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# Research on financial risk identification and countermeasures of T Company

**BY**

**Chenfeng Kou[1*], Meiyun Zeng [2]**

[1,2] School of Economics and Management, Southwest Petroleum University, Chengdu, 610500; 2. Shifang City Health Bureau, Sichuan Province, 618400)

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***Abstract***

*With the rapid development of the current global market, economy is also in the downturn stage, enterprises in the international market how to survive and development is also bound to face a lot of opportunities and challenges, enterprises must do a good job in all aspects of management work. Enterprise financial supervision and management work is always to ensure the normal production and operation of an enterprise is a key financial management work, but also continuously improve the core competitiveness of an enterprise important basic management conditions, so put forward some measures to effectively cope with and control financial risks, To prevent the expansion of financial risks and financial crisis has become the top priority to ensure the sustainable development of enterprises.*

***Keywords:*** *financial risk financial crisis causes analysis countermeasures*

## 1. Development status

Today's society is a society with rapid economic development. With the constant changes of the global economic situation, there are various factors that have different impacts on the financial management of enterprises, many of which may lead to the outbreak of financial risks. In other words, as a part of the market economy, modern enterprises, no matter how the development direction of the enterprise is, will be gradually linked to the deeper impact of the domestic and foreign markets, so the change of the development trend of the domestic market and foreign markets may further lead to the emergence and even the outbreak of corporate financial risks. Therefore, in the new situation of the gradual integration of the global market, enterprises must have a clearer positioning for themselves that may occur, combined with the development of the enterprise itself, a comprehensive review of the factors that may lead to financial risks in the enterprise, further improve and improve the financial risk management system of the enterprise, to ensure that the enterprise can better control and cope with financial risks. In order to achieve a more stable development.

## 2. Financial risk-related theory

### 2.1 Categories of financial risk

#### 2.1.1 Financing risk

Financing risk refers to the risk of insolvency arising from the operation of an enterprise with liabilities. In the capital structure decision, reasonable arrangement of debt capital ratio and equity capital ratio is very important. Due to the imperfect characteristics of the market, a reasonable increase of debt capital ratio and decrease of equity capital ratio in a specific period of time can comprehensively reduce the comprehensive cost of capital and increase the value of the company.

#### 2.1.2 Investment risk

Investment risk is mainly due to the uncertainty brought by investment activities to the financial results of enterprises. The investment activities of an enterprise include the main business investment and other project investment. The investment risk of an enterprise is mainly determined according to the return rate of the project. If the project profit rate is greater than the debt interest rate, the risk is small; On the contrary, the investment risk is greater. Because of the change of the market environment, the enterprise does not get a suitable return after the investment capital. There are two forms of foreign investment: stock investment and securities investment. When issuing bonds, enterprises need to pay interest on a regular basis and repay the principal at maturity. Compared with issuing stocks for financing, bonds unilaterally increase the financial risk of the investors. The investment risk can be divided into inflation risk, financial derivative risk, moral risk and default risk. Inflation risk, also known as purchasing power risk, refers to the possibility that the cost of the bank will increase or the actual income will decrease due to inflation. The risk of financial derivatives is because with the continuous development of science and

*Corresponding Author: **Chenfeng Kou.**

technology, financial derivatives are also constantly innovating, increasing a variety of uncertain risks; Moral hazard is due to the uncertainty of the authenticity of the financial data of the invested unit, while default risk refers to the risk brought by the issuer's failure to pay the interest and principal when the security matures.

#### 2.1.3 Risk of fund recovery

Fund recovery risk refers to the financial difficulties arising from the different sales realization principles of enterprises with good returns. Under the principle of accrual basis, good operating income does not mean the settlement of sales collection and the realization of sales profit.

#### 2.1.4 Income distribution risk

The risk of income distribution refers to the adverse impact that income distribution may bring to the subsequent operation and management of the enterprise. Income distribution is the last link of the corporate financial cycle, including retained earnings and dividend distribution.

Income distribution risk refers to the possibility that smes may have an impact on capital value due to the acquisition and distribution of earnings. The summary of income distribution risk reflects the operating risk at the output node of business goods and the capital payment risk at the distribution stage. It is the funding source of the next circular capital advance value, and the release of all financial risks in capital value management, which restricts the scale of capital value.

### 2.2 Corporate financial risk identification methods

Financial risk identification refers to the process of scientific prediction and judgment of various possible financial risks that are potential and have not yet occurred, which is the first prerequisite for enterprises to make scientific decisions. The purpose of financial risk identification is to comprehensively understand the various risk conditions, impact degree, and structural nature faced by enterprises in the process of production and operation, so as to take scientific management measures to reduce or avoid risks according to the characteristics of risks.

#### 2.2.1 Method of financial statements

The identification of financial statements refers to the analysis method of searching, finding, and identifying financial risks based on the analysis and summary of the financial statements such as the balance sheet, income statement, and cash flow statement of the enterprise. This method is easy to operate, reliable, and in line with the thinking characteristics of enterprise financial management personnel.

#### 2.2.2 Financial index method

The identification of financial indicators refers to the calculation, comparison, and analysis of the relevant indicators of measuring financial data according to the information provided in the financial accounting of the enterprise, so as to objectively reflect the relationship and change trend of the relevant content of the enterprise's operation, so as to provide useful suggestions for the prevention of financial risks of the enterprise. In the specific practice, the analysis method of quantitative and qualitative indicators is usually used to form a set of perfect financial index analysis system.

## 3. T company basic situation

T Company was established on December 21, 2001, is a listed company listed on the Shanghai Stock Exchange, registered capital: 935,492,615 million yuan. The company is mainly engaged in real estate, environmental protection, public utilities, etc. Its business scope mainly covers Tianjin, Hohhot, and other places. After continuous losses in the past few years, the financial data of T company did not show a trend of recovery. Since 2015, the problem of T company's net profit loss has not been solved, but the amount of loss has been controlled by a small margin in 2016, and the operating profit of the company has become positive in 2017, thus avoiding the risk of forced delisting by the exchange. However, after a small turnaround in 2017, in 2018, and 2019, there was a larger loss, and it was once again delisted by the exchange. Judging from the net profit data of 2017 alone, the company still has a certain ability to make profits, thus getting rid of the impact of the financial crisis to a certain extent. However, after the profit in 2017, the financial data is still in a downward trend, and it is not possible to intuitively see how the company has responded to the existing financial risks. Therefore, it is necessary to further calculate and analyze the key financial data of the company in order to better find the existence of financial risks and the reasons leading to the expansion of financial risks.

This paper mainly analyzes the data of the company's financial risk deterioration from 2015 to 2019.

## 4. T company financial risk identification and analysis

This paper mainly analyzes the data of the company's financial risk deterioration from 2015 to 2019.

### 4.1 Financing Risk

As can be seen from the data in Table 4.1, until 2019, the enterprise still has not fully solved the impact of financing risk, and the business situation continues to deteriorate, which will result in a trend of continuous decline in revenue from 2018 to mid-2019 and a continuous negative net profit due to the serious debt burden of the enterprise.

**Table 4.1 Table of debt repayment indicators of T Company from 2016 to 2019**

| | | | Unit: % |
|---|---|---|---|
| Time/metric | Asset-liability ratio | Quick ratio | Cash flow liabilities ratio |
| 2019 | 94.72 | 34.48 | 20.26 |
| 2018 | 89.1 | 40.14 | 15.89 |
| 2017 | 87.23 | 42.39 | 7.52 |
| 2016 | 89.89 | 56.74 | 7.82 |

Due to the special operation mode of the real estate industry, it is generally necessary to raise the funds needed for

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production and operation by means of liabilities, which means that the asset-liability ratio of the real estate industry will not be low. The average asset-liability ratio of the real estate industry is generally maintained between 77% and 79%. Although the value of the asset liability ratio of the real estate industry is always high and the overall index value is relatively stable, on the whole, the asset-liability ratio of the enterprise is still too high, the debt pressure is large, and it is difficult to better raise funds or repay interest. The asset-liability ratio was at a poor level in the industry in 2017 and 2018, but it can be seen from the data that the proportion of liabilities is actually very high, and the reduction trend of the amount of liabilities is basically the same as the reduction of assets, so there will be a relatively stable trend. It is worth mentioning that in 2017, the company through the sale of wholly-owned subsidiaries, successfully out of the delisting warning situation, while receiving a certain amount of receivables, so that the company has a part of the funds can be used to alleviate the debt pressure.

### 4.2 Investment Risks

The real estate industry also has market-oriented attributes and will face market risks like other enterprises. According to previous surveys, real estate sales in first-tier cities such as Beijing, Shanghai, Guangzhou, and Shenzhen have shown a downward trend after 2017. In contrast, third - and fourth-tier cities also have the problem of large inventory pressure. On the whole, the real estate market has been in a saturated state at this stage. Under such market conditions, the competition between enterprises in the real estate industry is also increasingly intensified, and after 2018, real estate enterprises began to compete on price, in order to obtain more market advantages.

From 2017 to 2019, the national economy has shown a steady development trend, and the real estate industry as a whole has shown a continuous development trend. The investment of enterprises in the real estate industry has gradually increased, but the investment of T company has decreased year by year, which is very unfavorable to the development of enterprises. Therefore, it can be judged that T Company still has a large investment risk, so it is necessary to establish a sound investment decision system to reduce the investment risk so that the investment can get returns and reduce the adverse consequences of investment risks.

### 4.3 Financing risk

From the value of accounts receivable turnover rate, as shown in Table 4.2, since 2017, the number of accounts receivable turnover has declined year by year, indicating that T Company's collection of accounts receivable is not very smooth, and the company still has a large number of projects under construction, so it can only ensure the normal production and operation of the company by borrowing. Therefore, The financial crisis of the enterprise broke out in 2015, and the failure to recover the accounts receivable in time led to business difficulties, which was an extremely important factor. Therefore, a big financial risk faced by the enterprise was the risk of fund recovery.

**Table 4.2 Indicators of T Company's operating capacity from 2016 to 2019**

| | | | Unit: Second |
|---|---|---|---|
| Time/metric | Total asset turnover | Current assets turnover | Accounts receivable turnover |
| 2016 | 0.13 | 0.15 | 1.25 |
| 2017 | 0.1 | 0.12 | 4.49 |
| 2018 | 0.22 | 0.31 | 6.22 |
| 2019 | 0.09 | 0.13 | 5.64 |

### 4.4 Income distribution risk

From 2015 to 2019, both sales income and net profit were at a very low level, as shown in Table 4.3. Only a small amount of profit was achieved in 2017, so there was not enough profit to distribute to shareholders. This does not mean that the dividend distribution policy of the company has problems, but the operating difficulties caused by excessive debt pressure. As a result, dividend distribution could not be realized smoothly. To sum up, in recent years, there was basically no risk of income distribution in the enterprise.

**Table 4.3 Profitability Indicators of T Company from 2016 to 2019**

| | | | Unit: % |
|---|---|---|---|
| Time/metric | Return on equity | Profit margin on sales | Return on capital |
| 2019 | 85.88 | 61.34 | 45.34 |
| 2018 | 21.71 | 12.96 | 17.76 |
| 2017 | 8.08 | 22.77 | 6.65 |
| 2016 | 26.53 | 32.99 | 23.08 |

## 5 Cause analysis

The capital structure is unreasonable. According to the above analysis of financial data, it can be seen that the enterprise does not have a good coordination of the income and expenditure of funds. The daily production and operation activities of enterprises in the real estate industry all need a large amount of cash flow support. In 2016, compared with 2015, the company's operating income increased by 1.3 billion yuan, but the debt that needed to be repaid increased by 900 million yuan. The huge debt pressure forced the company to use short-term borrowing to make up for the break in cash flow. Although the problem of capital flow was solved in that year, the decision-makers adopted the solution of expanding production to solve the problem of insufficient profitability of enterprises. At the same time, the financial cost of the enterprise for debt repayment increased year by year, resulting in a certain pressure on cash flow. It can be seen that the enterprise did not maintain the stability of cash flow.

The inventory is difficult to turn around. The total asset turnover rate of T company has been below the industry average for a long time, only slightly higher than the industry average of 0.3 in 2018, seriously lower than the market

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average. In 2017 and 2019, this indicator was even lower than the industry crisis value, which indicates that the company's products do not occupy a favorable position in the industry and lack sufficient competitiveness. Most of the working capital of the company is occupied by the inventory, which makes the company unable to enter the new market safely and stably, and the company is preparing to enter the Internet industry in 2017, which further aggravates the financial pressure of the company. Blind market development and insufficient estimation of the competitiveness of its own products have led to this problem. The enterprise has tried to reduce the inventory backlog as much as possible by enhancing its sales ability. However, after analyzing the financial data, it can be found that the item value of the enterprise's sales expense has not increased significantly, which indicates that the enterprise has not really focused on the sales work, which will lead to the problem of difficult turnover of inventory. Which has seriously affected the growth of the enterprise's income and profit.

Internal control is inadequate. It can be judged that the enterprise's control of financial risks is not reasonable. From the company's financial report, it is not found that the enterprise has made policy adjustments to the problem of excessive debt ratio. From the perspective of risk assessment, the company only confirmed the outbreak of financial crisis in 2015, which also shows that the company's control of financial risks is not in place. Since 2015, the asset-liability ratio of the enterprise has been above 80% for a long time, which is a very dangerous value. Similarly, it has a great test on the ability of the enterprise to obtain profits. Although this situation was alleviated in 2017, the enterprise did not adjust its mode of operation, and the way to obtain profits was to convert inventory into investment real estate, which did not fundamentally reduce the financial risks in production and operation. However, in 2018 and 2019, the enterprise once again suffered huge losses. This also shows that the enterprise did not reasonably control the financial risks that existed before, and if such financial risks are not prevented, it is likely to gradually expand in the next few years, and eventually lead to the outbreak of financial crisis again.

## 6 Measures to prevent financial risks

### 6.1 Actively optimize the capital structure of enterprises

In order to effectively and accurately prevent and control new enterprise financial management risks, enterprise management leaders should pay special attention to strengthen and attach great importance to the macro-control policies of enterprises, do a good job in the optimization of the internal capital asset structure adjustment mechanism of state-owned enterprises, and strive to improve the comprehensive utilization rate of basic assets of state-owned enterprises from a macro perspective, through long-term rationalization of enterprise capital assets Structure adjustment to reduce the cost of enterprise financing flow, the adjustment of enterprise financial risk leverage ratio effectively play a role. In the process of operation and development, enterprises should comprehensively consider the development strategy, combine the scale of enterprises, profitability, capital demand, and many other factors, choose the appropriate financing method, and optimize the capital structure, so as to improve the utilization rate of funds, help control the financial risk of enterprises in a reasonable range, so as to achieve the operation goal of obtaining high returns with low financing cost.

### 6.2 Improve anti-risk ability

We will properly adjust the debt structure. In order to reduce the risk of debt financing, enterprises are required to have a perfect financial system, and at the same time, they also need to have good moral credit. The methods to enhance the enterprise credit are to enhance the transparency of the enterprise, ensure the moral level of the enterprise management, and truthfully reflect the operating conditions of the enterprise at each stage. To prevent the risk of debt financing is the goal that every enterprise needs to achieve. We can reduce the financial risk caused by improper debt financing by ensuring a sound financial mechanism of enterprises, establishing a risk evaluation system and an audit system.

Formulate reasonable fund recovery methods. The establishment of a sound financial risk warning system is the most direct protection to effectively avoid the recovery of funds and the company's capital operation. The establishment of financial early warning identification system can analyze and judge the potential risks of fund recovery, and take appropriate risk management measures for fund recovery combined with common risk early warning methods. From the company's fund risk early warning system, it is necessary to master the recovery information of the fund chain throughout the whole process, pay attention to the investigation and supervision of the circulation channels of funds in real-time, and formulate scientific and accurate management methods for fund recovery.

Strengthen the awareness of financial risk control and early warning. The internal and external economic environment that enterprises need to face in the process of development and operation is more complex and changeable. Through the research and construction of a perfect enterprise risk monitoring and early warning system, the key environmental factors affecting the internal and external economic development of enterprises can be fully defined, and the actual needs of each enterprise's actual financial management can be applied to further improve the enterprise wind more effectively and pertinently The comprehensive ability of risk early warning response.

### 6.3 Ensure a sound internal control system

To improve the level of financial risk management of enterprises, it is necessary to strengthen internal control. The internal management of enterprises should accelerate the development in the direction of modern enterprise management, and actively explore and improve the internal risk control and management mechanism. The audit and management of financial internal risk should be supported by the responsibilities of state-owned internal risk audit and

*Corresponding Author: **Chenfeng Kou.**

management institutions, give full play to the supervisory function of internal risk audit and management institutions, and supervise the effective implementation of various audit systems. Enterprise finance should keep close contact with the current economic and social development of the capital market and the new situation, combined with the actual work needs to strengthen financial risk management, establish and improve the corresponding financial post-responsibility investigation system, clarify the division of financial functions and responsibilities, build a long-term mechanism for financial risk management to prevent and restrict the long-term mechanism and improve the financial budget, audit supervision, and finance of enterprises Accounting management level, to achieve the development goals of enterprise financial management and informatization, and to build a more perfect enterprise capital risk management and financial supervision mechanism. The rational use of funds is implemented in strict accordance with the prescribed procedures so that the overall service quality level of enterprises that implement cost control can be effectively controlled, the cost can be reduced to the maximum extent, the operating profit of foreign-funded enterprises can be increased, and the social and economic benefits of foreign-funded enterprises can be effectively improved on the whole. The continuous strengthening of the internal risk control and management of enterprises is conducive to effectively standardizing the related work of enterprise financial management and effectively and accurately preventing the risks of enterprise financial management.

### 6.4 Improve the dynamic adaptability to the macro environment

Enterprises should gradually improve their adaptability and adaptability to the external environment, fully analyze and understand the external environment of the enterprise's financial management and its changes and laws, and constantly improve their own resilience and adaptability, enterprises to increase the understanding and analysis of the external environment, fully grasp the changing laws and development trends of the external environment, and according to different external conditions The ministry of environmental changes to develop the corresponding response measures, appropriate coordination of financial management policies and financial management methods and other internal systems of the enterprise, as far as possible to reduce the external environment to the enterprise brought by the financial risk crisis.

Improve the comprehensive dynamic forecast and response-ability of China's macroeconomic environment. The stability of macro-economic environment is an important soil for enterprises to carry out financial risk management activities. Financial workers must think about problems in a larger space and a wider range of fields. If the person in charge of the financial department of an enterprise has more profound knowledge of enterprise productivity and operation management, more familiar with policies and regulations, and more sensitive market information, then his control and management role will be greater, and he can often provide some suggestions and measures with evaluation, analysis, and orientation.

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*Corresponding Author: **Chenfeng Kou.**