Accounting treatment and impact of gambling agreement in Lianchuang Co., LTD

Han Zhang

School of Economics and Management, Nanjing University of Science and Technology, Nanjing, China

Abstract. With the full entry of China's capital market into the registration system, the merger and acquisition activities of listed companies will become more and more market-oriented. In order to reduce the transaction risk of the two parties, the listed companies will often attach a gambling agreement in the merger and acquisition business. This paper adopts the case study method, with Shandong Lianchuang Internet Media Co., Ltd. acquired Shanghai Pan Investment Network Technology Co., Ltd. as the research object, and the analysis of Lianchuang Company in 2017-2020 accounting treatment. Summing up the current business accounting standards related to the gambling agreement accounting treatment facing the dilemma. It can be seen from the accounting treatment of contingent consideration that there are still some misunderstandings in the listed companies' understanding of contingent consideration, which reflects the lack of professionalism in the accounting treatment regulations related to the gambling agreement.

Keywords: Gambling Agreement, Merger and Acquisition, Accounting Treatment.

1. Introduction

In recent years, the gambling agreement has gradually been valued and recognized by the legal circle, but from the perspective of accounting treatment, it has not formed a set of relatively perfect accounting treatment methods, so it is of practical significance to discuss the accounting treatment of the enterprise investment and financing parties. Mergers and acquisitions with bet agreement, this practice, tend to improve mergers and acquisitions premium, mergers and acquisitions, as the expiration of performance commitment, bet on agreement as the value of options will produce corresponding changes, but based on the current accounting standards without detailed provisions, the party often will not confirm the value of the bet agreement, but all the premium included in the long-term equity investment, and rolling goodwill in the consolidated statements. As a result, the value of goodwill is inflated. In the performance commitment period after the merger, as the intrinsic value of the gambling agreement is transferred to other assets, the book value of goodwill will inevitably be affected, and the acquirer has to make provision for goodwill impairment provisions.

Whether the gambling agreement can be confirmed separately and priced directly affects the evaluation of the solvency, profitability, merger and acquisition performance of the enterprise; whether the reasonable determination of the cost and investment cost, different types of gambling agreements also affect the way and effect of the merger; finally, whether the reasonable differentiation between financial instruments and long-term equity investment is related to the usefulness of financial information and the judgment and supervision of the regulatory authorities on the capital market business. Therefore, it is of great significance to study the confirmation and measurement of the terms of gambling agreements. Through the analysis of the nature of the gambling agreement, this paper puts forward suggestions for the confirmation and measurement of the gambling agreement, hoping to put forward some specific operational suggestions for the accounting treatment of the gambling agreement, and then provide more valuable accounting information for the capital market supervision.

2. Case study on accounting treatment of gambling agreement

2.1. M&a overview

2.1.1 M&a Company Profile

Shandong Lianchuang Internet Media Co., Ltd. (hereinafter referred to as Lianchuang Stock) was established on January 29,2003. With the advantages of Internet digital marketing media and green chemical industry chain, it has formed a group management and become a large modern group company. The headquarters of the group is located in the East Chemical Industry District of Zhangdian, Zibo City, Shandong Province, which is adjacent to Ji-Qing Expressway in the north and Qingdao Port in the east. It is a company with the development of Internet media and green chemical industry chain.

On August 01,2012, Shandong Lianchuang Internet Media Co., Ltd. was listed on the Growth Enterprise Market of Shenzhen Stock Exchange. The stock is referred to as "Lianchuang Stock", stock code: 300343.

2.1.2 Profile of the acquired company

Shanghai Bou Network Technology Co., Ltd. (hereinafter referred to as BG Company), established in 2014, located in Shanghai, engaged in technology development, technical consultation, technical services, technology transfer, marketing planning, industrial investment, market information consultation and survey (social survey, public opinion survey, public opinion survey), business management consultation, business services, e-commerce (not engaged in value-added telecommunications and financial services), using its own media to publish advertisements, design and production of various advertisements; public relations consulting services. The registered capital of the enterprise is 1.25 million RMB, and the paid-up capital is 1.25 million RMB, and the strategic financing has been completed in 2017.

2.1.3 Merger & Acquisition Strategy

In September 2017, Lianchuang shares acquired 50.1% of the equity of the company, and paid 648.07 million yuan in cash; in August 2018, it acquired the remaining 49.9% of the equity, at a price of 683.63 million yuan, including 170.9 million yuan in cash, the difference was paid by the new issuance of 54719584 shares of Lianchuang. And with the original shareholders gao Shengning, Li Kan signed a gambling agreement, the company in 2017,2018,2019,2020 audit after deducting non-recurring profits and losses, the net profit attributable to the parent shareholders are not less than 98 million yuan, 122.5 million yuan, 155 million yuan and 169 million yuan, the cumulative not less than 446.5 million yuan. If the actual net profit of the company does not meet the above commitment, by gao Shengning, Li Kan and other original shareholders with equity or cash to Lianchuang company compensation net profit difference.

2.2. Analysis of accounting treatment of gambling agreement

2.2.1 Combined profile

Through the merger of Lianchuang shares in the Shenzhen Stock Exchange related announcement collation, Lianchuang shares, and the acquisition of the company gambling agreement related to the main accounting treatment in Table 1

Table 1 Lianchuang shares, the disclosure of Shanghai griddle, Unit: ten thousand yuan

Time	2017-12-31	2018-12-31	2019-12-31	2020-12-31	2021-12-31
Commitment performance	9,800.00	12,250.00	15,500.00	16,900.00	
Complete the performance	10,634.55	12,480.68	-7,374.95		
Board of Directors announcement-				54,690.40	
Performance compensation				21,210.42	1,176.00
Non-operating income- - performance compensation				21,214.52	
Long-term equity investment	64,807.00	133,170.00	133,170.00	133,170.00	
Long-term equity investment impairment provision	-		133,170.00	133,170.00	
goodwill	58,246.52	58,246.52	58,246.52	58,246.52	
Goodwill impairment		8,131.59	58,246.51	58,246.51	

Lianchuang shares in 2019 on the company goodwill, long-term equity investment are full impairment provisions. And according to the 2019 financial statements notes, calculated in 2018, the investment impairment provision of 28.426,800 yuan.

In 2020, the announcement has signed a performance compensation agreement with the original shareholders of the company, with the issue price converted share compensation of 375.9965 million yuan, recover the cash consideration of 170,90750 million yuan, a total of 546.9040 million yuan; the actual performance compensation received in 2020 is about 212.1042 million yuan. And in the 2020 annual financial statement to confirm the non-operating income —— performance compensation of 212.1452 million yuan.

In 2021, Lianchuang shares to 250 million yuan will hold the company transferred to related parties.

2.2.2 Rational analysis of accounting treatment

Lianchuang shares in 2017 acquisition of 50.1% equity, although the agreement agreed on the gambling terms, but Lianchuang shares, will not bet, the gambling agreement formed the contingent consideration in the 2017 annual financial report to reflect. Due to the acquisition of the company, and plans to further acquire the remaining equity, based on the business background of the agreement, the parties to the company to achieve the forecast performance of the judgment is "very likely to happen", so in the purchase date will bet the agreement of the fair value of 0 has its rationality. However, according to the guidelines, the relevant basis of determining the contingent consideration as 0 should be disclosed in the notes to the financial statements.

In August 2018, Lianchuang shares acquired the remaining 49.9% equity of the company, In December 2018, the goodwill impairment of 81,315,900 yuan was deducted, As can be seen from this observation, Although the actual profit of 2018 is greater than the promised profit, But it is expected that the promised profits of the future commitment is difficult to meet the standards; While signs of impairment appeared within 12 months of the merger date, But the profitability of 2018 and the remaining period of the future does not belong to the "purchase day", Therefore, the merger cost and goodwill amount were not adjusted for the above new situation. However, Chuang Shares did not disclose the impact of the above impairment signs on the contingent consideration, and how to confirm and measure the fair value of the contingent consideration, nor did it disclose the impact of the above impairment signs on the impairment of the long-term equity investment and its amount.

In 2019, the goodwill impairment of the company was 501,149,200 yuan, and the long-term equity investment impairment provision was 13,3273,200 yuan, which can be calculated from 28.426,800 yuan in 2018. However, in 2018, Chuang Shares did not disclose the 28.4268 million yuan, the impact of the above impairment signs on the contingent consideration, and how to confirm and measure the fair value of the contingent consideration.

In 2020, Lianchuang has signed a performance compensation implementation agreement with the original shareholders of The Company, and confirmed under the income statement that the performance compensation of 212,1452 million yuan, including cash compensation of 120,9075

million yuan, 91.196,700 yuan for the receipt of 17,537,7827 shares compensation, the compensation amount is calculated according to the diluted issue price of 5.20 yuan per share. In addition, it is disclosed that the total repurchase cancellation is 1 yuan, involving the compensation of 72259,056 shares, and the performance compensation amount can be offset by the issue price of 375,996,500 yuan. However, Chuang Shares did not disclose the impact of the above performance compensation on the contingent consideration, and how to confirm and measure the fair value of the contingent consideration.

Lianchuang shares in 2021 receivable the company of the original shareholders cash compensation 702956500 yuan, share compensation 98535076 shares; has received cash compensation in 2021. However, it has not disclosed the impact of the above performance compensation on the fair value of "contingent consideration" and how to be confirmed, measured and disclosed.

2.3. Accounting treatment recommendations

On agreement of the contingent consideration, should be during the purchase and subsequent of contingent consideration in accordance with the fair value, measurement and disclosure, through the above of lianchuang shares acquisition cast company or consideration rationality analysis, the following according to the provisions of the accounting standards for enterprises, or consideration correct accounting treatment.

(1) In 2017, Lianchuang shares to achieve the forecast performance of the company judgment is "very likely to happen", should be based on the "accounting standards for Enterprises" provisions, disclosed in the financial statements notes, the contingent consideration is determined as a financial asset, the amount of 0 yuan of the relevant basis.

(2) In 2018, The goodwill impairment of Lianchuang Shares shall be 81,315,900 yuan, and the impairment provision of long-term equity investment shall be made in the individual statements of the parent company at the same time, assuming that the impairment amount of impairment is assumed to be consistent with the goodwill impairment, that is, 81,315,900 yuan. Accounting entries are:

Dr: asset impairment loss of 8,131.59

Cr: long-term equity investment impairment provision 8131.59

Goodwill impairment or will obviously affect the fair value of contingent consideration, lianchuang shares should be receivable performance compensation confirmed as a receivable financial assets, but has not yet specific compensation content and cast company original shareholders agree, the performance compensation recoverable and recoverable amount cannot be reliable measurement, so cannot be identified as an asset. Lianchuang shares should be the rest of the future of the realization of the forecast, the original shareholders of the credit company in the financial statement notes to the detailed disclosure.

(3) In 2019, the actual profit of the company and the promised profit difference is very big, after the impairment test, the value of the company is 1.1565 million yuan, therefore, the full provision of goodwill impairment and long-term equity investment impairment provisions. Goodwill impairment will affect the fair value of the contingent consideration, lianchuang shares should be receivable performance compensation confirmed as a financial assets receivable, but has not yet specific compensation content agree with the original shareholders, the performance compensation of recoverable and recoverable amount cannot be reliable measurement, so cannot be identified as an asset. Lianchuang shares should be the rest of the future of the realization of the forecast, the original shareholders of the credit company in the financial statement notes to the detailed disclosure.

(4) Lianchuang shares in 2020 has been signed with the original shareholders of the pan investment company performance compensation implementation agreement, And completed the repurchase cancellation of 1,7526,196 shares on December 31,2020, The unit price per share should not be determined according to the issue price, It should adopt the closing price of 2.89 yuan / share on December 31,2020, Calculate the fair value of the share compensation received, Adding the equity transfer payment originally payable against the cash performance compensation of RMB 120,907,500,

In the 2020 income statement, "Changes in fair value" item below reported 171.5918 million yuan, The accounting entries are as follows:

Dr: other payables- -pan investment company equity transfer payment 12090.75

Equity 1752.62

Capital reserve 3,315.81

Cr: profit and loss of change in fair value 17,159.18

Lianchuang shares, should be signed with the original shareholders of the company performance compensation implementation agreement, cash performance compensation receivable 702,956,500 yuan, receivable share compensation 98535076 shares, 2020 has received compensation, freeze the original shareholders assets and detailed disclosure.

(5) In 2021, Lianchuang Company has received cash compensation of 11.760 million yuan, and the accounting entries are as follows:

Dr: bank deposit 1176.00

Cr: profit and loss 1176.00

In the notes to the financial statements, cash performance compensation receivable RMB 702,956,500 yuan and share compensation receivable 98,535,076 shares; as of December 31,2021, cash performance compensation has received RMB 132,667,500 yuan and share compensation 17,5262 million shares; the assets of the original shareholders of the company are frozen and disclosed in detail.

3. Beware of fraud in gambling agreements

3.1. Case analysis

On the evening of November 20,2022, Shandong Lianchuang Industrial Development Group announced that it had received the Zibo Intermediate Court of Shandong ProvinceLianchuang shares (safeguard legal rights) By the first instance of the criminal judgment of the contract fraud case, found that this gambling agreement is a fraud from beginning to end.

Shanghai pan cast in November 2015, the legal representative changed to Gao Shengning. At the end of 2015, the defendant Kong Gang and Gao Shengning met, conspiracy packaging Shanghai pan investment company was listed companies at a high price. Under the defendant hole just planning, Shanghai cast company adjust the equity structure, determine by borrowing in vitro funds, buy false performance performance, making false financial accounts, improve Shanghai cast company valuation, in order to achieve the purpose of mergers and acquisitions of listed companies, through the defendant Gao Shengning, Wang Yun, huang, Ye Qing and others concrete implementation.

On September 29,2017, the defendant Gao Shengning and Shandong lianchuang company equity acquisition agreement, Shandong lianchuang company to pay cash 648.07 million yuan to buy Shanghai pan cast company 50.10% equity, cash to increase its stake in Shandong lianchuang shares, and commitment to Shanghai pan cast company in 2017-2019 after deducting non-recurring gains and losses attributable to the parent company of Shandong lianchuang company net profit of not less than 98 million yuan, 122.5 million yuan, 155 million yuan, signed performance compensation commitment. On August 16,2018, Gao Shengning et al signed the "Agreement on Issuing Shares and Paying Cash to Purchase Assets", "Agreement on Performance Commitment Compensation", Agreement Shandong Lianchuang company to 683.63 million yuan to acquire the remaining 49.90% of the equity, The payment method includes private placement of 54,719,584 million shares (priced at 512,722,500 yuan) and cash payment of 170,907,500 yuan, Commitment to Shanghai pan investment company in 2018-2020 after deducting non-recurring gains and losses attributable to the parent company Shandong Lianchuang company net profit is not less than RMB 122.5 million yuan, 155 million yuan, 169 million yuan respectively. Shanghai griddle investment company in 2017-2019 during the cumulative inflated net profit of about 344 million yuan. From November 2017 to December 2018, the city company in accordance with the 50.1% shareholding ratio of the Shanghai pan and table processing, 2019 January-December listed companies in accordance with the 100%

shareholding ratio of the Shanghai pan and table processing. According to the preliminary calculation, the first-instance judgment will not have a significant impact on the audited net profit of the company in 2017-2019, will not cause losses for three consecutive years from 2017-2019, and will not affect the type of opinions in the financial audit report. The Company will correct the errors in its financial reporting as soon as possible according to the subsequent progress of the case.

In the end, the defendant committed the contract fraud in order to complete the performance of the company and conspired to increase the profit by 510 million yuan. Four people were sentenced to ranging from 3 years to 15 years in prison, and the principal offender was sentenced to life imprisonment.

3.2. Prevention of fraud

Although the merger and acquisition contract fraud case of Lianchuang Shares has achieved a relatively positive effect, it has indeed caused a considerable impact on the listed companies and their minority shareholders. During the period when Lianchuang Shares achieved performance growth through mergers and acquisitions, the company's share price also rose from 27.78 yuan / share before suspension to 145.99 yuan / share, an increase of more than 420%. But now, as the bubble has been gradually broken, the share price of Lianchuang shares has also experienced a long period of silence.

And how to prevent risks on the eve of mergers and acquisitions, has become the most concerned topic in the market. The first is the intermediary agencies to fulfill their duties. The merger and acquisition link intermediaries are diligent and responsible, which may minimize the occurrence of the corresponding events. Mergers in the link is due diligence and asset appraisal, which in addition to the acquirer, the buyer transaction both parties, and the corresponding intermediary agencies, including law firms, auditors, appraisers, etc., if the intermediary agencies can diligently, may also can minimize the occurrence of the corresponding events.

Earlier, in the case of Ningbo Dongli's acquisition of the rich supply chain, due to many problems in the process of project verification, Shenzhen Stock Exchange issued regulatory letters to two sponsor representatives, project signature lawyers, certified public accountants and asset appraisers.

But not all of the fraud intermediaries can find, intermediary agencies whether have a responsibility, need to see whether the job is done, whether due diligence, but the early stage of the merger, acquisition of any enterprise will through the intermediary agencies for careful, serious, but a lot of hidden things can't find out through the preliminary investigation.

Therefore, the important measures to prevent merger and acquisition risks, on the one hand, is whether the listed company has the ability to integrate and avoid risks through a series of strong management and control; on the other hand, we should consider the gambling index in an all-round way, not just to bet on the single index of profit. Under the registration system, the motivation of merger and reorganization should be more returned to improving the development quality of listed companies, with industrial integration as the core.

There will be risks in the process of merger and acquisition, and even many sequelae. However, merger and reorganization is an important auxiliary means for the rapid development of enterprises. If enterprises become bigger and stronger, they need to acquire the market and talents through mergers and acquisitions.

4. Summary

Related to the accounting treatment of contingent consideration, China's accounting standards are gradually standardized from scratch, especially with the frequent occurrence of gambling agreement in the capital market, the provisions on the formation of gambling agreement or consideration in China are becoming more and more clear. However, it can be seen from the above accounting treatment of the contingent consideration of Lianchuang shares, There are still big misunderstandings in listed companies' understanding of contingent consideration, Thus reflects the gambling agreement related accounting treatment provisions operability is not strong, Mainly reflected in the following

two aspects: first, the accounting standards for enterprises require compensation is likely to be recovered, And the recoverable amount can only be recognized as an asset by measurement, The contingent consideration formed by the gambling agreement agreed by law in the capital market, It often takes a long time (possibly several years) to meet the accounting definition of "fixed to fixed" or assets, Lead to accounting confirmation in the early stage is difficult to operate.2. Accounting standards for enterprises require that even cash compensation should consider the difference between the current actual performance and the promised performance in the estimation and judgment of the fair value, and also consider the promised performance in the remaining period of the future, the credit risk of the promised party, monetary time value and other factors, resulting in accounting is difficult to operate in the measurement of fair value.

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