

## A Study on Financial Accounting Issues in Assets Restructuring of Small and Medium-sized Enterprises

Shufen Xie, Hui Tan

Jiangxi Applied Engineering Vocational College, Jiangxi Pingxiang 337000

**Keywords:** Asset Restructuring; Financial Integration; Financial Accounting Issues

**Abstract:** The asset restructuring of small and medium-sized enterprises is an important way for contemporary enterprises to upgrade their scale, but the financial and accounting issues in restructuring are worth investigating and researching. This paper first discusses the background, status and form of the asset restructuring of small and medium-sized enterprises, and Lanxi Huarong Building Materials Industry Co., Ltd. is mainly taken as an example to carry out relevant discussions. On the basis of explaining the concept of asset restructuring, the basic framework of enterprise's asset restructuring system is analyzed, and corresponding problems and suggestions are put forward in three aspects in this paper. Formulate the financial issues in the acquisition of prices and related agreements, the financial management after the completion of mergers and acquisitions, and suggestions on improving the financial and accounting issues in the enterprise restructuring are put forward to gradually improve the enterprises' asset restructuring system and ensure the continued healthy development of enterprises.

### 1. Introduction

At present, the trend of corporate asset restructuring across the world is increasing. There will be some financial problems in the company's asset restructuring process, so how to properly solve the financial problems in the enterprise restructuring is a new issue that is worth exploring. Lanxi Huarong Building Material Industry Co., Ltd. is a well-run enterprise that is in step with the era of e-commerce. This paper focuses on the analysis of financial issues in the asset restructuring for this company. Asset restructuring can help companies break the shackles of all aspects, successfully transfer assets between departments and industries, further expand the scale of the company, and improve the ability of risk prevention.

Domestic experts have focused on the analysis of the restructuring of SMEs, from external factors such as excessive government intervention, imperfect laws and regulations, and inadequate property rights trading markets; In view of the imperfections of the social security system and the company's own factors, such as insufficient understanding of corporate restructuring, insufficient attention to the integration after reorganization, etc., various problems existing in the current reorganization of SMEs are analyzed. The following suggestions are made: (1) Identify the dominant position of the company in the restructuring and cooperate with the government's administrative measures; (2) Improve the relevant laws and regulations of the company so that the company can be reorganized according to law. (3) Further standardize the property rights trading market and strengthen the construction of intermediary organizations; (4) Improve the social security system so that the employees can have dependence when they are old and get medical care when they are ill; (5) Attach great importance to financial consolidation after restructuring.

Some foreign experts believe that the strategic motives for reorganization include the driving force behind strategically driven restructuring such as improving competitiveness, pursuing market forces, and obtaining stable profit growth rates, maximizing corporate profits, or maximizing shareholder value, and continuing and steady rise of corporate profitability. From the traditional assumption of profit maximization, neo-classical economics regards reorganization as the behavior of the enterprise to maximize profits or minimize costs. In the real restructuring, the reorganization decision of management should be in accordance with the maximization of shareholders' interests.

## **2. Introduction of Financial Assessment of Lanxi Huarong Building Materials Co., Ltd before Mergers and Acquisitions**

### **2.1 Description of Assessment Object and Assessment Scope.**

The assessment object is the brand value of “Lanxi Huarong Market” that involves the above economic behavior.

The scope of this assessment is the total assets and related liabilities of Lanxi Huarong Building Materials Industry Co., Ltd. According to the audited financial statements of the assessed unit, the total assets were RMB 10,724,288.16, the book liabilities were RMB 9,909,759.16, and the book net assets were RMB 814,529.00. No off-balance sheet assets.

The entrusted assessment object and assessment scope are consistent with the assessment object and assessment scope involved in economic behaviors. The book value of assets and liabilities within the assessment scope has not been audited by the firm.

### **2.2 Technical Description of Revenue Method Evaluation.**

The income method is adopted for the evaluation, that is, based on future company cash flow, using the appropriate discount rate to calculate the value of the operating assets after adding up the discounted amount, and then the value of the surplus assets to obtain the total equity value of the shareholders is added.

(1) Evaluation model: Cash flow is used in this cash flow evaluation model.

(2) Calculation formula: Total equity value of shareholders = value of operating assets + surplus assets. Among them: The value of operating assets is determined by the following formula: Corporate cash flow discounted value = the present value of the cash flow during the explicit forecast period + the present value of the cash flow in the explicit follow-up period. A clear forecast period refers to the time from the evaluation of the benchmark date until the company reaches a relatively stable operating status.

(3) The determination of the forecast period. In order to more reasonably predict the company's future operating income and earnings changes and trends, choose the longest possible forecast period.

(4) Determination of the revenue period. Based on the characteristics of the business operations of Lanxi Huarong Building Material Industry Co., Ltd. and the company's future development potential and prospects, and considering that Lanxi Huarong Building Material Industry Co., Ltd. has strong market competitiveness and sustainable operation capacity, taking into account the policy Changes and other factors, so the assessment of the forecast period is determined as 5 years.

(5) Determination of cash flow. This assessment uses the company's cash flow. The formula for calculating cash flow is as follows:

(Every year during the forecast period) Cash flow = after-tax profit + depreciation amortization - capital expenditures - additional working capital + (new interest-bearing liabilities - principals repaying interest-bearing liabilities)

## **3. Formulating Financial Issues for M&A Prices and Related Agreements**

### **3.1 Clarify the Subject of Corporate Restructuring and Division of Financial Authority.**

Driven by government decision-making, the company's funder is a local large-scale textile enterprise ---- Lanxi Wanzhou Textile Co., Ltd. In order to diversify its investment, the textile company seeks to diversify its investment in the building materials industry that is not related to itself, and also expands the scale of its operations in order to restructure the company. Under the coordination and supervision of government personnel, the two companies dealt with the relevant issues of the financial management of the restructured company in an objective and fair manner in accordance with the relevant agreements of the merger and acquisition company. At the same time, the internal organization structure of the company and the reasonable arrangement of the management organization and authority were maximally avoided. Some conventional problems

have emerged, and mutual benefit, mutual benefit and mutual trust have been achieved, and consensus has been reached for the regulation of operations.

### **3.2 Determine the Way of Restructuring.**

In accordance with the relevant laws and regulations, the scale of the company and the parties intend to determine the merger and reorganization of the company, “different from person to person, and take different measures according to their aptitude.” For companies with good profitability and credit rating AAA, they can achieve the purpose of the merger by transferring the shares of the company; Companies that are not large in size, but can quickly cross large-scale operations after restructuring, acquire their net assets; For companies of medium size but need to improve the scale in an urgent need of injecting fresh “blood”, they can use the form of capital increase and share expansion to realize the goal of restructuring. Lanxi Huarong Building Material Industry Company has adopted this kind of merger and acquisition model; It is an external reorganization method that allows it to allocate good assets so that the benefits of existing assets can be fully realized, so as to obtain maximum economic benefits. In this form of asset restructuring, ownership of assets is transferred between different legal entities. Therefore, the legal essence of this form of asset transfer is the purchase and sales of assets.

### **3.3 Determine M&A Prices.**

After the completion of the asset evaluation work, the results are used as the basis for the net assets of the acquired company, and the acquisition price is determined by considering the current business situation and the intention of future development. According to the unwritten provisions, the M&A enterprises with large development potentials can have their M&A prices higher than the net asset prices in the assessment report. For those companies that have suffered losses or poor operating conditions, their M&A prices should be slightly lower than the valuation of net assets. Lanxi Huarong Building Material Industry Company's book net assets are RMB 8,145,290,00. It operates in good condition and is reorganized for the demolition of the local government. It is intended to increase the size and grade of the company. The two companies voluntarily negotiated and finalized the company's willingness to increase its share of capital by 45% to implement mergers and acquisitions.

### **3.4 Determine the Way of Payment.**

According to the strengths of both companies and their willingness to buy, they can negotiate a payment method that is conducive to the stable and healthy development of the restructured enterprise; The cash payment method ---- the fund-raising company raises a large amount of cash to pay for the merger and acquisition. This naturally requires the financial company to bring certain financial pressure, which will affect the original production and operation of the company to some extent. The bond payment method means that a capital-funded enterprise obtains the assets or stocks of the target company by issuing bonds; The securities payment method means that a capital-funded enterprise purchases new shares to purchase the assets or stocks of the target company. Such bonds and securities used in M&A payment methods must have considerable liquidity and a certain credit rating. In this paper, the capital injection company adopts a cash flow payment method because it can be quickly put in place.

### **3.5 Clarify Possible Matters.**

For some contingencies, the M&A companies and merged and acquired companies must clearly define their terms of reference in the contracts reached by both parties, in order to circumvent the contingent events that are unfavorable to the acquirer in the process of receiving and reorganizing, causing unnecessary losses to the acquirer and then avoid contradictions.

### **3.6 Clarify the Principle of Financial Income Distribution.**

In accordance with the country's financial laws and regulations, the distribution of profits of enterprises must be carried out according to law; First, the principle of equalizing accumulation and

distribution (focusing on the relationship between the long-term interests of the company and its immediate interests). Accurately deal with the relationship between accumulation and distribution, accumulate priorities, and enhance the potential for enterprise development. The company gains revenue through operations, which guarantees that the company will continue to produce and operate, but at the same time it will give the company an exaggerated financial foundation for production. Protect the company's ability to resist risks. Second, the principle of balanced interests and reasonable distribution. Taking into account the interests of funders, funded operators, and production workers, the investors who invest in the capital can benefit from the benefits of the workers and protect the subjective initiative of the operators. Third, the principle of investment and income equivalence (focus on dealing with investor interests). Allocate the profit according to the investment share of the investment body. When redistributing profits to investors, a restructuring business should follow the principle of proportional equivalence, and must allocate rationally according to the investment capital. Corporate governance should fully define the principle of distribution of financial benefits, so as to truly be transparent, fair, and fair, and to protect the interests of investors as much as possible.

#### **4. Financial Integration and Management Issues after the Completion of Mergers and Acquisitions**

##### **4.1 Neglecting the Integration Work Leads to the Failure of Assets Restructuring to Play its Due Role.**

After the asset restructuring, the company was caught in a management dilemma, and it was difficult for the merged companies and M&A companies to effectively carry out management work. The reason was that after asset restructuring, careful planning was not carefully performed on the financial integration and was not on the system. Perform effective financial integration and management improvements. Because both companies are not in the same industry, they cannot achieve consistent decision-making immediately after the asset restructuring, and the management's opinions are not highly unified. Because mergers and acquisitions entrepreneurs will not be able to attend to the management and decision-making of reorganization companies at one and a half times, this will make it impossible for companies to implement the integration of finance and management personnel in a timely manner around leading industries. They simply equated asset restructuring with scale expansion and made hasty decisions; Since they know the mistakes, they need to make corrections in a timely manner.

##### **4.2 Poor Awareness of Financial Risk Prevention.**

Under normal circumstances, the assets of enterprises play a decisive role in production and operation. Therefore, when the company conducts the asset restructuring coordination process, it will be affected by the environmental factors of both companies, and they will also face the risk of production and operation of both parties, and to a certain extent, cause financial risks. However, in the process of asset restructuring, most companies in modern society do not face the financial risks faced by the reorganization companies. They do not clearly understand the risks that the financial risks will bring to their own companies. All in all, only paying attention to production without paying attention to financial risks will bring some degree of resistance to the company's asset restructuring work.

#### **5. Suggestions for Improving Financial and Accounting Issues in Corporate Asset Restructuring**

##### **5.1 Improve Relevant Laws and Regulations.**

First of all, the government took the lead in using administrative means to coordinate the interests of both companies' asset restructuring and create a good social environment and natural environment for the new enterprise.

Second, the government can use legislative means to achieve financial policies, boost the improvement of the fiscal system, formulate a series of policies concerning fiscal tax incentives and financial support, and improve the sustained and healthy development of the capital market.

Thirdly, the local government should continue to strengthen supervision over the capital market, severely crack down on companies with distorted financial information, and promptly give strong penalties to crack down on speculation in the production process and maximize the use of government in the market. The guiding role of the economy is that there are laws that can be followed and illegal activities must be investigated. This is an unshirkable responsibility of the local government. At the same time, the company may also employ legal advisors to provide suggestions for enterprises to ensure that the company continues to grow its business in sound laws and regulations.

## **5.2 Focus on the Development of Asset Restructuring Agencies.**

In the mature financial market system, the intermediary agency is the link between the company and the company. It can provide consulting, evaluation, and funding services for the asset restructuring, as well as a complete information reference and restructuring strategy for the company. The formulation of the plan will increase work efficiency. In order to adapt to the rapid development of the capital market and to ensure the smooth implementation of the enterprise asset restructuring, it is necessary to learn the model of the development of foreign intermediaries, regulate and improve the integrity and independence of intermediaries, comply with the needs of the capital market and further strengthen the reorganization of enterprises. Supervision and guidance and a full range of enthusiasm services aim to make the company asset restructuring work smoothly and quickly.

## **5.3 Pay Attention to Financial Integration and Strengthen Financial Risk Prevention.**

The asset restructuring is based on the premise that the funded company first develops a corporate restructuring strategy, and then searches for corporate goals, evaluates reorganization prices, determines payment methods, and links financing channels. Finally, it integrates corporate asset restructuring. The integration of enterprise asset restructuring mainly includes integration of operations, integration of management, integration of organizational structure, and integration of employees. The most important thing is the integration of financial work. It includes all aspects of financial operations. The top management of a company must attach great importance to the convenience and hidden benefits of financial integration. For example, when discussing the payment methods of the company asset restructuring, the two parties must unite and work together to discuss the plan, which must meet the interests of both parties and meet the needs of both parties. Asset restructuring improves overall efficiency. Only by achieving the common goals of the two parties can we ensure the gradual improvement of the financial operating mechanism and better play the role of financial consolidation after the corporate asset restructuring.

## **References**

- [1] Wang Zhen. The Effect of Asset Restructuring on Financial Performance and Empirical Analysis [I]. Lanzhou Academic Journal, 2014, (11).
- [2] Wang Mao'an. Discussion on Financial Accounting Issues of Asset Restructuring [J]. Modern Auditing and Economics.2006,(6)18-19.
- [3] He Yunlong. On the Problems in the Accounting Treatment of Debt Restructuring [J]. Finance and Accounting Monthly. 2006, (9): 67-68.
- [4] Xue Guiping. Research on the Effect of Restructuring on Corporate Financial Index [J]. Friends of Accounting. 2006, (5): 38.
- [5] Dong Huiliang. Debt Restructuring Accounting [J]. Journal of Shanghai Institute of Business.2007, (3):72-76.

- [6] Zhao Guijie. Research on Accounting Problems of Enterprise Reorganization in China [J]. Corporate Research. 2010, (3): 70-71.
- [7] He Yunlong. On the Problems in the Accounting Treatment of Debt Restructuring [J]. Finance and Accounting Monthly. 2006, (9): 68.