

Research on Problems and Countermeasures of Enterprise Financial Analysis in China

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Abstract

This paper conducts an in-depth study on the problems of imperfect construction of analysis system, lack of rigor and science in the analysis process, and improper use of financial analysis reports in three aspects that generally exist in the internal financial analysis of enterprises, and tries to propose countermeasures in order to provide reference for the enterprises with the above-mentioned situation to solve the problems.

Keywords

Financial Analysis; Problems; Countermeasures; Research.

1. Introduction

After the reform and opening, domestic enterprises have the opportunity to contact with foreign enterprises, and some of them have embarked on the road of internationalization. With the expansion of the scale of enterprises and the learning of modern management concepts of foreign enterprises, financial analysis methods are commonly used in the process of business management of Chinese enterprises [1]. The role of financial analysis for enterprises is focused on three aspects: evaluating the past, reflecting the current situation and predicting the future of enterprises. However, most of the domestic enterprises are facing the problems of not having established a perfect financial analysis system and not having formed a systematic mechanism for the application of financial analysis; lack of rigor and scientificity in the process of financial analysis, resulting in low quality of financial analysis reports [2]; and improper use of financial analysis reports. How to solve the above problems becomes the key for enterprises to reasonably use financial analysis methods to evaluate historical business performance, current business conditions, predict future development and improve business management methods [3]. In this paper, we conduct an in-depth study on the problems of financial analysis of enterprises and try to propose countermeasures to provide reference for enterprises with the above-mentioned conditions to overcome the problems in financial analysis.

2. The Problems of Enterprise Financial Analysis

2.1. The Construction of Financial Analysis System is not Perfect

At present, most enterprises in China have not yet established a perfect financial analysis system, and only use financial analysis as a method to assist management in assessing the performance of functional departments or employees, and there is a "piecemeal" situation in the actual application process [4], and the process of financial analysis does not have continuity, integrity and systematization. A perfect financial analysis system should have the following characteristics: management-led, that is, senior management should preside over and promote the development of financial analysis; all employees should participate, that is, all employees should actively participate in and cooperate with the implementation of financial analysis; analysis quality control, that is, the enterprise should control the basic information used in financial analysis, the selection of analysis methods, the rationality of the analysis process, in

order to ensure the reliability of financial analysis results; the application of analysis results. Analysis quality control, that is, enterprises should control the basic information used in financial analysis, the selection of analysis methods, the reasonableness of the analysis process, in order to ensure the reliability of the financial analysis results; analysis results application, that is, the application of the results of financial analysis of enterprises should not be limited to performance evaluation, but should also focus on other more important areas. At present, the characteristics of financial analysis in most enterprises in China are: management-led, partial staff participation, and limited application of analysis results. A complete financial analysis system has not been formed within the enterprise, and it is not destined to give full play to the value of financial analysis.

2.2. The Analysis Process Lacks Rigor and Scientificity

2.2.1. Financial Analysis is not Combined with Business

The lack of rigor and scientificity in the process of financial analysis is mainly reflected in the lack of integration of financial analysis with business. The process of financial analysis needs to calculate a large number of indicators, and the calculation method of financial analysis indicators, the standard value of indicators and the average level of indicators in the industry only provide reference for the analysis of enterprises, the calculation method and evaluation of calculation results also need to be combined with their own business characteristics for in-depth analysis. For example, a liquor brewing and sales company that mainly focuses on "aged wine" found that its inventory turnover rate was much lower than the industry average when analyzing its operating capacity, and concluded that "the enterprise's inventory turnover rate is low, inventory occupies funds for a long time, and the enterprise may face difficulties in sales". The conclusion of "the enterprise should strengthen inventory management and promote inventory turnover" was then proposed, which is obviously contrary to the actual situation. Based on further analysis of the liquor industry, it can be found that liquor products can be divided into new liquor, second new liquor, old liquor and aged liquor, and different types of liquor require different cellaring times, with aged liquor requiring more than ten years of cellaring. Therefore, when analyzing the inventory turnover rate, we should not take the industry average as the absolute standard, but also analyze the sales composition of different categories of liquor in the market, to determine the standard value in line with our own business characteristics.

2.2.2. Lax Control of Index Calculation Standards

The main causes of the problem of lax control over the calculation standards of financial analysis indicators are the low attention of management to financial analysis and the low quality of financial personnel.

The management of many enterprises regards financial analysis as an optional formal work or performance assessment tool, and gives low importance to financial analysis work at the overall level of the enterprise. In the process of promoting financial analysis, it is given even less importance by each functional department, which results in the situation of people floating in the work. Most often, the data required for the calculation of certain indicators are not reflected in the reports and need to be obtained by financial analysts through the accounting books, but the financial analysis work is not given much importance, and employees replace the complex data required for the calculation of indicators with easily collected data.

In addition, due to the increasing number and scale of enterprises in China, the growth rate of high-quality financial practitioners is lower than the growth rate of enterprise scale, and most of the practitioners only have the ability to handle basic accounts, and lack in-depth understanding of the application of financial analysis methods, and often adopt simplistic methods for the calculation of some indicators, such as calculating the turnover rate of accounts

receivable using " For example, when calculating the turnover rate of accounts receivable, we use "operating income" instead of "credit income", which reduces the authenticity of the index.

2.2.3. The Quality of Basic Data for Financial Analysis

Most enterprises make artificial adjustments to some easily manipulated data in their financial statements for the purpose of whitewashing the financial statements. The main purpose of listed companies or proposed listed companies to whitewash the statements is to improve the performance of the statements, most of the adjusted statements have the phenomenon of overestimation of assets and revenues, underestimation of liabilities and costs, the impact on the results of financial analysis is reflected in the overestimation of corporate solvency, operating capacity and other indicators; non-listed companies for tax avoidance needs, will adjust down the revenue, adjust the costs and liabilities, the impact on the results of financial analysis is reflected in the underestimation of debt servicing capacity, operating capacity and other indicators. The impact on financial analysis results is reflected in the underestimation of debt service and operating capacity indicators. In addition, due to the more frequent revisions of accounting standards and tax laws, most financial personnel are of lower quality and cannot grasp the changes of new standards and laws and regulations in a timely manner, and fail to adjust the accounting methods of certain items as required, thus resulting in lower quality of financial data.

2.3. Improper Use of Financial Analysis Reports

2.3.1. Expectation Bias in the Use of Analysis Report

In theory, enterprises should use financial analysis reports to summarize past business performance, reflect current business conditions and predict future development trends, but in practice, most enterprises use financial analysis reports only to summarize past business performance. At the end of each accounting period, most companies compare the financial analysis results with the business plan formulated at the beginning of the period to evaluate whether the business results of the year meet the standards, which is used as the basis for the preparation of the next year's annual plan; and to evaluate the performance of each department and employee as a reference basis for performance awards. The use of the results of financial analysis by enterprises has major limitations, which leads to expectation deviation between the actual and theoretical use of the financial reports of enterprises. In addition, financial analysis requires a certain amount of labor costs, and the existence of expectation bias leads to the inability of enterprises to play the full role of financial analysis reports, and the mismatch between payoffs and rewards, which increases enterprise expenses and reduces management efficiency.

2.3.2. Enterprises Fail to Improve Business Management based on Analysis Results

Although some enterprises have recognized the role of the three aspects of financial analysis, they lack the motivation to improve management based on the analysis results. Most of the enterprises in a stable growth state have already adapted to the original operation and management methods, and are unwilling to make changes, or are pessimistic about changes, fearing that changes will lead to a regression in business performance. In addition, the change of management style will touch the interests of different departments and groups within the company, and the implementation of the improvement plan will be subject to resistance, and if the management is not determined enough to promote the improvement, the improvement plan will eventually face failure. Therefore, even if a company identifies operational or management problems through financial analysis, it is difficult to promote management and operational improvements.

3. Countermeasures to Solve the Problem of Financial Analysis

3.1. Improve the Construction of Financial Analysis System

A perfect financial analysis system is the basis for the scientific use of financial analysis methods [5]. First of all, the construction of financial analysis system needs the enterprise management to improve the importance of financial analysis work, deepen the understanding of the role of financial analysis, only the management from the overall level of the enterprise to give sufficient importance to financial analysis, the construction of financial analysis system is possible. Secondly, the construction of the financial analysis system requires the participation of all employees. Modern enterprises should abandon the traditional concept of "financial analysis is only the responsibility of the finance department" and assign the responsibility of participating in financial analysis to every employee. Then, enterprises should monitor the process of financial analysis to improve the quality of financial analysis, with the support of the management, can be set up in the enterprise financial analysis quality monitoring group, specifically responsible for the supervision and audit of the financial analysis process. Finally, the enterprise should also set up a financial analysis results implementation team, which is responsible for formulating solutions to the problems found in the financial analysis report of the enterprise and promoting the transformation of the results of the analysis report into productivity.

3.2. Improve the Rigor and Scientificity of the Analysis Process

3.2.1. Promote the Integration of Financial Analysis and Business

The integration of industry and finance has been attached to many enterprises, and the traditional situation of "separation of finance and business" has been improved, but most enterprises have not yet recognized the importance of combining financial analysis with business. To promote the integration of financial analysis and business, we can refer to the integration of business and finance, and require the staff in charge of financial analysis to participate in business and communicate with business department staff regularly to grasp the business characteristics of the enterprise, to choose the financial analysis methods that meet the business characteristics of the enterprise. In addition, enterprises can also establish service-based finance departments or financial sharing centers, and rely on the assistance of intelligent platforms to promote the integration of business and finance while promoting the integration of financial analysis and business.

3.2.2. Uniform Financial Index Calculation Standards

Uniform calculation standards for financial indicators are an important factor in improving the quality of financial analysis. If the calculation standards adopted by enterprises deviate from the theoretical standards, the analysis results will lose their representativeness. Uniform financial analysis index calculation standards require sufficient attention from the management, which takes the lead in setting the standards used for calculating each index of financial analysis, and requires strict implementation in the analysis process and implementation of the responsibility allocation system. In addition, companies should improve the quality of their financial personnel, regularly train them in professional skills, and pay attention to changes in accounting standards and other laws and regulations. High-quality financial personnel are an important factor in unifying calculation standards. If the quality of financial personnel is low, enterprises cannot obtain the data needed to calculate complex indicators through accounting, and the accounting standards set will not be effectively implemented.

3.2.3. Strengthen Internal Control to Ensure the Quality of Basic Information

Effective internal control is the key to ensure the quality of enterprise accounts and financial statements, and the books and statements are the direct source of the basic data required by

enterprises to calculate indicators from the financial analysis process. The restraint at the system level requires enterprises to formulate perfect rules and regulations, such as "incompatible positions separation system, business process approval system", etc. The restraint of rules and regulations generally has a mandatory effect, and enterprises should make the improvement of rules and regulations a priority in strengthening internal control. The restraint of rules and regulations is generally mandatory, and enterprises should make improving rules and regulations a priority in strengthening internal control. For ethical constraints, more emphasis is placed on the consciousness of employees, which requires long-term efforts to form a good corporate culture of honesty, trustworthiness and compliance with the law.

3.3. Correctly Grasp the Use of Financial Analysis Reports

3.3.1. Improve the Importance of the Financial Analysis Report

Improving the importance of financial analysis report is the basis for correctly grasping the use of financial analysis report. Most of the management of enterprises still look at the financial work with the traditional concept, think that the financial work cannot create value for the enterprise, and pay little attention to the financial analysis report. Therefore, the management of enterprises should change the traditional concept and increase the importance of financial work and the use of financial analysis reports. In addition, most enterprise management does not recognize the function of financial analysis report can predict the future, and only use financial analysis report to evaluate the performance, which leads to the limited use of financial analysis report, so enterprise management should also deeply understand the prediction function of financial analysis report, and improve the ability to use financial analysis report.

3.3.2. Improve the Ability to Use the Analysis Report

Some enterprises have begun to pay attention to the overall function of financial analysis report, but due to the weak management level, staff quality and other soft power, they are unable to improve their business activities and management methods based on the problems found in the report results, or it is difficult to promote improvement measures, and the application of financial analysis results is still at the theoretical stage. To improve the ability of using financial analysis reports, the management of enterprises needs to have the concept of modern enterprise management, pay attention to the improvement of their own management level, and provide strategic guidance for the application of financial analysis reports; in addition, enterprises also need to improve the professional level of employees, cultivate high-quality employees with modern enterprise practice concept, and provide human resources support for the application of financial analysis results.

4. Conclusion

Financial analysis methods are widely used in the process of business management in China and have a positive effect on the development of Chinese enterprises, but most enterprises, for their own reasons, still have problems in the process of applying analysis methods, such as imperfect construction of financial analysis system, lack of rigor and scientificity in the analysis process, and improper use of financial analysis reports, etc. When enterprises overcome these problems, they will bring into play the overall value of financial analysis and continuously improve the operation and management methods, and promote the overall improvement of enterprise value.

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