

# An Exploration of the Existing Problems of Enterprise Asset Restructuring Accounting, the Causes, and Their Countermeasures

Yinfang Zeng, Chunyan Wu\*

Business School (School of Quality Management and Standardization), Foshan University, Foshan 528000, Guangdong Province, China

\*Corresponding author: Chunyan Wu, 13979863406@163.com

**Copyright:** © 2022 Author(s). This is an open-access article distributed under the terms of the Creative Commons Attribution License (CC BY 4.0), permitting distribution and reproduction in any medium, provided the original work is cited.

**Abstract:** With the rapid development of social economy, the sense of urgency among enterprises is increasing. The primary reason for this is the fierce competition among enterprises. As an important strategy for establishing a modern enterprise system, asset restructuring plays a pivotal role in improving the economic efficiency of enterprises, optimizing the allocation of social resources, and promoting both, social and economic development. Therefore, based on the existing problems of enterprise asset restructuring accounting, this paper discusses the causes of the accounting deficiencies in enterprise asset restructuring from various perspectives, including asset restructuring concept, financial authority and responsibility authority, as well as commercial credit, and subsequently proposes corresponding optimization strategies, which include strengthening asset valuation, enhancing information disclosure of connected transactions, improving relevant accounting standards, as well as strengthening information audit and improving related systems.

**Keywords:** Asset restructuring; Accounting problems; Analysis of causes; Optimization strategies

**Online publication:** October 21, 2022

## 1. Introduction

It is important to analyze the existing problems of enterprise asset restructuring accounting, the causes, and their countermeasures.

### 1.1. Research background and significance

With the expansion of economic globalization and the deepening of international division of labor, there is a high degree of integration in the world economy. Economic integration is the result of contemporary world economy and a trend reflecting long-term stable development in the future. For enterprises, it is of utmost importance to meet the development trend of market economy and occupy a presiding position in the fierce market competition<sup>[1]</sup>. In the face of continuous competition and improvement, enterprises will eventually undergo asset restructuring; hence, analyzing the existing problems of enterprise asset restructuring accounting, the causes, and their countermeasures is critical.

### 1.2. Current status of local and international research

The current status of local and international research is relatively sound.

### **1.2.1. Accounting practice in asset restructuring**

There are two methods. The first is the equity combination method, which involves the union of two or more parent companies to another subsidiary or group under them in terms of economic or other aspects <sup>[2]</sup>. The second is the purchase method. This method involves the merger of one or more companies for cash or the transfer of assets, the assumption of debt or the issuance of stock, as well as the acquisition of rights to control their net assets.

With regards to the accounting practice in asset restructuring, China adopts a combination of both methods in dealing with businesses <sup>[3]</sup>. Theoretically speaking, the purchase method can better reflect the essence of asset restructuring, but the development of appraisal institutions and even China's market economy is still flawed. However, it is feasible to adopt the purchase method of accounting to replace the equity method for business restructuring provided that the market economy improves.

### **1.2.2. Accounting standards and system level**

The national accounting standard is an established system of the current management process system for state asset restructuring. However, this accounting standard has certain irregularities in some aspects, especially those pertaining to the recognition of profit and loss as well as the measurement and calculation of profit and loss attribution for asset restructuring in the actual accounting work <sup>[4]</sup>. Although most of the listed companies in China adopt enterprise asset restructuring, which can effectively avert the accounting disadvantages and loopholes that may be brought about by the traditional enterprise accounting method, and thus promote the convergence of the asset restructuring accounting standard and other international accounting standards by modern Chinese enterprises, its practical role is still limited <sup>[5]</sup>.

At present, China only has a general management for asset restructuring without any specific guidelines to regulate it, which permits enterprises to take advantage of these gaps. Therefore, there is a need for the relevant management to make strict and explicit regulations as soon as possible to improve the restructuring of assets <sup>[6]</sup>.

### **1.2.3. Accounting environment level**

The accounting management activities of many large companies is primarily carried out in an economic environment with a certain degree of objective reality following asset restructuring. If the accounting environment we now live in is not above average, the work carried out after asset restructuring will be cumbersome, thus leading to inefficiencies.

First of all, economic and social activities are often the sequelae of various enterprise accounting problems, including the corruption and illegal accounting practices of many large companies <sup>[7]</sup>.

As a result, the actual work of enterprises will be substantially more than the pre-planned cost. This is not conducive to the sustainable development of enterprises in the long run.

A more standardized and accurate accounting information collection, which is strictly in accordance with the high standard quality requirements of enterprises, can effectively improve the quality of enterprise accounting information collection. In China's enterprise system reform, maintaining international financial stability and other aspects plays a role in promoting the development of its capital foreign currency market <sup>[8]</sup>.

### **1.2.4. Financial reporting level**

Some listed companies believes that the primary goal of launching preparations for asset restructuring is to be able to achieve the beautification of financial statements in a relatively short period of time. However, the actual purpose is to optimize the allocation of resources by enhancing the core competitiveness of listed companies and to transform the expenses arising from the loss of assets into company profits through

effective and legal means.

The consolidation of financial statements of the parent company and the group over which it has control of is required to understand the company's operations and obtain aggregated information on the various divisions of the company<sup>[9]</sup>. These consolidated financial statements of the parent company are required to prevent the parent company from transferring assets or assuming liabilities and internal transactions to obtain and manipulate profits.

Therefore, in order to preserve the company's external investors' and shareholders' confidence in the company's blueprint as well as to prevent fluctuations in the company's share price, the usual tactic used in the process of mergers and acquisitions is the preparation of consolidated financial statements and a deliberate whitewashing of these statements to disguise them as required by the group company through its control relationship with the parent company and subsidiaries, thus categorizing them as enterprises generating high profits and releasing false financial reports. This engenders restructuring a tool for some enterprises to whitewash their financial statements and achieve the purpose of artificially manipulating enterprise profits, which would inevitably affect their long-term development<sup>[10]</sup>.

## **2. Analysis of the causes of accounting deficiencies in enterprise asset restructuring**

Enterprises may have various accounting deficiencies in the process of asset restructuring. Therefore, it is imperative to analyze the causes of these deficiencies.

### **2.1. Asset restructuring concept**

Large enterprises do not have the resources to carry out business activities, while small enterprises simply do not have the ability and lack professional and technical personnel to carry out business management activities<sup>[11]</sup>. The dominant position of enterprises often causes significant problems in corporate awareness or management concepts, such as satisfying the status quo of enterprises and not seeking for everything as well as the sole focus of enterprises in seeking for regularity, but not advancement. This fully reveals the poor management of some of our large enterprises and also the primitive moral concepts, poor risk awareness, and weak awareness of benefit distribution of some of our large enterprise managers<sup>[12]</sup>.

### **2.2. Financial authority and responsibility authority**

Managers are directly linked to the management of enterprises, while shareholders are responsible for enterprises as their legal entity. Investors should accurately grasp the major strategic decisions of state-owned asset restructuring. Additionally, when exercising their power, they must control the major corporate financial budget issues accurately and decisively, consider the direction of state-owned enterprises for a sound and healthy development, as well as improve the stability of capital in the future development stage of enterprises<sup>[13]</sup>.

### **2.3. Commercial credit**

Commercial credit is a loan relationship between enterprises formed in a commodity transaction due to late payment or advance receipt of payment. Many state-owned enterprises are using it at this stage. During the economic transition period in China, it is not an easy task for enterprises to borrow from the bank; thus, when enterprises are unable to borrow from the bank, commercial credit has become a way for external financing<sup>[14]</sup>. As the economy in China continues to grow in real terms, banks are becoming more and more stringent in their lending conditions to enterprises, and commercial credit is gradually replacing bank lending. However, more research is needed on the problems encountered by enterprises in obtaining commercial credit and borrowing from third parties through commercial credit<sup>[15]</sup>.

### **3. Optimization strategies for enterprise asset restructuring accounting**

#### **3.1. Strengthening asset valuation**

As the primary component of asset restructuring in China, asset valuation is pivotal in the process of enterprise asset restructuring. Firstly, it is necessary to strengthen the supervision of relevant valuation agencies, so that they can truly become the principal organs of the national unified asset management services in the true traditional sense of the contemporary state-owned asset management appraisal service industry in China. Secondly, it is imperative to enhance the basic professional ethical standards and relevant professional and technical qualities of the practitioners in fixed asset valuation service institutions. The development prospect of the enterprise asset valuation management business is directly affected by the professional qualification of asset valuation managers<sup>[16]</sup>. By setting a series of technical standards that are both broad and guiding for industry valuation institutions' practice management, it is possible to achieve accurate regulation of industry appraisal management results by relevant technical standards. Relevant valuation laws and regulations can be established and optimized through research. In that way, government valuation investigators and business valuation investigation results would be based on laws and regulations, thus achieving a fair competition in the industry<sup>[17]</sup>.

#### **3.2. Enhancing information disclosure of connected transactions**

In the process of enterprise asset restructuring, certain connected asset transactions that are jointly carried out between listed companies and other unrelated companies are ineffective in helping these companies avoid taxes and regulate corporate profits in the long run. Therefore, regulating the public disclosure of information on other related asset transactions has significant guiding significance in the process of asset restructuring, whether for effectively realizing the reasonable allocation and use of investors' and other relevant co-interest holders' funds or for promoting the effective optimization and rational allocation of resources as well as improving the operational efficiency of our market<sup>[18]</sup>.

#### **3.3. Improving accounting standards and system level**

High-quality accounting standards can improve the quality of accounting information. They also play certain roles in promoting enterprise reform and the development of capital markets to maintain financial stability. Therefore, it is important to strengthen the publicity work and education for relevant personnel, as well as strictly manage the accounting personnel within the enterprise and evaluate their professional capabilities to achieve merits<sup>[19]</sup>. In order to ensure that the aforementioned strategies are implemented, enterprises should increase their publicity, so that the accounting standards would be able to reside in the hearts of every employee and manager, thus enabling them to effectively play their own roles<sup>[20]</sup>.

#### **Disclosure statement**

The authors declare no conflict of interest.

#### **References**

- [1] Zhang H, 2021, Reflections on Accounting for Intra-Group Asset Reorganization. *Modern Industry*, 2021(12): 174–175.
- [2] Wang M, 2022, Research on the Protection of Small and Medium Shareholders in Major Asset Restructuring of Listed Companies. *Climbing*, 41(1): 103–111.
- [3] Liu S, 2017, Research on Financial Accounting Issues of Asset Restructuring of Listed Companies. *Mall Modernization*, 2017(10): 217–218.

- [4] Liu B, Li A, Du M, et al., 2021, The Impact of Asset Restructuring. *International Journal of Frontiers in Sociology*, 30(8): 121–124.
- [5] Meher BK, Puntambekar GL, 2018, Asset Reconstruction Companies: An Analysis of Growth (A Case Study of ARCIL). *Abhigyan*, 36(1): 11–20.
- [6] Zhang B, 2017, Research on Financial Problems and Countermeasures of Enterprise Asset Restructuring. *Knowledge Economy*, 2017(1): 110–111.
- [7] Yu J, 2018, Research on Accounting Issues in Enterprise Asset Restructuring. *Financial Accounting Study*, 2018(29): 116–117.
- [8] Cascio WF, Chatrath A, Christie-David RA, 2020, Antecedents and Consequences of Employment and Asset Restructuring. *Academy of Management Journal*, 2020(10): 134–144.
- [9] Li H, Chen Q-X, Hong L-Y, et al., 2019, Asset Restructuring Performance Prediction for Failure Firms. *Journal of Corporate Accounting & Finance*, 30(4): 151–168.
- [10] Ao N, 2018, Analysis of Accounting Issues in Corporate Asset Restructuring. *Chinese and Foreign Entrepreneurs*, 2018(18): 5–8.
- [11] Wu N, 2018, Research on Accounting for Corporate Asset Restructuring. *Modern Business*, 2018(16): 139–144.
- [12] Shen Z, 2018, Discussion on the Problems of Asset Restructuring of State-Owned Enterprises and Its Measures. *Enterprise Reform and Management*, 2018(19): 22–26.
- [13] Fan S, 2018, Research on the Financial Synergy Effect of Corporate M&A Restructuring. *Enterprise Reform and Management*, 2018(16): 120–127.
- [14] Kuai L, 2017, Accounting Problems of Asset Restructuring and Its Improvement Strategies. *Journal of Zhejiang Industrial and Commercial Vocational Technology College*, 2017(3): 6–8.
- [15] Li Y, 2017, Research on Accounting Issues in Asset Restructuring. *Finance and Economics (Academic Edition)*, 2017(22): 87–88.
- [16] Li S, Yang R, Yang N, 2022, Research on the Effect of the Approval System for Major Asset Restructuring. *Financial Research*, 2022(07): 190–206.
- [17] Kang L, 2021, Analysis of Financial Accounting Issues of Enterprise Asset Restructuring. *Contemporary Accounting*, 2021(14): 80–82.
- [18] Zheng Y, 2021, Research on the Application of Asset Restructuring in Resolving the Risk of Local Non-Performing Assets. *Modern Marketing (Academy Edition)*, 2021(7): 151–153.
- [19] Olga Em, 2019, Improving the Restructuring of Distressed Assets Through Securitization on Emerging Markets. *International Journal of Innovative Technology and Exploring Engineering (IJITEE)*, 2019(8): 21–35.
- [20] Li S, 2019, Analysis of Accounting Problems Involved in Enterprise Asset Reorganization and Thoughts on Improvement. *China Township Enterprise Accounting*, 2019(10): 80–81.

**Publisher's note**

Bio-Byword Scientific Publishing remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.