

Original Research Article

The Impact of Inflation on Corporate Finance and Countermeasures

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Abstract: Once inflation occurs, it will have an important impact on the company's financial management. Under the circumstances of inflation, it will face low wages and rising prices, which will also affect the company's financial management. This article focuses on the analysis and discussion of the impact of inflation on corporate finance and countermeasures. First, the concept and specific situation of inflation are introduced, then the impact of inflation on the company's financial management is analyzed. Finally, effective countermeasures are put forward to do a good job in the company's financial management under inflation.

Keywords: Inflation; Corporate Finance; Important Influence; Effective Countermeasures

In recent years, China's real estate and food prices have continued to rise, so the phenomenon of inflation is very obvious, which has an important impact on the financial management of enterprises. Not only will it affect the company's capital construction, it will also cause the loss of the company's capital purchasing power, which is not conducive to the improvement of the company's reproduction capacity. Therefore, the company should comprehensively strengthen its understanding of inflation, and be able to understand the current status of inflation, in order to take effective management measures to do a good job in the company's financial management to ensure the company's further development.

1. Analysis of the concept and specific performance of inflation

1.1 The concept of inflation

Inflation refers to the fact that under the mechanism of credit currency, the actual demand for the economy is much lower than the amount of currency in circulation on the market, which in turn causes the phenomenon of currency rise and the depreciation of currency. In other words, it means that prices have shown an upward trend within a certain period of time, leading to a continuous decline in the purchasing power of currency purchases^[1]. Inflation does not simply refer to the increase in labor service prices or the increase in commodity prices, but refers to the trend of rising prices as a whole. The reason for the inflation will not only cause a shortage of funds for enterprises, but also cause the depreciation of funds, and the purchasing power will continue to decline. Therefore, it will not only cause a demand pulls, but also cause cost advancement.

In particular, as prices continue to rise, the risks of business management continue to increase, and bank credit risks will also increase. The tight financial situation of the country has led to difficulties in corporate loans. Because the currency continues to depreciate, it is necessary to convert the currency into production materials as much as possible to

ensure the orderly development of production. Therefore, when enterprises face inflation, they are likely to transfer the losses caused by inflation to downstream enterprises, and then downstream enterprises continue to transfer. On the contrary, it will cause the price in the market to continue to rise, which will bring obstacles to the country's macro-control.

1.2 Analysis of the status quo of inflation

After investigation and research, it is found that the consumption index of Chinese residents is rising continuously, and the intuitive performance is that vegetables and pork also have different upward trends. At present, the risk of inflation in China is getting higher and higher. Once the phenomenon of inflation occurs, it will not only cause changes in demand and risks, but also inflation will cause spiral inflation of enterprises. It will not only cause the panic, but also is impossible to calm down and suppress inflation in a short time^[2].

For enterprises, only scientific response to inflation can reduce losses and ensure that enterprises can develop in the long run. For example, the current prices of consumer goods such as pork and vegetables are constantly increasing, which leads to greater hidden danger of China's economic inflation, which has led to increasing operational risks for enterprises and difficulties in lending to their banks.

2. Analysis of the impact of inflation on corporate finance

The emergence of inflation has a profound impact on the company's financial management, mainly in the following aspects.

2.1 Led to the company's lack of capital construction

Inflation will cause the imbalance between the demand and supply of funds, which will lead to the rising demand for funds. Inflation will bring rise in prices, so if the same materials are purchased, more funds will be needed. Therefore, if companies want to reduce losses or profit from them, they need to purchase goods in advance for storage, which will also cause the use of funds to continue to increase^[3]. Especially when the fund expansion is serious, it will cause false profits, so that the funds cannot be effectively compensated, and the fund expansion will also cause the supply of funds to continue to decrease. Due to the shortage of funds and mutual arrears, it will not only affect the recovery rate of the accounts received, but also cause a reduction in the supply of funds and affect the stability of prices. In the case of unstable prices, the profit of investment is often greater. Therefore, under the trend of profit, there will be a lot of funds for hoarding or snapping up to carry out various speculative activities, and funds will be converted into new funds. The obstacles and contradictions have cut off the source of new funds and will continue to increase the inflation rate. Under inflation, the government will adopt a policy of currency shortage, which will lead to the continuous decline of bank credit. The cost of an enterprise is constantly increasing, while the interest rate of loans is constantly increasing, and the very harsh conditions will cause difficulties in financing the enterprise.

2.2 Declining purchasing power of corporate funds

During the period of inflation, the amount of monetary assets tends to be less than that of the same period, and the amount of goods or labor obtained is less, so the purchasing power of currency continues to decline. If the degree of monetary liabilities will cause business difficulties. As prices continue to rise and change, the value of non-monetary assets and liabilities of enterprises will continue to increase, and even limit the normal operation of enterprises.

2.3 Affect the reproduction capacity

During the period of inflation, due to the underestimation of capital and the overestimation of profits, the reproduction capacity of enterprises was severely damaged. For example, insufficient capital compensation and compensation funds can not make the enterprise function normally, which leads to the continuous shrinking of the production scale of the enterprise. Because the enterprise bears excess tax burden, resulting in a false increase in profits, in the end, if the company's profits increase, shareholders will demand the right to allocate more work, but this profit is

nothing, causing the company's financial strength to be continuously weakened.

3. Effective countermeasures to comprehensively strengthen corporate finance under inflation

Combining the impact of inflation on the company's financial management, in order to ensure the company's sustainable development and maximize the economic benefits, the following effective countermeasures should be taken:

3.1 Determine reasonable cash holdings

Enterprises need to have cash in the normal operation process, so they should formulate reasonable cash holdings in accordance with the actual situation. Enterprises can only prevent, trade and speculate by holding cash. If there is inflation, the company's current assets will be greatly affected. Once the amount of funds held is insufficient, it will cause a decline in purchasing power. If the enterprise only has a lot of cash, there will be a lot of economic losses due to currency depreciation. During the special period of inflation, the amount of cash must be scientifically and reasonably determined^[4]. When determining the amount of cash held by an enterprise, it is necessary to calmly analyze the phenomenon of inflation and strengthen the management of current production and operation activities, and determine the most reasonable amount of cash held by conducting an overall analysis and evaluation. At the same time, it is also necessary to analyze the problem of purchasing power loss caused by inflation and choose systematic and scientific measures to effectively stop the loss. It must combine its own development needs and related factors of inflation to ensure reasonable cash holdings. Only when there are enough money can the losses be minimized.

3.2 Ensure the rationality of inventory

Inventory also affects the normal and effective operation of the enterprise. Therefore, during inflation, it is a need to ensure that the inventory is reasonable. The inventory will generate a certain inventory cost, and the inventory will also occupy a certain amount of funds. Therefore, only by determining a reasonable amount of inventory can the loss to China's own economy be avoided. Since inventory is a certain amount of storage, not only will it cause storage costs, but inventory will also occupy costs and wear and tear costs in funds. Under normal circumstances, it will try to reduce the amount of inventory in stock, but during inflation, the impact of inflation on inventory must be taken into consideration, and then reasonably determine the amount of inventory that the enterprise should have. Once inflation occur, the country will adopt a policy of deflation, so it will reduce the demand for enterprise products and enterprises can not store a large amount of inventory. At the same time, it should make a reasonable analysis in accordance with their own reality to ensure the scientificity of inventory. Especially for the sale of products, it is necessary to sign long-term shopping contracts with company customers as much as possible to suppress the losses caused by rising prices.

3.3 Timely collection and payment

The enterprise will cooperate with other enterprises or departments in operation, so it is necessary to collect all kinds of collections in a timely manner, and it can also reduce the economic loss caused by inflation to the enterprise. For example, during the inflation period, the company's capital demand is increasing, so its own funds will become increasingly tight. To change this status quo, companies must collect all kinds of receivables in time to avoid the possibility of bad debts^[5]. Therefore, in order to better cope with inflation, the enterprise should appoint a special person to collect the receivables, raise the credit standard in an all-round way, and scientifically and reasonably reduce the problem of difficult fund recovery caused by the credit period. By recovering all kinds of accounts in a timely manner, it can also ensure the needs of corporate liquidity and avoid bad debts caused by inflation. By recovering all kinds of accounts in a timely manner, it can also ensure the needs of corporate liquidity and avoid bad debts caused by inflation.

3.4 Make a long-term rational investment strategy

When investing, enterprises can be divided into long-term investment and short-term investment. Short-term investment refers to investments that are held for no more than one year and can be realized at any time, including stock investment, bond investment and capital investment. The liquidity of short-term investment is second only to cash, which can also be called a temporary form of cash, and its liquidity is relatively strong. For short-term investment, the impact of inflation is relatively small, which requires companies to plan long-term strategic investment. Therefore, long-term investment refers to funds that exceed one year and cannot be realized at any time, including long-term equity investments and long-term bond investments. Once inflation occurs, it will have a far-reaching impact on the company's long-term investment strategy. Therefore, companies must be cautious in formulating long-term strategic goals, and conduct scientific analysis to avoid economic losses.

3.5 Take effective measures to reduce tax burden

In the course of operation, the enterprise bears the obligation to pay taxes. Therefore, when dealing with inflation, in order to ensure the economic benefits of the enterprise, an effective method should also be adopted to reduce the tax burden and pressure as much as possible. In order to ensure the legal operation of enterprises, scientific methods must be adopted to reduce the tax burden. For example, you can choose a scientific method to effectively reduce the depreciation period to increase the actual cost of expenditure or increase the cost of depreciation of fixed assets, or you can make full provision for bad debts for receivables that have not been recovered. Through communication and reporting with the tax department to strengthen contact, as far as possible to ensure a reasonable reduction in the tax burden of the enterprise^[6]. By strengthening communication with the tax department, enterprises can constantly adjust the pressure of the tax burden within the scope allowed by law, achieve development goals in inflation, and obtain more economic benefits. Only by adopting diversified measures can the negative effects brought about by inflation be better coped, and can the stable operation be realized within the enterprise under the circumstances of inflation, and can the core competitiveness of the enterprise itself be enhanced.

4. Conclusion

Inflation refers to price increases and currency depreciation. It mainly means that if inflation occurs within a certain period of time, not only will the purchasing power of the currency continue to decline, but also the overall price level will rise. Therefore, under the influence of inflation, the company will not only lack funds, but also cause poor purchasing power of funds. Therefore, in order to do a good job in the company's financial management, especially to better cope with inflation, it should ensure that the company's reasonable cash holdings. For quantity, scientifically and reasonably determine the quantity of inventories and the status of collecting and responding to accounts as soon as possible, a longer-term investment strategic plan should also be formulated. Only by adopting effective methods to control the tax burden can the economic losses caused by inflation be truly reduced and can the sustainable development of enterprises be realized.

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