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**ANALYSIS OF THE LIQUIDITY AND SOLVENCY OF THE COMPANY
AND DIRECTIONS OF THEIR INCREASE**

***Abstract:** This article discusses some aspects of liquidity and payment analysis of the company. Also proposed the main directions for increasing the above economic indicators. It is recommended that the organization improve the structure of liquid assets, use the capital structure and a system of short-term liquidity planning and budget forecasting to assess and forecast the company's medium and long-term capital needs.*

***Keywords:** analysis, liquidity, solvency, increase, current ratio, quick ratio, cash.*

In recent years, the economic situation at home and abroad has been turbulent, and the global economy has faced multiple pressures under the influence of the epidemic. Huawei Investment & Holding Co., Ltd. (hereinafter referred to as Huawei for easy reading), as the world's largest supplier of communications equipment, has entered a new stage of development. This article is based on the financial statement data in Huawei's public annual reports

for the past five years (2015-2019), to understand Huawei's basic organizational structure, liquidity (efficiency in the use of corporate capital), and adopt DuPont analysis to calculate the current ratio, Quick ratio, cash ratio, asset-liability ratio, equity ratio analyze its debt solvency (including short-term debt solvency and long-term debt solvency). Through strategy analysis, accounting analysis, financial analysis, risk analysis and financial advice, analyze and evaluate Huawei's financial status, financial risks and future development, and adopt univariate and multivariate models (Altman "Z score model") conduct bankruptcy warning (financial warning). In order to improve the current unfavorable financial situation of Huawei, effective suggestions and corresponding solutions are put forward for Huawei's deficiencies in production and operation to help the company develop better. The analysis methods and ideas of financial statements in this article are also applicable to other companies for analysis and reference.

Huawei is a private company founded in 1987 and the only company that is not listed on the Global 500. Committed to becoming the world's leading provider of ICT (information and communications) infrastructure and smart terminals. At present, Huawei has 188,000 employees, has operations in more than 170 countries and regions, and serves 3 billion people. It is the world's largest supplier of communications equipment. Huawei's core competitiveness is its proprietary and unique technologies in three aspects: 5G communication technology, Kirin chip opens a new era of mobile phone AI chips, Hongmeng

system is a multi-terminal distributed operating system developed completely independently by Huawei.

Huawei: The registered capital is 40,341,131,82 million yuan (RMB), and the actual paid-in capital is 39,908,132,000 (RMB).

Huawei's shareholding structure: Huawei Technologies Co., Ltd. is 100% controlled by Huawei Investment & Holding Co., Ltd.; Huawei Investment Holding Co., Ltd. is composed of two shareholders (Ren Zhengfei holds 1.01% of the shares, and the labor union committee of Huawei Investment Holding Co., Ltd. holds 98.99% of the shares). Huawei employee shareholding is achieved through this "alliance" (virtual restricted shares).

Liquidity analysis is an analysis of the efficiency of the use of corporate funds. The circulation and turnover of corporate funds reflects the operational efficiency of the company's supply, production, and sales operations. High efficiency, fast capital turnover and good efficiency.

Table 1 – The financial statements in the 2019 annual report

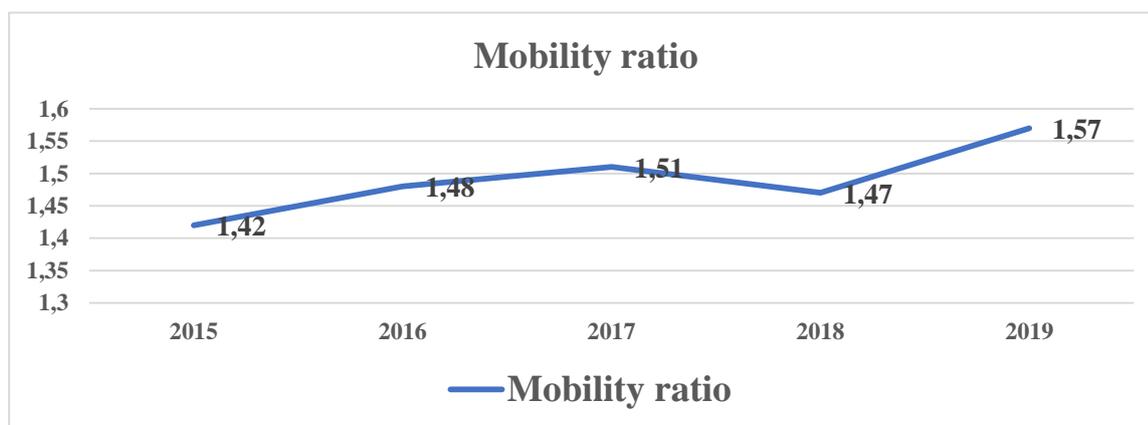
Indicator	2019.12.31	2018.12.31	Growth rate
Cash flow from operating activities	91384	74659	122.4%
Cash and short-term investments	371040	265857	139.6%
Short-term loan	7631	3771	202.4%
Long-term loan	104531	66170	158.0%

As of the end of 2019, Huawei's cash flow from operating activities totaled RMB 91,384 million, an increase of 22.5% from RMB 74,659 million at the end of 2018. The cash flow from operating activities this year has increased, which shows that Huawei maintains its working capital. In order to achieve a healthy cash flow and a stable capital structure. However, cash and short-term loans totaled RMB 371,040 million, an increase of 39.6% from RMB 265,857 million at the end of 2018. Huawei's long-term and short-term borrowings in 2019 have increased significantly year-on-year, which is a signal of financial data worth warning. The management of cash capital and assets and liabilities in Huawei's liquidity risk management is not very complete.

Short-term solvency refers to the ability of an enterprise to repay current liabilities with current assets, and it reflects the ability of an enterprise to repay its daily due debts.

Analyze the current ratio:

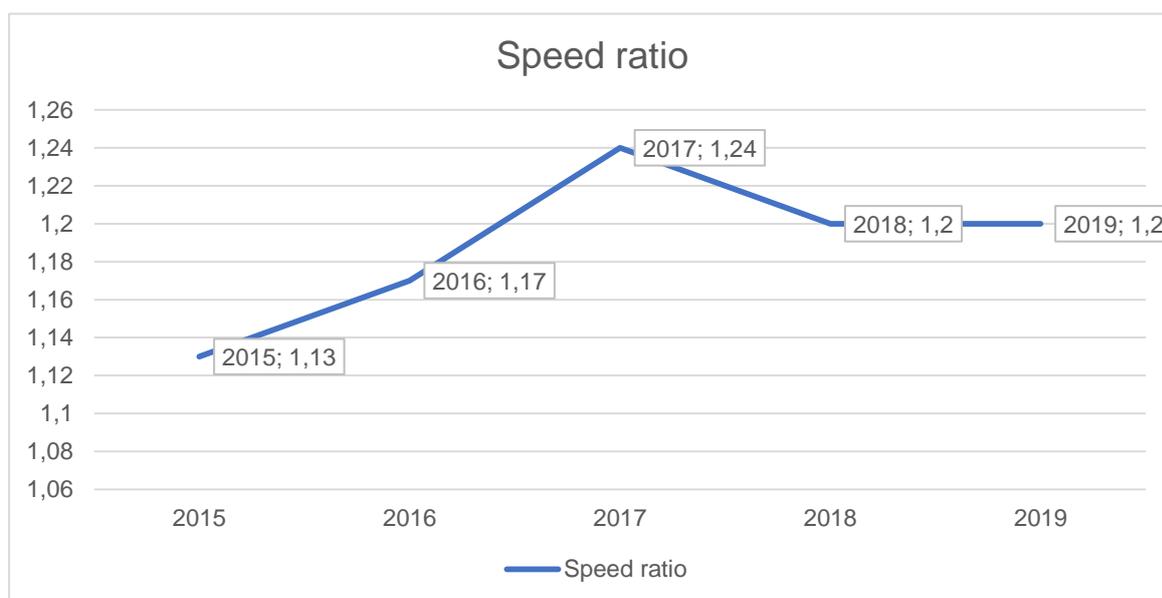
Current ratio = Total current assets / Total current liabilities



The current ratio is relatively stable at around 1.5. Huawei's average current ratio in the past five years is 1.49, indicating that its short-term debt solvency is within a controllable range, but the risks of growth deserve attention.

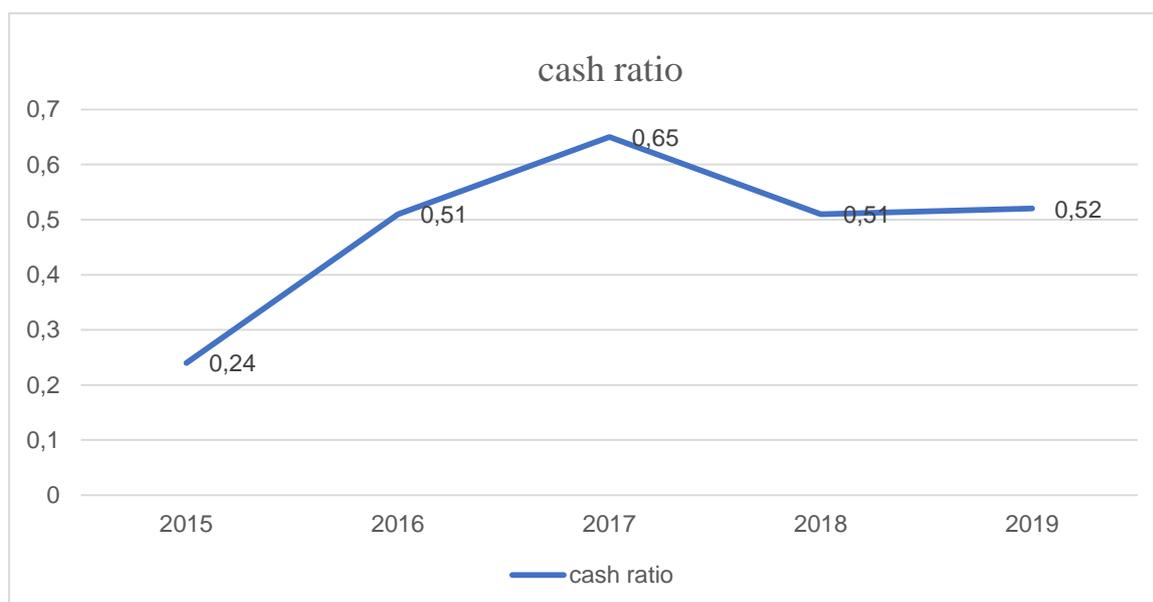
Analyze the quick ratio:

$$\text{Quick ratio} = (\text{Current assets} - \text{Inventory}) / \text{Current liabilities}$$



Analyze cash ratio:

$$\text{Cash ratio} = \text{Monetary funds} / \text{Current liabilities}$$



The quick ratio reflects the company's liquidity and speed the quick ratio is safer when the quick ratio is 1:1. A value below 1 indicates that the solvency is low. The lowest critical value is 0.5. Huawei's quick ratio has stabilized. The main reason for the analysis is that the added value of debt is decreasing. The added value of inventories is also decreasing. However, the sharp decline in 2018 indicates that short-term debt solvency has weakened and financial risks have increased, which requires vigilance; companies with high cash ratios have a strong ability to repay debt at any time. In 2015-2017 the company's cash solvency Rising year by year. However, there was a significant decline in 2017-2018. It is speculated that the company has invested a lot of money in R&D platform and business field development.

Long-term solvency refers to the ability of an enterprise to bear debts and the ability to guarantee debt repayment. The strength of long-term solvency is an important indicator of the financial security and stability of a company

Analyze the asset-liability ratio:

$$\text{Asset-liability ratio} = (\text{Total liabilities} / \text{Total assets}) * 100\%$$

Table 2 – Analyze the asset-liability ratio in the 2015-2019

Indicator	2019	2018	2017	2016	2015
Total assets	858661	665792	5052 25	443634	372155
Total liabilities	563124	432727	329609	303501	253086
Assets and liabilities	65.6%	65.0%	65.2%	68.4%	68%
Total borrowing	112162	69941	399 41	44799	28986

The appropriate asset-liability ratio is between 40% and 60%, which is a warning line of 70%. Huawei floats at 65%, although the company has control over capital turnover. However, the use of external funds is relatively high. The normal value of the property rights ratio is 1, and Huawei's property rights ratio is average 2, and the capital turnover is poor. Based on actual estimates, high R&D costs have caused a funding gap.

At the end of the article, we will give the following financial recommendations:

1) Increase the utilization rate of funds: implement centralized and unified management of funds, adopt unified procurement, and unified dispatch of funds; take advantage of the positive effects of financial leverage and presuppose that the cost of capital and the company's ability to repay are lower than the return on borrowed funds; the prerequisite for maintaining normal business operations is cash flow. Keep abreast of the cash situation and whereabouts.

2) Enhance solvency: improve profitability and cash flow levels, broaden the market, improve quality, reduce costs, reduce inventory, appropriate repayment methods, grasp the expected time for fund recovery and payment, and keep financial information intact.

The unstable financial situation means that the risk of corporate bankruptcy may occur at any time. In order to avoid bankruptcy, do a good job of early warning. Analysis Huawei also uses univariate models and multivariate models (Altman "Z-score model") for bankruptcy early warning (financial early warning). We found that Huawei has been affected by the U.S. blockade and the

epidemic, and its economic growth has slowed down, consumer growth has not been as expected, and operating profit growth has fallen. However, independent audit firm KPMG has also issued a standard for it for five consecutive years. The unqualified financial report is enough to show that Huawei is in a good financial position and is not in the desperate situation of bankruptcy and liquidation.