

Analysis of Enterprise Problems and Countermeasures Based on Z Company's Financial Statements

Tingting Zhang

Yan'an University, Yan 'an 716000, China.

Abstract: Due to the continuous fermentation of major public health events, China's economic activities have encountered enormous challenges. The prices of copper, lithium, cobalt and other metals continue to rise, and some productive enterprises in China are facing major threats. In this case, the copper products manufacturing industry is faced with great challenge and crisis, this article through to the data from 2019 to 2021 financial statements analysis, from its operating ability, short-term solvency and long-term solvency problems summed up the experience, find a solution in these problems, puts forward relevant Suggestions for improvement, Pave the way for the future development direction of the enterprise.

Keywords: Solvency; Operational Ability; Accounts Receivable

1. Financial Statement Overview

Financial statements are documents that reflect accounting information such as cash flows and results of operations of an enterprise for a certain fiscal year in the past. Financial statements include the accounting statements, notes to the accounting statements and other relevant information that is required to be disclosed in the financial statements. The financial statements prepared by a company in accordance with the requirements of corporate accounting standards are intended to provide the financial information required by the enterprise itself, existing and potential investors, creditors, suppliers and other statement users such as banks in making decisions, so as to optimize the rational allocation of social resources and provide better services to the public.

2. Company Z Overview

The upstream of the copper metal processing industry is the copper smelting industry. The company's main business mainly includes the development, manufacture and sales of electrolytic copper foil, copper rods, copper pipe fittings, copper and aluminum composite conductors and copper tubes. The company's products are mostly used in new energy, fuel cars, hardware and machinery, construction water pipes, seawater desalination, air-conditioning and refrigeration, nuclear power facilities, transportation, electric power and other industries. The company has 21 production bases worldwide. In the global market, Z is one of the largest and most competitive copper processing companies, the largest copper pipe company in China, and an importer and exporter of copper pipes.

In 2021, the impact of the new crown pneumonia epidemic on the global economy continues. In this scenario, Company Z passed through many obstacles and accelerated the implementation of smart manufacturing and digital transformation strategies in the midst of difficulties, promoting the use of all aspects of the new batch of low-carbon smart and efficient copper tube manufacturing enterprise production lines, achieving thus enabling further growth in product sales, optimization of structure and steady improvement in profits, further promoting the company's existing business through these measures The company's leading position in the

3. Analysis of Company Z's solvency

Solvency refers to the ability of an enterprise to repay its debts (including principal and interest) as they fall due. The timely

repayment of debts that have fallen due is an important indicator of an enterprise's financial condition. By analyzing the debt service capability of financial statements, we can observe the ability and risk of the enterprise's ongoing operation and help predict the future earnings of the enterprise. In this paper, we focus on two perspectives: short-term solvency and long-term solvency.

3.1 Short-term solvency analysis

Short-term solvency analysis short-term solvency refers to the enterprise's ability to ensure timely and full repayment of current liabilities loans with current assets, reflecting the enterprise's ability to repay debts that need to be repaid in the day-to-day business activities on fast maturity, and is an important indicator to measure the existing financial capacity of the enterprise, especially the liquidity of current assets. The short-term solvency indicators of an enterprise include current ratio, quick ratio and cash flow liabilities.

Determinants of short-term solvency: First, the number of current assets versus the number of current liabilities. The quantity refers to the total amount of the balance sheet. The larger the assets, the stronger the short-term solvency. Second, the quality of liquid assets and liquid liabilities. Among them, the quality of assets refers to the liquidity and liquidity, the shorter the time, the stronger the liquidity. The quality of liabilities refers to the degree of urgency and compulsion of the debt to be repaid. If a company does not pay its debts when due, the quality of repayment is not high.

Short-term solvency analysis of Company Z. There are several indicators to analyze the short-term solvency of Company Z. This paper mainly selects three aspects to analyze the short-term solvency of the enterprise, respectively, from three different perspectives of current ratio, speed ratio and cash ratio to carry out a general analysis process, and it can be more intuitive from these three indicators to see some relevant operating conditions of the company.

Table 1 Analysis of short-term solvency of Company Z

Projects	2019	2020	2021
Current Ratio	1.36	1.52	1.38
Quick Ratio	0.99	1.06	0.87
Cash Ratio	35.38	38.27	30.62

The current ratio is directly proportional to the company's liquidity, and after comparing the data, we can see that the current ratio of Company Z has generally increased, but the increase is small. Usually, when analyzing the solvency of a company, the current ratio is roughly between 1.5 and 2, which means that the company's operating conditions are generally stable. On the contrary, if a company's current ratio is lower, or even much lower, then the company's solvency is weaker, which is extremely unfavorable to the company's future development. Although there is a small increase in Company Z, the value of Company Z has been below 1.5 for the past three years, which indicates that the company's situation is not optimistic. Through the financial statements, it is found that Company Z has excessive credit sales, a large backlog of uncleared materials in its inventory, and many long outstanding accounts receivable that have not been collected and other receivables that have not been dealt with in a timely manner, all of which have led to a reduction in Company Z's solvency.

The quick ratio is a measure of the ability of a company's current assets to be immediately liquidated and used to pay off current liabilities. As can be seen from Table 1, the overall trend change of the quick ratio and current ratio of enterprise Z is approximately the same. It tends to increase in 2019-2020 and decrease in 2020-2021, and generally tends to decrease, which is unfavorable to business operation. The quick ratio is generally better at 1, while Company Z is below this value for both years. The annual report for 2021 shows that Company Z has a large amount of accounts receivable and inventory in its assets and an excessive backlog, which leads to a weaker level of short-term solvency.

The cash ratio is the most intuitive indicator of a company's ability to directly pay off its current liabilities. As a general rule, the cash ratio should be above 20%, and a glance at Company Z shows that its cash ratio for the past three years has been at a relatively high level, indicating that the enterprise's liquidity may be strong, but the level of the ratio should not be too high, as too high means that the enterprise's current assets are not reasonably arranged and used, and the profitability of cash assets is weak. The overall level of cash flow is maintained in a good range, and if it is allowed to continue to rise, the solvency of the enterprise may be reduced.

3.2 Long-term solvency analysis

Long-term solvency mainly refers to a company's ability to assume debt and its ability to guarantee debt repayment. In this paper, we mainly analyze the two indicators, which are gearing ratio and equity ratio.

Table 2 Analysis of long-term solvency of Company Z

Projects	2019 Year	2020 Year	2021 Year
Gearing ratio	60.19	60.91	63.51
Equity ratio	121.98	126.04	146.81

Generally, it is considered that the appropriate level of gearing is around 40% to 60%. The gearing ratio of Company Z shows a clear trend of growth and is in a reasonable range, indicating that Company Z has sufficient payment levels over a period of time and has the ability to repay its debts so as to ensure the rights and interests of its creditors, which is also extremely beneficial to the virtuous cycle of corporate development. The development of the company is also an extremely favorable aspect. However, the gearing ratio should not be too high, far exceeding 60%, as it will easily make the enterprise's debt exceed the risk of bankruptcy. The equity ratio is the ratio of total liabilities to total owner's equity, which is an indicator to assess the rational structure of capital, and Company Z has increased from 121.98% in 2019 to 146.81% in 2021, which is a relatively large increase, and the overall ratio is above 1. This indicates that Company Z's financial structure is in a position of higher risk and higher return, which further indicates that Company Z's long-term solvency is weak.

4. Analysis of Company Z's total assets operating capacity

The total asset operating capacity of an enterprise is a measure of the ability and efficiency of an enterprise to organize, manage and operate its entire assets. Analyzing the total asset turnover rate and its driving factors is an important way to strengthen enterprise asset management and improve the efficiency of capital utilization by optimizing the make asset structure and improving the utilization rate of various assets.

Table 3 Total asset turnover ratio of Company Z

Projects	2019Year	2020Year	2021Year
Total assets turnover ratio	1.89	1.84	2.18

As can be seen in Table 3, the total asset turnover ratio of Company Z increases from 1.89 in 2019 to 2.18 in 2021, an increase of 13.13%. the total asset turnover ratio of Company Z is generally on an upward trend, indicating that the efficiency of Company Z in utilizing its resources is gradually increasing. Company Z shows a small downward trend from 2019 to 2020, and in 2021 The rapid rebound to 2.18 in 2021 is due to the impact of the epidemic in 2019, where the rate of operating income from total assets decreases and the rate of increase in total assets is greater than the rate of increase in operating income. And after 2020, the global economy bottomed out after the recession, the downstream demand rebounded to drive the demand for copper processing products to rebound, and in 2021 China's copper processing grew by 4.9% year-on-year, the expansion rate of total assets of Company Z was less than the increase rate of operating income, so the total asset turnover ratio of Company Z increased. This indicates that the company has stronger operating capacity and better resource utilization efficiency.

5. Case Insights and Recommendations

5.1 Reasonable control of corporate inventory levels

According to the financial analysis of Company Z, it is easy to see that its operating capacity is relatively insufficient and its short-term solvency is relatively weak, which means that the enterprise will have some problems with the flow of funds in response to some financial situations in the short term. Especially under the current severe situation and the risk of recurrence of the epidemic, Company Z needs to grasp the current market changes, actively identify countermeasures to minimize losses, prepare in advance, do

not fight unprepared battles, strengthen the control of materials, be alert to the risks in the financial, procurement and sales processes and carry out strict defense mechanisms. Therefore, the first point is to strengthen the supervision in the process of procurement and the procurement personnel to ensure the quality and quantity of materials; the second point is to purchase the raw materials needed from the actual company, and if necessary, to reduce the inventory accordingly to avoid the waste of resources. The third point is to increase the promotion in the promotion, so that more customers know and understand the products, and to establish a good relationship between supply and sales in the communication with customers to ensure that the company can steadily move forward to win the trust of more partners, improve the credibility, orderly production and operation activities, and improve the inventory turnover rate of Z, so as to avoid more inventory occupying current assets for nothing, thus forming a capital The rate of capital utilization is decreasing.

5.2 Improve accounts receivable collection system

By comparing the overall trend of current ratio and quick ratio of this company in recent years, it is clear that the amount of accounts receivable is large, and the failure to collect accounts receivable in a timely manner leads to the company's weaker liquidity and lower debt service level. Therefore, in response to this, Company Z needs to further improve its accounts receivable policy and related systems. First of all, before sales, we should have a full understanding of the customer, judge the strength of its debt repayment ability, analyze whether it has strong debt repayment ability from the other party's business status, creditworthiness, amount of funds, etc., and then decide whether to sell goods to the other party based on these data. Secondly, when the company sells the goods to the customer on credit, the customer who fails to repay or refuses to pay the account at the agreed time should actively seek legal protection to safeguard the rights and interests of the company through legal means. Of course, if it is the other party due to the company's unexpected situation resulting in cash flow failure can also be privately negotiated on their own to jointly solve the problem of accounts receivable on credit. Finally, we should also strengthen the management of accounts receivable, continue to improve the inventory turnover rate, and also pay attention to the development of peers to make up for their own shortcomings, so that the company can also stand firm in the future, faster and further development.

5.3 Increase investment in R&D and focus on product innovation

Due to the influence of many factors plus the current special public health events, China's economic growth is in an increasingly slow trend, the external business risks of enterprises continue to increase, capital crisis events continue to occur frequently, in the face of these unfavorable trends, enterprises should pay great attention to the risk of accounts receivable, some downturn in the market risk and copper price fluctuations risk, etc.. Therefore, the company takes effective measures to control the risk, accelerate the research and development of new energy materials, new alloy materials and other products, promote the upgrading of the company's product structure, focus on product innovation in line with the national supply-side structural reform to grasp the domestic and industry economic and market situation, customer demand-oriented, to improve economic efficiency as the goal, and constantly strengthen technological innovation, research and development of new products with high technical content and good economic efficiency. products. In the early stage of technology research and development, the investment in the production of copper products will make the cost of enterprises rise, but in the long run is for enterprises to reduce unnecessary consumption and consumption, advanced intelligent systems and equipment to improve operational efficiency, the formation of core competitive ability. Strengthen the supply capacity in the world, enhance the advantageous position in the supply side of the industry, so that the enterprise in the future development can be a great ambition, ride the wave to go forward.

6. Conclusion

This paper analyzes the operation of Company Z through the analysis of relevant financial data for 2019-2021, and finds that there are some risks and shortcomings, and there are some problems with its short-term solvency and long-term solvency, while its operating capacity is relatively good. Overall, the company has a relatively good development prospect, and as long as it can reasonably avoid risks and grasp opportunities to meet challenges, the road ahead will be long and difficult.

References

- [1] Li Q, Xu CY, Financial analysis of "Ningde Times" in the framework of Harvard analysis [J]. China Business Journal, 2020,(21).
- [2] Li R. Research on financial analysis of small and medium-sized enterprises, Administrative Assets and Finance, 2021(20).
- [3] Li N. The problems and countermeasures of financial analysis in modern enterprises, Financial World, 2021(7).

Author Biography: Tingting Zhang (1998-), female, Han nationality, Shangnan County, Shanglinguo City, Shaanxi Province, graduate student, Yan'an University, research interests: financial management and financial analysis.