

## RESEARCH ON THE FINANCIAL RISK MANAGEMENT OF REAL ESTATE ENTERPRISES OF CHINA

WANG SHUFENG LIU YONGWEI

(College of Economics and Management, Heilongjiang Bayi Agricultural University, Daqing City, China 163319)

Saltu District, Heilongjiang Province, Bayi Agricultural University Community

### ABSTRACT

Based on the specific economic situation that the government has introduced high-pressure policies in recent years to drive the real estate industry to transition to the direction of industrial real estate, combined with the objective reality of china's serious oversupply and high financial leverage to raise high financial risks, and in line with the guiding ideology of de-inventory and transformation in line with the supply-side structural reform strategy, and around the investment risk of real estate enterprises The generally weak management of capital-raising risk and commercial credit risk, using practical investigation, judgment analysis, logical reasoning, inductive interpretation and other methods, follow the theory of risk management, according to risk management links or procedures such as risk identification, risk assessment and risk response. The external and endogenous risks of Chinese real estate enterprises are systematically identified, the means and requirements of financial risk assessment of real estate enterprises are analyzed from the quantitative and qualitative dimensions, and the formation of the financial risk of real estate enterprises is analyzed, and the countermeasures and suggestions that can be effectively prevented and controlled are explored.

**KEYWORDS:** Real Estate Enterprises; Financial Risk Management & Endogenous Risk

### INTRODUCTION

As we all know, real estate enterprises have a high financial leverage. China's real estate industry is relying on high financial leverage experienced from scratch, from weak to strong. The vast majority of real estate enterprises in the macro-policy under high pressure debt forward, ups and downs. For real estate enterprises that have not yet seized on the supply-side reform based on transformation and upgrading, their debt investment profit margin can not exceed eBIT or the interest rate of debt, there are serious financial risks. According to the China Non-Financial Listed Corporate Property Safety Assessment Report (2017), none of the 100 listed companies with the safest financial stakes are real estate companies, while 17 of the 100 listed companies with the worst financial security in the 2018 financial risk forecast are

among the 100 listed companies. And there are more significant financial security risks (He changrong,2018:12). It shows that the financial risk of real estate enterprises in China is more serious, and it is urgent to strengthen the management research of financial risk identification, evaluation and response.

## **1. THE REAL ESTATE ENTERPRISE FINANCIAL RISK TYPE AND DISTRIBUTION IDENTIFICATION**

### **1.1 External Risk**

#### **1.1.1 Policy Change Risk**

The national macro-control policy is the "wind vane" of the development of the real estate industry, and also an important external factor affecting the financial risk of real estate enterprises. Such as around 2004 the state vigorously support the development of China's real estate enterprises, for real estate enterprises everywhere to give the green light, real estate enterprises ushered in the golden decade of development, for China's economic development has provided a strong impetus; Encourage the real estate industry to industrial real estate in the direction of transformation, coupled with the recent introduction of limited purchase policies, such as CFLD, such as large-scale real estate listed enterprises, resulting in a backlog of inventory difficult to deal with, financial risks emerged.

#### **1.1.2 Interest Rate Volatility Risk**

As we all know, real estate enterprises are debt management, so, when the bank's loan interest rate increases, then it will lead to a real estate enterprise debt costs greatly increased, so the interest rate changes on the real estate enterprises have a very large impact. For example, around 2014, the bank's loan interest rate on real estate enterprises' development projects increased, which caused the real estate enterprises to increase their financial expenses in the early stage, which eventually led to a decrease in the income of real estate enterprises, resulting in financial risks, and also affected investors' investment in enterprises, resulting in financial activities affected, further causing financial risks.

#### **1.1.3 Risks of Tax Reform**

China's tax policy is characterized by a large number of taxes, all income to pay taxes, and real estate enterprises in its business activities involving a number of tax items, such as stamp duty, property tax, land use tax, enterprise income tax, land value-added tax, no matter which aspect of the tax rate increase, tax method changes will cause the real estate enterprises the corresponding tax risks is also a financial risk.

#### 1.1.4 Real Estate Market Risk

Real estate industry is high-risk and accompanied by high-yield and special industries, around 2003 the state issued preferential policies to promote the vigorous development of real estate enterprises, the real estate industry in the past decade of development has emerged a large number of large and small good and bad real estate enterprises, resulting in the real estate market too saturated, forming a lot of contradictions: now 90 % of households own housing, but in the first-tier cities and second-tier cities there are many people can not afford to buy housing: real estate enterprises still have a large number of stocks, real estate development in the town tends to saturate, there is not so much undeveloped land. Real estate enterprises' capital realization capacity is becoming more and more worrying, financial risk is self-evident.

#### 1.2 Endogenous Risk

##### 1.2.1 Operational Risk

The biggest difference between real estate industry and manufacturing, service industry or retail industry lies in the fact that the products produced are housing and real estate, which have the characteristics of high development cost, long business cycle and large capital occupation. Enterprises in the land acquisition phase began to pay land transfer fees and pay deed tax and advance land value-added tax, the expropriation of cultivated land also pay the farmland occupation tax; According to the TOP10 Research Report of China Real Estate Listed Companies, the average opening time for listed real estate developers in China in 2017 was 6.9 months, with a positive cash flow cycle of 1-3 months (Wang liuyi, 2017:19-21). Therefore, real estate is the industry that is piling up with capital, but also rely on financing to support the industry. The 2017 report of the newly listed real estate enterprises shows that the asset-liability ratio of 17 real estate companies in China is higher than 60%. Among them, the main property management services, real estate development in advance with property and other services of the smart life of the asset-liability ratio as high as 80.72 percent (Li ling, 2017:84), the average asset-liability ratio of mainland listed real estate companies in Hong Kong is 78.23 percent, of which about 30 percent of the asset-liability ratio of more than 80 percent, hitting the red line of the debt ratio (Tan xin, 2017:84-85). And the duration is hard and can not be shortened, once blindly shorten the duration will produce quality problems, and encounter natural factors and other force majeure will also make the duration of further extension, so the overall asset turnover rate of real estate enterprises lower than manufacturing, retail and other industries, which will also affect the financial risk of enterprises.

### **1.2.2 Talent Flow Risk**

In the real estate industry is the opportunity and risk coexist, the professional quality and business wisdom of real estate operators in the enterprise decision-making and management is also very important, miss the real estate market opportunities and transformation opportunities, will bury the major business risks; It will inevitably affect the business direction and decision-making of real estate enterprises, easy to generate unnecessary additional costs, while the flow of technical personnel will affect the completion schedule of the project and the control of engineering costs, the flow of financial personnel will affect accounting and budget control, as well as financing investment and other financial activities analysis and risk assessment. In recent years, the frequent flow of accounting talents in real estate enterprises is a common phenomenon. Accounting flow leads to differences in accounting methods, analytical caliber and accounting policy application, before and after the various periods of business collection accounts, accounting report content structure, with a check relationship related financial indicators historical continuity and close convergence type has been greatly affected, invisibly buried some financial risks and difficult to be identified in a timely manner. Therefore, the management and control of talents have the effect of affecting the financial risk of real estate enterprises, if real estate enterprises ignore the impact of talent flow on financial risk will be fatal development defects.

### **1.2.3 Investment and Financing Risks**

The allocation of the asset structure of real estate enterprises will affect the circulation of enterprise funds for the management of financial leverage. Real estate enterprises generally raise funds through debt, the use of financial leverage for enterprises to bring a wealth of capital flow, but if the management of financial leverage is not reasonable enough, the capital structure control is insufficient, it is likely to be unpayable, resulting in financial risks. And the risk of financing, will also lead to lack of investor credit, so that enterprises further re-financing difficulties. At present, the domestic real estate industry mainstream financing methods are mainly for their own capital investment, bank credit loans and project pre-lease pre-sale. Real estate enterprises have a lot of investment projects but their own funds are limited, their own funds to invest and investment ratio is different, project investment and operating working capital gap is every real estate enterprises can not avoid the fact. In this way, it is necessary to open up all kinds of financing channels and ways to achieve the ideal expected scale of financing. The scale of financing is too large or too small, the use of capital management control means is not advanced, or the lack of scientific demonstration of funds, will produce different financial risks, including financing risks and investment risks.

## 2. ASSESSMENT OF FINANCIAL RISK LEVEL OF REAL ESTATE ENTERPRISES

The most important task of financial risk assessment is to establish and apply the assessment method. Typically, financial risk assessment methods include quantitative assessment and qualitative evaluation, or a combination of two methods, such as Matrix Graph Method

### 2.1 Quantitative Method Evaluation

From a technical point of view, the financial risk assessment should use the quantitative index system for scientific demonstration, after obtaining the value of various risk indicators, to determine the identification of various levels of financial risk, including heavy risk, moderate risk and mild risk. In turn, it lays the foundation for developing various coping strategies. Specific to each real estate enterprise, should follow this idea and method to carry out financial risk assessment or evaluation. There are many quantitative evaluation methods, such as Delphi method, matrix analysis, fuzzy comprehensive evaluation, risk factor analysis, trend analysis and F-value score model. In practice, the financial risk of each real estate enterprise sits on different causes and the factors of influence are different, and the evaluation index system established by its financial personnel also needs to be based on the situation, combined with the emphasis of the assessment of risk, flexible grasp and select the most suitable assessment method. For example, to measure the financial crisis of an enterprise, it is appropriate to choose a relatively simple and more scientific F-value score model. F as a corporate bankruptcy index or financial crisis threshold, it expresses the financial risk ceiling standard in response to the financial crisis warning, it is related to the liquidity ratio of enterprise assets ( $X_1$ ), profitability ( $X_2$ ), cash flow from operating activities ( $X_3$ ), the sale of company stock solvency ( $X_4$ ), Five related financial variables, such as the total asset creation cash flow capacity ( $X_5$ ), are non-linear, and the function expression is:

$$F = -0.1774 + 1.1091X_1 + 0.1074X_2 + 1.9271X_3 + 0.0302X_4 + 0.4961X_5$$

In application, the market value of shareholders' equity in each year of the window should be calculated according to the indicators such as total assets and liabilities at the end of the period, the number of shares outstanding, the number of Shares in Circulation and the price of the A-shares, and then, the indicator values of  $X_1$  to  $X_5$  for each year should be determined one by one, and the X values of each X value can be calculated, and finally, the model results can be compared with the F-value standard. The assessed financial risk profile of the business can be determined. The F-value standard is 0.0274, if the real estate enterprise F value is assessed 0.0274, the enterprise is expected to go bankrupt; The F-value critical point interval range of the enterprise's financial position is unstable, and the possibility of miscalculation may be formed due to the accuracy of the indicator.

## 2.2 Qualitative Analysis and Evaluation

Qualitative assessment is the real estate enterprise's judgment on the risk risk, investment risk and credit risk that has been identified, and makes qualitative conclusions on the level or degree of financial risk and the causes of significant financial risk according to the risk tendency reflected by various relevant financial indicators. Qualitative evaluation is the use of the knowledge, experience and judgment of risk assessment experts, emphasizing the various types of financial risk level, impact and causes of observation, analysis, induction and description. In general, the financial risk seisted to be assessed is divided into mild risk, moderate risk and severe risk, of which the severe risk can also be further divided into secondary risk and high and severe risk. Generally, mild risk belongs to the real estate enterprises in the investment financing process common weak risk, such as on-time interest pressure, low return on investment, etc., often through their own efforts can be cracked, will not cause economic trauma to the enterprise, enterprises can fully tolerate or accept the problem; It needs to be strictly controlled, otherwise it is easy to cause major financial losses and huge operational setbacks or life disasters and risk types, such as the failure of investment projects to recover funds, debts due to insolvent, temporary real estate development, construction projects can not be such as stadium delivery, etc.; Strict controls are needed to avoid risk hazards, such as low property overstock revenues leading to a difficult loan payment period, forcing companies to speed up promotions and speed up new loans to avoid a crisis of broken capital chains. And high-heavy risk is a serious risk that will damage the continued viability of real estate enterprises or give them a fatal blow, such risks, once the outbreak, so that real estate enterprises can not afford and can not control and avoid. For example, enterprises intend to bid for public welfare projects, but the construction period will face a high degree of capital constraints and enterprises have outstanding loans, its financing channels are forced to high-interest loans dead end, the use of usury funds to operate micro-profit projects obviously not worth the loss or even fatal. In response, companies can only abandon the project bid plan to avoid the loan sharks may be the financial crisis.

## 3. FINANCIAL RISK CONTROL OF REAL ESTATE ENTERPRISES

Theoretically, risk control should be based on the results of risk assessment. However, the risk assessment is mainly to determine the level and degree of financial risk, to provide objectives for the implementation of financial risk control. If financial risk control strategies are studied, it is also necessary to further understand the causes of the various types of moderate and sub-severe risks established in the assessment, so as to facilitate the targeted development of control measures.

### **3.1 Real Estate Enterprises' Financial Risk Causes**

As far as the causes of financial risk of real estate enterprises are concerned, they mainly focus on the assessment of the indifference of financial risk management awareness, weak internal control and capital structure imbalance.

#### **3.1.1 Indifference of Financial Risk Management Consciousness**

At present, most enterprises have been very focused on the control of investment risk, will not hit a large amount of money on a project, but enterprises for specific investment project risk situation can not be fully estimated, many enterprises will want to seize the opportunity for the purpose, without the scientific system assessment of the project began to design and development, This makes the real estate enterprises are not able to project risk situation and their own financial risk estimation and warning, so as to bury a series of financial risks for the enterprise itself. And the enterprise internal financial related personnel, senior financial personnel and above the proportion of financial personnel is too small problem is also there, which leads to the enterprise financial personnel professional quality is not enough, in the actual management process, the enterprise on the financial personnel to improve the quality of insufficient attention, leading to financial personnel difficult to have sufficient ability and vision to look at the financial risk of the enterprise.

#### **3.1.2 Lack of Cost Management and Budget Control**

Some enterprises do not control the cost management, resulting in a lot of additional cost inflated, real estate enterprise cost is mainly composed of installation and demolition costs, land expropriation costs, materials and facilities costs, engineering costs and labor costs. In fact, many real estate enterprises often do not think more about cost management, often such as cost control is not comprehensive, in the control of costs failed to consider the objectives of the requirements, many real estate enterprises do not pay attention to the strength of the budget will lead to a lot of unreasonable budget or because not ready to start design and start led to late modification, This has led to repeated over-standard budgets. The lack of budget control means that there are problems in the use of funds or management, the expected effect of project operation is difficult to achieve, and cause waste of funds, investment and financing and other financial risks are inevitable.

#### **3.1.3 Capital Structure Imbalance**

The ratio between the private capital and the financing capital within the real estate enterprise, that is, the capital structure of the enterprise. There is a great influence between the capital structure on the business financial results of the enterprise and the actual financial risk of operation. The normal operation and management activities of real estate enterprises, need a large amount of stable amount of funds, to meet their own expenditure in the early development, if the capital chain broke,

will not only cause the enterprise to suffer huge economic losses, but also lead to damage to the credibility of enterprises, refinancing difficulties, and even the collapse of enterprises. Therefore, real estate enterprises generally use their own funds to obtain land use rights, the right to use as collateral to obtain the next step of the funds required. It can be seen that most real estate enterprises in China are generally short of free capital, foreign financing and borrowing dependence is very serious, thus undermining the coordination of capital structure<sup>[5]</sup>. When an enterprise borrows too much capital, the ratio of assets and liabilities increases accordingly, and the financial risk increases.

### **3.2 Financial Risk Control Measures for Real Estate Enterprises**

After the assessment of the level of financial risk, real estate enterprises need to take targeted response strategies, including mild risk tolerance or concession, moderate risk control and severe risk aversion. In this, for the domestic real estate enterprises prevalent moderate risk and the heavy risk that need not be avoided, put forward prevention and control measures.

#### **3.2.1 Improving Financial Risk Management Awareness**

Thought is the driving force of action. Real estate enterprises must recognize their own characteristics, recognize that financial risk is the operating risk coal oil low risk operation is the hard truth, but also understand that financial risk can not be eliminated objective reality, must always maintain a high degree of vigilance, only in this way, in order to establish a financial risk accountability system, so that all levels of leadership at all levels of enterprises, Business organizations and functions are on the line, keeping an eye on and carefully identifying risks. To this end, the first thing to do is to attach importance to the power of accounting statements. After all, the ultimate goal of financial risk management of real estate enterprises is to ensure that enterprises have a stable large number of operating cash flow, the net cash flow is the financial risk of real estate enterprises. Through the observation and analysis of the financial statements, the accountant can grasp the situation of raising, using, paying interest and repaying the principal of the enterprise' funds, making financial risk report, and making the decision to prevent and control the financial risk by the business decision maker, and at the same time, he can attach great importance to the prevention and control of tax risk. Real estate enterprises in the operation of profit-making activities involved in a variety of tax items, and China's current reform and adjustment of the tax system is in a stage of transformation and adaptation, financial personnel only timely grasp the changes in the tax system, in order to actively carry out tax planning, strictly control the cost of taxation, and ensure that the tax is taxed in accordance with the law, and strive to save tax efficiency Efforts to minimize tax risk, and finally, the ability to actively analyze and use national policies to control the direction of the industry. At present, the real estate industry in response to national policy

and macro-control call, in line with the development of the international economic situation, has entered a high period of consolidation, not only the industry concentration, but also more obvious differentiation characteristics, coupled with the continued tightening of financing channels and financing costs continue to rise, Real estate enterprises should pay more attention to the study of national policy and international situation, in the general direction of the situation, to formulate a more reasonable strategic strategy and financial objectives, for the financial objectives to develop a series of financial activities benchmark.

### 3.2.2 Strengthening the Budget Control of Debt Risk

The debt management of real estate enterprises is the norm, but we must strengthen the debt risk control. Among the many financial risk control tools, budget control is the most rigid and effective. To this end, it is suggested that real estate enterprises should standardize the financing risk control procedures, set up a budget management committee directly under the leadership of the board of directors, responsible for reviewing and approving the company's financing budget and supervision of implementation. The finance department shall make the calculation of the capital needs according to the company's development plan and provide the relevant financial information such as the project funds and the own funds, and report it to the Budget Management Committee; The report of the fund-raising analysis and demonstration shall be submitted to the general manager, the general manager shall hold an office meeting to consider the study, and the major fund-raising shall be considered by the board of directors (chairman) to make a decision of consent or disagreement, and the finance department shall be responsible for the fund-raising operation and report the results of the fund-raising to the Budget Committee on the status of the use of funds and the payment of debt and interest in the reporting period. Accept real-time supervision and guidance. The funding budget control process is shown in figure 1.

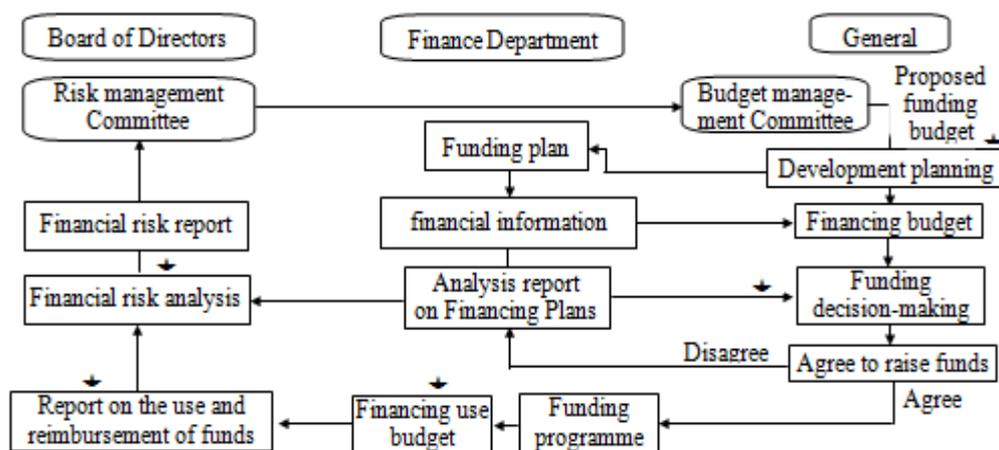


Figure 1: Financing Risk Budget Control of Real Estate Company.

It is seen in the figure, real estate companies should for each investment financing and financial revenue and expenditure activities, humbly identify the possible risk links and activity sites, warning all financial work activities to always pay attention to the financial risk distribution of the "key control points" (★), and then around the collection and payment of financing risk control needs, the implementation of the budget control model of financing risk; Real estate enterprises should also broaden the financing channels at the same time, strive to do a good job of financing, preferably shopping equipment, rental and replacement real estate, and then consider bank loans and the issuance of bonds or stocks, not only to ensure that funds meet the needs of the operation in a timely manner, but also to minimize the cost of financing, improve the effectiveness and efficiency of the use of funds, Effectively control the risk of receiving and paying financing.

### **3.2.3 Establishing and Perfecting Internal Control System**

#### **Exerting the Control Function of Internal Audit**

In accordance with the C-SOX, an enterprise shall issue a report on the performance of internal control at the end of the fiscal year, together with the accounting statement and accept the audit verification and evaluation. Real estate enterprises should strengthen the importance of internal audit of enterprises, and recommend that the audit department be placed under the leadership of the board of directors, directly responsible for the chairman of the report. In this way, we can ensure the independence of internal audit, but also can avoid the audit of the integrity of internal control and the implementation of landing inspection by management obstruction, the authenticity and reliability of the audit report is fully guaranteed. At the same time, real estate enterprises should require audit participation in their project bidding, construction and material materials and equipment purchase and sale business negotiations and contract documents, to ensure that audit participation in internal control, timely elimination and efforts to avoid undue financial risks.

#### **Strengthen the Management of Human Resources Development**

Real estate enterprises should strengthen the development and management of human resources, especially talents, not only to recruit high-level technical and management personnel, but also through equity incentives and other policies to use good talent and retain talent; Regular training and performance appraisal should be carried out, and the mechanism of implementation of rewards and punishments should be established. In this way, we can stabilize senior executives, cadres at the grass-roots level and ordinary employees, ensure the scientific decision-making of enterprises, implement consistent implementation, orderly management norms, level by layer due diligence, everyone's responsibility. As a result, financial risk can be reduced or even avoided in a multi-dimensional manner. At the same time, we should pay attention to the professionalism of financial personnel, improve the proportion of senior financial personnel to the total financial personnel.

Pay attention to make the financial personnel in the business activities and China's policy international direction collision, continuous learning and enrich themselves, improve the enterprise financial management system, pay attention to the management of financial risks, research the latest financial knowledge, combined with the specific reality of enterprises, create value for enterprises.

### **Pay Attention to Purchasing and Payable Cycle Control**

Real estate enterprises from the acquisition of land to "six-way one flat" to the completion of housing construction decoration, the use of a large number of materials and materials and equipment. According to industry experts, the real estate development cost composition, through bidding, auction and listing to obtain urban land land transfer money, land expropriation fees or demolition and resettlement compensation fees and other land costs of about 20-50% range; such as land development costs or pre-project costs. Nearly 10%; construction costs, equipment purchase fees and installation costs incurred during the construction of housing, such as construction costs, equipment purchase costs and installation costs, about 40% of the total cost; Kindergartens, hospitals, neighborhood committees, police stations, etc.) and various for-profit supporting facilities (such as shops, banks, post offices, vegetable markets and other commercial outlets) as well as public toilets, bicycle sheds and other outdoor projects, such as the construction costs of public facilities generally around 10-20%; For the organization and management of real estate development and business activities incurred by the management personnel' salaries, travel expenses, office expenses, insurance premiums, staff education fees, pension insurance fees and other administrative expenses within 2%. It can be seen that the real estate enterprise procurement and payable business accounted for more than 90% of the total cost, if the total amount of control procurement about 30% of the payables, that is, the use of credit and installment settlement method procurement business can reach 30%, will greatly ease the financial tension of real estate development and construction, reduce the financial risk of real estate enterprises.

### **Improving the Inventory Management and Cost Control System**

The inventory management of real estate enterprises is urgent. Unlike other industries, the real estate industry's inventory is a commodity property with land resources, the cost is high, the inventory accounts for the capital cost. In the event of a delay or suspension of sales, not only the value of the housing assets naturally impaired, the funds it occupies can not be recovered but still need to pay the interest on the amount of money raised, there may be delay in the repayment of this period and encounter the risk of higher interest and even financial credit downgrade or into the "black list". Therefore, enterprises should take concrete measures to combine sales and rental, reduce the vacancy rate of commercial housing, reduce capital occupation, speed up capital turnover, improve the utilization rate of funds, shorten the payback period of

investment; In the management activities, we should strengthen cost management, the cost of the project clear, not only clear name, but also clear standards, and to make the costs clear to the departments, to help enterprises to clarify the cost source, improve the cost utilization, so that the various departments effectively coordinate and cooperate, reasonable and effective completion of the goal. Establish and improve the supervision mechanism and reward mechanism, reward and punish the degree to mobilize enthusiasm.

### **3.2.4 Optimizing Capital Structure**

As a capital-intensive enterprise, real estate enterprises should attach great importance to the adjustment and stability of capital structure. Theoretically, the free capital of real estate enterprises should reach the total amount of real estate development market demand. Entering the scale expansion period, appropriate lying into the funds, but generally should not exceed 55%-65% of the total assets, and mainly short-term financing, which is the bottom line to control the risk of cash financing (Lixingfang, 2015:7) If it clearly exceeds this boundary point, it is prone to the risk of receiving and paying for financing, and even the risk of breaking the capital chain. To this end, the financial department of real estate enterprises is required to combine the actual financial needs of the market operation, comprehensive consideration of asset flow quality, accounts receivable recovery capacity, commercial reputation, financial credit, business scale and inventory and other objective factors, with a quantitative ratio to tailor the optimal capital structure; Research and develop an early warning index system to prevent and control financing risk, and conscientiously implement, and finally, we should establish an equity incentive system, so that the equity is appropriately transferred to company executives, technical elites and senior personnel, in order to stabilize human resources. Although some people think that the higher the liquidity ratio of real estate listed companies, the more concentrated the equity, the higher the performance of enterprises. But equity is concentrated in the hands of a few major investors, which can lose its incentive function of attracting talent, stabilizing talent and promoting the company's performance growth, and breed financial risks. If, like Oriental Yuhong, Huaxia Happiness and Chinese enterprises, let the company employ senior personnel and operating staff are holding a certain limited sale of shares, it will maximize the incentive to stimulate the enthusiasm and collective responsibility of the object, and actively eliminate business risks, promote the rapid and healthy development of real estate enterprises.

### **3.2.5 Establishing and Perfecting Financial Risk Early Warning Mechanism**

The real estate industry as a whole is generally vulnerable to policy changes and market fluctuations, in the actual management activities, often encounter a variety of unexpected conditions, and so that enterprises are affected to varying degrees, leading to the possibility of financial risks. The financial risk early warning mechanism is set up to solve this

problem. Real estate enterprises should establish and improve the financial risk early warning mechanism suitable for the specific internal and external environment of the enterprise, set up the financial risk early warning system using the electronic platform, establish a sound financial risk index system and automatic calculation method operation function, ensure that the system can identify and evaluate financial risks in a timely and accurate manner, and issue timely warning of financial risk level. Provide adequate time protection for enterprise finance and decision-making to adopt coping strategies. At the same time, it also helps the real estate enterprise accounting and financing budget management committee to compare the warning prompt with the early warning situation of the current period, or with the same year the financial risk situation of enterprises in the same industry, in order to more scientifically formulate a response strategy.

#### **4. CONCLUSIONS**

Financial risk is linked to operational risk. Financial risk management in place, can timely and accurate identification of the enterprise from the project contract to land acquisition, to land development, material procurement, financing, housing construction, sales and inventory processing and other business links of the financial risk type, and then assess the level and extent of various financial risks, Verified, the determination of individual acceptable mild risks and the severe risks to be avoided by items requiring abandonment are ultimately screened for moderate and heavier financial risks to be controlled. Therefore, it paves the way for enterprises to transform and upgrade from real estate to real estate. At the same time, real estate enterprises should attach great importance to the macro-control and guidance policies of the state on the real estate industry, especially to seriously guard against the financial risks that may be caused by financial interest rates, exchange rate policies and tax policies, and strive to combine the actual environment inside and outside the enterprise, firmly establish the sense of financial risk management, improve the enterprise human resources system, and implement the equity incentive mechanism. To give full play to the independent supervision function of internal audit, strictly implement the enterprise financial management system and financial risk accountability system, constantly optimize the capital structure, establish and improve the financial risk early warning mechanism and the annual report of enterprise financial risk analysis, and effectively take financial risk management as an important grasp of real estate enterprise development.

#### **REFERENCES**

- 1.He changrong,:Discussion on the financial risk management of real estate (Money China, 2018).
- 2.Wang liuyi: Study on the optimization of capital structure of listed real estate companies in China (Tenth Annals of Management and Science and Technology of Small and Medium-sized Enterprises, 2017).

- 3.Li ling: On how to control and prevent financial risks in the real estate industry (Accounting Learning, 2017).
- 4.Tanxin: Talking about the internal and external factors of the current financial risk of real estate enterprises and their risk control measures (China's International Finance and Economics, 2017).
- 5.Li xingfang: Optimised management of capital structure of real estate enterprises (Contemporary Accounting, 2015)
- 6.Dong yanfei: Study on the relationship between capital structure and enterprise performance of listed companies in real estate Business accounting, 2019).