)

217 It therefore appears the Division generated losses for tax purposes in both 1992 and 1993.

Assessment of profitability

218 We summarise the Division's profitability in the following table:

	1992 mil Kčs	1993 mil Sk
Gross profit (loss)	150	(49)
Operating (loss)	(41)	(333)
(Loss) before tax	(85)	(364)

219 The low profitability of the Division is caused by three factors: reducing sales prices, high inputs in production and an increasing exposure to bad debts. We describe these factors in detail below.

Fall in sales prices

220 Following the caprolactam market, the market for cyclohexanone is characterised since 1991 by overcapacity and falling prices. The reduction in price for cyclohexanone was only partly compensated by a reduction in the price of benzene, as shown in the table below[1]:

	1992 000 Kčs/tonne	1993 000 Sk/tonne	Decrease %
Cyclohexanone sales price	23.3	17.1	27
Benzene purchase price	10.1	9 0	11

(1) Source Chemko annual report The calculation does not take into account the losses which were incurred on barter transactions (see paragraphs 206 to 208)

221 As a result of falling sales prices and benzene prices, the other components of cost of sales became more significant, reducing the margin further. This is summarised in the table below.

	1992 % of sales	1993 % of sales
Sales	100	100
Benzene	(57)	(61)
Gases	(12)	(15)
Steam	(16)	(21)
Electricity	(3)	(3)
Other	(3)	(4)
Changes in stock	4	(1)
Gross profit margin	13	(5)

222 The caprolactam and cyclohexanone markets are analyzed in detail in the Vector Associates report. It has been concluded in their report that a recovery of the markets is not expected in the next 2 to 3 years.

Input output analysis

223 The consumption of raw materials and energy for the production of one tonne of cyclohexanone is set out below

	Unit	Usage
Benzene	tonne/tonne	1.14
Gases	000 m^3/tonne	1.12
Steam	Kwh/tonne	30.3
Electricity	Gj/tonne	693

224 We are informed by management that these inputs are approximately 5 to 10 per cent higher than other European factories. The reasons for the high input per tonne of output are an irregular supply of benzene and old technology used in the production process.

225 **Irregular supplies** The production process is most efficient when it is continuous. Losses and wastage are generally highest when production is started or stopped. Due to cash flow problems in Company level, however, the Division has not always been able to secure a steady stream of supplies. Management estimates that losses and wastage which result from discontinuing the production have led to an increase of inputs of some 2 per cent or a cost of around 20 million Sk.

226 **Old technology** The assets used in production are described in more detail in the section on fixed assets. We note, however, that the Division is currently planning investments of 100 million Sk, which could reduce consumption of inputs by 3 per cent. Further improvements in the efficiency could only be made after more significant investments.

227 Under favourable supply circumstances, and with new investments made, an improvement in efficiency of 5 per cent could be made. Based on the present level of consumption of raw materials and energy this would lead to a reduction in costs of some 50 million Sk. Although the Division may then break even at gross profit level, it would still incur a significant operating loss.

Bad debts

228 The Division's bad debt position is discussed as part of debtors. During the first half of 1994 the level of amounts outstanding from customers has increased, so the Division apparently has not managed to reduce its exposure to bad debts.

Plant closure

229 As a result of the present situation regarding falling sales prices, inefficiency in production and bad debt exposure, and given the limited possibilities to improve profitability, the question has been raised as to whether a shutdown of the Division would be advantageous to the Company. We comment on the effects of a shut down of the Cyclo Division below by considering variable costs, avoidable costs and restructuring costs in the Division.

Variable costs

230 The Division's variable costs are summarised as follows:

	1993 mil Sk
Material and energy	1,002
Direct wages	12
Variable selling costs	30
Increase bad debt provision	84
Total variable costs per accounts	1,128
Less	
Fixed overheads included in materials and energy (see paragraph 231)	(69)
Total variable costs	1,059
Sales	(965)
Excess variable costs over sales	94

231 As set out in paragraph 211 and 212, the Division's material costs include supplies from other divisions. The Company's transfer pricing policy is to set a transfer price which recovers all costs in the delivering Division. Supplies from one Division to another are therefore valued at a total cost, i.e. including all overheads. In this way the consumption of semi-finished products, steam and electricity in each Division contributes to recovering the Company's overheads, both fixed and variable. The Company's fixed costs recovered through consumption in the Cyclo division are summarised below:

	Repair and maintenance mil Sk	Depreciation mil Sk	Other mil Sk	Total mil Sk
Semi finished products	13	3	15	31
Steam	13	16	6	35
Electricity	2	1	-	3
Total	28	20	21	69

232 Therefore, material costs charged to the Cyclo Division include some 69 million Sk of costs which are fixed costs to the Company. However, even after the add-back, variable costs (including bad debts) still exceeded revenues by some 94 million Sk during 1993.

Avoidable costs

233 To assess the effect of a closure of the Cyclo Division on the Company's performance we have reanalysed the Division's loss in the following table.

	1993 mil Sk
Excess variable costs over sales revenues (paragraph 230)	94
Depreciation Cyclo Division (per profit and loss account)	69
Repair and maintenance in Cyclo Division (paragraph 214)	30
Administration costs in Cyclo Division (paragraph 214)	12
Subtotal	205
Fixed overheads from other divisions recovered in Cyclo Division through material deliveries (paragraph 231)	69
Central overheads allocated to Cyclo Division (per profit and loss account)	59
Finance costs (per profit and loss account)	31
Total loss	364

234 The management of the Company need to assess which costs could be avoided after a shutdown of the Division. In this respect we make the following comments.

235 **Excess variable costs** It appears that the excess variable costs over sales would be saved after a shutdown, in particular since 84 million Sk relates to the bad debt provision. However, we note that variable costs includes 12 million Sk of wages which only would be saved if employees can be employed elsewhere or laid off.

236 **Depreciation** If the Division were to shut down, the plant should be written down to its net realisable value. The Company would thus incur a one off charge to its profits as part of a restructuring process.

237 **Repair and maintenance and administration costs** Whether these costs can be avoided, depends on the type of shutdown. If the Company envisages a temporary shutdown, some repair and maintenance and administration costs will still be incurred.

238 **Other overheads** The Division recovers the Company's overheads, both through deliveries of materials and energy and through an allocation of central overheads. It is not obvious as whether the Company would be able to reduce those overheads if the Cyclo Division was to close down. In particular, the scale of the energy production and central services would have to be reduced by approximately 50 per cent.

239 **Finance costs** These costs could only be avoided after settlement of liabilities. This should be considered as part of any restructuring.

Restructuring

240 If the plant were to be closed the Company would incur significant one off closure costs, which will include the following:

- write down of assets to realisable value, which is likely to be substantially lower than book value
- restructuring remaining operations
- redundancy costs for employees
- settlement of existing liabilities of the Division

Conclusion

241 In the present economic conditions, the Cyclo Division is loss making. In fact, variable costs exceed sales revenues. A temporary or permanent shutdown of the Division could therefore improve the financial performance of the Company.

242 As set out in paragraph 231, the Company's transfer pricing policy is to set a transfer price which recovers all costs in the delivering Division. Therefore, although our analysis between fixed and variable costs is based on a Divisional level, certain costs which are variable to the Division should be considered as fixed costs to the Company. We have estimated these at 69 million Sk. The level of savings from a shutdown depends on whether the Company can avoid these and other fixed overheads after a restructuring.

243 We further note that a closure of the Division and a related restructuring of the Company would involve a significant amount of one off costs and losses.

Balance sheet

244 The balance sheets for 1991, 1992 and 1993 after IAS adjustments are set out below:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Fixed assets	463	412	377
Current assets			
Stock	84	132	118
Debtors	85	209	473
Cash	15	5	-
Current liabilities			
Bank loans	(135)	(137)	(152)
Trade creditors	(60)	(221)	(399)
Other creditors	-	(18)	(113)
Net current liabilities	(11)	(30)	(73)
Amounts due after 1 year			
Bank loans	-	(39)	(58)
Capital employed	452	343	246

245 The Divisional balance sheet reflects the financial position of the Company, ie an increase in the level of trade debtors and trade creditors.

Analysis of account balances

Fixed assets

246 A summary of tangible fixed assets at 31 December 1991, 1992 and 1993 and movements during 1992 and 1993 is shown below:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Tangible fixed assets at net book value	463	412	377

	Land and buildings mil Kčs/Sk	Plant and machinery mil Kčs/Sk	Other mil Kčs/Sk	Total mil Kčs/Sk
Cost				
Cost at 31 December 1991	302	585	6	893
Additions	-	5	-	5
Disposals	(1)	(1)	(1)	(3)
Cost at 31 December 1992	301	589	5	895
Additions	-	35	-	35
Disposals	(1)	-	-	(1)
Cost at 31 December 1993	300	624	5	929
Depreciation				
Depreciation at 31 December 1991	113	314	3	430
Charge for the year	5	49	1	55
Disposals	-	(1)	(1)	(2)
Depreciation at 31 December 1992	118	362	3	483
Charge for the year	5	63	1	69
Disposals	-	-	-	-
Depreciation at 31 December 1993	123	425	4	552
Net book value				
At 31 December 1991	189	271	3	463
At 31 December 1992	183	227	2	412
At 31 December 1993	177	199	1	377

Accounting policy and depreciation

247 The accounting policy and depreciation rates of the Company are set out in section I. However, during 1993 the Company charged no depreciation on the assets in the Cyclo Division. Instead, 6 million Sk was credited to income. This was done by management to reduce the loss incurred in that year. For the purpose of this report, an adjustment was made to the 1993 profit and loss account. The 6 million Sk credited to income was reversed and 69 million Sk was charged as depreciation for 1993.

Fully depreciated assets and remaining lives of assets

248 Fully depreciated assets have a value of less than 2 million Sk and we have therefore made no adjustment.

249 Following changes in the tax legislation in 1993, the Company has adopted new depreciation rates, which led to an increase of the average depreciation rate of plant from 8 to 10 per cent. At these rates the majority of the plant will be fully written down in 1997.

Profile of assets

250 The main plant and equipment used in the Division was bought in 1984 from a Polish supplier. The capacity of the plant is estimated at 85,000 Tonnes per year, but due to low demand the plant has never been utilised in full. Utilisation rates in recent years were as follows:

Year	Utilisation rate
1991	68 %
1992	56 %
1993	58 %

251 Management has informed us the assets are still in good condition. However, the technology of the plant is not considered to be efficient. Management feels the following investments are necessary to improve the performance of the plant:

Investment	Amount mil Sk	Purpose
Modification of cyclohexanone recovery facility	100	Reduction of requirement of energy and raw materials
Incineration of gases	45	Generation of energy from waste gases

252 Management estimates that after these investments productivity can improve by some 3 per cent.

Additions in 1993

253 The additions in the Cyclo Division related to assets which were taken into use at the end of 1993 and enables the Division to improve the quality of the product.

Assets not in use

254 The assets of the Division which are not in use have a net book value of less than 1 million Sk.

Environmental issues

255 During the years under review, the Division met the environmental thresholds set by Government regarding air and water pollution. Management has informed us no additional investments are necessary to meet environmental requirements in future years.

Repair and maintenance

256 Until the end of 1993, the Division performed major repair and maintenance twice a year, lasting 3 weeks. From 1994 the Division will perform these works annually during a 5 week period in the summer. The majority of the repair and maintenance work is performed internally.

257 Within the Nitrogen unit additional maintenance is carried out every 5 years, with a cost of some 2 million Sk. These maintenance activities are scheduled for 1994. We have not accrued any cost during 1991, 1992 and 1993, because the effect on profit is considered to be immaterial.

Stocks

258 A summary of stocks at 31 December 1991, 1992 and 1993 is shown below:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Raw materials	8	15	26
Spare parts and supporting materials	10	7	6
Semi finished products	30	25	34
Finished products	36	85	52
Stocks	84	132	118

Raw materials

259 Raw materials comprise mainly benzene and represent 2 weeks of production at 31 December 1993.

Finished products

260 Finished products comprise the following:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Cyclohexanone	36	83	50
Cyclohexane	-	2	2
Finished products	36	85	52

261 Stocks of finished goods represent three weeks of sales and include no obsolete or non-marketable items.

262 As shown in the section on the profit and loss account, the Division operated during 1993 at a negative gross margin. Accordingly, the net realisable value of stock was lower than the cost. To ensure stock is valued at the lower of cost and net realisable value, we have made an adjustment to the value of stock of 5 million Sk at 31 December 1993. The level of this provision was calculated as the difference between the cost of stock recorded in the accounts and the sales price in January 1994.

Debtors

263 A summary of debtors at 31 December 1991, 1992 and 1993 is shown below:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Trade debtors	77	205	426
Tax receivable	-	-	47
Other debtors	8	4	-
Debtors	85	209	473

Trade debtors

264 We set out below a summary of the aged analysis of trade debtors, which was prepared by the management of the Company:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
< 30 days over due	54	126	168
30-90 days over due	11	72	82
90-360 days over due	18	15	250
> 360 days overdue	-	-	18
Gross debtors	83	213	518
Bad debt provision (paragraphs 266 to 268)	(6)	(8)	(92)
Net trade debtors	77	205	426

Debtors in court or liquidation

265 The total of the debtors in the court at the end of 1993 amounted to 4 million Sk (1992: 1 million Sk; 1991: nil). The Company is not aware of any debtors that are in liquidation. However, management has identified one customer owing 2 million Sk as at 31 December 1993 who, in their opinion, will not be able to pay.

Provisions for doubtful debts

266 We have discussed the level of the necessary provision with management, who are confident that Chemko will still recover the amounts due from its customers. This is confirmed by payments after 31 December 1993. However, in most cases, there have also been deliveries to these customers, and the total outstanding amount from certain customers has in fact increased since the year end. The recent payment history of the Division's major debtors at 31 December 1993 is set out below:

	Receivable at 31 December 1993 mil Sk	Invoiced during 1994 mil Sk	Payments during 1994 mil Sk	Receivable at 4 August 1994 mil Sk
Spolana 1)	106	10	(63)	53
PCHZ Zilina	76	170	(156)	90
Chemapol	note 2)	note 2)	note 2)	note 2)
PO Azot	55	6	(39)	22
Zaklady Azotowe	26	12	(3)	35
Total (excluding Chemapol)	263	198	(261)	200

1) During 1994 sales to Spolana were mainly made through Chemapol

2) Chemapol purchases goods from several Divisions of the Company. At 31 December amounts owed to the Cyclo Division were 76 million Sk, while the total amount outstanding to the Company amounted to 117 million Sk Since 31 December 1993 Chemapol was invoiced an additional 416 million Sk, while it paid to the Company 288 million Sk. The balance at August 1994 had therefore more than doubled to 246 million Sk Management, however, was unable to allocate 1994 movements to Divisions.

267 Based on the above considerations, management has advised us to calculate a provision for bad debts on the following basis:

i) specific provision of 100 % against all outstanding amounts in court, from customers in liquidation or other amounts considered as lost by the management;

ii) general provision of 50 % against all debts unpaid for a period longer than 360 days;

iii) general provision of 30 % against all debts unpaid for a period longer than 90 days;

iv) general provision of 1% against all other debts unpaid at the end of each year.

268 The results of this calculation indicate that the following provisions are required:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Specific provision	-	1	6
General provision	6	7	86
Total provision	6	8	92

269 We have included the above provisions as an adjustment to the accounts. In our opinion these provisions are likely to be the minimum required and could be considerably higher.

Creditors

270 A summary of creditors at 31 December 1991, 1992 and 1993 is shown below·

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Trade creditors	60	221	399
Other creditors	-	18	113
Creditors	60	239	512

Trade creditors

The division's trade creditors can be summarised as follows

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Uninvoiced supply	15	1	131
< 30 days over due	23	70	50
30-90 days over due	22	29	14
90-360 days over due	-	121	95
> 360 days overdue	-	-	109
Gross creditors	60	221	399

Cash flow

271 The increase in trade creditors in the Cyclo division reflects the difficult cash flow position of the Company as a whole discussed in section I. Due to losses and increased levels of trade debtors, the Company had to postpone payments to its suppliers.

272 The high amounts outstanding to suppliers has led to an increase in interest charges. In addition, most suppliers now only supply when deliveries are paid for in advance. We understand that as a result Chemko has not always been able to guarantee the deliveries of necessary inputs to production.

Payables in court

273 The management submitted to us the list of payables in the court as at 31 December 1992 that amounted to 60 million and as at 31 December 1993 that amounted to 4 million. The amount reduced between 1992 and 1993, because Chemko is now in negotiation with all its main creditors to establish repayment schedules.

Other payables

274 Following is the analysis of other payables:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
VAT payable	-	-	103
Tax and social security	-	3	1
Other	-	15	9
Total	-	18	113

275 VAT payable in the Division relates principally to VAT on imported goods, which is payable to Customs Office, and to VAT collected on sales to customers.

Bank loans

276 Bank loans and overdraft have been analyzed at 31 December 1991, 1992 and 1993 are as follows:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Bank overdraft	-	-	4
Short term loans	135	137	148
Long term loans	-	39	58
Total	135	176	210

277 Details of the Company's bank loans at 31 December 1991, 1992 and 1993 are set out in section I. Capital expenditure loans were allocated to the Division which held the asset that was financed by the loan. Working capital loans were allocated in the ratio of current assets.

III Glues Division

Profit and loss account

301 The profit and loss accounts for 1992 and 1993 are set out below:

	1992 mil Kčs	1993 mil Sk
Sales	530	487
Material and energy costs	(404)	(340)
Direct wages	(5)	(5)
Contribution	121	142
Depreciation	(5)	(3)
Central overheads	(26)	(31)
Bad debts	(12)	(49)
Other costs	(23)	(40)
Operating profit	55	19
Finance costs	(21)	(11)
Profit before tax	34	8

Sales

302 The Division produces glues which are used in the production of furniture and other wooden products. The Division's main customers are Slovak, Czech and Hungarian manufacturers of these products. In addition, it has a large customer in West Germany, which is supplied through Chemapol.

303 The Division considers it has a strong position in the local market. Transport costs of glues are generally high and competition is therefore limited.

304 The decrease in sales between 1992 and 1993 was mainly due to a reduction in volume. However, due to falling prices of input the Division realised a better margin. During 1994, the cost of inputs has increased significantly, especially due to higher prices for methanol. We understand that the Division has been slow to charge these higher prices on to the customers, which has led to a reduced profitability during the first half of 1994.

Cost of sales

305 We set out below the main components of cost of sales in 1993:

	1992 mil Kčs	1993 mil Sk
Urea	167	154
Formaldehyde	187	137
Phenol	15	14
Steam	22	23
Electricity	3	3
Other	7	11
Changes in stock	3	(2)
	404	340
Direct wages	5	5
	409	345

306 Urea and Phenol are purchased from a Slovak supplier. The price of these raw materials is typically 10 to 20 per cent lower than quoted prices in Western Europe. The price differential is caused by lower transport costs and an inability to guarantee regular supplies.

307 Formaldehyde is produced within Chemko and is used as set out in the table below. Formaldehyde is transferred between Divisions at full production costs, including overheads.

User	percentage
Glue division	40
Penta division	29
HMT production	4
External sales	19
Other	8
Total	100

308 The main raw material for the production of formaldehyde is methanol. During 1994 the price of methanol doubled, as a result of a worldwide increase in demand. If the Division cannot pass on the price increase to the customers, the profitability would be reduced.

309 The Glues Divisions uses steam and electricity which is produced in other divisions of Chemko. These supplies are included in the profit and loss account of the Glues Division at costs incurred by the Company to produce the steam and electricity, including overheads.

Input output analysis

310 We summarise below the inputs required for the production of tonne of uraeformaldehyde:

	Unit	Usage
Urea	tonne/tonne	0 5
Formaldehyde	tonne/tonne	0.86
Steam	Gj/tonne	2.05
Electricity	Kwh/tonne	43.5

311 Based on information provided by management, the inputs are similar to those in other Eastern European factories and slightly higher than Western companies.

Central overheads

312 Central overheads are incurred by the Company and allocated to the Divisions based on the ratios shown in Appendix A. A detailed breakdown of central overheads is given in section I

Other costs

313 Other costs include the following:

	1992 mil Kčs	1993 mil Sk
Repair and maintenance	9	15
Selling	8	21
Other	6	4
Total	23	40

314 The increase in selling costs is caused by an increase in transport prices. In addition, transport costs increased as a larger percentage of sales was to foreign customers.

Tax

315 We have calculated a notional taxation charge for the Division as follows:

	1992 mil Kčs	1993 mil Sk
Profit before tax	34	8
Non deductible items:		
Increase bad debt provision	12	49
Interest on late payment to suppliers	-	1
Total taxable profit	46	58
Tax at 45 per cent (1992 55 per cent)	25	26

316 The Division thus contributed to the tax payable in 1992 by some 25 million Sk. If the Company had been liable to taxes in 1993, the charge attributable to the Division would be 26 million Sk.

Assessment of profitability

317 We summarise the Division's profitability in the following table:

	1992 mil Kčs	1993 mil Sk
Gross profit	121	142
Operating profit	55	19
Retained profit before tax	34	8

318 The Division continues to be profitable in 1993. However, in this year much of the profit was eliminated by an increase in the bad debt provision of 49 million Sk. We further note that to maintain profitable, the Division needs to be able to charge its higher costs of raw materials to customers.

Balance sheet

319 The balance sheets for 1991, 1992 and 1993 after IAS adjustments are set out below·

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Fixed assets	30	25	31
Current assets			
Stock	17	17	15
Debtors	90	117	203
Cash	3	2	-
Current liabilities			
Bank loans	(44)	(33)	(67)
Trade creditors	(29)	(88)	(65)
Other creditors	(6)	(7)	(57)
Net current assets	31	8	29
Capital employed	61	33	60

Analysis of account balances

Fixed assets

320 A summary of tangible fixed assets at 31 December 1991, 1992 and 1993 and movements during 1992 and 1993 is shown below·

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Tangible fixed assets	30	25	31

	Land and buildings mil Kčs/Sk	Plant and machinery mil Kčs/Sk	Other mil Kčs/Sk	Total mil Kčs/Sk
Cost				
Cost at 31 December 1991	37	38	2	77
Additions	-	-	-	-
Disposals	-	(4)	-	(4)
Cost at 31 December 1992	37	34	2	73
Additions	-	9	-	9
Disposals	-	-	-	-
Cost at 31 December 1993	37	43	2	82
Depreciation				
Depreciation at 31 December 1991	14	31	2	47
Charge for the year	1	4	-	5
Disposals	-	(4)	-	(4)
Depreciation at 31 December 1992	15	31	2	48
Charge for the year	1	2	-	3
Disposals	-	-	-	-
Depreciation at 31 December 1993	16	33	2	51
Net book value				
At 31 December 1991	23	7	-	30
At 31 December 1992	22	3	-	25
At 31 December 1993	21	10	-	31

Accounting policy and depreciation

321 The accounting policy and depreciation rates of the Company are set in section I.

Fully depreciated assets

322 Fully depreciated assets have a value of 2 million Sk at 31 December 1992 and 23 million Sk at 31 December 1993. These assets were acquired in 1979 and written off over 13 to 14 years (see below). If these assets had not yet been fully depreciated during 1993, the depreciation charge would have been higher by only 1 million Sk. We have therefore not made an adjustment to the accounts.

323 At the present depreciation rates the remaining plant will be fully depreciated by 1997.

Profile of assets

324 The main plant and equipment used in the Division was bought in 1979 from an East German supplier. The capacity of the plant is estimated at 123,100 tonnes per year that was utilised 100 per cent in 1989. Due to lower demand the utilisation rates in recent years were as follows:

Year	Utilisation rate
1991	94 %
1992	81 %
1993	70 %

325 The assets of the Division which are not in use have a net book value of less than 1 million Sk.

Investments

326 The Division considers at present a project to improve the quality of products. Costs of this project will be approximately 32 million Sk.

Environmental issues

327 During the years under review, the Division met the environmental thresholds set by Government regarding air and water pollution. There is an investment of 20 million Sk anticipated to build a water treatment plant that will decrease the level of current expenses due to waste water treatment outside the division.

Repair and maintenance

328 The Division shuts down for cleaning 5 days every month and in addition there is an annual shutdown for repair and maintenance lasting 2 to 3 weeks. There are no other cyclical repair and maintenance activities. The majority of the work is performed internally and the total repair and maintenance expenses amounts to 10 to 15 million Sk yearly, including small repairs.

Stocks

329 A summary of stocks at 31 December 1991, 1992 and 1993 is shown below:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Raw materials	5	4	10
Spare parts and supporting material	7	7	2
Semi finished products	2	1	-
Finished products	3	5	3
Stocks	17	17	15

Raw materials

330 Raw materials comprise mainly of urea, phenol and caustic soda and represent approximately 10 days of production in 1993 year.

Finished products

331 Finished products comprise the following:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Urea formaldehyde glues	2	5	2
Phenol formaldehyde glues	1	0	1
Finished products	3	5	3

332 Stock of finished goods represent 3 days of sales and comprises no obsolete or non-marketable items.

Debtors

333 A summary of debtors at 31 December 1991, 1992 and 1993 is shown below:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Trade debtors	88	115	192
Tax receivable	-	-	6
Other debtors	2	2	5
Debtors	90	117	203

Trade debtors

334 We set out below a summary of the aged analysis of trade debtors:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
< 30 days over due	29	57	40
30-90 days over due	42	37	45
90-360 days over due	25	32	149
> 360 days overdue	-	9	27
Gross debtors	96	135	261
Bad debt provision (paragraphs 336 to 338)	(8)	(20)	(69)
Net trade debtors	88	115	192

Debtors in court or liquidation

335 The total of the debtors in court at the end of 1993 amounted to 2 million Sk (1992: 9 million Kčs; 1991: nil). The management has identified two customers that are in liquidation, who together owe the Company 1 million Sk. In addition, management has identified two customers owing 15 million Sk as at 31 December 1993 that will not be able to pay. These are PD Beladice and PD Nova Ves.

Provisions for doubtful debts

336 We have discussed the level of the necessary provision with management and found it to be similar to the position in the Cyclo Division. Although the Company has received payments after 31 December 1993, there have also been deliveries to the customers and the total outstanding amount has increased since the year end. This is illustrated in the table below, which shows the payment history of the Division's major debtors at 31 December 1993:

	Receivable at 31 December 1993 mil Sk	Invoiced during 1994 mil Sk	Payments during 1994 mil Sk	Receivable at 4 August 1994 mil Sk
Bucina Zvolen	12	66	(59)	19
Interspan	11	37	(17)	30
Jihlavske Drevarske Zavody	17	37	(14)	23
Drevokombinat Saris	22	11	(6)	26
	62	151	(96)	98

337 Based on the above, the provision for bad and doubtful debts has been calculated in the same way as in the Cyclo Division on the following basis:

i) specific provision of 100 % against all outstanding amounts in court, from customers in liquidation or other amounts considered as lost by the management;

ii) general provision of 50 % against all debts unpaid for a period longer than 360 days;

iii) general provision of 30 % against all debts unpaid for a period longer than 90 days;

iv) general provision of 1% against all other debts unpaid at the end of each year.

338 The results of our calculation indicate that the following provisions are required:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Specific provision	-	9	18
General provision	8	11	51
Total provision	8	20	69

Creditors

339 A summary of creditors at 31 December 1991, 1992 and 1993 is shown below:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Trade creditors	29	88	65
Other creditors	6	7	57
Creditors	35	95	122

Trade creditors

340 Trade payables can be summarised as follows:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Goods received and invoiced	29	81	55
Goods received but not invoiced	-	7	10
Total	29	88	65

341 Trade payables can be broken down according to age as follows:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
< 30 days over due	18	41	17
30-90 days over due	10	28	14
90-360 days over due	1	12	22
> 360 days overdue	-	0	2
Total	29	81	55

Payables in court

342 There were no payables in court at 31 December 1991, 1992 or 1993.

Other payables

343 We set out below a summary of other creditors

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
VAT payable	-	-	25
Barter creditors	-	-	23
Tax and social security	-	-	1
Other	6	7	8
Total	6	7	57

344 VAT payable in the Division relates principally to VAT on imported goods, which is payable to Customs Office, and to VAT collected on sales to customers. Barter creditors relate to amounts which are repayable in goods, rather than cash.

Bank loans

345 Bank loans and overdraft have been analyzed at 31 December 1991, 1992 and 1993 and are as follows:

	1991 mil Kčs	1992 mil Kčs	1993 mil Sk
Bank overdraft	-	-	2
Short term loans	44	33	65
Total	44	33	67

346 Details of the Company's bank loans at 31 December 1991, 1992 and 1993 are set out in section I. Short term loans were allocated in the ratio of current assets.

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missing.

V Low Volume Division

501 The main products in the Low Volume Division are Dastib and Diamine. These products were only produced since 1993. We therefore discuss in this section 1993 only.

Profit and loss account

502 The profit and loss account for the year ended 31 December 1993 after IAS adjustments is set out below:

	1993 mil Sk
Sales	47
Material and energy costs	(20)
Direct wages	(10)
Gross profit	17
Depreciation	(9)
Central overheads	(4)
Bad debts	(1)
Other costs	(8)
Operating profit	(5)
Finance costs	(17)
(Loss) before tax	(22)

Sales

503 Sales in 1993 comprised of Dastib (6 million Sk), Diamine (12 million Sk) and other own products (14 million Sk). Sales further included 15 million Sk of cyclohexanone which is produced by the Cyclo Division, but then transferred to and sold by the Low Volume Division. The margin realised on the sales of cyclohexanone was less than one million Sk.

504 Dastib and diamine are used in the production of plastics. The Division's main customer is Cyatec a US company, which operates as a selling agent of the product on the American market.

505 Dastib and Diamine are both new products. The Division is still seeking customers and trying to convince the market of the quality of the products. This process takes at least one or two years, as this is the time it takes to test the quality of this range of products.

506 The Division expects future sales of Diamine with a value of 50 million Sk to Cyatec. In addition management expects sales of dastib could increase to some 60 million Sk on the European and American markets. We have seen no documentary evidence to support these assertions.

507 To reach the hoped for sales levels the Division needs to obtain quality certificates and to find customers. The Division has obtained the necessary certificates in June 1994. For marketing it relies almost entirely on Cyatec for the American market. Marketing on the European markets will be performed by the Division itself.

Finance costs

508 Finance costs include 14 million Sk of interest payable. Interest payable in the Division is relatively high, as the Dastib production line was financed by a loan.

Assessment of profitability

	1993 mil Sk
Gross profit	17
Operating (loss)	(5)
(Loss) before tax	(22)

509 The Division operates at a very high gross profit margin on sales of own products (ie excluding cyclohexanone). The margin on these products is at present approximately 60 to 70 per cent. However, due to low utilisation of equipment the Division operates at a loss.

510 The profitability of the Division depends entirely on the success of its marketing. The expectations of management appear very optimistic in this respect.

511 The Division presently uses facilities from the Cyclo Division, in particular for storage of hydrogen and nitrogen. It is estimated that investments of 20 million Sk would be necessary to enable the Division to operate independently.

Balance sheet

512 The Division's balance sheet as at 31 December 1993 after IAS adjustments is set out below:

	1993 mil Sk
Fixed assets	160
Current assets	
Stock	21
Debtors	12
Cash	-
Current liabilities	
Bank loans	(28)
Trade creditors	(4)
Other creditors	(1)
Net current assets	-
Amounts due after one year	
Bank loans	(25)
Capital employed	135

Analysis of account balances

Fixed assets

513 A summary of tangible fixed assets at 31 December 1993 is shown below:

	1993 mil Sk
Land	-
Buildings	47
Plant and equipment	113
Other fixed assets	-
Tangible fixed assets	160

Depreciation

514 The assets in the Division are depreciated in accordance with the Company policy set out in section I. At the depreciation rates adopted by the Company, the main production lines will be fully written down in the year 2000. However, the expected useful economic life of the plant and equipment is approximately 12 years, although there will be necessary investments in later years due to probable quality requirements. Therefore, the annual

depreciation charge could be overstated by some 5 million Sk.

Capitalised costs

515 The Dastib production line was purchased before 31 December 1991. The purchase costs were expensed at the time of purchase. When the production line was taken into use in 1993, the costs previously expensed were capitalised, with a 61 million Sk credit to the profit and loss account.

516 We understand that the amounts expensed all relate to purchase of fixed assets and should thus have been capitalised at the date of purchase. We have therefore adjusted the opening balance and reversed the credit to the profit and loss account in 1993.

517 We have been informed that there are no other significant costs of purchase of fixed assets in the Company which were expensed.

Profile of assets

518 The Division has recently renewed its product range and plant. The old plant, which was fully depreciated, is no longer in use.

519 The Dastib production unit was purchased on the domestic market. Present utilization of the capacity of 250 tonnes per year is only 10 to 15 per cent.

520 The Diamine production unit was purchased in Austria and subsequentially improved within the Division. Present utilisation of the capacity of 200 tonnes per year is between 25 and 30 per cent.

Investments

521 At present the Division uses in production hydrogen and nitrogen which is bought from the Cyclo Division. If the Division wants to operate independently of the Cyclo Division it needs to invest 20 million Sk to build storage tanks for these two products.

Environmental issues

522 During the years under review, the Division met the environmental thresholds set by Government regarding air and water pollution.

Repair and maintenance

523 Production does not have to be interrupted for major repairs at any point in time.

Stocks

524 A summary of stocks at 31 December 1993 is shown below:

	1993 mil Sk
Raw materials	6
Spare parts and supporting materials	3
Semi finished products	1
Finished products	11
Stocks	21

Raw materials

525 Raw materials comprise acetone and ammonia which represents 12 weeks of production. Management informed us that all materials held are still used in the Company.

Finished products

526 Finished products comprise the following:

	1993 mil Sk
Dastib	4
Diamine	3
Triacetonamin	2
Other	2
Finished products	11

527 The stock recorded in the above table is marketable. The Division's stock further included 5 million Sk of stock of finished products which are no longer produced or sold. We have written these off in the Company's account.

Debtors

528 A summary of debtors at 31 December 1993 is shown below:

	1993 mil Sk
Trade debtors	11
Tax receivable	1
Debtors	12

Age analysis

The Divisions trade debtors include 1 million Sk of amounts outstanding more than 1 year and 4 million of amounts outstanding more than 90 days.

Provisions for doubtful debts

529 We have calculated the provisions required at the end of 1993 using the same basis as for the other divisions:

i) specific provision of 100 % against all outstanding amounts in court, from customers in liquidation or other amounts considered as lost by the management;

ii) general provision of 50 % against all debts unpaid for the period longer than 360 days;

iii) general provision of 30 % against all debts unpaid for the period longer than 90 days;

iv) general provision of 1% against all other debts unpaid at the end of each year.

530 The results of our calculation indicate that the following provision is required:

	1993 mil Sk
Specific provision	-
General provision	1
Total provision	1

Creditors

531 A summary of creditors at 31 December 1993 is shown below.

	1993 mil Sk
Trade creditors	4
VAT payable	1
Creditors	5

Trade creditors

532 Trade payables can be broken down according to age as follows:

	1993 mil Sk
< 30 days over due	1
30-90 days over due	1
90-360 days over due	2
> 360 days overdue	0
Gross creditors	4

Bank loans

533 Bank loans and overdraft at 31 December 1993 are as follows:

	1993 mil Sk
Bank overdraft	-
Short term loans	28
Long term loans	25
Total	53

534 Details of the Company's bank loans are set out in section I. Short term loans were allocated in the ratio of current assets.

APPENDIX A

BASIS OF ALLOCATION OF COMPANY FINANCIAL DATA TO DIVISIONS

Profit & loss account

Account	**Basis used for allocation**
Sales	Invoiced amounts per product
Material and energy costs	Consumption in production
Direct wages	Employees salaries in production division
Depreciation	Divisional fixed assets register
Central overheads	
- material	Purchased material value
- production	Divisional accounts
- selling	Sales
- administration	Planned sales
Other costs	
- repairs and maintenance	Divisional accounts
- selling	Divisional accounts
- administration	Divisional accounts
Finance costs	
- interest	Level of bank loans
- other	Production value

BASIS OF ALLOCATION OF COMPANY FINANCIAL DATA TO DIVISIONS (CTD)

Balance sheet Items

Account	**Basis used for allocations**
Fixed Assets	Divisional fixed assets register
Stock	
- raw materials, finished goods & WIP	Products held in stock
- spare parts	client specification regarding maintenance requirements
Trade debtors	Unpaid invoices per product
VAT accounts	
- VAT receivable	Level of material purchases
- VAT payable to Tax authorities	Level of domestic sales
- VAT payable to Customs Duties	Level of imported goods
Cash	Turnover
Trade Creditors	Outstanding invoice per type of material
Long term loans	Specified per investments for particular production facilities
Short term loans	Working capital value

IAS ADJUSTMENTS EACH BALANCE SHEET DATE

IAS adjustments at 31 December 1993

			Profit	Net assets
1.	DR	Depreciation charge Cyclo	(75)	
	CR	Fixed assets		(75)

During 1993 no depreciation was charged in the Cyclo Division, as the management did not want to increase the losses further. Instead 6 million Sk was credited to the profit and loss account. We have reversed the credit to profit and charged 69 million Sk as depreciation for 1993.

2.	DR	Cost of sales Cyclo	(5)	
	CR	Stock of finished goods		(5)

Within the Cyclo Division, costs of stock were higher than net realisable value by 5 million Sk. We have therefore made a provision against the stock value for this amount.

3.	DR	Reserves brought forward Cyclo	(8)	
	DR	Bad debts Cyclo	(84)	
	DR	Reserves brought forward Glues	(20)	
	DR	Bad debts Glues	(49)	
	DR	Reserves brought forward Penta	(4)	
	DR	Bad debts Penta	(7)	
	DR	Bad debts Low Volume	(1)	
	Cr	Bad debt provision		(173)

The Slovak financial statements included no provision for bad and doubtful accounts receivable. We have discussed the appropriate level of such a provision with management and adjusted the accounts.

4.	DR	Finance costs Cyclo	(6)	
	DR	Finance costs Glues	(1)	
	DR	Finance costs Other	(17)	
	CR	Other debtors		(24)

Within the Slovak accounts, interest on late payments to suppliers had not been charged to profit, but was included in the balance sheet. We have charged these interest costs to the profit and loss account.

IAS adjustments at 31 December 1993 (ctd)

			Profit	Net assets
5.	DR	Capitalised costs	(61)	
	CR	Reserves brought forward	61	

The Low Volume division includes assets which were acquired before 31 December 1991, but were taken into use in 1993. The Company had expensed costs before 1991 and then capitalised these costs in 1993, with a credit to the profit and loss account. We have reversed these entries and capitalised costs when actually incurred.

6.	DR	Other creditors Cyclo		6
	DR	Other creditors Glues		2
	DR	Other creditors Other		18
	CR	Finance costs	26	

Under Slovak accounting regulation, exchange gains can only be recognised in the profit and loss account when realised. However, under IAS unrealised exchange gains should also be recognised.

7.	DR	Reserves brought forward	(266)	
	CR	Fixed assets		(258)
	CR	Depreciation charge	8	

Being the write off of non productive fixed assets (i.e. fixed assets not in use and recreational and accommodation facilities) and the write back of the depreciation for the year on these assets.

8.	DR	Other operating costs	(5)	
	CR	Stock of finished goods		(5)

Being a write off of stocks of finished goods in the Low Volume Division which are no longer produced or sold.

9.	DR	Other operating costs	(29)	
	CR	Reserve movements	29	

In Slovak accounting it is common practise to charge certain costs, mostly related to employees, directly against reserves. We have charged these costs through the profit and loss account.

IAS adjustments at 31 December 1993 (ctd)

			Profit	Net assets
10.	DR	Reserves brought forward	(10)	
	CR	Stock of spare parts		(10)

Being a write off of obsolete and redundant spare parts.

11.	DR	Trade debtors Cyclo		28
	DR	Trade creditors Cyclo		14
	CR	Other creditors Cyclo		(42)

Being a reclassification of a debit balance included in other creditors.

12	DR	Long term loans		90
	CR	Short term loans		(90)

The Slovak accounts included a loan in long term loans, when part of it was payable after one year. We have reclassified the amounts which are payable within one year as short term loan.

13.	DR	Other creditors		31
	CR	Other debtors		(31)

Being a netting off of unrealised exchange losses, which are both capitalised and provided against in the Slovak accounts.

14.	DR	Other operating costs	(10)	
	CR	Finance costs	10	

Being a reclassification of certain costs (eg insurance) from finance costs to other operating costs.

IAS adjustments at 31 December 1992

			Profit	Net assets
15.	DR	Reserves brought forward Cyclo	(160)	
	DR	Sales Cyclo	(74)	
	CR	Movements in reserves		(234)

In 1993 the Company charged 234 million Sk directly against share capital, which related to losses incurred in previous years. We have charged these losses to the profit and loss account in the year in which they were incurred.

16.	DR	Reserves brought forward Cyclo	(6)	
	DR	Bad debts Cyclo	(2)	
	DR	Reserves brought forward Glues	(8)	
	DR	Bad debts Glues	(12)	
	DR	Bad debts Penta	(4)	
	Cr	Bad debt provision		(32)

The Slovak financial statements included no provision for bad and doubtful accounts receivable. We have discussed the appropriate level of such a provision with management and adjusted the accounts.

17.	DR	Fixed assets at cost		61
	CR	Reserves brought forward		(61)

The low volume division includes assets which were acquired before 31 December 1991, but were taken into use in 1993. The Company had expensed costs before 1991 and then capitalised costs in 1993, with a credit to the profit and loss account. We have reversed these entries and capitalised costs when actually incurred.

18.	DR	Other costs	(26)	
	CR	Reserve movements	26	

In Slovak accounting it is common practise to charge certain costs, mostly related to employees, directly against reserves. We have charged these costs through the profit and loss account.

19.	DR	Reserves brought forward	(274)	
	CR	Fixed assets		(266)
	CR	Depreciation charge	8	

Being the write off of non productive fixed assets (i.e fixed assets not in use and recreational and accommodation facilities) and the write back of the depreciation for the year on these assets.

IAS adjustments at 31 December 1992 (ctd)

			Profit	Net assets
20.	DR	Reserve brought forward	(10)	
	CR	Stock of spare parts		(10)

Being a write off of obsolete and redundant spare parts.

21.	DR	Short term loans		229
	CR	Long term loans		(229)

In 1992 the Company accounted for all its loans as short term loans. We have reclassified the amounts repayable after one year as long term loans.

22.	DR	Other operating costs	(20)	
	CR	Finance costs	20	

Being a reclassification of certain costs (eg insurance) from finance costs to other operating costs.

23.	DR	Other operating costs	(68)	
	CR	Cost of sales	68	

Being a reclassification of carriage out costs

IAS adjustments at 31 December 1991

			Profit	Net assets
24.	DR	Sales Cyclo	(160)	
	CR	Trade debtors		(160)

In 1993 the Company charged 234 million Sk directly against share capital, which related to losses incurred in previous years. We have charged these losses to the profit and loss account in the year in which they incurred.

25.	DR	Bad debts Cyclo	(6)	
	DR	Bad debts Glues	(8)	
	Cr	Bad debt provision		(14)

The Slovak financial statements included no provision for bad and doubtful accounts receivable. We have discussed the appropriate level of such a provision with management and adjusted the accounts.

26.	DR	Fixed assets at cost		61
	CR	Reserves		(61)

The Low Volume Division includes assets which were acquired before 31 December 1991, but were taken into use in 1993. The Company had expensed costs before 1991 and then capitalised costs in 1993, with a credit to the profit and loss account. We have reversed these entries and capitalised costs when actually incurred.

27.	DR	Short term loans		134
	CR	Long term loans		(134)

In 1991 the Company accounted for all its loans as short term loans. We have reclassified the amounts repayable after one year.

28.	DR	Reserves brought forward	(222)	
	CR	Fixed assets		(222)

Being the write off of non productive fixed assets (i.e. fixed assets not in use and recreational and accommodation facilities).

29.	DR	Reserve brought forward	(10)	
	CR	Stock of spare parts		(10)

Being a write off of obsolete and redundant spare parts.

APPENDIX C1

TRAIL BETWEEN SLOVAK AND ADJUSTED FINANCIAL DATA 31 DECEMBER 1993

Profit and loss account

	Slovak 31/12/93 mil Sk	Adjustments mil Sk	Journals Appendix B	Adjusted 31/12/93 mil Sk
Sales	2,078			2,078
Cost of sales	(1,637)	(66)	2,5	(1,703)
Gross profit	441	(66)		375
Staff costs	(170)			(170)
Depreciation	(125)	(67)	1,7	(192)
Bad debts	-	(141)	3	(141)
Other costs	(174)	(44)	8,9,14	(218)
Operating profit	(28)	(318)		(346)
Finance costs	(111)	12	4,6,14	(99)
Profit before tax	(139)	(301)		(445)
Tax	-			-
Retained profit	(139)	(301)		(445)

Balance sheet

	Slovak 31/12/93 mil Sk	Adjustments mil Sk	Journals Appendix B	Adjusted 31/12/93 mil Sk
Fixed assets				
Tangible fixed assets	3,291	(333)	1,7	2,958
Investments	13			13
Current assets				
Stock	450	(20)	2,8,10	430
Debtors	1,047	(200)	3,4,11,13	847
Cash	-			-
Current liabilities				
Bank loans and overdrafts	(327)	(90)	12	(417)
Trade creditors	(1,217)	14	11	(1,203)
Other creditors	(303)	15	6,11,13	(288)
Net current assets	(350)	(281)		(631)
Amounts due after one year				
Bank loans	(254)	90	12	(164)
Capital employed	2,700	(524)		2,176

APPENDIX C2

TRAIL BETWEEN SLOVAK AND ADJUSTED FINANCIAL DATA 31 DECEMBER 1992

Profit and loss account

	Slovak 31/12/92 mil Kčs	Adjustments mil Kčs	Journals Appendix B	Adjusted 31/12/92 mil Kčs
Sales	2,630	(74)	15	2,556
Cost of sales	(1,978)	68	23	(1,910)
Gross profit	652	(6)		646
Staff costs	(171)			(171)
Depreciation	(192)	8	19	(184)
Bad debts	-	(18)	16	(18)
Other costs	(95)	(114)	18,22,23	(209)
Operating profit	194	(130)		64
Finance costs	(93)	20	22	(73)
Profit before tax	(101)	(110)		(9)
Tax	(58)			(58)
Retained profit	43	(110)		(67)

Balance sheet

	Slovak 31/12/92 mil Kčs	Adjustments mil Kčs	Journals Appendix B	Adjusted 31/12/92 mil Kčs
Fixed assets				
Tangible fixed assets	3,134	(205)	17,19	2,929
Investments	12			12
Current assets				
Stock	454	(10)	20	444
Debtors	809	(266)	15,16	543
Cash	12			12
Current liabilities				
Bank loans and overdrafts	(594)	229	21	(365)
Trade creditors	(759)			(759)
Other creditors	(66)			(66)
Net current assets	(144)	(50)		(191)
Amounts due after one year				
Bank loans	-	(229)	21	(229)
Capital employed	3,002	(481)		2,521

APPENDIX C3

TRAIL BETWEEN SLOVAK AND ADJUSTED FINANCIAL DATA 31 DECEMBER 1991

Balance sheet

	Slovak 31/12/91 mil Kčs	Adjustments mil Kčs	Journals Appendix B	Adjusted 31/12/91 mil Kčs
Fixed assets				
Tangible fixed assets	2,953	(161)	26,28	2,792
Investments	12	12		12
Current assets				
Stock	479	(10)	29	469
Debtors	520	(174)	24,25	346
Cash	42			42
Current liabilities				
Bank loans and overdrafts	(594)	134	27	(460)
Trade creditors	(392)			(392)
Other creditors	(47)			(47)
Net current assets	(32)	(50)		(42)
Amounts due after one year				
Bank loans	-	(134)	27	(134)
Capital employed	2,973	(345)		2,628