Analysis of Long-Term Solvency of Enterprises

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Abstract: With the development of enterprise economy, the scale of operation and production will also expand, and foreign debt has become an indispensable means and strategy for the development of enterprises. Although debt can provide a large amount of funds for enterprises and play a decisive role in the production and development of enterprises, excessive debt will also bring corresponding risks. Moreover, there are many types of debt, and different kinds of debt will also bring different risks. In this paper, the long-term solvency index is selected as the object of analysis, and the asset-liability ratio, property right ratio and interest protection multiple of the enterprise are explained and analyzed in detail. If an enterprise wants to develop in a long-term and stable way, it is not appropriate to rely on short-term financing, so the importance of long-term financing is reflected, and the long-term solvency of the enterprise is also very important. This paper makes an in-depth study on the indicators of long-term solvency, and puts forward some reasonable suggestions and relevant measures on how to enhance the long-term solvency of an enterprise, which lays a solid and stable foundation for the continuous development of the enterprise in the future.

1. Introduction

If an enterprise has a good management, it will greatly enhance the operation efficiency of the enterprise. So that the enterprise has a clear direction of development; So that every employee in the enterprise can give full play to their respective potential; Make the financial situation of the enterprise clear and the capital structure reasonable; Enable enterprises to adopt correct and appropriate investment and financing; Make the enterprise to produce quality products, provide quality services; Establish a good corporate image. It can be seen that the management of an enterprise is very important to the enterprise, and a good management can directly lead to the development of the enterprise.

Financial statement analysis is a particularly important part of enterprise management, financial statement analysis contains many indicators and methods. This paper analyzes the solvency of enterprises in the analysis of financial statements. Enterprise's solvency can be divided into short-term solvency and long-term solvency, but keep the stable long-term growth depends on the long-term solvency of the enterprise, to maintain good long-term solvency can reveal the pros and cons in the process of enterprise production and management in the past, financial situation and forecast the development trend of the future, you can better help companies plan for the future, Optimize the investment decision of the enterprise and improve the economic benefit of the enterprise.

2. Long-Term Solvency Analysis

Long-term solvency refers to the ability of an enterprise to repay long-term debts with related assets. The analysis of long-term solvency is an important issue of great concern to creditors, investors, managers and all aspects related to enterprises. The index of long-term solvency of enterprises refers to the ability of enterprises to repay long-term debts. Measuring the long-term solvency of enterprises mainly depends on whether the capital structure of enterprises is reasonable and stable, and the long-term profitability of enterprises is also very important to measure this index.

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The main indicators of long-term solvency analysis include asset-liability ratio, equity ratio and interest protection multiple.

Asset-liability ratio is the ratio between total liabilities and total assets. Asset liability ratio reflects what proportion of total assets is obtained through debt. It can be used to measure the degree of protection of the interests of creditors in the liquidation of an enterprise, and it also reflects whether the safety degree of creditors' lending is safe. This index is a comprehensive level index to evaluate an enterprise's debt.

Asset-liability ratio = liabilities ÷ assets

The lower the asset-liability ratio of an enterprise is, it usually indicates that the solvency of the enterprise is more guaranteed. The asset-liability ratio also represents an enterprise's ability to borrow money. The lower the asset-liability ratio of an enterprise, the easier it will be to borrow money. If the asset-liability ratio of the enterprise is too high, it indicates that the financial risk of the enterprise is very high. At this time, no one is willing to provide loans. Generally speaking, the asset-liability ratio of a good enterprise is mostly lower than 50%, which also indicates that the long-term solvency of the enterprise will not be a big problem. If a business goes bankrupt, it needs to auction off its assets to pay off its debts, and at auction, the price is usually less than half of the original value. Therefore, if the enterprise asset-liability ratio is higher than 50%, there will be debt repayment risk. Of course, different industries have different standards for debt-asset ratios.

Equity ratio refers to the ratio of total liabilities to total owner's equity in a joint-stock enterprise. The equity ratio indicates the amount of total liabilities for each 1 yuan of shareholders' equity, which is an indicator to evaluate the rationality of capital structure. The equity ratio reflects whether the capital structure of an enterprise is reasonable and stable, and at the same time indicates the degree to which creditors' invested capital is protected by shareholders' equity.

Equity ratio = liabilities ÷ owner's equity

The equity ratio is the ratio between two items on the right side of a company's balance sheet. One is the liabilities financed from creditors, and the other is the owner's equity financed from shareholders. It can also make us clearly see the financial structure of the enterprise, is one of the important indicators to evaluate the financial structure of the enterprise, is also one of the indicators to measure the long-term solvency of the enterprise. This indicator indicates the source of funds for a company and reflects the relative relationship between capital provided by creditors and capital provided by shareholders. Generally speaking, the lower the equity ratio of an enterprise is, the stronger the long-term solvency of the enterprise is, and the less risks the creditors will bear. This indicator also evaluates the long-term solvency of different industries. It is generally believed that when the equity ratio is less than 1, the enterprise has good solvency, but it still needs to be analyzed on a case-by-case basis. The nature of some enterprises is that they have a high debt ratio. When the equity ratio is greater than 1, we cannot say that there is a problem in the long-term solvency of the enterprise.

The Interest coverage multiple refers to the multiple of the profit before interest and tax earned by the enterprise to the interest expense. It is a measure of an enterprise's ability to pay interest on its debts. The interest coverage multiple shows how many times the EBITDA is covered as repayment coverage for every $1 of interest expense.

Interest coverage multiple = profit before interest and tax ÷ interest expenditure

Interest coverage multiple is an indicator to reflect whether an enterprise can repay the interest on loans, and the interest required by an enterprise is generally long-term. Just imagine if an enterprise has certain difficulties in repaying the interest, let alone repay its principal? Therefore, we attribute the interest coverage multiple to the long-term liability capacity indicator. Companies can repay the interest and, in theory, continue to raise money to expand, but if they can't pay the interest, raising money is impossible. The higher the value of this index, the better the solvency of the enterprise is.

3. Measures to Enhance Long-Term Solvency

The financial management objectives of enterprises mainly include profit maximization, earnings per share maximization, shareholder wealth maximization, enterprise value maximization and so on. Most companies now use either shareholder wealth maximization or enterprise value maximization. Enterprises should formulate and manage their own corporate goals, not only the enterprise itself to continue to develop, but also to consider the needs of shareholders and other stakeholders. A good financial goal is the impetus to promote the continuous progress of enterprises, but also an important basis for the vigorous development of enterprises.

Modern enterprise and the competition between the enterprises is very fierce, many enterprise capital chain problems large and small, plus in nowadays the characteristics of the capital market, is also becoming more and more debt, debt has its own characteristics of each mode, there also exist the different risk, so enterprise in debt is must carry on the reasonable planning, with practice, Carefully choose the most appropriate way of financing, in order to optimize the enterprise's own capital structure.

It is very normal for an enterprise to have debt. Debt can not only expand the production scale of the enterprise, but also promote the enterprise to make profits, which is the driving force of enterprise development. However, enterprises can not ignore the risk of debt, many enterprises underestimate the risk, and then can not repay the debt, and thus the credit of the enterprise suffered a loss, when the enterprise wants to expand the business and then borrow, there is an embarrassing situation. Therefore, enterprises should make a reasonable debt repayment plan in advance, and expand their operation and production in an orderly way. Steely progress is the cornerstone of long-term development of enterprises. Making a reasonable debt repayment plan is not necessarily foolproof. Enterprises should also constantly update, change and optimize the debt repayment plan according to the market, industry, enterprise itself and other factors, and implement it in every place, so as to make the plan effective.

The imperfect management mode of the enterprise will make the assets of the enterprise not be fully utilized, so it leads to the decline of debt paying ability. In strengthening internal management, controlling the cash flow of enterprises has become the core. The cash flow of an enterprise represents the blood of the enterprise. Any problem of the cash flow will affect the operating condition of the whole enterprise. To strengthen internal management, enterprises should also strive to cultivate innovative talents, and strive to choose excellent and thoughtful talents in terms of employment. If you want to be in the leading position in the industry, you must have your own unique way of operating, and can not always follow the footsteps of others. Therefore, the internal management of enterprises also has a great impact on the solvency of enterprises.

4. Conclusion

The core content of financial analysis is about the solvency of an enterprise, and the long-term solvency is a crucial part of the solvency of an enterprise. The strength of the long-term solvency of an enterprise is directly related to the sustainable operation ability of an enterprise. Of course at the time of financial indicators analysis, enterprises have given data may also exist some limitations, we can't just look at these calculated light indicators to judge the stand or fall of a company's solvency, after all, the factors influencing enterprise's solvency has many, many, has not only external factors, but also has internal factors. Therefore, we should combine the business situation of the enterprise itself, understand the industry background behind the data, and take various considerations. Only in this way can the data and conclusions analyzed be more valuable, so as to put forward some relevant and feasible decisions and suggestions for the enterprise.

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