

# Risk Control and Management of Enterprise Working Capital

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## Abstract

As we all know, working capital management is the most important foundation of enterprise production and operation, and also the most dynamic part of enterprise asset structure. The survival and development of enterprises are closely related to the level of working capital management, which provides strong support for enterprises to seize market share in the market competition. At present, there are some risks in the actual control and management of working capital of some enterprises in our country, which restrict the development of enterprises. Based on the possible working capital risks of enterprises, this paper analyzes the causes of these risks, and puts forward corresponding suggestions for improvement.

## Keywords

Risk Control; Enterprise; Working Capital; Risk Management.

## 1. The Definition of Enterprise Working Capital Risk

Under the influence of economic globalization, the survival and development of enterprises are increasingly facing huge challenges, which makes enterprises face severe challenges in their own working capital turnover, liquidation and profitability. As enterprises, they play a vital role in maximizing their own interests and reducing financial risks. Once the enterprise lacks the reasonable planning and management of working capital, it will inevitably lead to frequent risks and even bankruptcy to a certain extent. For example, Jinli, once a domestic mobile phone manufacturer with great influence in the Chinese market, because of its own strategic mistakes and poor market economic conditions, the enterprise's business situation will go from bad to worse, and the spare parts suppliers will go from bad to worse. In reality, many small and medium-sized enterprises are facing severe financial pressure because it is difficult to collect funds. Therefore, enterprises should formulate appropriate and effective working capital management plan, do a good job in the overall control and budget of working capital, and invest necessary attention in the improvement of financial system construction, the broadening of enterprise financing channels, and the clarification of internal management responsibility system.

Working capital risk refers to the lack of working capital, resulting in the daily operation of enterprises, financial crisis, business conditions may face losses, enterprise working capital risk as one of the most important risks faced by modern enterprises. In the broad sense, it can be divided into the following forms: the balance of working capital and working capital:

### 1.1. Risk of Accounts Receivable

In the increasingly fierce market competition, in order to expand their voice in the whole market, enhance their competitiveness, expand their daily sales and generate more profit space, reduce their inventory, so at this time, credit sales become the main way of sales, accounts receivable as the main current assets of the enterprise, it directly represents an enterprise Excellent working capital management. In essence, credit sale will bring the risk of accounts receivable to the enterprise. When the enterprise's uncertain creditor's rights and debts are

paid off, it undoubtedly brings a lot of credit sale risk to the enterprise. The enterprise uses the working capital to advance funds for its customers, which adds pressure to the amount of account recovery and forms the risk of bad debts. The part of funds that can't be recovered on time forms the opportunity cost of creditor's rights and debt funds. And the larger the scale of accounts receivable, the greater the risk of accounts receivable.

### **1.2. Monetary Capital Risk**

The enterprise must have a certain amount of funds to maintain the daily operating expenses. At the same time, monetary funds are also the assets with the strongest liquidity and liquidity of the enterprise. Therefore, it is very important for the enterprise to maintain an excellent amount of cash holdings. The shortage of monetary funds will make the enterprise spend additional expenses to raise funds, forming a liquidity risk. Once excessive, it will lead to high risk of opportunity cost of funds and insufficient use efficiency of funds, which will lead to a variety of large and small risks in enterprise finance.

### **1.3. Realization Risk of Inventory**

Enterprises must hold a certain amount of inventory in production and operation, and the specific amount of inventory needs to test the enterprise's accurate prediction of the market. If the enterprise makes a wrong decision, it will overstock too many inventory goods and can not be realized in time. A large amount of working capital of the enterprise will be occupied, and then a large amount of management costs will be borne by the enterprise, resulting in a waste of funds. Along with this, the turnover speed of inventory becomes lower, which increases the risk of working capital; the lack of inventory will also affect the daily production and sales activities of enterprises, which is not conducive to the long-term development and expansion of enterprises.

## **2. The Causes of Working Capital Risk in Enterprises**

### **2.1. The Subjective Reasons of Enterprise Management**

In the increasingly competitive modern market, in order to expand their voice in the whole market and improve their own development speed, enterprises blindly pursue higher capital profit rate, especially when the capital profit rate of the industry is higher than the social average return on investment, which will cause enterprises to make irrational investment behavior, long-term investment will occupy working capital, and the enterprise will lose interest. Investing a large amount of capital in long-term projects will reduce the liquidity of the enterprise's own capital, cause the lack of working capital, and form the risk of working capital. With the continuous development of enterprise scale, more and more functional departments and staff will be set up within the enterprise organization. Strengthening the close communication and contact between departments is getting more and more attention of most enterprises. Effective communication and coordination is very important for a team and an enterprise. Each functional department within the enterprise must keep the same pace in order to maintain the normal daily production operation of the enterprise and reduce the risk of working capital. In the enterprise, from the management department to the financial department, and then to the accounting department, it is necessary to ensure the consistency of information transmission in the normal production operation of the enterprise, otherwise, the information communication between enterprises may be difficult. Communication is not smooth, resulting in inconsistent action decisions, bring losses to the enterprise, and then produce the risk of working capital.

Although working capital management is one of the most important concerns of most enterprises, but most of the enterprise capital management is quite chaotic, and lack of effective capital management strategy. If the enterprise risk awareness is weak, and there is a gap with

the practical concept, then the enterprise accounts receivable will lack certain supervision and management. Moreover, if it does not choose to write off the loan for a long time, and if it does not choose to write off the loan for a long time. If we don't choose to withdraw bad debt reserves or collect them, it will lead to obstacles in the recovery of funds; if there is no effective inventory management mechanism, there may be too much inventory, and there is no regular and detailed supervision and supervision, and the enterprise's own funds will be largely occupied, and the high cost of capital will bring the risk of working capital to the enterprise.

## **2.2. Objective Reasons of Enterprise Management**

In order to improve their competitiveness and have a high voice in the market, enterprises will choose to constantly expand their sales scale, create huge wealth for the enterprise, but also need more capital flow to maintain the daily operation of the enterprise; while expanding their own scale, if they ignore the synchronous expansion of capital scale, it will lead to the lack of capital, Abnormal operation, lack of funds, the expansion of the enterprise scale will inevitably lead to the expansion of the sales scale, at this time, more funds are needed, which may make the enterprise overload operation, and then bring the enterprise working capital risk.

Cash turnover rate refers to the ratio of the main business income to the average cash balance of an enterprise. In order to meet the needs of daily transactions, an enterprise holds cash and always makes up for the lack of cash inflow and outflow imbalance. It is closely related to the amount of working capital, and if the turnover speed of enterprise capital is accelerating, the utilization efficiency of working capital will also be improved. On the contrary, with the cash turnover speed becoming slower and slower, the utilization efficiency of working capital will be lower and lower, and the working capital will be less and less for the enterprise. If the enterprise's reserve funds can not meet the demand at this time, then the funds can not meet the needs of the enterprise's daily operation, which will bring the risk of working capital to the enterprise.

## **2.3. Risk Management Countermeasures of Working Capital in General Enterprises**

According to the causes of enterprise working capital risk, and according to the actual external environmental factors and market financial environment, we should strengthen the prevention of enterprise working capital risk, so as to achieve the triple effect of working capital management: first, enterprises should always pay attention to the management of funds. At this stage, we should develop a reasonable system to ensure the safety of funds Purpose. Second, enterprises should pay attention to improve the efficiency of their own use of funds, so as to improve the capital turnover rate, reduce the idle waste of funds, and improve the company's asset liability ratio. Third, improve the utilization of funds.

## **2.4. Improve the Construction of Enterprise Financial System, Clear Internal Management Responsibility System**

Enterprises should strengthen the control of internal sales staff's collection responsibility system of accounts receivable. Sales personnel must be confirmed by the financial department before delivery, and in strict accordance with the purchase and sales contract, timely collection of payment.

## **2.5. Enterprises Should be Good at Making Use of Financial Market to Broaden Financing Channels**

In the international financial environment, as the government's loan support policy for Chinese enterprises is more and more favorable, enterprises choose multi-channel financing in the face of their own working capital. They not only consider long-term investment, but also consider short-term loans and commercial bill discount in bank policy, and consider inter-bank lending

activities and bank commitment among various groups. The combination of various investment channels such as exchange bill. On the premise of considering, analyzing and comparing with each other, the internal financial personnel of the enterprise must carry out diversified and reasonable financing combination. Enterprises should pay more attention to the reasonable proportion between current liabilities and long-term liabilities. On the basis of meeting their own capital flow demand, enterprises should reasonably arrange their internal debt structure, scientifically and reasonably plan and use working capital, and leave some space for debt paying ability. Improper long-term investment should be avoided to occupy too much working capital of enterprises, which will make the enterprise more stable. Working capital turnover accelerated.

## **2.6. Enterprises Should Carry out Comprehensive Budget Management of Working Capital**

One of the effective measures for enterprises in their own capital management is budget. Enterprises should carry out comprehensive budget management to prevent the risk of working capital. Enterprises should make detailed budget planning in advance, comprehensively evaluate the possible financial risks of enterprises, and formulate corresponding countermeasures in advance to prevent and resolve financial risks. According to the person in charge of budget implementation, carry out the basic work of comprehensive budget management. We should predict the possible risks in the process of purchase and sale in advance, make reasonable plans to control and prevent risks. The internal financial department of an enterprise should pay attention to the management and control of credit sale and advance purchase business, formulate reasonable management system of accounts receivable and accounts payable, strengthen the management of accounts receivable, weaken weak links, timely compensate accounts receivable, reduce and resolve risks, reduce the loss of bad debts, improve the utilization rate of funds, strictly control the cost and enhance the profit space of the enterprise. To enhance the value of enterprises and the competitiveness and discourse power of enterprises. Enterprises should also pay attention to the cost control, start from the internal source, strengthen the budget management, and reduce unnecessary waste of funds. Financial personnel need to do a good job in the financial budget, improve the efficiency of the use of working capital, from the sales budget to procurement, and then to investment, and then labor cost budget, do a good job in the comprehensive coordinated use of funds, avoid functional conflicts between departments, and improve the efficiency of cooperation between functional departments.

## **2.7. Enterprises Should do a Good Job in the Daily Management of Working Capital**

Enterprises should strengthen the supervision of capital recovery, pay attention to the cleaning up of enterprise's inventory accounts receivable, improve the turnover rate of enterprise accounts receivable and inventory, reduce the waste and occupation of working capital in daily operation and management of enterprises. Enterprises should strictly follow the production plan, control the enterprise's inventory in a reasonable range, and improve the business efficiency. We should pay more attention to the sales process, improve the recovery rate of accounts receivable, and establish a more perfect customer credit management system.

First, enterprises should pay attention to the control of accounts receivable. Accounts receivable for enterprises, although to a certain extent, improve the sales revenue of enterprises, but the collection and management of accounts receivable is not the work of the financial department, which requires the daily work of the sales department not only to do a good job in the sales of products, but also to do a good job in the collection of payment for goods. The staff of the Sales Department of an enterprise should pay attention to the collection of payment for goods, and timely supplement relevant information for the customers who are

delayed due to collection but not repayment, do a good job in the settlement of accounts receivable, and strictly control and manage the sales contract of the enterprise. Make the subsidiary account of accounts receivable in time and make further aging analysis. Estimate the loss of bad debts, clarify the contractual responsibility of enterprise sales, ensure the safety of funds, not damaged, when necessary, can set up a special debt clearing agency.

Second, the best cash holdings of enterprises should be reasonably predicted. Determine the best cash holdings, formulate the corresponding strategic plan, prepare the cash revenue and expenditure plan, and formulate reasonable annual cash revenue and expenditure plan objectives. Accurately predict the sales revenue of the enterprise, estimate the corresponding cash inflow, and calculate the cash expenditure according to the current production and operation status of the enterprise. If the enterprise has a surplus of funds, it should timely prepare the target of surplus capital expenditure, and connect with the target of short-term investment projects such as stocks and bonds. If the enterprise has a shortage of funds, it should formulate the corresponding bank loan plan or other financing plan. Reasonable control of the enterprise's capital reserves, security reserves and growth reserves, on the basis of ensuring solvency, further improve the efficiency of capital utilization.

Third, enterprises should pay attention to the control of inventory. First of all, we need to accurately forecast the demand of inventory in advance. Combined with the production plan and sales target of the enterprise. Make and arrange production plan according to sales target. Prepare monthly plan in time, and further prepare production plan according to sales plan. If the enterprise has purchase plan, it should ensure the high cooperation between sales production and enterprise purchase. Enterprises should accurately predict and grasp the order quantity and time of inventory, and reasonably communicate with suppliers to ensure that they can supply goods in time.

## **2.8. Make Full Use of Commercial Credit and Improve the Full Utilization Rate of Funds**

Enterprises should set reasonable purchasing targets, strictly follow them and make use of their commercial credit. Enterprises can make full use of their business reputation, so that in the process of purchasing materials, they can get interest free loans from suppliers. The more the amount is, the better they can make full use of their working capital. Therefore, the purchasing department of an enterprise should reasonably set the purchasing objectives, strictly control the payment time on the premise of ensuring the reputation of the enterprise, and ensure that this part of the working capital can be reasonably and fully used. In addition, the enterprise can use the strategic partnership to search for more reliable suppliers. They can guarantee the supply of sufficient raw materials on time, and can make appropriate payment Extend the time of payment. Commercial credit is an important tool for enterprises to effectively broaden short-term financing channels.

## **3. Summary**

In a word, through the above analysis of the types and causes of the risk of working capital in China's enterprises at this stage and how to deal with the control strategy, we can draw a conclusion that it is a long-term and complex work in the process of formulating and implementing the risk control plan of working capital in Enterprises, and it is the goal that all relevant staff of enterprises have been working hard to move forward Only by effectively controlling the risk of working capital can the enterprise achieve better and faster development and progress. Enterprises should do a good job in the overall budget and control of working capital, improve the construction of enterprise financial system, clarify the internal management responsibility system of enterprises, be good at using the financial market,



broaden the financing channels of enterprises, and do a good job in the daily management of working capital.

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