

# Study on Solvency of Enterprises

-- Take N Company as an example

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**Abstract:** Manufacturing industry directly reflects the productivity level of a country, is an important differentiating factor between developed and developing countries, accounting for a considerable part of the economy of developed countries. Manufacturing industry development in China's economic construction play a gradual increase in economic influence. The assets of the manufacturing industry are complex, diverse and liquid, and the liabilities will increase accordingly. The solvency of the enterprise is the focus of the expected users of the internal and financial statements to the enterprise. Under this background, enterprises pay more and more attention to the analysis and solution of their own financial problems. Debt paying ability has become the core problem in modern enterprise financial management and is the most basic aspect of financial analysis. Under the trend of modern external financing environment, more important is the ability of enterprises to repay debts. The analysis of debt repayment ability can make more scientific decisions on financing and investment, realize the flexible use of capital flow, and strengthen the daily business activities of enterprises. This paper theoretically expounds the influencing factors, analysis purpose, financial indicators and non-financial indicators of corporate debt paying ability. Based on the financial data provided by N Company, this paper studies the company's solvency from a number of solvency evaluation indicators, and then analyzes and dissects its problems and causes. Finally, through comprehensive analysis and integration judgment, some suggestions are put forward for the company to determine the solvency of the enterprise through which ways.

**Keywords:** Financial index, Solvency, Financial analysis.

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## 1. Research Background and Significance

In recent years, under the influence of the global financial development, the domestic economic market will be in an unstable development trend. This economic situation makes many Chinese enterprises face more significant challenges than before. More and more enterprises will choose through the way of financing to carry out daily business activities to achieve the purpose of profit, and the way of financing more and more, with the development of the financial market, the scale of enterprises is growing, enterprise growth will not be completely through the owner's investment, but through the development of debt to obtain capital. Therefore, the development of debt is also an important factor for enterprises to expand their operations. Therefore, the development of enterprises must have sufficient debt paying ability, so that creditors can be more assured to invest funds, and enterprises can have more funds for operation, expansion of production and improvement of income.

China's manufacturing industry is the hard foundation of the national economy. However, the actual turnover of most manufacturing enterprises in China is very general, and some enterprises continue to reduce their economic profitability, accompanied by very low debt paying ability. The internal production cycle is trapped in a simple repeated production process, and the quality of goods cannot become stronger with the trend, so that the profitability of enterprises is affected, thus reducing the solvency of enterprises. After the reduction of solvency, the reduction of corporate reputation leads to financing difficulties and the inability to produce high-quality products. Such a vicious cycle leads to continuous manufacturing enterprises facing financial difficulties, many

enterprises are faced with debt paying ability related problems, these problems have certain obstacles to the sustainable development of enterprises, so in this case, our analysis of an enterprise's debt paying ability is of great significance.

N Company is a manufacturing company that mainly produces and sells various metal packaging coatings suitable for tinplate and aluminum. In recent years, China has vigorously developed the manufacturing industry, and the same type of enterprises have increased, and the competition in the market is also increasing. Enterprises will make different strategies according to their own scale, type and the will of the management. This company is a large-scale enterprise, so in order to greatly reduce the risk of the enterprise to retain too much current assets, resulting in the reduction of the enterprise's income, profitability, and lost some opportunity costs. Combined with these problems, we need to make a plan to improve the solvency of the enterprise so that the solvency can reach the normal level and the enterprise can achieve a better profitability.

## 2. Research Status at Home and Abroad

### 2.1. Overview of Foreign Research

#### 2.1.1. Analysis of Evaluation Indexes of Solvency

Rehman M W U (2017) [1] argued that for the related research on short-term asset liquidity and solvency, he used deductive method to test the hypothesis of slope coefficient of multiple regression model. The experimental results show that accounts receivable turnover has a significant positive impact on net working capital. There is a correlation between the effects of accounts receivable sales, accounts receivable processing days and inventory turnover on purchasing and

sales and sales. This means that by increasing the turnover rate, a business can improve its liquidity. By increasing the turnover rate, an entity can improve its liquidity, and an entity can make its liquidity at such an optimal level, which indicates that in different described entities can improve its short-term solvency.

Abey Joji and Velmurugan R (2018) [2] analyzed the combination of short-term ability to pay index and corporate profitability with the example of Indian automobile industry. The analysis points out that cash flow is the degree of monetary guarantee to repay all the debts that should be paid by the enterprise. The statement of net cash flows is a ratio derived by comparing net cash flows with short-term liabilities. The higher the short-term debt ratio, the greater the share of short-term debt, and the better the company's ability to bear debt. It is more authentic, objective, reliable and comparable. It has fewer influencing factors and low whitedressing effect and high stability. Therefore, the net cash flow ratio has the highest superiority.

### 2.1.2. Solvency Analysis and Measures

Shu-shan J (2016) [3] put forward countermeasures to improve the short-term solvency of Chinese enterprises, including further accelerating the transformation of Chinese enterprises to the market economy system and improving the construction of China's modern economic system. On the basis of the clear design of current liabilities, the subitems under current liabilities are added, and the internal qualitative and quantitative indicators are clearly explained in the financial statements, so as to help appraisers quickly and accurately understand the composition of current liabilities. Gryglewicz S (2017) [4] discusses the solvency dilemma and the liquidity dilemma under the cash dividend policy. This paper studies the impact of liquidity and solvency on corporate financing. He finds long-term profitability uncertainty as a measure of solvency risk and cash flow volatility as a measure of liquidity risk. When a company is faced with long-term uncertainty and volatile cash flows, it optimally chooses its capital structure, cash holdings. This result shows that the continuous liquidity shock affects the solvency, and its amount determines the demand for liquidity. Fabio Baione (2020) [5] referred to a closed formula for capital allocation that fully meets the solvency II capital requirements assessed by the standard formula. This solution enables the top-down approach to assess the allocated solvency capital requirements among the risks considered in the Solvency II multi-level aggregation scheme. Secondly, for the optimal capital allocation problem based on the risk-adjusted return on capital measure, the equivalence between risk-adjusted return on capital optimization and Markowitz mean-variance optimization is established.

## 2.2. Overview of Domestic Research

### 2.2.1. Purpose of Solvency Analysis

Chi (2018) [6] believed that solvency analysis can help enterprises better deal with crises, solve business difficulties, and provide certain guarantee for the long-term and stable development of enterprises. It can reflect the financial status of an enterprise, reflect the comprehensive strength of an enterprise, and enable investors and operators to see information more intuitively. Lu Ting (2018) [7] believed that solvency analysis can determine whether an enterprise can repay its debts in full when due, increase the reliability and authority of forecasting risks and returns, and adopt corresponding coping strategies for possible risks. Moreover,

considering the company's interests and risks in a variety of ways, the financial structure measured by its advantages and disadvantages can lay a more solid foundation for the company's future development. Wang Dan (2020) [8] believes that it can analyze the financial status of the enterprise and the degree of capital security. Doing this work well can enable investors to do a better job in the financing plan, so as to better predict the amount of capital required to determine the optimal capital structure, avoid the waste of funds, and avoid the loss of investment opportunities caused by excessive or insufficient financing.

### 2.2.2. Related Contents of Solvency Analysis

Cao Xuming (2018) [9] believed that solvency reflects the financial security and business stability of an enterprise, and plays a very important role in the analysis of the enterprise's ability to pay. An enterprise's ability to pay is an important indicator of its financial status. The analysis of solvency mainly includes: first, to provide data reference for optimizing the capital structure through the current financial status of the enterprise; The second is to reveal the corporate debt risk through financial data analysis; Accelerate the understanding of the risks of corporate financing prospects, so that enterprises can fully grasp all financial activities. Li Li (2018) [10] believed that when analyzing solvency, it is necessary to choose a scientific solution analysis method based on the actual situation of the enterprise, such as taking into account changes in the external market and internal business strategy at the same time. If a company wants to make a real and effective analysis of its solvency, it must prepare a real and accurate solvency report in a timely manner during the development process. Then through the report finally to improve and optimize the enterprise solvency analysis system. Zhang Nan (2019) [11] believed that solvency analysis can not only reflect the quality of debt, but also reflect the financial risk of the company. Generally speaking, liquidity ratio and quick-freezing rate are two indicators to analyze the short-term debt repayment ability of enterprises. Long-term ability to pay refers to an enterprise's ability to undertake debt and guarantee repayment of debt within a certain period of time, including repayment of the principal and interest of the debt. Both reflect that different data focus on different but can know the enterprise's ability to pay. The latter is generally analyzed by three indicators: asset-liability ratio, equity ratio and equity multiplier. Interest guaranteed income ratio and cash flow guaranteed income ratio are used to analyze the enterprise's interest payment ability.

### 2.2.3. Evaluation Index of Solvency Analysis

In the paper of Hui Ruiling (2018) [12], the solvency analysis indicators are considered to be divided into short-term solvency indicators and long-term solvency indicators. The liquidity ratio in the short-term solvency index represents the guaranteed repayment rate of current assets to current liabilities. For the debtor, the more guaranteed the payment of the enterprise. The higher the ratio of cash to debt is, the more net cash flow the company generates in daily production, and the stronger the solvency of the enterprise is. However, excessive increase of this index will lead to the accumulation of the company's net cash flow, which will also cause the same adverse results as the shortage of cash flow through different forms. Yuan Jie (2019) [13] Creditors can analyze the company's solvency according to the debt repayment index, so as to judge whether the company has the opportunity to reinvest, so as to judge whether the company is able to

repay the loan. In different industries, researchers will reflect a company's financial status based on these basic evaluation indicators. The strength of solvency can also reflect the degree of risk borne by the enterprise, among other factors, which is also the target of corporate solvency analysis. He Xuefong (2019) [14] believed that solvency analysis can be classified according to different systems. Short-term solvency analysis and evaluation coefficient index system includes: operating cash flow level solvency index, current debt structure and scale solvency index, current debt and current asset structure matching evaluation index, short-term quality solvency evaluation index. The evaluation index system of long-term solvency includes: long-term profitability solvency index, capital structure solvency index, external long-term financing solvency index.

#### **2.2.4. Factors Affecting Solvency**

Wang (2018) [15] believed that the availability of cash also had a certain impact on the ability to pay. Cash is the fundamental guarantee for enterprises to repay debts. Net cash inflow per sales unit = net cash inflow/income from main operations. It reflects the ability of a business to obtain cash through sales. The larger the index is, the better the quality of corporate cash income is. In addition, there are other factors that affect solvency, such as contingent liabilities; The effect of guarantee liability on the solvency of debt: if the guaranteed party fails to perform the contract or pay the debt on time, it shall be jointly and severally liable. Impact of leasing activities on solvency: When the lease amount is relatively large and the time is relatively long, leasing activities will actually form long-term financing and affect solvency. Zhou (2018)[16] The results described in this paper show that the issuance of convertible bonds has a positive impact on the solvency of the company: without considering the control factors, the earnings performance of the issuer of convertible bonds is poor, while the net asset per share of the issuer increases significantly after the issuance of convertible bonds; With the increase of the debt ratio index, the long-term debt ability of the enterprise also decreases, and the index of short-term debt paying ability shows an upward trend. Huang (2018) [17] believed that the better the company's debt financing situation is, the higher the debt paying ability is. There is a significant positive correlation between them. The higher the accounting stability. The efficiency of corporate debt financing will also be higher. The stronger the company's debt repayment ability is, its operating ability and financial status are positively correlated with its debt repayment ability. With the improvement of accounting information transparency, investors will be more willing to invest in companies with more stable accounting. The higher the accuracy of accounting information disclosed to the reporting object users, the higher the debt financial efficiency.

He Guozhong (2019) [18] considered that solvency is based on shareholders' returns to assets and rights. The ability to repay develops dynamically with relevant factors. First, with the increase of profitability, the solvency becomes worse, and the solvency is negatively correlated with the debt level; Second, the profitability of enterprises decreases, and the overall solvency gradually decreases. In other words, the level of repayment ability analysis is in a dynamic range, and the

capital structure is also in a dynamic range. When the capital structure reaches an optimal structure, the repayment ability can reach the highest value. Liu Qiuji, Yang Siyin and Zhang Ruicchen (2020) [19] take high-tech enterprises as an example, from the study of the impact of internal control on the solvency of high-tech companies, it is shown that although there is no significant relationship between the solvency of high-tech companies and the overall level of internal control on the surface, its solvency and the transparency of internal control show a significant negative correlation. The transparency of internal control is related to the overall level of internal control to a large extent. Therefore, improving the purpose of internal control to strengthen high-priced new enterprises can improve the ability of high-priced new enterprises to repay debts. Their complete, correct and effective management often has strict and effective internal control and debt paying ability. Therefore, to improve the ability of debt-paying enterprises is to improve the ability of internal control.

### **3. N the Current Situation of The Company's Solvency**

#### **3.1. Company Profile**

N Company is located in Yangzhou, the ancient capital with beautiful scenery. The registered capital of the company is 11,989,600 yuan, and the company covers an area of about 19,000 square meters. The company mainly produces and sells all kinds of metal packaging coatings suitable for tinplate and aluminum, with annual sales reaching more than 10,000 tons. After years of development, the company has completed cooperation with most of the well-known domestic brand companies, which improves the company's reputation in the market. The main business scope of the company is industrial coating, metal surface polymer coating, auto parts, instrument and equipment manufacturing, processing, chemical raw materials sales, stationery, electronic products processing, assembly.

#### **3.2. Current Situation of The Company's Solvency**

From the perspective of the Company's development costs, the Company's major cash flow expenses and cost ratio are related to the Company's revenue sources and reasonable costs, and also determine the Company's operating results and trading conditions. The actual situation of the company's main business also helps to determine whether the company is a source of cash flow for external financing. The main business of a particular company determines whether the company has a stable development, whether it faces the risk of bankruptcy, whether it has a reasonable development plan and long-term survival, and whether the company can guarantee a high recovery rate of funds.

##### **3.2.1. Analysis of Short-Term Solvency**

To evaluate the solvency of an enterprise, it is not only to make data judgment, but to make a better judgment through a comprehensive comparative analysis of assets and liabilities. Therefore, the conventional analysis indicators in financial analysis are used to reflect the solvency.

**Table 3-1.** Financial data related to short-term solvency of N Company from 2020 to 2022

Unit (Yuan)

Year Project	2020	2021	2022
Current assets:	250347449.00	281746949.52	289713831.44
Monetary funds	35412430.95	33570560.34	68839165.30
Inventory	50947214.56	47817476.38	63242305.90
Notes receivable and accounts receivable	137820964.33	141872453.04	121475674.68
Non-current assets:	79521131.74	131739382.02	184114932.86
Total total assets:	329868580.74	413486331.51	473828764.30
Current liabilities:	35216522.31	52855471.19	67950672.14
Notes payable and accounts payable	20232754.92	35817009.02	45157688.29
Total liabilities:	55008917.31	72649130.01	87212051.59
Operating costs:	156341885.60	181705786.51	211921210.57

**Table 3-2.** Financial indicators related to short-term solvency of 2N companies from 2020 to 2022

Unit (YUAN)

Year Project	2020	2021	2022
Receivables to current assets ratio	55.05%	50.35%	41.93%
Current ratio	710.88%	533.05%	426.36%
Quick ratio	565.75%	440.43%	331.99%
Cash ratio	100.56%	63.51%	101.30%
Inventory turnover	306.87%	380%	335.09%

It can be seen from the table that from 2020 to 2022, the company's liquidity ratio is 710.88%, 533.05% and 426.36% respectively. The liquidity ratio is mainly used to judge the situation of an enterprise facing short-term debt. The larger the value is, the greater the proportion of current assets will be. The normal liquidity ratio in the same manufacturing industry is generally within a reasonable range of 2. However, if the ratio is too large, the proportion of current assets will be too large.

The quick ratio is 565.75%, 440.43% and 331.99%, respectively. The quick ratio is 1, and the index value still shows a large value after subtracting the effect of inventory. The effect of excessive current assets still exists, which indicates that inventory is not the main factor affecting excessive current assets.

The inventory turnover rate of the company in the past three years is 306.87%, 380% and 335.09% respectively. Generally speaking, the greater the turnover rate is, the faster the turnover is, the faster the inventory circulation is, the lower the inventory occupation level is, the stronger the liquidity is, the better the operation of the enterprise is. Compared with the normal value of 3 in the same industry, the enterprise's inventory turnover rate is slightly higher than the normal value, which belongs to the normal range, indicating that the inventory ratio is normal.

Cash ratio is 100.56%, 63.51%, 101.30%, cash ratio is generally referring to the cash on hand divided by current

liabilities, reflecting the ability of the enterprise to recover, cash ratio of 20% is enough, and the enterprise's cash ratio is much higher than the normal value.

Accounts receivable to current assets ratio is a commonly used indicator to analyze the solvency of the enterprise can be used to analyze the existence of accounts receivable of the enterprise is reasonable. It can be seen from the above table that the accounts receivable ratio of the company in the past three years is 55.05%, 50.35% and 41.93%. This ratio is too large, indicating that the accounts receivable account for a large proportion of the current assets of the enterprise, and there may be a risk of not receiving them back, which will reduce the asset quality. It is a normal risk when the ratio of accounts receivable in the manufacturing industry accounts for one third of the current assets. It is a normal risk with the ratio of manufacturing accounts receivable to current assets within one third. However, the ratio of this enterprise is about half, indicating a high risk.

### 3.2.2. Long-term Solvency Analysis

Whether a company has the conditions for stable long-term development depends on how well the company's long-term debt paying ability can be reflected. From the perspective of enterprise development, the long-term debt paying ability not only represents the status of the enterprise's sustainable operation, but also reflects how much ability an enterprise has to refinance development.

**Table 3-3.** Financial data related to the long-term solvency of N Company from 2020 to 2022

Unit (Yuan)

Year Project	2020	2021	2022
Total assets	329868580.74	413486331.51	473828764.30
Total current assets	250347449.00	281746949.52	289713831.44
Non-current assets	79521131.74	131739382.02	184114932.86
Total liabilities	55008917.31	72649130.01	87212051.59
Current liabilities	35216522.31	52855471.19	67950672.14
Non-current liabilities	19792395.00	19793658.82	19261379.45
Total owners' equity	274859663.43	340837201.53	386616712.71

**Table 3-4.** Financial indicators related to long-term solvency of Company N from 2020 to 2022

Unit (Yuan)

Year Project	2020	2021	2022
Asset-liability ratio	16.68%	17.57%	18.41%
Equity ratio	20.01%	21.31%	22.56%

Observing the indicators from the calculated table, the asset-liability ratio from 2020 to 2022 is 16.68%, 17.57% and 18.41% respectively. The normal level of China's manufacturing asset-liability ratio is about 40%-60%, while the asset-liability ratio of N Company is about 17%, which belongs to a relatively low level; It shows that the capital structure of the enterprise is at an unreasonable proportion. It reveals that in the total capital of the enterprise, the capital provided by creditors accounts for a relatively small proportion, and the current assets receivables account for a relatively high proportion in the assets; If the creditors consider risk control, the asset-liability ratio is naturally the lower the better, so that the company's debt repayment can be guaranteed, the loan will not have too much risk, if the risk becomes smaller, it indicates that the long-term solvency of the enterprise becomes stronger. Although the asset-liability ratio is too high is too high debt, so the risk is high, but the asset-liability ratio is too low indicates that the enterprise is a little conservative, did not reach the highest utilization rate of funds. The solvency of the enterprise is good, but too conservative may lose some investment opportunities to improve the overall interests of the enterprise.

## 4. N Analysis of the Problems and Causes of The Company's Solvency

### 4.1. Unreasonable Capital Structure

It can be seen from the data of the past three years that the equity ratio is about 20%, while the normal value of the manufacturing industry is about 1.2, indicating that the debt structure of the enterprise accounts for a relatively small proportion. If the debt ratio is not high, although it can reduce the risk to a certain extent, it reduces the risk return rate from the perspective of the investment of enterprise managers. Although the risk decreases with the high proportion of assets, the return also decreases. From the point of view of creditors, it is a relatively stable situation, which can maintain their fixed interest. However, from the perspective of enterprise shareholders, higher retention of current assets will affect the rate of return of the enterprise, so that the risk and reward of the enterprise will be affected, which is not conducive to the long-term sustainable development of the enterprise, and it

will be easily eliminated by the market over time.

In the past three years, the short-term debt repayment index reflects that the company has a strong solvency. As a kind of short-term resource reserve, current assets are indispensable for the daily operation of enterprises. The quality of current assets directly reflects the strength of solvency. Jiangsu Yangzhou New Material Co., LTD. 's liquidity ratio and quick ratio are relatively high, and the solvency of the enterprise does not appear low, and the high reputation of the enterprise's solvency will not cause the creditors to worry about the problem of not being able to repay the money because of the low solvency. However, the quick ratio of current ratio is higher than the normal value, while the asset-liability ratio and property rights ratio are far lower than the normal value of the same industry. The reason for this is the current assets, the proportion of total assets is high. The fundamental reason may be the conservative strategy of the enterprise. Although the conservative strategy will reduce the risk of the enterprise, it will also reduce the speed of the expansion of the enterprise. In this way, although some creditors are retained, some shareholders may reconsider whether to continue to invest in the company, which will hinder the development of the enterprise and the company may face operational risks.

### 4.2. Too High Cash Ratio Will Affect the Interests of The Enterprise

It can be seen from the above data that the cash ratio of the enterprise is much higher than the normal value of the manufacturing industry in the same industry. Too high cash ratio means that the enterprise has too much cash on hand. Cash is an asset with strong liquidity and low risk but relatively low return rate. Excessive cash retention will make enterprises give up some opportunities to invest in other industries and correspondingly lose some opportunity costs, which will reduce the earnings of enterprises. The reason for this situation is likely to be the decision of the management. In order to control the risk, the management keeps more cash flow and maintains a conservative strategy.

### 4.3. Excessive Accounts Receivable Ratio Affects Asset Quality

N Company has a relatively large proportion of capital and

a relatively low asset-liability ratio. The utilization of effective assets is not high, the idle assets are improperly handled, the receivables account for a large proportion, and the liquidity of some assets is low. However, the processing and manufacturing industry needs large liquidity assets, while the liquidity of receivables is relatively low. If the urgent investment and production cannot be realized in time, and the loan interest rate of receivables is not high. The proportion of receivables in current assets should generally be controlled within one-third, if more than the risk is greater. However, the ratio of accounts receivable to current assets of N Company is about half, which will affect the efficiency of daily production activities, lower productivity, increase costs and reduce profits. There are many reasons for the large amount of receivables, such as enterprise managers do not pay enough attention to the credit screening of accounts receivable customers, lack of internal control and incentive system; Only the pursuit of sales volume, lack of risk awareness, there is improper management of customer credit screening, there is no very perfect loan credit system.

## **5. Countermeasures to Improve the Solvency of Company N**

### **5.1. Optimize the Capital Structure**

At present, there is fierce competition in various industries. In today's economic market, the financing and investment way is no longer the single loan from the bank in the past, but develops to a variety of channels to raise funds and invest and use funds. Therefore, enterprises must make a reasonable plan before carrying out activities, try to control the cash flow at an average level, and invest the excess monetary funds on hand. Jiangsu Yangzhou New Material Co., Ltd. has a high solvency and does not need to improve again, and the solvency of the enterprise through the numerical analysis of various indicators found that most of the indicators are higher or lower than the normal value, such as liquidity ratio, quick ratio and cash ratio is too high, asset-liability ratio property rights ratio is too low, these situations point to a direction. That is, the proportion of current assets is too high, so in order to better develop the enterprise, managers need to give up the conservative strategy, appropriately raise funds to expand the operation of the enterprise by issuing debt or make foreign investment with spare funds, appropriately increase the proportion of debt, and maximize the value of current assets of the enterprise. It can not only meet the requirements of creditors, but also improve the rate of return of enterprises in line with the expectations of shareholders, and maximize the shareholders' equity and enterprise value.

### **5.2. Correctly Use the Idle Funds of The Enterprise to Increase the Enterprise Income**

If the company's cash ratio is too high, the company's income will fall because the cash income is not high. If the cash ratio is too high, the company's spare funds will be too much, and the capital utilization rate will be low, thus affecting the company's capital income index. If the liquidity and quick ratio are too high, it will affect the current asset turnover of the company, the total asset turnover of the enterprise, and finally affect the profitability of the enterprise. The cash on hand of the enterprise will be used for investment in other places, such as inward investment and inward investment, to increase the total asset turnover of the

enterprise, reduce the opportunity cost, so as to achieve the purpose of increasing income.

### **5.3. Optimize the Customer Reputation Screening System to Reduce Receivables**

The biggest problem of the company is that the current asset ratio is too high, and an important reason for the high current asset ratio is too much receivables, too much receivables is not conducive to the capital turnover of the company, affecting the normal production and operation activities. First of all, strengthening internal control can improve production and operation efficiency, improve product quality and improve product market competitiveness. Suppliers can earn more money when they get your products, and are naturally willing to take greater risks, such as cash for goods, or even full payment in advance. Secondly, we should be aware of our risk tolerance, and do not put ourselves in a high-risk position by taking the risk of selling on credit. Therefore, we should strengthen the management of internal control, strengthen the management and control of accounts receivable, and strictly control the reputation of customers when selling on credit. We should do a good job in the management of customers, and strive for the current settlement of customers who purchase in small quantities and sporadically, so as to reduce the risk of bad debts and the cost of urging payment. Stable customers can make appropriate loans; Strong background of large customers, increase the amount.

## **6. Conclusion**

Debt paying ability can effectively reflect whether the financial status of an enterprise is healthy, so improving and improving the debt paying ability of an enterprise is the basic operation of business development.

Based on the conventional solvency analysis index as the theoretical basis, this paper makes an in-depth analysis of the current situation and problems of Jiangsu New Materials Co., LTD. 's solvency, which provides the basis for the company's future financing and long-term healthy development. Then it analyzes the existing problems and reasons of the company, and puts forward some suggestions. Through the writing of the whole paper, the following conclusions are drawn:

Jiangsu New Material Co., LTD., as a large manufacturing industry, should pay special attention to its own development. The essence of the problem that the index of solvency is far from the average is that the structure of the company's assets and liabilities is not within a reasonable range. To develop a more efficient strategic development plan for enterprises and shareholders to obtain more profits. The direction of its reform should be: diversified financing channels, diversified investment methods, and strive to obtain a better capital structure.

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