

## Research on Financial Risk Prevention Using Financial Analysis

Yang Wenchao<sup>1</sup>, Meng Qinghua<sup>2</sup>

<sup>1</sup> School of Management, Xuzhou Institute of Technology, Jiangsu, Xuzhou, 221008, China

<sup>2</sup> Library, Xuzhou Institute of Technology, Jiangsu, Xuzhou, 221008, China

**Keywords:** Enterprise; Financial Risk; Financial Analysis

**Abstract:** Any business is able to effectively prevent financial risks if it has good financial analysis. In this regard, enterprises should focus on strengthening financial analysis of financial risks, thereby enhancing economic efficiency of enterprises. Based on this, I hope to some extent, some discussion helps enterprises to financial risk.

### 1. Introduction

Although financial risk has increased significantly in recent years, risk and risk management are not contemporary issues. The result of increasingly global markets is that risk may originate with events thousands of miles away that have nothing to do with the domestic market.<sup>[1]</sup> Information is available instantaneously, which means that change, and subsequent market reactions, occur very quickly. The economic climate and markets can be affected very quickly by changes in exchange rates, interest rates, and commodity prices. Counterparties can rapidly become problematic. As a result, it is important to ensure financial risks are identified and managed appropriately.<sup>[2-5]</sup>

### 2. Financial Analysis Methods

#### 2.1 Analysis of Trend

Trend analysis, is in reference to the financial statements, based on the Table of financial data related to two or more of continuous data rate or a fixed base index to compare and contrast in the form of chain were analyzed in order to obtain its Changes in amount, direction and amplitude information to reveal the company's cash flow and changes in operating conditions, a change in trend analysis.

#### 2.2 Analysis of Factor

Indexes of a certain data may have multiple factors; factor analysis is to a certain data into a plurality of indicators specific factors. After one factor according to an order from the beginning, as a replacement variable individually replaced. The replacement process, the replacement when other factors are not variable, are seen as uncertainties. Through factor analysis, a data indicator can measure out what factors are affected, as well as indicators of changes in the various factors on the degree of influence.

#### 2.3 Analysis of Structure

Structural analysis refers to a particular financial indicator seen as a whole, with its data as a component of the numerator divided by the overall financial indicators to calculate the ratio of its structure. Through the analysis of the ratio of the structure, not only to understand the proportion and structure of various factors, but also on the structure and composition of the various factor's rational evaluation, and to identify the various factors were studied.

#### 2.4 Comparative Analysis

Comparative analysis, by definition, a group or a group can be compared more data or indicators pairwise comparison, analysis, inspection, in order to determine the actual operating conditions of enterprises with current enterprise financial risk. Typically, enterprises in comparative analysis, the

more is the number of current and planned number, the current number of the previous period, the enterprise data and industry data, the actual number of the department with other departments, the actual number of other indicators were compared and analyzed.

### **3. Enterprise Financial Risk Types**

#### **3.1 Risk of Cash**

Lack of corporate cash holdings of cash risks to the enterprise easier. If corporate cash holdings are too small, then the normal business expenses can not be guaranteed, not only will affect the survival of enterprises to maintain, but also a certain impact on corporate reputation. However, if too much corporate cash holdings, the company's opportunity cost will be increased, the company's profit margins will suffer. Therefore, corporate cash holdings too much or too low will cause cash risk.

#### **3.2 Accounts Receivable Risk**

Accounts receivable, enterprise uncollected amounts. Recovery time is usually due to the uncertainty or the uncertainty of the amount recovered caused.

#### **3.3 Changes in Income Risk**

As businesses are facing ever-changing market environment, competition intensified day by day. In this context, the efficient use of corporate funds has some uncertainty, a direct result in the operation of enterprises will face the risk of changes in income. Enterprises in order to reduce the cost of capital, often using debt financing. While relying on financial leverage magnify corporate earnings. But at the same time, it also makes business risk is magnified.

### **4. Financial Risk Prevention**

#### **4.1 Corporate Cash Flows Analysis**

Enterprises in the use of financial analysis to prevent financial risks in the process of cash flow information should also be full attention and analysis. In the past, enterprises in financial analysis, and many more 'income' for the center. Nowadays, with the changing market environment, corporate financial analysis should also be changed, should be gradually to 'cash flow' as the center of change.

Analysis of whether a company can focus on its own business activities through adequate cash flows and working capital management companies whether they have a higher efficiency. Meanwhile, enterprises should take advantage of external financing in the corporate operating activities after net cash flow generated by the analysis, evaluation of its funding strategies, as well as the cash flow dynamic stability.

#### **4.2 Good Use the of SWOT Model**

Corporate financial data is usually a reflection of the information companies in the past. Enterprises prevent financial risks for the purpose of future ongoing operation. 'SWOT' model can be based on business reality, based on compliance with corporate decision-making at the same time, prevent financial risks, helping the company's future going concern. In the SWOT model, S, is the strength, represents business advantages; W, is the weight, which means that enterprises disadvantage; O, is opportunity, indicate market opportunities; T, namely Threats, expressed from the market threats.

SWOT model through the use of financial analysis, able to learn and clear business advantages and disadvantages. For example, capital adequacy, market share and so on. From the advantages and disadvantages of the two aspects of corporate financial analysis, factors that play to their strengths to create opportunities for business development and operations, and to avoid its disadvantages factors impact on businesses. The disadvantage into advantage of future opportunities

and threats of judgment, so as to effectively avoid the corporate financial risks and promote the company's strategy and decision-making.

#### **4.3 Analysis of Cost Management**

Cost management analysis is a key corporate financial analysis. Only good control of corporate costs, in order to truly prevent financial risks. Enterprises in cost control analysis, always focus on the overall control objectives, on the basis of the cost of the enterprise to analyze the causes and movements revealed timely identification of cost factors.

Secondly, we must clearly a key factor in cost control, financial risk and can cause potential cost risk control point, focusing on the development of an effective cost control methods and practices. Methodologically, you can refer to the 'Management Accounting' knowledge, the use of 'Ben, the amount of benefit' analysis model, the variable costs, breakeven point, the marginal contribution analysis and calculations, do full cost accounting management, through effective cost control measures, the financial risk in the first place.

#### **4.4 Full Use of Corporate Financial Statements to Prevent Financial Risks.**

In general, corporate assets, receivables and inventories are usually larger proportion. Therefore, the strengthening of both the financial analysis is more important. If the company's 'mobile asset turnover' is low, it may indicate that the company's sales channels located downstream enterprises should open up sales channels as its top priority. While reducing its indirect selling expenses. Moreover, if the enterprise 'fixed asset ratio' too high, companies should focus on asset allocation and utilization, to prevent idle assets and overcapacity.

#### **4.5 Profit and loss analysis**

Corporate income is usually sales. Other income although also constitute income, but the ratio is generally small. Therefore, enterprises in revenue analysis, the main product sales revenue and can be associated with product price and sales volume to analyze. Among them, the sales volume analysis, by product category, region, etc. to be divided, to be analyzed separately. Similarly, the company's cost structure is mainly operating costs and expenses for the period (administrative expenses, selling expenses, financial expenses). In the analysis of costs, companies can follow the product category, sales region, sector analysis, in order to effectively control costs, prevent financial risks.

#### **4.6 The Financial Analysis to A Strategic Height to Prevent Financial Risks**

Enterprises in financial analysis, it is not simply for financial analysis and analysis, prior to analysis should be clear corporate strategy, from a strategic financial analysis, be emphasized. Specifically, companies usually have two strategies, namely cost leadership strategy and differentiation strategy. Select a different strategy, financial analysis indicators focus will be different. If companies choose cost leadership strategy, its conducting financial analysis, you will find lower margin businesses, while turnover was higher. Enterprises can cost leadership strategy under the puerile.

### **5. Summary**

Similarly, if companies choose differentiation strategy, its conducting financial analysis, you will find a higher gross margin business, turnover rate is low, mainly because enterprises to adopt a differentiated strategy, focusing on product features, pricing is higher. Therefore, different strategies chosen by the company, the financial results of the analysis are very different, which enterprises should be emphasized, has aimed to prevent financial risks.

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