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СЛИЯНИЯ И ПОГЛОЩЕНИЯ КАК ФАКТОР РАЗВИТИЯ МЕЖДУНАРОДНЫХ КОМПАНИЙ

ПОЯСНИТЕЛЬНАЯ ЗАПИСКА
К ВЫПУСКНОЙ КВАЛИФИКАЦИОННОЙ РАБОТЕ
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Руководитель работы, к.э.н., доцент
_________________ С.В. Калентеев
_________________________ 2021 г.

Автор работы
студент группы ЭУ-222
____________________Цао Инцзя
_________________________ 2021 г.

Нормоконтролер, к.п.н., доцент
__________________ Е.В. Ярушина
_________________________ 2021 г.

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ABSTRACT

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Under the background of rapid development of economic market, more and more enterprises choose the way of mergers and acquisitions which is short for M&A, to achieve scale effect, enhance core competitiveness and expand economic benefits.

Starting from the basic theory of M&A, this paper describes the essence of M&A. Then it introduces the accounting rent-seeking theory, economic consequence theory, synergy effect and the importance of financial treatment in business combination, which lays the foundation for a better understanding of the cause of business combination. This paper also introduces the merger consideration and accounting treatment in the process of bright dairy business merger and draws the conclusion that Bright Dairy is in a positive state in the overall process of merger.

At the end of the paper, there is a summary and analysis put forward some suggestions on the aspects of financial stability, information processing, accounting processing methods, enterprise norms, accounting firm norms, etc.

CONTENT

INTRODUCTION

Although M&A activities are becoming more and more active, there are many examples of M&A failure, because the investigation before M&A, the valuation during M&A and the integration after M&A all affect whether M&A activities can achieve the expected results. There are two main reasons for the failure of M&A activities. One is that the enterprises are too optimistic about the value expectation of the synergy effect of M&A and pay too high transaction premium; Second, enterprises ignore the integration activities after M&A.

This paper takes Bright Dairy as the research object, analyzes, and investigates the problems in the process of Bright Dairy merger. The main purpose: on the one hand, through the performance of merger behavior, analyze the motivation of merger. On the other hand, it is to evaluate the benefits of merger, summarize the rules from the treatment of merger consideration, improve the efficiency and reduce the risk of merger at the same time. Finally, I hope to draw a guiding conclusion and improve the market structure and business structure.

Therefore, the task should not only be on to evaluate the investment value of the merged enterprises correctly and reasonably, but also to judge the source, channel, mechanism, and value of the synergy effect, and standardize the accounting treatment involved in the process of business combination. This is not only for enterprise risk management, but also to prevent economic losses caused by fraud. It will effectively improve the success rate of M&A for enterprises.

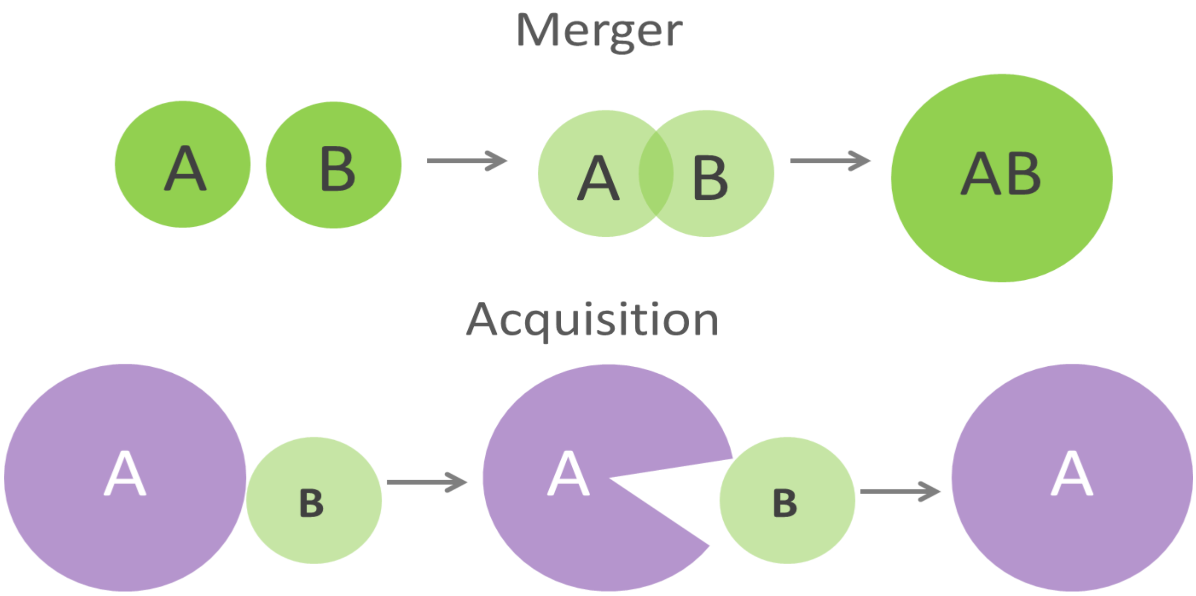
In this paper, literature research method was used to sort out and evaluate the previous relevant literature and case study method and comparative analysis method were used to analyze the merger motivation, merger consideration and differences of different accounting treatment methods in the form of data and charts. In particular, the differences of economic consequences are analyzed and explored systematically and comprehensively.

1 A REVIEW OF THE THEORIES RELATED TO MERGER AND ACQUISITION

1.1 Overview of merger and acquisition

1.1.1 Definition and the essence of merger and acquisition

M&A refers to the merger of two or more independent enterprises to form an enterprise, usually by a dominant company to absorb one or more companies. Also called business combination.



Picture 1.1- Simple diagram of merge and acquisition

A significant sign of M&A is the transfer of enterprise ownership. This ownership can be only for a certain asset, or it can be all the assets of the enterprise.

The connotation of M&A is very extensive, generally refers to the acquisition and merger. Acquisition refers to the purchase of shares or assets of another enterprise by an enterprise with cash or securities, so as to obtain the ownership of all or certain assets of the enterprise, or the control of the enterprise. Another concept related to the meaning of M&A is merger, which refers to the merger of two or more enterprises into a new enterprise.

After the merger, multiple legal persons become one legal person.

The essence of M&A is a kind of right transfer behavior in the process of enterprise control movement, which is based on the institutional arrangement of enterprise property rights. It is the transfer of control brought by the transfer of ownership mentioned above.

M&A activities are carried out under certain property right system and enterprise system. In the process of M&A, one or some right subjects gain corresponding benefits by transferring their control over the enterprise, while the other part gains this control by paying a certain price. In a word, the process of M&A is essentially the process of continuous transformation of the subject of enterprise rights.

1.1.2 Motivations for business merger and acquisition

One of the most basic reasons is that enterprises want to seek expansion and capital accumulation through merger. For enterprises, there is another way to seek expansion called internal expansion, but compared with mergers and acquisitions, the process of internal expansion will be too slow. It's not a good choice when you don't consider the uncertainty or when the uncertainty is small.

Another common motivation is synergy. The proponents of M&A usually pay a specific M&A price by achieving a certain synergy effect. The synergy of M&A include Operating Synergy and Financial Synergy.

At the transaction level, the motivation of M&A is more colorful. Firstly, the business scale of enterprises will gradually expand with the merger and acquisition of enterprises, and the emergence of economies of scale will reduce production costs and optimize the allocation of resources; secondly, the advantages of productivity cannot be underestimated due to the improvement of enterprise scale. Productivity brings about a substantial increase in market share, which will lay the leading position of enterprises in the industry; thirdly, brand is the labor force of value, and M&A, as a brand management strategy, will be affected by the added value of products brought by brand effect and obtain more profits; fourthly, through M&A, enterprises will expand their scale and become the main customers of raw materials, which can greatly enhance their competitiveness.

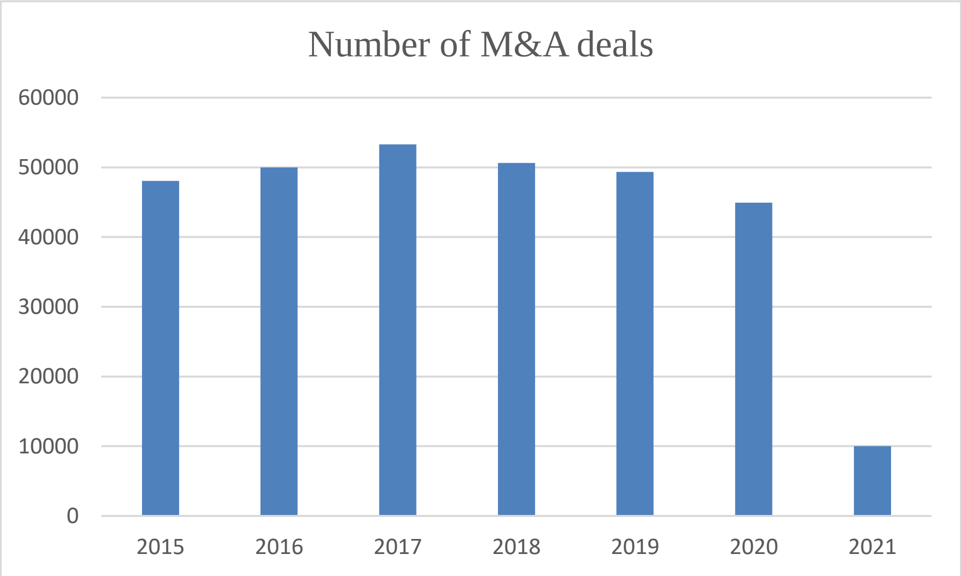
Therefore, it is possible for enterprises to obtain cheap means of production. At the same time, efficient management, the full use of human resources and the popularity of enterprises are helpful to reduce labor costs. To improve the overall competitiveness of the enterprise; fifthly, M&A activities acquire not only the assets of the enterprise, but also the human resources, management resources, technical resources and sales resources of the acquired enterprise.

Picture 1.2 shows the most famous merger enterprises in history, their merger year and transaction price. We can see that the scale of business combination has been exceptionally large since the 1990s. In 1999, the transaction price was as high as $202.8 billion. Among them, merger usually occurs, and there are few cases of acquisitions.

Vodafone and Mannesmann merger (1999) - $202.8B
AOL and Time Warner merger (2000) - $182B
Gaz de France and Suez merger (2007) - $182B
Verizon and Vodafone acquisition (2013) - $130B
Dow Chemical and DuPont merger (2015) - $130B
United Technologies and Raytheon merger (2019) - $121B
AT&T and Time Warner merger (2018) - $108B
AB InBev and SABMiller merger (2015) - $107B
Glaxo Wellcome and SmithKline Beecham merger (2000) - $107B
Heinz and Kraft merger (2015) - $100B
Bristol-Myers Squibb and Celgene merger (2019) - $95B
Royal Dutch Petroleum and Shell merger (2004) - $95B
Pfizer and Warner Lambert merger (1999) - $90B

Picture 1.2- A list of the biggest mergers and acquisitions

Picture 1.3- Global numbers of merge and acquisition from 2015 to 2021



These are conducive to the fundamental improvement of the overall competitiveness of enterprises and the realization of the company's development strategy; sixthly, enterprises will have the opportunity to quickly enter new industries through acquisition, which is a convenient way to realize enterprise diversification. In the mixed M&A mode, with the aggravation of industry competition, enterprises can not only effectively expand the business scope of enterprises, obtain a wider market and profits, but also disperse the risks brought by the industry competition by investing in other industries.

For the concept of business combination, IFRS 3 defines it as the formation of an economic entity by means of joint enterprise to enterprise or the acquisition of control and operation rights of the net assets of the combined enterprise[6]; fas141 (FAS) 141) it is pointed out that business combination refers to the transaction of an entity acquiring the net assets or equity of one or more entities and controlling the transactions of the acquired entity; China's accounting standards for Business Enterprises No. 20 (CAS 20) defines business combination as a transaction or event in which multiple individual business combinations form a reporting entity [8]. Both international and American financial standards regard business combination as a process of purchasing equity or net assets of other entities, while the definition of business combination in accounting standards of China does not reflect the purchase behavior.

According to the provisions of Chinese accounting standards, only when the two conditions of acquiring the control right of one or more merged enterprises and the business of the merged party are met simultaneously, can the merger be formed.

Among them, control refers to the combination party can participate in the major financial and operation decisions of the combined party and can bear or enjoy variable returns.

Business refers to the combination of production and operation activities or assets and liabilities within the enterprise with input, processing and output ability, and the combination can independently calculate the income and cost incurred by the combination.

If the combined party does not constitute a business, the transaction can only be treated as an acquired asset.

1.1.3 Types of mergers and acquisitions

According to the standards for business combination in China, whether the merging parties belong to enterprises under the same control before the merger is regarded as the classification standard, and business combination is divided into business combination under the same control and business combination not under the same control.

If both sides of the enterprises participating in the merger are ultimately controlled by the same party or the same parties before and after the merger and the control is not temporary (the control time is more than one year), it is a business merger under the same control; otherwise, it is a business merger not under the same control.

International accounting standards classify business combinations according to different classification standards.

Horizontal merger and acquisition is the horizontal integration of enterprises in the international scope. Horizontal merger refers to the merger between enterprises that produce or operate the same or similar products. Horizontal merger has two obvious effects: realizing scale economy and improving industry concentration.

Table 1.1- Types of business merge using relationship method

Classification standard	Category	Definition
Relationship before merge	Horizontal	the same industry and similar products.
	Vertical	different positions on the same industrial chain.
	Hybrid (Mixed)	no connection between the two parties

The influence of horizontal merger on market power is mainly through the concentration of industries, through which the market power of enterprises is expanded. The basic condition of adopting horizontal merger is that the merging enterprises need and have the ability to expand the production and sales of their own products, and the products and production and sales of the merging enterprises have similarities or similarities. Enterprise value creation comes from the realization of production, sales and other processes after the effective integration of production factors. The industry specificity of management ability and technical level comes from the accumulation in the process of enterprise development, which forms a close relationship with various assets including intangible assets formed by enterprise development and is also the result of the special team combination and enterprise spirit. This kind of exclusive ability and level has played a huge role in the process of enterprise development.

However, if it is separated from the specific enterprise environment created before due to historical reasons, its value will be difficult to highlight. This exclusive limitation limits the outward development space of talents with these abilities and technologies.

Because their own value can only be reflected in the original or similar working atmosphere.

When an enterprise becomes the leading enterprise in the industry, the long-term accumulation makes the management ability and technical level surplus. This determines that these enterprises have the basic conditions of outward expansion and outward transfer of production factors, and the limitations of the transfer of exclusive capacity and technology require enterprises to consider horizontal merger first. Generally speaking, merger companies always accumulate certain core advantages before horizontal merger.

However, there are some risks in horizontal merger. Although the scale expansion brought by merger can generally make enterprises get the benefits of scale economy and cost reduction, scale economy comes from the inseparability of factor input. If there is no fully utilized inseparable factor, business merger will not achieve cost reduction. In addition, with the expansion of scale, coordination complexity and increasing cost of some industries may lead to un-economics in some sectors, such as labor-intensive textile and food industries. In addition, if the merger is for the reason of scale economy, we must consider the demand level that the market can accommodate. Ignoring the market demand and simply pursuing scale economy will not get satisfactory results.

When the products of the merged enterprise are in the upstream or downstream of the merged enterprise, and the business of the merged enterprise can connect with the business of the merged enterprise, it is called vertical merger. The purpose of vertical merger is to improve the efficiency of economic cooperation. It is an extension of business units to the processing and sales of their products. Vertical merger may be the merger of production enterprises with input factors or raw materials, or the merger of final production and sales enterprises.

In vertical merger, enterprises can effectively control the input-output relationship, and deal with some business by administrative means rather than market means, which can improve the ability of enterprises to control the market. Vertical merger makes enterprises improve their bargaining power with suppliers and buyers. Enterprises compete with suppliers mainly by forcing suppliers to lower prices and compete with buyers by forcing buyers to accept higher prices. This bargaining power is mainly determined by the industry structure of both parties and the relative importance between them. Vertical merger reduces the importance of suppliers and buyers, especially when vertical merger is combined with industry concentration trend, it can greatly improve the bargaining power of enterprises. Vertical merger often leads to "interlocking" effect. An enterprise that controls a large number of key raw materials or sales channels can effectively control the activities of competitors through the control of raw materials and sales channels. Therefore, even if there is no obvious economic benefit of vertical integration, in order to prevent enterprises from being controlled by competitors, when an enterprise takes the lead in implementing vertical merger, other enterprises must consider implementing vertical integration for the purpose of defense. However, vertical merger often leads to the endless extension of enterprises to other fields, which makes the enterprises' stalls bigger and bigger, thus weakening the core competitiveness of enterprises.

Merger between different enterprise fields is called mixed merger. It is usually to expand the scope of business. After transformation, the merged enterprise will help expand production and increase profitability.

In the face of market fluctuations, enterprises will disperse the market through mixed mergers, which will effectively reduce the impact of cyclical fluctuations. Mixed merger or diversified operation represents a mechanism to obtain joint economic benefits, that is, it can supply investment to many enterprises producing different final products at the same time. In this kind of market transaction, opportunism is well utilized. In addition, the impact of mixed merger on market share is mostly achieved in a covert way. In most cases, enterprises enter into the business areas associated with their original products through mixed mergers and acquisitions. In these areas, they use the same raw materials, technology, management rules as the main products, or the expansion of the scale of sales channels, which makes the enterprises strengthen their control over the original suppliers and sales channels, so as to improve their control over the main product market. Another more hidden way is the enterprise increases the absolute scale of the enterprise through mixed merger, so that the enterprise has relatively sufficient financial resources to compete with the competitors in the original market or new market and uses the pricing method lower than the cost to force the competitors to withdraw from a certain field, so as to achieve the purpose of monopolizing or monopolizing a certain field. Because the huge hybrid integration involves many fields, it forms a strong competitive threat to the enterprises in other related fields, so that ordinary enterprises do not dare to challenge their main product market, so as not to cause his retaliation, resulting in the reduction of the competitive intensity of these industries.

1.2 Relevant theoretical basis

1.2.1 An introduction to accounting rent seeking theory

Olson, an economics professor at the University of Maryland, believes that there are two ways for any organization to gain benefits for its members: one is to increase the total number of products in society, so that the organization can obtain more products according to its original share; the other is that the total number of products in society is unchanged, and the larger share can be obtained by some means.

Taking cake as an example, the former is to make the cake bigger and get more cakes, while the latter is to keep the cake size unchanged and change the cake division method to obtain more cakes, the former is for profit and the latter is rent-seeking.

Generally speaking， the group or organization chooses rent-seeking behavior to seek more benefits. Because the cost of a group or organization to improve the wealth level of the whole society is too big, and it can not avoid other enterprises without paying the cost to divide the wealth. However, if a group packaging itself to attract more resources to the group through other means, it can obtain a lot of benefits without paying too much cost, Although it may affect the social enthusiasm of production and lead to the decline of the total wealth level of society, as long as the loss of the total wealth of the society to the enterprise is lower than the benefits they obtain, they can still use rent-seeking behavior to seek benefits.

Therefore, "accounting rent-seeking" is based on the premise that the total amount of wealth in the society or the real performance of the enterprise does not change, through accounting means to obtain more resources and wealth, so that resources can not get a fair and reasonable allocation or wealth can not get a fair transfer, and then damage the interests of other social subjects. Accounting rent-seeking behavior often adopts accounting means, including to obtain self-interest accounting policies by intervening in the formulation of accounting standards, to obtain more benefits by taking advantage of the loopholes in accounting policies, and to obtain undeserved resources by choosing other accounting policies. The theory of accounting rent-seeking in this paper refers to the fact that the management or the controlling shareholders of an enterprise make use of the loopholes in the accounting treatment method of business combination under the same control or the provisions of the accounting standards to obtain more resources.

1.2.2 Introduction to the theory of economic consequences

In the 1970s, the economic consequences became an important problem that the accounting community must face. In 1978, Zeff, an American accountant, published the article "the rise of economic consequences theory". This paper points out that accounting is not only a kind of behavior in the technical category, but also an act with economic consequences.

He thinks the economic consequence of accounting is that accounting reports will affect the decision-making of information users such as investors and creditors.

After that, Scott also mentioned the meaning of economic consequences in his book financial accounting theory: economic consequences refer to the choice of different accounting policies which will affect the value of enterprises and is not related to the effectiveness of capital market.

In an article published in 2001, Cai Ning, a Chinese scholar, pointed out that economic consequences refer to the influence of accounting policy selection or accounting standards on the rules of accounting book data calculation, which will affect the stakeholders, and ultimately affect the allocation of social resources.

1.2.3 An introduction of synergy theory

Synergy effect was first used to describe physical and chemical phenomena and was applied to the field of enterprise management by H. Igor Ansoff, an American strategic management scientist. Since then, synergy theory has become the theoretical basis and important basis for enterprises to adopt diversification strategy.

In the field of economics, the so-called synergistic effect is the phenomenon that both sides of the merger and acquisition integrate their resources after the merger and acquisition. After the merger and acquisition, the operating efficiency of the company is much better than that of the original independent operation. That is "1 + 1 > 2".

Management synergy, also known as the theory of differential efficiency, mainly refers to the changes in efficiency brought by M&A and the benefits generated by the improvement of efficiency. Generally speaking, if the management efficiency of the two parties is different, the management structure and management mode will be re integrated after the high management efficiency company merges the low management efficiency company. In this way, the excess capacity of the high management efficiency company will be effectively utilized, and the management efficiency of the low management efficiency company will be correspondingly improved, This can not only make full use of management resources, but also save management costs, and promote the improvement of the overall economic efficiency. Therefore, in order to get development in the fierce competition, seeking management collaboration has become the goal of many enterprises.

Financial synergy refers to the financial benefits of M&A, including the saving of capital cost, enhancement of financing ability and reasonable tax avoidance effect. After the completion of M&A, enterprises can consider more ways of internal financing, and the use of internal funds can reduce the use rate more than external financing channels. In addition, even if the funds are raised through external channels, the debt ability of the enterprises with low solvency will be improved because of the enterprises with high solvency, and the credit level of the enterprises with low credit rating will be improved because of the enterprises with high credit rating, which will increase the chips for external financing and increase the possibility of obtaining capital resources in the capital market. In terms of tax, when the cost of M&A is less than the tax deduction, then the financial synergy effect occurs. Therefore, generally, the enterprises with financial problems or want to reduce the cost of capital, reasonable tax avoidance will seek to obtain financial synergy.

The market value synergy theory of enterprises generally believes that M&A can promote the improvement of management ability and efficiency, obtain management synergy, obtain scale economy, obtain operation synergy, improve capital utilization efficiency, and obtain financial synergy in debt ability. The existence of synergy makes the scattered resources of enterprises achieve higher efficiency because of M&A integration, so as to obtain better economic benefits.

The operation synergy effect mainly refers to the efficiency changes brought by M&A to the production and operation activities of enterprises and the benefits generated by the improvement of efficiency. It can also be described as the improvement of operation conditions and the increase of enterprise benefits through M&A. There are three aspects of business synergy effect：

Economies of scale. The theory of business synergy assumes that there is scale economy in the industry to which the enterprise belongs, then after the completion of horizontal merger and acquisition, both sides of the merger and acquisition may produce scale effect in any link of the enterprise's business process, which will reduce the unit production cost and improve the enterprise's business performance and efficiency.

Vertical integration effect. The target enterprises of vertical M&A are mainly suppliers of raw materials or spare parts. Through the improvement of the coordination mechanism between the upstream and downstream of the industrial chain, the transaction cost of the circulation link can be reduced.

Complementary resources. Business combination can optimize the combination of business resources of both sides, improve the production and operation capacity and efficiency of both sides, and realize the improvement of enterprise effect.

1.2.4 An introduction of related theories of financial statements

Consolidated financial statements are generally submitted by the parent company of a group or sector. They mainly take the parent company and its subsidiaries as a whole. From the perspective of the whole, they simply summarize the financial data of a single parent company and its controlled subsidiaries. By offsetting the internal transactions between the parent company and its subsidiaries, and then offsetting the relevant rights and interests, the consolidated financial statements are consolidated. The financial statements that reflect the overall production and operation performance of an enterprise group are formed. Like individual financial statements, the consolidated financial statements generally include four tables and their related notes and explanations.

In the international consolidated statement standards, there are relevant provisions on control.

The so-called control usually refers to a kind of right, through which the parent company can control the production and operation activities of the subsidiary company and obtain profit return from the income of the subsidiary company. At the same time, the parent company can determine the time and amount of the profit return according to the right.

Control in practice mainly refers to the ability to control the production and operation decisions and financial decisions of a company. In general, the parent company usually controls the subsidiary by obtaining a majority of the voting seats on the board of directors of the subsidiary. Even if the parent company can not obtain the majority of voting rights, it can also control the subsidiary company through the way of agreement control.

1.3 An overview of accounting treatment in merge and acquisition

1.3.1 Introduction of accounting in M&A

The primary premise of business combination is to constitute business. The so-called "constitute business" is generally understood to mean that the enterprise has formally entered the production and operation stage, started to purchase raw materials and other production factors required, and employed relevant personnel to process and process them, which can produce or produce the main goods of the enterprise in a predictable time in the future. At the same time, the enterprise can also conduct independent accounting for the production and operation process. According to the international standards for business combination, business combination must include business acquisition. Generally, business has three elements. First of all, the input of certain economic resources, such as non current assets and intellectual property rights, can produce output after certain production and processing. Secondly, the relevant process processing, such as strategic management, operation process, resource management, can use the input elements to form a system, standard, agreement, convention or rule with output ability. The last is the output, which is the final economic results after economic resources input and process processing.

There are two kinds of accounting methods used in business combination, namely, purchase method and equity combination method [10].

According to the purchase law, business combination is a kind of market buying and selling behavior similar to the acquisition of assets, which is the acquisition price determined by the two parties after bargaining game. The acquisition consideration paid is the fair price of the company obtained by the merger, and should be recorded in the accounts according to the fair price.

The law of combination of rights and interests is opposite to the purchase law. It holds that business combination is not essentially a business transaction, but only the integration of shareholders' rights of the two companies. It is similar to the fact that the controlling shareholder integrates the relevant production resources of the two enterprises under his control, and the corresponding assets and liabilities are merged at the same time, which is a kind of re division of resources [11]. To a great extent, this theory embodies the assumption of going concern of accounting.

In the theoretical and practical research, these two methods have been hotly debated in the international accounting and financial circles. It was not until IASB cancelled the relevant provisions of the pooling of interests law in 2004 that the relevant debate came to an end, but the relevant research did not stop. In the short run, in the international accounting standards system, the purchase method is regarded as the only officially certified method to deal with consolidated financial statements, and the pooling of interests method has been denied internationally. The reason why the pooling of interests method is abolished in the international accounting standards system is that it has many defects: first, the basic assumption of the method is very unrealistic. Relevant assumptions include that business combination is not a kind of market investment behavior or operation behavior, but only a kind of equity exchange between the two sides of the combination. Therefore, when carrying out relevant accounting treatment, the book value is used to enter the account, and there is no need to calculate the purchase cost or confirm the goodwill. At the same time, the shareholders' equity and the risks and rewards faced by the shareholders of the merged enterprise will not change before and after the merger, and the book price of the subsidiary will not be adjusted according to the market price during the relevant merger accounting treatment, which is contrary to the essence of the transaction; Second, under the method of combination of interests, the consolidation scope of the enterprise income statement includes the profit and loss realized by the merged party before the consolidation, which leads to the serious distortion of accounting information reflected in the consolidated financial statements of the enterprise and greatly reduces the reliability [12]. Third, although the re-evaluation is no longer based on the market price under the pooling of interests method, which saves the corresponding evaluation cost, the stakeholders of the enterprise may need to spend more cost to obtain the real production and operation situation of the enterprise, which violates the cost-benefit principle.

Table 1.2 - Differences between the pooling of interests method and the purchase method

	Pooling of interests	Purchase
Definitions	Merge the owner's equity of two or more independent enterprises by exchanging equity	Regarding the behavior that the merging party obtains the net assets of the merged party by paying a certain consideration as a purchase behavior
Presupposition	as joint action	as transaction behavior
Valuation	book value	fair value
Consolidated net income	all net profit and loss of the merged party in the current year	the net profit and loss of the merged party from the purchase date

In pooling of interest method, assets and liabilities appear at their book values, whereas, when purchase method of accounting is used, the assets and liabilities are shown at their fair market value [13]. In pooling of interest method, the recording of assets and liabilities of the merging companies is aggregated.

1.3.2 Analysis of economic consequences of different merger methods

First, the impact on enterprises. From the perspective of enterprise asset value, the net assets of consolidated enterprises under the purchase method are often greater than those under the pooling of interests method. Under the purchase method, the net assets of a business combination are measured at fair value. When the consideration paid is higher than the fair value of the net assets, the difference is regarded as goodwill. At present, the recognized goodwill does not need to be amortised in the following years, but only needs to be tested for impairment regularly. Under the method of combination of rights and interests, the net assets of business combination are measured by book value. When the economy is more prosperous, the fair value of assets is often higher than its book value, so the value of enterprise assets under the purchase method will be higher than that under the combination of equity method.

And from the perspective of the income statement, the profit reported by the pooling of interests method is often higher than that reported by the purchase method. Because the book value of the assets is recorded in the combined equity method, it is inevitable that the assets will appreciate during the existence of the enterprise. The disposal of these assets is a means for the holders to increase profits. In addition, the current year's net income under the pooling of interests method includes the net income of the whole year of the merger, while the purchase method only includes the net income realized after the merger. Under the pooling of interests method, high profits will bring higher income tax expenses, while under the purchase method, low profits can reduce the tax burden of enterprises to a certain extent.

Second, the impact on investors. The financial report data presented by different methods of business combination will affect the decision-making of investors. Compared with the purchase method, the combination of equity method will produce higher reported earnings, and it will also increase the earnings per share of listed companies [14]. Therefore, enterprises will create conditions to apply the combination of equity method to whitewash profits to attract investors. Because ordinary investors can't identify the false profit of enterprises, the funds in the investment market may flow to those enterprises with higher reported income but poor actual profitability, resulting in low allocation of social resources.

Third, the impact on management. The separation of enterprise ownership and management makes the enterprise information asymmetric. Sometimes, the management will choose different accounting methods driven by the maximization of their own interests. The profit index is often the most intuitive standard when the shareholders of an enterprise assess the management. The management of enterprises will try their best to improve the accounting profit and related profit indicators to maximize their own interests. When the profit of the enterprise is poor, the management will tend to use the equity combination method to improve the operating profit. When the profits of enterprises are high, the management may prefer to use the purchase method to reduce the tax burden.

1.3.3 Rules and regulations of accounting in M&A

Each country has unique methods of accounting in merge and acquisition. For example, according to the pooling of interests method, the Chinese Institute of Certified Public Accountants (AICPA) puts forward the concept of similar pooling of interests method, and points out that the similar pooling of interests method is adopted in the accounting treatment of business combination under the same control in China [15].

The essence is the same. They both think that business combination is the joint action of two or more independent enterprises, but the similar pooling of interests method has made some improvements in practical application, expanded the scope of use and improved the applicability.

In terms of the form of merger consideration, the pooling of interests method is only applicable to the stock exchange merger [16], that is, the business merger in which the control right of the merged party is obtained in the form of issuing equity instruments. The scope of similar pooling of interests method is not limited to the business merger through the issuance of equity securities, it is applicable to the business merger in the form of transferring assets, assuming liabilities and other forms of consideration.

Under the equity combination method, the net assets of the merged party and all the retained earnings of the current period are combined, and then the par value of the exchanged shares and the exchanged shares are compared. When the face value of the exchanged shares is greater than the face value of the exchanged shares, the difference between the two will first offset the capital reserve of the merged party. If the capital reserve of the merged party is insufficient to offset, then offset the capital reserve of the merging party. If the capital reserve of the merging party is still insufficient to offset, then offset the retained earnings of the merged party and the merging party in turn. When the face value of the exchanged shares is less than the face value of the exchanged shares, the difference will be included in the capital reserve If they are equal, they will not be treated. Similar to the equity combination method, the difference between the book value of the net assets of the merged party and the consideration paid for the merger is adjusted to the owner's equity of the merging party, and the capital reserve of the merging party is adjusted first.

When the capital reserve is insufficient to offset, the retained earnings are adjusted. At the same time, the part of the retained earnings realized by the merged party before the merger that belongs to the merging party should be transferred from the capital reserve item of the merging party to the retained earnings item. It can be seen that both of them have restored the retained earnings of the merged party before the merger.

To sum up, the application scope of similar pooling of interests method may be wider than that of pooling of interests method [17], and there are some differences in the accounting treatment process, but there is no fundamental difference between them.

Summary

In recent years, merger and acquisition (M&A) frequently appear in business activities. How to find the law of success in M&A activities is a problem that many scholars are competing to research. The essence of M&A is to seek expansion, which is also a stage of enterprise development.

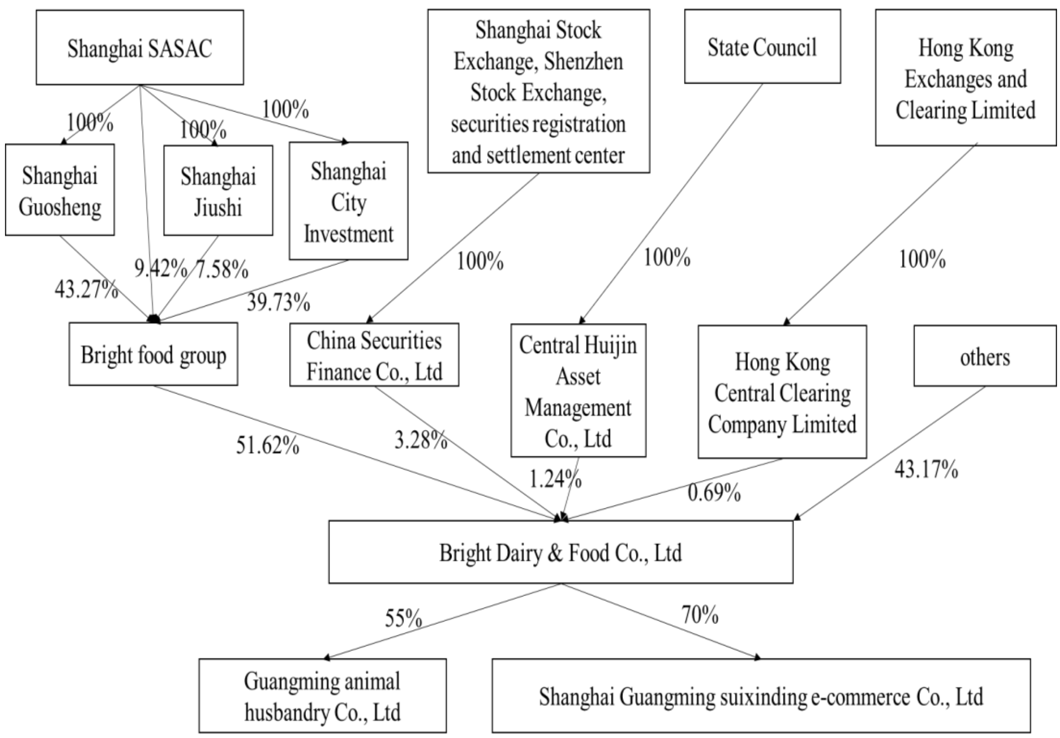
Accounting rent-seeking theory, economic consequences theory and synergy effect are three basic theories which can give a reasonable explanation for M&A activities. However, it seems to be much more complex when it comes to real process of merger. Companies uses different types of accounting methods in the process of combining these two properties into a big one. It would be essential to analysis the economic consequences of different merger methods. And we get to the conclusion that it does not only effect on the investors but also the management and the enterprises.

2. INTRODUCTION AND ANALYSIS OF THE MERGE PROCESS OF BRIGHT DAIRY COMPANY

2.1 Brief introduction of Bright Dairy Company

2.1.1 Company's development process and history

Guangming Dairy Co., Ltd. (hereinafter referred to as "Bright Dairy") established in 1996 is a listed company with diversified property rights, including state-owned capital and private capital (the specific equity structure is shown in Picture 2.1), with stock code of "600597". Bright Dairy industry has been committed to research and development of high-end dairy products, with a variety of products, including fresh milk, warm milk, milk powder, ice cream, etc. its main business is the development, production and sales of dairy products and dairy cattle breeding [6]. Some of its main business began in 1911, which has a history of hundreds of years.



Picture 2.1 Equity structure of Bright Dairy

Since its establishment, the company has been adhering to the corporate culture of "innovation, concentration, courage, sharing, love and tolerance" and has gradually developed. Its main development process is as follows:

Table 2.1 – Main history of Bright Diary

Year	Main history
1996	Shanghai milk company and Shanghai Industrial Group jointly established “Shanghai Bright Dairy Co., Ltd”
2000	Shanghai Bright Dairy Co., Ltd. Completed the shareholding system reform and changed its name to “Shanghai Bright Dairy Co., Ltd.”
2002	Landing in Shanghai Stock Exchange A-share market (code sh600597)
2003	Shanghai Bright Dairy Co., Ltd. was renamed "Bright Dairy Co., Ltd."
2007	The company put forward the strategy of "focusing on the dairy industry, leading the fresh, strengthening the normal temperature, breaking through the milk powder"
2008	The first brand of normal temperature yogurt in China——Guangming Mosilian
2010	Bright Dairy Co., Ltd. acquires New Zealand xinlaite Dairy Co., Ltd
2011	The operating revenue of Bright Dairy Co., Ltd. exceeded 10 billion yuan for the first time
2012	Bright Dairy Co., Ltd. has total assets of 9.34 billion yuan and net assets of 4.4 billion yuan
2013	Xinlaite, acquired by Bright Dairy Co., Ltd., has been successfully listed in New Zealand, becoming the first dairy enterprise in China to acquire dairy products abroad and be successfully listed abroad; the East China Central factory project has been completed and put into operation, becoming the world's largest dairy monomer factory; the only State Key Laboratory of Dairy Biotechnology in China's dairy industry has been successfully accepted, realizing the leading industry of bright science and technology
2014	The subordinate wholly owned subsidiary, Holstein animal husbandry, introduced strategic investor RRJ, established a joint venture company to expand ranch construction.
2015	Bright Dairy Co., Ltd. is entrusted to manage Israel's first food group Truva. The two sides will cooperate in strategy, market, products, technology, and other aspects to create a more international Bright Dairy.
2016	Bright Dairy and Suning cloud business signed a strategic agreement to accelerate the layout of e-commerce platform

2.1.2 Core competitiveness of the company

The core competitiveness of Bright Dairy Company benefits from its good whole industry chain management mode, continuous development and research of new products, layer upon layer monitoring of all aspects of production and sales, so as to better meet the various needs of consumers and provide people with high-quality products and services.

At the front end of the industrial chain, the company has a number of self-operated farms with stable supply and excellent quality, and the self-sufficiency rate of raw milk has been steadily improved. For example, Guangming animal husbandry, a subsidiary of the company, is a large-scale comprehensive service company for animal husbandry in China. Its main business is cow breeding, with rich breeding experience. In addition, the pasture management is strict, and the evaluation criteria and evaluation mechanism can be used to evaluate multiple sectors in the pasture, which can ensure the safety, high quality and hygiene of the milk source. The key quality indicators of raw milk in the pasture are better than the national standards.

In the middle of the industrial chain, Bright Dairy Company not only has the world's top dairy research institute but also has the National Key Laboratory of Dairy Biotechnology. It has researched and developed a variety of dairy products and applied for several invention patents. At present, the company has a series of high-profile brands such as "bright" and "mosilian" [6].

Picture 2.2- Bright Dairy famous brand map

At the same time, Bright Dairy's dairy production and processing plant not only adopts strict audit standards to ensure product quality and safety, but also has advanced dairy processing equipment and dairy processing technology. The company began to import production management system WCM, WCM in 2010 Through logical analysis and scientific management, the production process is improved, which is beneficial for Bright Dairy to achieve its strategic objectives and produce products with zero quality defects.

At the back end of the industrial chain, Bright Dairy has a whole cold chain fresh-keeping logistics distribution system combined with modern technology to monitor the real-time situation in the process of product distribution and handover, such as warehouse management system, transportation management system, etc. There are also direct sales and distribution, online and offline sales mode and rich sales market and channel. It can not only provide timely and convenient logistics services for customers to ensure the unique characteristics of products in different temperature zones, but also let every family in the world taste Bright Dairy products as soon as possible.

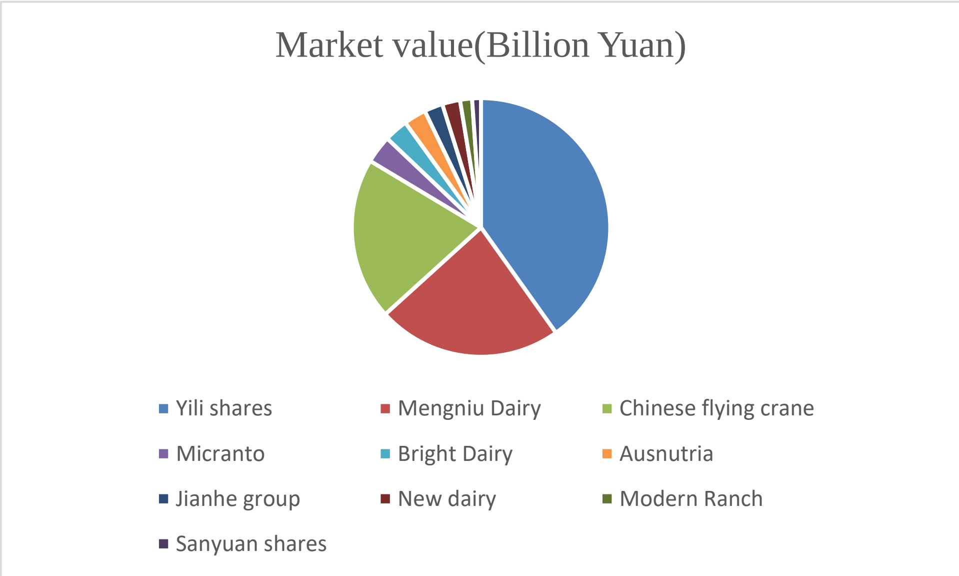
2.1.3 Industry development status

China's dairy industry started relatively late, but the follow-up development momentum is fierce, has maintained a high speed of development. Until the outbreak of melamine incident, seriously hit the confidence of consumers, forced the growth of the dairy industry to slow down, entered a period of transformation and development, and will gradually move towards standardization. During this period, due to the frequent occurrence of dairy quality and safety incidents, the future development direction of the industry will also change. On the one hand, the relevant regulatory authorities and consumers continue to improve the requirements of dairy quality and safety. The quality of dairy products has become the key to the sustainable development of dairy enterprises, and the competition in the industry has gradually changed from quantity competition to quality competition, In the future, the quality level of dairy industry will be greatly improved; On the other hand, China's relevant departments have raised the entry threshold of the dairy industry and strengthened the rectification of the dairy industry. The industry concentration and brand concentration are getting higher and higher, resulting in the intensified internal competition of the dairy industry, and enterprises are facing the market choice of survival of the fittest. In the future, dairy enterprises will be more excellent and concentrated. In terms of the future transformation direction of dairy industry, Bright Dairy Company not only has been focusing on quality, monitoring all links of the whole industry chain, but also has a high market share and popularity. By the end of 2019, the sales scale has exceeded 20 billion, and its market value is among the top listed dairy enterprises, ranking sixth [7].

Table – 2.2 Market value ranking of listed dairy enterprises in 2020

Number	Securities name	Market	change

		value(Billion Yuan)	in the list
1	Yili shares	2698.86	0
2	Mengniu Dairy	1554.83	0
3	Chinese flying crane	1365.44	0
4	Micranto	233.72	6
5	Bright Dairy	199.1	0
6	Ausnutria	188.04	0
7	Jianhe group	155.65	-3
8	New dairy	150.34	-1
9	Modern Ranch	101.11	0
10	Sanyuan shares	74.43	-2



Picture 2.3 – Market value of dairy industry in 2020 of PRC

Therefore, the transformation of dairy industry may be a good development opportunity for enterprises like Bright Dairy. Bright Dairy should give full play to its quality and brand advantages, and increase the acquisition of small retail investors, so as to expand its market share and enhance the competitiveness of the industry.

At present, the consumption structure of China's dairy industry is mainly liquid milk, and the industry profit rate is low. At the same time, although the output of China's dairy products is increasing, the per capita consumption of cities has become saturated. In addition, consumers lack confidence in domestic dairy products, and the import trend is obvious. In terms of the current development characteristics of dairy industry, for Bright Dairy Company, it is bound to face the pressure of developing new products, the competition of imported brands, and the threat of small consumption growth space in the future. Therefore, while seizing the opportunity, Bright Dairy should make continuous innovation, improve product profit margin by developing new dairy products, and improve consumption growth space by developing new consumer market, so as to develop better and faster and smoothly go through the transition period.

2.2 Overview of merge process of Bright Dairy

2.2.1 The merger process of Bright Dairy and an overview of the merged party

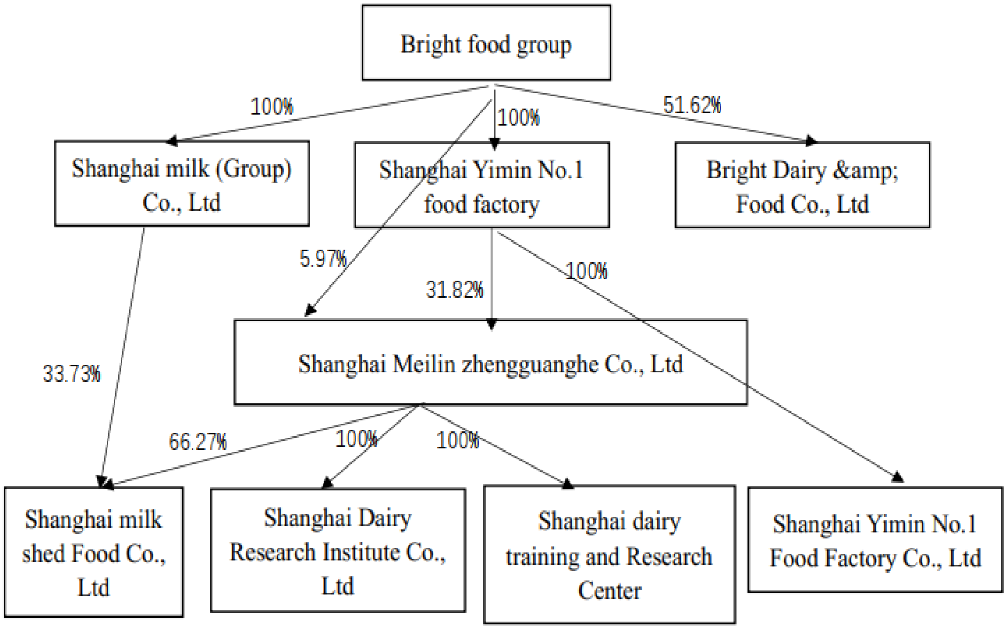
In the second half year of 2018, Bright Dairy acquired 100% equity of Shanghai Dairy Research Institute Co., Ltd. (hereinafter referred to as "Dairy Research Institute") and 100% equity of Shanghai dairy training and Research Center Co., Ltd. (hereinafter referred to as "dairy training center") held by Shanghai Meilin zhengguanghe Co., Ltd. (hereinafter referred to as "Meilin Co., Ltd"), a subsidiary of its parent company bright food group And 66.27% equity of Shanghai milk shed Food Co., Ltd. (hereinafter referred to as "milk shed"), in addition, Bright Dairy also acquired 100% equity of Shanghai Yimin Food No.1 Factory Co., Ltd. (hereinafter referred to as "Yimin No.1 Factory Group"), a subsidiary of its parent company bright food group . The above enterprises are ultimately controlled by bright food group before and after merging into bright dairy, and the control is not temporary. Therefore, the above mergers are all business combinations under the same control.

Table – 2.3- Summary of business combination process

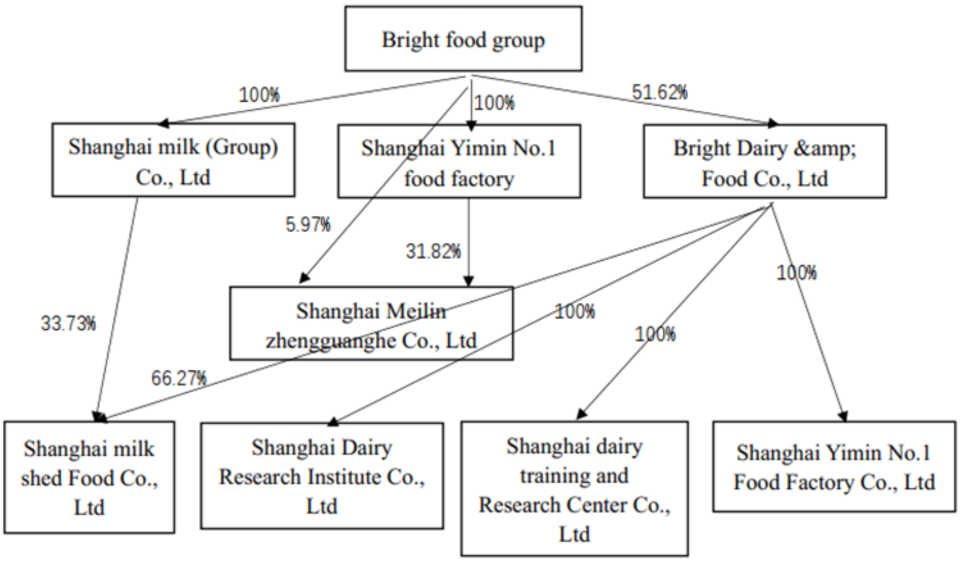
Equity ratio from merger	Date of equity transfer agreement	Merger date	Merger method	Merger cost (billion yuan)
100%	2018.6.20	2018.10.29	Cash	179.99
100%	2018.6.20	2018.10.29	Cash	957.1
66.27%	2018.9.14	2018.12.6	Cash	2982.15
100%	2018.12.17	2018.12.26	Cash	14316.06

2.2.2 Company profile of the merged party

Dairy Research Institute was established in May 1988, mainly engaged in dairy, animal husbandry, veterinary data testing and related technology contracting, technical consulting and technology development business. The dairy training center was established in October 1989, mainly engaged in the experiment, research and development of dairy products and the training of related personnel. Milk shed was established in August 2001, mainly engaged in food sales, ticketing agents, retail of daily necessities and e-commerce business. Yimin No.1 Factory was established in December 1997, mainly engaged in the production of frozen drinks, frozen food, candy biscuits, metal packaging, food machinery and the sales of food additives. The equity structure of the combined party before and after the merger is shown in the picture below, and the book value of assets and liabilities of the combined party is shown in Table 2.4.



Picture 2.4- Equity structure before merger



Picture 2.5- Equity structure after merger

The overall income of the merged party is not very good. In terms of net profit, only the net profit of Yimin No.1 plant is considerable and rising steadily. The net profit of Yimin No.1 plant in 2017 is about 300000 yuan. The net profit from January to September in 2018 is about 590000 yuan. However, the net profit of Dairy Research Institute and dairy training center was 0 yuan in 2017 and January March 2018. The net profit of the milk shed in 2017 was about - 790000 yuan, while the net profit from January to June 2018 was about 2.32 million yuan.

Table – 2.4 Book value of assets and liabilities of the combined party (unit:1000 yuan)

	Dairy Research Institute		Dairy training center		Dairy shed		Yimin No.1 Factory	
	Merger date	The end of last period	Merger date	The end of last period	Merger date	The end of last period	Merger date	The end of last period
Asset:	481.8	460.3	972.84	987.48	9539	11402.2	22451.23	24376.87
Current asset	480.76	455.73	972.84	987.48	8364	10405	13607.23	16111.44
Non-current asset	1.04	4.57			1176	997.23	8844	8265.43
Liability:	390.93	369.43	15.74	30.38	6717	8693.77	16989.76	19366.45
Current liability	390.93	369.43	15.74	30.38	6717	8693.77	13219.78	15639.96
Non-current liability							3769.98	3726.49
Net asset	90.87	90.87	957.1	957.1	2823	2708.47	5461.47	5010.42
minus: minority interests					952.2	898.67	292.11	306.47
Net assets acquired	90.87	90.87	957.1	957.1	1871	1809.8	5169.36	4703.95

There is a huge difference in net profit between 2017 and 2018. In terms of business income, the business income of Dairy Research Institute, milk shed and Yimin No.1 Factory is relatively stable. The operating income of Dairy Research Institute in 2017 was about 5.58 million yuan. The operating revenue from January to march in 2018 is about 1.4 million yuan. The operating revenue of milk shed in 2017 was about 190 million yuan. From January to June 2018, the operating revenue is about 80 million yuan. In 2017, Yimin No.1 plant's operating revenue was about 120 million yuan. From January to September in 2018, the operating revenue is about 110 million yuan. However, the operating revenue of the dairy training and Research Center declined greatly. The operating revenue of the dairy training and Research Center was about 2.37 million yuan in 2017, and only about 40000 yuan from January to march in 2018.

2.2.3 Determination of merger consideration

In the second half of 2018, the merger consideration of four business combinations under the same control of Bright Dairy was determined through negotiation based on the evaluation price. The appraisal price is determined by the assets appraisal agency jointly entrusted by both parties to the equity transfer agreement. See Table 2.5 for details.

In addition, according to the related party transaction announcement disclosed by Bright Dairy, all shareholders' equity of milk shed is evaluated by Shanghai Cairui Appraisal Co., Ltd., and the appraisal value under asset-based method is 41.2302 million yuan.

Table 2.5 – Relevant contents of shareholders' equity evaluation

Objective	Assessment agency	Appraisal base date	Evaluation method	Evaluation value (1 billion yuan)	book value	Value added rate
All interests of Dairy Research Institute	Shanghai Dongzhou assets appraisal company	2017.10.31	undisclosed	179.99	90.87	98.08%
All rights and interests of dairy Training Center	Shanghai Dongzhou assets appraisal company	2017.10.31	Undisclosed	957.1	957.1	0
Full rights and interests in the milk shed	Shanghai Cairui Appraisal Co., Ltd	2017.12.31	Income method	4500	2799.7	60.73%
All rights and interests of Yimin No.1 Factory	Watson international appraisal company	2017.12.31	Asset based approach	14316.06	9407.6	52.18%

The appraisal value under the income method is 45 million yuan. Finally, Shanghai Cairui takes the evaluation result of income method as the evaluation value of all shareholders' equity of milk shed. The reason is that the asset-based method can't evaluate the value of assets that contribute to the enterprise's profitability and can't reflect the overall value of the enterprise. The income method is from the perspective of future income.

We can consider the value of human resources, the value of enterprise management experience and so on, which can better reflect the real value of the enterprise. Similarly, Watson International Asset Appraisal Co., Ltd. uses two methods to evaluate all shareholders' equity of Yimin No.1 plant, and the appraisal institution takes the appraisal result of asset-based method as the appraisal value of all shareholders' equity of Yimin No.1 plant.

The reason is that the conclusion of asset-based method is reliable and persuasive, which can correctly reflect the value of shareholders' equity of Yimin No.1 Factory. At the same time, Bright Dairy will agree that Yimin No.1 Factory will continue to perform the labor contract signed with the employees, and the announcement does not show the disposal of the original employees in the milk shed.

2.2.4 Accounting treatment in Merger process

After the merger consideration is determined and the equity transfer agreement is signed, Bright Dairy needs to confirm and measure the long-term equity investment on the merger date.

At the same time, it is necessary to prepare the consolidated financial statements on the consolidation date, including consolidated balance sheet, consolidated income statement, consolidated cash flow statement, etc. Among them, the retained earnings items, consolidated income statement and consolidated cash flow statement in the consolidated balance sheet need to incorporate the part belonging to the combining party generated before the combining date of the combined party. Consolidated statements need to be prepared at the end of the current period, and relevant items need to be adjusted retrospectively.

As the profit statement and cash flow statement of the merged party on the merger date have not been disclosed, the relevant data of Bright Dairy on the merger date have not been disclosed. However, the time to merge Yimin No.1 Factory is December 26, which is close to December 31.

Therefore, this paper does not compile the consolidated income statement and cash flow statement on the merger day, but simply compiles the consolidated balance sheet of Yimin No.1 Factory. Regardless of the transfer out of retained earnings of Yimin No.1 Factory, the preparation process is shown in table 2.6 below. It is assumed that the balance sheet of Bright Dairy on the merger date is the balance sheet at the end of 2018.

Table – 2.6 Preparation process of consolidated balance sheet (unit:1000 yuan)

	Consolidated balance sheet of Yimin No.1 Factory	Balance sheet of Bright Dairy on the merger date	The increase and decrease after the addition of the two	Consolidated balance sheet on the merger date
assets:	22451.23	989968.51	-5169.36	1007250.38
current assets	13607.23	648103.61		661710.84
non current assets	8844	341864.9	-5169.36	345539.54
Including: long term equity investment		168339.31	-5169.36	163169.95
liabilities:	16989.76	493800.5		510790.26
current liabilities	13219.78	482417.87		495637.65
non current liabilities	3769.98	11382.63		15152.61
Owner's equity	5461.47	496168.01	5461.47+292.11	496460.12
Including: minority interests				292.11

2.3 Analysis of the merge process of Bright Dairy

2.3.1 Analysis of merger motivation of Bright Diary

The positive motivation of business combination under the same control is to reduce or disperse business risks and achieve synergy effect, while the negative motivation is to manipulate profits and transfer benefits.

From the whole view, Bright Dairy merger motivation is positive, especially in synergy.

First of all, from the point of acquisition time: Bright Dairy's merger days under the same control in 2018 were in the second half of the year, suspected of profit manipulation. But there is little suspicion of profit manipulation. Because similar to the pooling of interests method, the income realized by the merged party before the merger date can be incorporated into the consolidated statements.

As long as the merged party is continuously profitable, the book profit of the consolidated statements will increase a lot, so as to improve the financial statement data. It can be seen from the financial report of Bright Dairy in 2018 that the net profit realized by the merged party of business combination under the same control before the merger date is 5.653 million yuan. However, compared with its net profit of more than 100 million yuan in 2018, the book data brought to it has little change, so there is little suspicion of profit manipulation.

Secondly, from the development objectives disclosed by both parties, the four times under the same control are not only conducive to the integration of internal resources, but also to achieve win-win situation between the two sides. Through these four acquisitions, Bright Dairy will increase a number of related enterprises in the chain of "feeding, research, development, production and sales", integrating upstream and downstream resources. It is conducive to accelerating the layout of the whole industry chain and improving the product quality and category. Thus, it will help Bright Dairy industry achieve the goal of "developing new products, expanding industrial chain and improving competitiveness". The future development strategy of Meilin stock is to focus on the main industry of meat food.

Through these business combinations, Meilin shares will reduce the related transactions with bright dairy industry, which will not only help it focus more on the main industry of meat food, but also get rid of the enterprises with poor operation such as dairy research institute and dairy training center and improve profitability.

Finally, the change of market value one year after the acquisition of Bright Dairy also confirmed that the overall motivation of the four mergers under the same control was positive. According to the video of market value change of food manufacturing enterprises released by "Expo stock today". It shows that the market value of Bright Dairy changed gently. In the second half of 2018, after four business combinations under the same control were completed, the market value of Bright Dairy showed a slow upward trend. Compared with the market value of about 9 billion at the end of 2018, the market value in 2019 will increase by about 65%. By the end of 2019, the market value has risen to about 15 billion. Yili shares, as the No.1 dairy enterprise, has the highest market value of 203.2 billion in 2019, only 44% higher than the market value of 140 billion at the end of 2018. Assuming that the market price rise of Yili shares is caused by external environmental factors, the business combination of Bright Dairy in the second half of 2018 helped to increase its enterprise value by about 21%.

Individually, the motivations of the four business merger in 2018 are not all positive, and some negative motivations are related to the accounting treatment.

Although it can be seen from the related party transaction announcement issued by Bright Dairy that the motives of four business merger of Bright Dairy in 2018 are positive. Bright Dairy training center is to improve its R & D ability and core competitiveness. Dairy Research Institute was acquired to ensure high-quality milk source and control cost. Purchasing milk shed can make use of the channel resources of milk shed to expand the sales channels of bright dairy products. The acquisition of Yimin No.1 Factory can help it develop new products and make up for the blank of its cold drink products. So as to make the company's product varieties more diversified, in order to enhance the seasonal control ability of the company's products.

In addition, it can be seen from the contribution of the merged party to the company within one year after the acquisition that part of the motivation of Bright Dairy's disclosure has not been realized.

In 2019, the new products of milk shed and Yimin cold drinks are being researched and developed. The newly launched ice cream products have aroused social concern. Milk shed products and Yimin cold drinks are stationed in milk shed stores and xindingplatform, and the net profit of xindingplatform is higher than that of the same period last year. It can be seen that the acquisition of milk shed and Yimin No.1 Factory is conducive to the better development of the company's products and business.

But for the dairy training center and Dairy Research Institute, whose net profit was zero before the merger, can the merger improve the company's R & D ability and control costs. According to the data disclosed in the semi-annual report of 2019 (table 2.7), after the merger, the proportion of operating costs and income is rising year on year, and the proportion of R & D expenses and income is also rising year on year.

It can be seen that the company has strengthened its R & D investment, and its R & D capability may be improved. However, as of the end of June 2019, the company's operating cost has not decreased relatively.

Table – 2.7 Data comparison table before and after consolidation

	2019.06.30	2018.06.30
Total operating revenue (yuan)	11,090,453,239	10,743,526,958
Operating cost (yuan)	7,453,253,895	7,133,008,019
R & D expenses (yuan)	28,359,631	27,130,914
Cost to revenue ratio	67.20%	66.39%
Proportion of R & D in revenue	0.26%	0.25%

2.3.2 Merger consideration analysis of Bright Dairy

Since the merger consideration of Bright Dairy's four business merger in the second half of 2018 was determined through negotiation based on the evaluation price.

Therefore, the rationality of merger consideration is closely related to the rationality of valuation. According to the related party transaction announcement issued by the company, it can be seen that the consideration of some business merge is on the high side, which is not reasonable and reliable.

First of all, the high valuation leads to the high merger consideration. Dairy Research Institute and dairy training center are 100% owned subsidiaries of Meilin. Appraised by Shanghai Dongzhou Assets Appraisal Co., Ltd.

The evaluation value-added rate of dairy training center is 0. However, the value-added rate of Dairy Research Institute is as high as 98.07%. However, according to the relevant data of Dairy Research Institute and dairy training center in the related party transaction announcement and annual report disclosed by Bright Dairy, combined with the following table 2.8, this paper thinks that the evaluation value-added rate of Dairy Research Institute is high, which leads to the high merger consideration.

On the one hand, the financial risk of Dairy Research Institute is higher than that of dairy training center. From the end of 2017 to the merger date, both of them were not profitable, but the Dairy Research Institute was worse than the dairy training center in terms of long-term solvency and short-term solvency.

Table – 2.8 Comparison of financial indicators

		Dairy Research Institute		Dairy Training Center	
		Merger date	end of previous period	Merger date	end of previous period
Long term solvency	asset liability ratio	81.14%	80.26%	1.62%	3.08%
Short term solvency	current ratio	1.23	1.23	61.81%	32.5
Profitability	net profit margin on sales	0	0	0	0

Moreover, the long-term solvency trend of Dairy Research Institute is decreasing. The long-term solvency trend of dairy training center is good. If it goes on like this, the dairy research institute is more likely to go bankrupt than the training center. Even if both of them go bankrupt, because the debt repayment order is better than the owner's equity, the investors of Dairy Research Institute will not only not recover the investment cost but will probably not get a cent. And although the investors of dairy training center can't recover all the capital, it's no problem to recover part of it.

On the other hand, from the trend of the disclosed data, the future profitability of the two is very low, so how can there be a high value-added space.

Secondly, the unreasonable choice of evaluation method leads to high merger consideration. The evaluation of the value of the merged enterprise is greatly affected by subjective factors. The selection of evaluation methods and the prediction of relevant data will affect the evaluation results, thus affecting the determination of the merger consideration.

China's enterprise value evaluation methods mainly include income method, asset-based method and market method. The comprehensive income of M&A comes from the improvement of resource allocation efficiency, which is stimulated by collusion synergy, management synergy, operation synergy and financial synergy [2]. However due to the lack of disclosure of public information due to the immaturity of China's capital market, the use of market method is hindered. Therefore, at present, the most commonly used enterprise value evaluation methods are the other two. In this case, the value of the shareholders' equity of the milk shed is the value under the income method, while the value of the shareholders' equity of Yimin No.1 Factory is the value under the asset-based method. Each evaluation institution has its own reasons for the final evaluation result, which is greatly affected by the subjective factors. In addition, according to the company's related party transaction announcement, the result of using income method to evaluate the milk shed is about 3.77 million yuan higher than that of using asset-based method, and the merger consideration difference is about 2.5 million yuan.

So, is it reasonable for the evaluation institution to choose the evaluation value of income method as the value of shareholders' equity of the evaluated enterprise. According to the requirements of the guiding opinions on enterprise value evaluation (Trial Implementation), asset appraisal institutions need to use at least two methods to evaluate the value of enterprises. However, if the evaluated enterprises suffer from long-term losses or poor operation, which leads to the situation that it is difficult to estimate the future income or there is great uncertainty under the current management mode, the income method is not recommended. And also to think about many laws effectively ban or impose structural limits on M&A [3].

In this case, the net profit of the milk shed in 2017 is about - 800000, and the net profit in the first half of 2018 has reached more than 2.3 million. Only from the two groups of data disclosed, the net profit fluctuates greatly, so the income method should be cautious. Therefore, this paper thinks that the merger consideration paid by Bright Dairy for purchasing milk shed is likely to be on the high side.

Finally, incomplete and inconsistent information disclosure leads to high merger consideration. This paper finds that some relevant information disclosure is incomplete, and some data information disclosure in different announcements is not consistent. It is open to question whether the basic data on which the appraisal institution is based are true data and whether the appraisal results can be verified.

In this case, the book value of the owner's equity of Yimin No.1 Factory at the end of 2017 disclosed in the financial report of Bright Dairy is 50.1042 million yuan, while the book value disclosed in the related party transaction announcement is 94.0761 million yuan. There is a huge difference between the two.

The appraisal value given by the appraisal institution is based on the higher book value of 94.0761 million yuan, if 50.1042 million yuan If ten thousand yuan is the real data, the data based on which the evaluation institution is based will lead to the high evaluation value, which will lead to the high merger consideration. Similarly, the book value of the net assets of the milk shed at the end of 2017 disclosed in the 2018 financial report of Bright Dairy is 27.0847 million yuan, which is inconsistent with 27.9969 million yuan disclosed in the related party transaction announcement. The difference between the two is 900 thousand yuan, and the evaluation result of the evaluation institution is 27.9969 million yuan Therefore, the assessment result may be on the high side, and the resulting merger cost is also on the high side.

However, at present, the accounting treatment of business combination under the same control requires the difference between the consideration and the book value of the combined party's identifiable net assets to adjust the owner's equity. The unreasonable part of the consideration will not affect the profits and losses of the enterprise and the interests of the controlling shareholders. In this way, it will encourage corruption in the top management of the enterprise and the transmission of the interests of the controlling shareholders, thus damaging the non-controlling shares and other information users.

If the purchase method is used for reference, when the merger consideration is high, the high part will eventually enter into the merger goodwill, even if it cannot affect the current profit and loss of the enterprise, it will also bury hidden dangers for the enterprise and affect the future profit and loss of the enterprise.

Summary

Bright Dairy Co., Ltd. is a powerful dairy enterprise. Products and business model in the 25 years of development have become very mature. The whole industrial chain is complete, and the front, middle and back ends are harmonious. Enterprises should strengthen the internal integration and reallocate the internal industry and business of the company to achieve the optimal combination [5]. Even if the market environment is not good, the company can seize the market and have the courage to transform and realize the enterprise plan.

From the perspective of dairy industry, the consumption structure is mainly for purchase of liquid milk.

From the perspective of market conditions, consumers' demand for high-end dairy products is increasing.

While seizing the opportunity, Bright Dairy have innovate constantly, improve the product profit rate by developing new dairy products, and improve the consumption growth space by developing new consumer market, so as to develop better and faster and smoothly go through the transition period.

In the second half of 2018, Bright Dairy entered the transformation through business merge. The objects of acquisition are three companies under its subsidiary Merlin shares and one company under its parent company bright food group. There are four merger processes. The income of the merged party is generally not good, but the four mergers are confirmed by the appraisal price. In the process of merger, both parties confirm the merger consideration, and the accounting treatment is also transferred into the long-term equity investment on the merger date.

Overall, the motivation of Bright Dairy merger is positive. From the perspective of the development goals disclosed by both sides of the merger, the four mergers are not only conducive to the integration of internal resources, but also conducive to achieving a win-win situation for both sides of the merger: through the four acquisitions, Bright Dairy has integrated upstream and downstream resources, which is conducive to accelerating the layout of the whole industry chain and improving product quality and variety. For the merged party, Meilin shares will reduce the related party transactions with Bright Dairy, which will not only help it focus more on the main business of meat food, but also get rid of the mismanaged enterprises such as dairy research institute and dairy training center and improve its profitability.

Individually, the motives of Bright Dairy's business combination are not all positive, and some of the negative motives are related to the accounting methods of the combination. Some of the mismanaged merged parties are suspected of profit transfer because of the high merger consideration. For example, Bright Dairy Company acquired Dairy Research Institute with low net assets and zero net profit. The merger consideration given by Bright Dairy Company is close to twice the book value of Dairy Research Institute's net assets. It is doubtful whether there is interest transmission behavior for such a high merger consideration. In addition, after the merger, the proportion of operating costs and income increased year-on-year, and the proportion of R & D expenses and income also increased year-on-year. It can be seen that the company has strengthened R & D investment, and R & D capacity may be improved, but by the end of June 2019, the company's operating costs still have not decreased relatively.

3. ANALYSIS AND RECOMMANDATIONS FOR MERGERS AND ACQUISITIONS IN THE DEVELOPMENT OF COMPANIES

3.1 Analysis of the difference between purchase method and similar pooling of interests method

3.1.1 Applicable environment differences

On the one hand, as far as its essence is concerned, the nature of the pooling of interests method is a kind of joint action of interests [19], which is more suitable for the merger between companies with little difference in scale. The assets and liabilities scale of Bright Dairy and the merged party is shown in Table 3.1 below. According to the data in the table, the assets and liabilities scale of the merged party is greatly different from that of Bright Dairy, the acquisition of similar pooling of interests method is obviously not in line with its applicable environment.

On the other hand, from the perspective of ownership structure, similar pooling of interests method is not suitable for enterprises with non-controlling shareholders.

The reasons are as follows: first, for the ultimate controlling party, the business combination under the same control only reallocates and integrates its own resources, which is in essence a joint action among enterprises, while for the non-controlling shareholders, it is equivalent to purchasing a new enterprise from the outside, which is in essence a purchasing action. Secondly, based on the accounting rent-seeking theory, large shareholders and senior managers may use the accounting treatment requirements similar to the pooling of interests method, such as the difference between the merger consideration and the book value does not affect the profit and loss, the profit of the merged party before the merger is incorporated into the consolidated statements, and so on, to merge other enterprises at will, so as to seek more benefits for themselves, The non-controlling shareholders may not know the real purpose of the acquisition, and this operation may damage the interests of the non-controlling shareholders. Moreover, most of the controlling shareholders are only one company or a natural person, while most of the non-controlling shareholders are hundreds of companies or natural persons. The damage to the interests is huge. In this case, the non-controlling shareholders of Bright Dairy hold nearly 50% of the shares of Bright Dairy.

Table – 3.1 The assets and liabilities scale of Bright Dairy and the merged party (Unit: 10000 yuan)

	Guangming Dairy	Dairy Research Institute	Dairy training center	Dairy shed	Yimin No.1 Factory
Asset:	1691152.63	460.3	987.48	11402.24	24376.87
Current asset	812801.42	455.73	987.48	10405.01	16111.44
Non-current asset	878351.21	4.57		997.23	8265.43
Liability:	1014140.65	369.43	30.38	8693.77	19366.45
Current liability	928375.51	369.43	30.38	8693.77	15639.96
Non-current liability	85765.14				3726.49
Net asset	677011.98	90.87	957.1	2708.47	5010.42
minus: minority interests	133622.3			898.67	306.47
Net assets acquired	543389.68	90.87	957.1	1809.8	4703.95

If the merging party is suspected of profit transfer or profit manipulation, it will affect the interests of many shareholders, and is not conducive to the effective allocation of resources and the development of the capital market. Therefore, as far as the ownership structure of the purchaser is concerned, it is reasonable for companies without non-controlling shareholders to adopt similar pooling of interests method. For example, in the merger of enterprises under the same control between wholly owned subsidiaries, the purchase method is more substantive and reasonable than the similar equity combination method for companies with non-controlling shareholders. For most shareholders, business combination under the same control is more like a purchase behavior.

3.1.2 Difference analysis of economic consequences

According to the theory of economic consequence, economic consequence means that the choice of accounting policy will affect the number of financial reports, which will affect enterprises and stakeholders in varying degrees, and then affect the efficient allocation of social resources [18].

In this case, the adoption of the similar pooling of interests method and the purchase method will have different economic consequences

The first is the difference analysis of accounting treatment. Since Guangming dairy carried out four business combinations under the same control in the second half of 2018, although the merged parties are different, the accounting process of business combination under the same control is the same.

Therefore, the content of accounting treatment entries involved in this part is only combined with the acquisition case of milk shed in this case. Two accounting treatment methods, similar to the pooling of interests method and purchase method, are used to simulate the merger and make a simple comparison, as shown in table 3.2 and 3.3 below, The result of asset-based method is the result of the assets and liabilities of the merged party, which is more in line with the concept of the fair value of the net assets of the merged party.

Therefore, for the acquisition case of milk shed, this paper uses the value-added rate of 47.27% on the base date of asset-based method as the value-added rate between the fair value of net assets and its book value on the merger day of milk shed, that is, the fair value share of identifiable net assets on the merger day of milk shed is 2822.72 * (1 + 47.27%) * 66.27% = 27.5486 million yuan.

Table 3.2-Accounting entries from the perspective of Bright Dairy

	pooling of interests method	Purchase method
Merger date (12, 6, 2018)	Debit: long term equity investment 1870.62 Capital reserve 1111.53 Credit: bank deposit 2982.15	Debit: long term equity investment 2982.15 Credit: bank deposit 2982.15

Secondly, the impact on enterprises is analyzed. Because the accounting treatment of the purchase method and the similar equity combination method is different, the impact on the enterprise is also different, including the enterprise's book data and related financial indicators.

Table 3.3-Cconsolidated offset accounting entries

	Pooling of interests method	Purchase method
Consolidated offset entries on the merged date	Debit: owner's equity of the merged party 1870.62 Credit: long term equity investment 1870.62	Debit: owner's equity of the merged party 1870.62 Capital reserve 884.24 Goodwill 227.29 Credit: long term equity investment 2982.15

Based on the theory of accounting rent-seeking, from the perspective of enterprises, enterprises may prefer to adopt similar equity combination method for accounting treatment in business combination under the same control. Because the enterprise does not need to pay too much effort to change the enterprise performance, it only needs to use the similar equity combination method to change the enterprise performance on the book, so as to help the enterprise attract more resources.

The impact of similar equity combination method on enterprises is more favorable.

For example, using the similar equity combination method can bring more profits to the enterprise than using the purchase method in the book, which seems to be more conducive to improving the property right structure of the enterprise and increasing the return on net assets of the enterprise. In this case, due to the less net assets of Dairy Research Institute and dairy training center, the impact on the enterprise is small. Therefore, when analyzing the differences of data and indicators under the two methods, only the impact of milk shed and Yimin No.1 Factory on the enterprise is considered. See table 3.4 and table 3.5 for the basic accounting data and indicators involved before and after the merger of Bright Dairy.

Table 3.4- Data table before and after consolidation under the pooling of interests method (Unit: 10000 yuan)

project	Before the merger			Adjustment of the first three	After merger
	Guangming dairy	Milk shed	Yimin No.1 Factory		pooling of intrests method
Assets	989968.51	9539.37	22451.23	-7039.86	1014919.3
Current assets	648103.62	8363.57	13607.23		670074.42
Non-current assets	341864.89	1175.8	8844	-7039.86	344844.83
Liabilities	493800.5	6716.65	16989.75		517506.9
Current liabilities	482417.87	6716.65	13219.78		502354.3
Non-current liabilities	11382.63		3769.97		15152.6
Owner's equity	496168.01	2822.72	5461.48	-7039.86	497412.35
Net profit	57918.13	153.07	412.23		58483.43
Current ratio	134.34%	124.52%	102.93%		133.39%
Asset liability ratio	49.88%	70.41%	75.67%		50.99%
Equity ratio	99.52%	237.95%	311.08%		104.04%
Return on assets	5.85%	1.60%	1.84%		5.76%
Return on net assets	11.67%	5.42%	7.55%		11.76%

Table 3.5- Data table before and after merger under the purchase method (Unit: 10000

yuan)

project	Before the merger			Adjustment of the first three	After merger
	Guangming dairy	Milk shed	Yimin No.1 Factory		pooling of intrests method
Assets	989968.51	14048.63	34166.28	-6812.57	1031371
Current assets	648103.62	12317.03	20707.48	227.29	681355.4
Non-current assets	341864.89	1731.6	13458.80	-7039.86	350015.4
Liabilities	493800.5	9891.61	25855	0	529547.1
Current liabilities	482417.87	9891.61	20117.86	0	512427.3
Non-current liabilities	11382.63		5737.14	0	17119.77
Owner's equity	496168.01	4157.02	8311.28	-6812.57	501823.7
Net profit	57918.13	153.07	412.23	-565.3	57918.13
Current ratio	134.34%	124.52%	102.93%		132.97%
Asset liability ratio	49.88%	70.41%	75.67%		51.34%
Equity ratio	99.52%	237.95%	311.08%		105.52%
Return on assets	5.85%	1.09%	1.21%		5.62%
net assets return	11.67%	3.68%	4.96%		11.54%

First of all, the similar equity combination method is conducive to improving the future book profit of the enterprise. The combined assets are measured at fair value by purchase method. The similar combination of rights and interests rule is to measure the assets of the merged enterprise incorporated into the consolidated statements by book value.

Table 3.6- Difference between two methods (Unit: 10000 yuan)

Project	Difference
Assets	16451.6
Current assets	11281
Non current assets	5170.6
Liabilities	12040.21
Current liabilities	10073.04
Non current liabilities	1967.17
Owner's equity	4411.39
Net profit	-565.3
Current ratio	-0.42%
Asset liability ratio	0.35%
Equity ratio	1.48%
Return on assets	-0.15%
Return on net assets	-0.22%

Generally speaking, the fair value of assets is usually greater than its book value, which will lead to the value of assets incorporated into the consolidated statements under the purchase method is higher than that under the similar equity combination method. Because the enterprise's future production and operation activities will consume assets and form the cost or expense of the enterprise, the lower the entry value of assets, the lower the cost and expense in the future and the higher the profit.

Therefore, the adoption of similar equity combination method will improve the future book profit. For example, in this case, the asset value after merging into the consolidated balance sheet under the similar equity combination method is 10149.1925 million yuan.

If the purchase method is adopted, the asset value of the consolidated balance sheet is 10313.7085 million yuan, with a difference of 164.516 million yuan. The asset difference of about 160 million yuan will form the expense of the enterprise in the future. If the current assets are amortised in three years, the current assets will be amortised, non-current assets are amortised over five years. The purchase method will generate an annual cost of 47.9445 million yuan more than the pooling of interests method, and an additional cost of 140 million yuan in three years. The profit will be reduced by 140 million yuan, which cannot be underestimated.

Secondly, the similar equity combination method is helpful to improve the book profit of the year of business combination. Under the purchase method, the consolidated profit of the year of business combination only includes the profit of the merged enterprise after the purchase date. Under the similar pooling of interests method, the consolidated profit of the current year includes all the profits of the merged enterprise in the current year. The earnings and retained earnings of the merged enterprise before the merger are also included in the consolidated income statement, regardless of the specific merger date. Therefore, as long as the merged enterprise has profit before the merger, the profit in the consolidated income statement of the year of merger under the similar equity combination method must be greater than that in the consolidated income statement under the purchase method. In this case, the financial report of Bright Dairy in 2018 shows that the net profit of the merged party before the merger under the same control is 5.653 million yuan, so the profit and retained earnings in the consolidated income statement in 2018 are 5.653 million yuan higher than those in the purchase method.

Finally, the different choice of similar equity combination method and purchase method will lead to different assets, liabilities, owner's equity and net profit after the merger, which will lead to the difference of financial indicators after the merger. In this case, the equity ratio under the similar pooling of interests method is less than that under the purchase method. At the same time, the return on net assets is greater than the return on net assets under the purchase law. The smaller the property right ratio is, the smaller the risk of the enterprise is, and the greater the return on net assets is, the easier it is to attract investment. Therefore, the adoption of similar equity combination method is not only conducive to reducing the risk of enterprises, but also conducive to helping enterprises to finance. In addition, the purchase method will produce consolidated goodwill. According to the accounting standards for business enterprises, enterprises need to conduct impairment test on goodwill at the end of each year, and the impairment of goodwill will affect the profits of enterprises. Huge goodwill impairment will even cause huge fluctuations in corporate profits, which is not conducive to the smooth growth of corporate profits and will have an adverse impact on corporate reputation.

3.1.3 Analysis of the differences in the impact on Stakeholders

Analysis of the impact on investors: similar to the pooling of interests method may damage the interests of non-controlling shareholders. Generally speaking, the decision-making power of business merger is mainly in the hands of controlling shareholders, and non-controlling shareholders can only be forced to accept it. However, due to the similar equity combination method adopted in business combination under the same control, the adjustment of capital reserve by the difference between the combination consideration and the book value of identifiable net assets does not affect the profit and loss of the enterprise.

The controlling shareholder can acquire the merged party with a higher unreasonable consideration because it will not affect the profits of the merged party, but also realize the transmission of interests. For the controlling shareholder, it is only the transfer of internal wealth. For the non-controlling shareholders, the acquisition is not worth it and will damage their interests in the merger. Accounting treatment will affect the investment decisions of potential investors. For potential investors, return on equity and earnings per share are the key financial indicators. In 2018, after Guangming dairy holdings merged the dairy shed and Yimin No.1 Factory, the return on net assets under the similar equity combination method was 11.76%, while the return on net assets under the purchase method was 11.54%. Obviously, the rate of return on net assets under the similar equity combination method is higher than that under the purchase method. This will affect investors to make reasonable and objective decisions. In addition, as the payment method of business combination under the same control in this case is cash payment, there is no change in shares.

There is no change in the number of common shares before and after the merger, which are 1224487500 shares. However, the net profit after merger under the similar equity combination method is higher than that under the purchase method. Therefore, the earnings per share after the merger under the similar equity combination method is higher than that under the purchase method, which will also affect the investment decisions of potential investors of Bright Dairy.

For creditors, they are concerned about the solvency of the enterprise. The better the debt paying ability of the enterprise, the less the risk of the creditor, and the easier the enterprise loan. In this case, as far as the solvency of the enterprise is concerned, it is obvious that the solvency performance under the similar equity combination method is better, because the higher the current ratio is, the more conducive the enterprise is to repay the loan in the short term. After the acquisition of milk shed and Yimin No.1 Factory, if the similar equity combination method is adopted for accounting treatment, the combined current ratio is 133.39%. If the purchase method is adopted, the combined current ratio is 132.97%. Similarly, the lower the asset liability ratio, the more capable the enterprise is to repay the loan in the long run. After the acquisition of milk shed and Yimin No.1 Factory, if similar equity combination method is adopted for accounting treatment, the asset liability ratio after the merger is 50.99%. If the purchase method is adopted, the combined asset liability ratio is 51.34%.

The same matter, just because of the different accounting treatment methods, the performance of the solvency of the enterprise and the difficulty of future loans will be different. For creditors, they are more willing to lend money to companies with good debt service ability. But the difference of solvency caused by different accounting treatment methods is the performance of book, which may not reflect the true solvency of enterprises, may lead to the decision-making mistakes of creditors, and loan is issued to some bad enterprises, thus increasing the risk of creditors. As for the result, the lower the solvency is, the less risk of the creditor's decision-making is, because the creditor makes judgment based on the undervalued result. If the undervalued solvency still meets the requirements of the creditor, the real solvency will be more consistent with the loan risk of the creditor. In this case, the solvency under the purchase law is worse. Therefore, the adoption of the purchase law is more beneficial to creditors. In addition, the purchase law is conducive to the creditors to compare between enterprises, so as to make better decisions.

Analysis of the impact on the management: under the modern incentive mechanism, the better the performance of the company, the higher the salary of the management. Companies often use profits and related financial indicators to examine the ability of managers. According to the "economic man hypothesis", that is, everyone takes the maximization of their own interests as the goal.

In order to get higher rewards and maximize their own interests, management will strive to improve the company's accounting profit and related financial indicators. Therefore, when managers have the right to choose accounting policies, they only need to choose accounting policies that can bring higher accounting profits to the company, and they can improve the surface performance of the enterprise without paying too much effort, so as to obtain higher rewards.

The merger profit under the similar equity combination method is higher than that under the purchase method. This makes the business performance of the similar equity combination method seem to be better than the operating performance under the purchase method, so that the salary of the management under the similar equity combination method is higher than that under the purchase method. Moreover, similar equity settlement law will not produce consolidated goodwill, and there will be no impairment of goodwill in the later period, and there will be no huge impairment of goodwill that will cause huge fluctuation of future accounting profit. The future salary of management will be relatively stable, so managers prefer to choose similar equity combination method.

However, through the literature review, we can see that the input and output under the purchase method are more proportional. It can reflect the value flow in the process of merger comprehensively and reflect the actual situation of merger transaction. The consolidated performance of the manager is more authentic, and it is more conducive to the evaluation of the real performance of the manager, and helps the supervision of shareholders, thus enhancing the management's sense of entrusted responsibility and preventing the ineffective merger of personal interests.

3.1.4 Information quality difference analysis

The quality requirements of accounting information refer to the requirements of the users of accounting information on the basic characteristics of accounting information, so that they can make reasonable decisions through the use of accounting information. The characteristics of accounting information include reliability, relevance, comparability, timeliness, substance over form, etc.

Based on the contract theory, there are many stakeholders in the enterprise, different stakeholders have different requirements for information quality, some need accounting information to help them make more reasonable and correct decisions, and some need accounting information to maximize their own interests. For potential investors, whether they want to hold the company's stocks for a long time to get dividends or to speculate on stocks to earn the difference, they need as accurate and fair accounting information as possible to help them make correct decisions. They need to compare multiple enterprises and finally determine the investment object. The purchase method is based on fair value.

The accounting information among enterprises is highly correlated and horizontally comparable. It is more useful for potential investors to make investment decisions. For enterprise managers, they may want to pass their performance to shareholders through accounting information, in order to achieve their own interests. The better the final results of accounting statements, the more favorable to them. Similar pooling of interests method can whitewash the financial statements to a certain extent. Managers may prefer to use similar pooling of interests method to realize their own interests. As for creditors, they need to provide truthful and fair accounting information as much as possible. The more truthful and reliable the accounting information is, the more accurate their judgment of capital lending will be, and the lower their default risk and credit risk will be. Although similar equity combination method uses book value to measure, it seems to be more reliable and prudent, However, managers and ultimate controlling shareholders are easy to manipulate with the help of similar pooling of interests method, and the final results are not necessarily reliable, which is also a hidden danger for creditors.

Generally speaking, although the purchase method lacks the comparability of accounting information before and after the merger, the purchase method can provide all the information of the price paid by the company, especially can make a comprehensive reflection on the value flow in the process of merger, and can obviously improve the transparency of business combination transactions, thus meeting the requirements of most stakeholders for the quality of accounting information, The purchase law may be more applicable.

3.2 Applicability analysis of purchase method

According to the above analysis, on the surface, the impact of similar pooling of interests method is better than the purchase method. It is conducive to improve profits, improve stock prices, attract investment, raise funds, and improve the performance of the management on the surface. However, the information reflected in the book using the similar equity combination method may not conform to the real performance of the enterprise and the management. For example, at present, with the development of China's capital market and the continuous improvement of the evaluation system, the measurement of fair value will be more accurate and credible, creating conditions for the use of the purchase method. In addition, compared with the combination of equity method, the purchase method helps the non controlling shareholders of the acquirer to understand the economic situation of the transaction, and better reflects the real performance of the enterprise, It can also reflect the performance of managers' fiduciary duties more truly.

At the same time, there is relatively little room for enterprises to manipulate profits, which can reduce the impact of merger based on the wishes of controlling shareholders on the interests of non controlling shareholders to a certain extent, and the accounting information provided is highly relevant. When making decisions, stakeholders can make horizontal comparison with other enterprises and make more reasonable decisions, More in line with the information quality requirements of the vast majority of information users, thus helping to protect the interests of the vast majority of information users.

3.3 Suggestions on the optimization of mergers and acquisitions

3.3.1 Suggestions on improving accounting treatment in merger

Through the case analysis of Guangming dairy, we can see that there are some defects in the current accounting methods in business combination. This will bring a lot of profit manipulation space to enterprises. The relevant accounting treatment will also whitewash the financial statements, thus affecting the judgment of the users of the statements. And the inherent defects of accounting treatment methods will make the management authorities or controlling shareholders of enterprises take advantage of the defects to conduct accounting rent-seeking behavior in order to maximize their own interests.

The motivation of merger is no longer to achieve synergy, which will damage the interests of minority shareholders. At the same time, the lax supervision of relevant institutions or the imperfection of relevant laws and regulations also provide convenience for the management authorities or controlling shareholders.

Therefore, this paper argues that first of all, we should improve the accounting treatment method of business combination, reduce the defects brought by the accounting treatment method itself, provide more relevant information and reduce the possibility of manipulation. At the same time, we should improve the relevant supporting measures. After all, there are many links before information disclosure, and the effective implementation of accounting treatment method needs strict supervision of all links, In order to protect the interests of small and medium shareholders and meet the information needs of most users, we should reduce the manipulation space and provide more real and relevant information.

Accounting standards for business enterprises are analyzed from the perspective of the ultimate controller. From the perspective of the ultimate controller, business combination under the same control is only a kind of allocation of internal resources of the group, with no inflow or outflow of interests, more like a combination of interests. Therefore, the standard requires that similar pooling of interests method should be adopted for business combination under the same control.

However, from the perspective of accounting entity assumption, every enterprise should be regarded as an independent entity, so both the merging party and the merged party are an independent entity. The transaction between the two is more like a purchase behavior for both of them.

In addition, from the perspective of the non-controlling shareholders of the combining party, due to the asymmetry of information, they need to rely on the financial statements of the combining party to understand the information of the business combination, and then evaluate the future development prospects of the combining party and the performance of the entrusted responsibilities of the management. The adoption of fair value measurement helps the non-controlling shareholders to understand the economic status of the transaction, To provide more useful information about the acquisition. In addition, it also helps to protect their interests. Therefore, the purchase method is more reasonable. However, as the enterprises under the same control are controlled by the same party before and after the merger, the merging party may merge at the request of the common controlling party. In this case, the merger consideration may be unreasonable and different from the fair value of the business.

Therefore, we need to introduce the concept of "business fair value" and improve it based on the purchase method. At present, IASB members have put forward two alternative accounting treatment methods of business combination under the same control: full fair value method and ceiling method and are still seeking opinions.

In the full fair value method, the difference between the merger consideration and the business fair value is included in the "capital reserve". Whether the merger consideration is higher or lower than the business fair value, the owner's equity items are adjusted. If the fair value of the business is higher than the fair value of the net assets of the merged party on the merger date, it shall be recognized as goodwill.

Ceiling rule is to take the combined consideration as the upper limit. If the fair value of business is higher than the combined consideration, the difference between them does not need to be considered to adjust the owner's equity items. Goodwill at this time is the difference between the consideration of the merger and the fair value of the net assets of the combined party at the merger date and is not related to the fair value of the business. If the consideration of merger is higher than the fair value of business, the difference between them is recognized as the distribution of equity. In this case, goodwill generated is the difference between the fair value of business and the fair value of net assets on the date of merger of the combined party.

Although there are some differences between the two accounting methods, they are similar to the purchase method, that is, they are based on fair value. There is consolidated goodwill. The difference is that the two accounting methods introduce the concept of fair business price.

This paper thinks that the new accounting treatment method can be put forward combining the two international options and the purchase method: first, the combined assets and liabilities of the merged party can be measured at fair value. Secondly, for the difference between the fair value of business and the fair value of the identifiable net assets of the merged party, if it is a positive value, the difference will be finally included in the consolidated goodwill, and if it is negative, the difference will be included in non-operating income. In addition, in general, the owner's equity of the combining party should be adjusted for the difference between the consideration of the merger and the fair value of the business.

Because the combination consideration is unreasonable, there will be a difference, and the unreasonable part should not affect the profit and loss. However, if the difference is positive, the consideration of merger is too high, that is, the controlling shareholder of the merger party may have the behavior of transferring interests, which will damage the interests of non-controlling shareholders. At this time, only when the difference is recognized as the current profit and loss and then has an impact on the profits of the enterprise, this will increase the cost of the benefit transfer behavior, and the controlling shareholders will not use the same control of the business combination to carry out the benefit transmission.

In order to protect the interests of non-controlling shareholders, i.e. most shareholders, this paper believes that the part of the consideration higher than the fair value of business should be included in the current profit and loss (such as non-operating expenses). If the difference is negative, there is no interest damage to the non-controlling shareholders, so the equity items of the owners can be adjusted normally (the capital reserve shall be adjusted first). In this way, the accounting treatment of business combination under the same control of the acquisition of milk shed by Bright Dairy is shown in Table 3.7 below.

Table 3.7- Accounting treatment under the new accounting treatment method (Unit: 10000 yuan)

	Bright Dairy	merger offset entry
A. fair value is reasonable, merger consideration is in line with the fair value.	Debit: long term equity investment 2982.15 Credit: bank deposit 2982.15	Debit: owner's equity of the merged party 1870.62 Capital reserve 884.24 Goodwill 227.29 Credit: long term equity investment 2982.15

B. fair value is reasonable, merger consideration is greater than the fair value. (assume the fair value= 28.5 million yuan)	Debit: long term equity investment 2850 Non-operating expenses 132.15 Credit: bank deposit 2982.15	Debit: owner's equity of the merged party 1870.62 Capital reserve 884.24 Goodwill 95.14 Credit: long term equity investment 2850
C. fair value is reasonable and the merger consideration is less than the fair value (assume the fair value= 35 million yuan)	Debit: long term equity investment Credit: bank deposit 2982.15 Capital reserve 517.85	Debit: owner's equity of the merged party 1870.62 Capital reserve 884.24 Goodwill 745.14 Credit: long term equity investment 3500

In practice, when most listed companies merge, the business evaluation value issued by the evaluation institution is taken as the consideration for merger. That is, there is no difference between the consideration of merger and fair value of business, so it is difficult to distinguish the unreasonable part of the consideration. In this case, the paper holds that the combining party and the merged party can appoint an asset appraisal institution to evaluate the fair business price of the merged party, and try to ensure that the value evaluation institutions of each merger and acquisition are different, if there is no difference or difference between the two appraisal institutions, the fair price of the business can be considered

The estimation is reasonable, and the average value of both can be taken as the fair value of the business. If the difference between the two evaluation results is large, the two appraisal institutions shall reevaluate and discuss and determine the final evaluation results after reevaluation [30].

3.3.2 Improve the information disclosure system

In order to give full play to the advantages of new accounting treatment methods, including providing more relevant and comparable information, reducing the space for profit manipulation and protecting the interests of more information users, relevant supporting measures must be improved, including the following: first, for unusual and important information, detailed reasons should be disclosed. For example, in this case, the value-added rate of Dairy Research Institute is 98%, and the value-added rate of dairy training center is only 0%. These value-added rates are abnormal. What is the specific reason, which should be disclosed in relevant announcement. Secondly, the relevant information of the merged party should be disclosed as much as possible, especially when the merged party is a non listed company, at least the accounting data disclosure of the merged party in the last three years, including the balance sheet and profit statement. For example, in this case, only the accounting data of the merged party and the end of the previous period are disclosed, and the profit is only disclosed in the current year. In this way, the investor cannot judge whether the relevant acquisition behavior is correct, nor can the evaluation method adopted by the investment institution or the evaluation result given by the investment institution be reasonable. Finally, the disclosure of evaluation information should be complete, true and detailed, including the reasons for the selection of evaluation methods, evaluation process and relevant calculation, so as to ensure the data is verifiable and ensure the fair and reasonable evaluation results. For example, in this case, the asset evaluation method of equity value evaluation conducted by Dairy

Research Institute and dairy training center is not disclosed in the related transaction announcement, but directly gives the evaluation value and value-added rate. In this way, investors will feel that the evaluation of the value of the business combination is not rigorous.

3.3.3 Strengthen the supervision of disclosure information

The supervision of accounting information disclosure by relevant regulatory agencies in various countries is insufficient, which leads to the insufficient and disclosed documents

The content is unreliable or incomplete. Such a situation will not only affect the credibility and reliability of the relevant announcement, but also affect the determination of the merger consideration and the evaluation of the valuation, and then affect the decision of the stakeholders. In this case, the disclosure of the same information in different announcements is inconsistent, and the assets appraisal report of the merged party involved in the business combination under the same control cannot be found on the relevant website. However, these related information will affect the decision-making analysis of investors. Therefore, relevant regulatory agencies should strengthen the supervision of accounting information disclosure, and relevant professionals can regularly check the relevant disclosure announcements to ensure the reliability of disclosure information. Meanwhile, relevant regulatory bodies shall improve the relevant provisions on accounting information disclosure, formulate unified, detailed and strict regulations on the specific contents and requirements of disclosure, provide reference basis for information disclosure of relevant institutions or companies, and punish the institutions or companies that do not strictly comply with the provisions, Ensure that the information disclosed by the relevant institution or company is true and complete.

3.3.4 Increase penalties for violations

To improve the relevant standard system, it is necessary to take measures to ensure that relevant institutions or companies conduct transactions in the capital market according to the requirements of laws and regulations. Only when relevant departments increase the intensity of law enforcement and severely punish violations, the cost of violations will increase, The benefits obtained by relevant organizations or individuals through illegal activities may not be enough to pay the cost of illegal activities. In this way, it is not worth doing illegal activities, and the number of violations of laws and regulations will be reduced. Relevant departments should increase the punishment for accounting fraud, illegal disclosure of information, illegal manipulation of dividends, and establish a strict punishment system, such as confiscating illegal income, revoking business license or practice certificate, adopting the system of "once breaking the law, lifelong prohibition of entering the industry" and bringing illegal individuals into personal credit records, so as to ensure that the higher the illegal income is, the higher the income is The worse the behavior, the greater the price the offender will pay. We will never condone the illegal behavior and resolutely maintain a fair and healthy legal market environment.

3.3.5 Change the intermediary agency regularly

The fair value of the business and the fair value of the net assets of the merged party on the merger date need to be evaluated by the evaluation institution. Therefore, the objective independence of the evaluation institution is very important for the better application of the new accounting method. To a certain extent, strengthening the supervision and increasing the punishment of illegal activities can ensure the objectivity and independence of the intermediary agencies. In addition, the company should be required to replace the intermediary agencies regularly. If the relevant institutions cooperate with the company for a long time, it is inevitable that there will be some interest relations between them, which will affect the rationality and fairness of the reports issued by the relevant institutions, and then affect the decision-making of information users. The influence of external relevant institutions can not be underestimated. There are many cases of common fraud between some Chinese intermediary institutions and the company in China, such as the famous "Yinguangxia" incident, the "Enron" incident and Wanfu Shengke fraud listing incident. Therefore, the relevant departments should strictly require companies, especially listed companies, to change their intermediaries regularly and disclose them. For example, it is required that companies should change their intermediaries once every three to five years. At the same time, intermediaries should do a good job in the connection of replacement. Because listed companies are involved in the interests of many small and medium-sized investors, once the company and intermediary agencies jointly cheat, it will seriously harm the interests of small and medium-sized investors.

Once it is identified, it is likely to cause the turbulence of the capital market. In this case, the audit institutions disclosed in the financial reports of Bright Dairy from 2009 to 2018 are Deloitte Huayong accounting firm (special general partnership), which has not changed. Moreover, in the business combination under the same control in the second half of 2018, the relevant accounting data of the merged party were also audited by

Deloitte Huayong. Is the audit result credible, investors need to pay more attentions to it.

Summary

This chapter analysis the difference between the fair value of the business and the fair value of the combined party's identifiable net assets on the merger date is included in the consolidated goodwill or current profits and losses. In the end reached a conclusion that the relevant information disclosure system should be improved, and the relevant departments should strengthen supervision and punishment.

CONCLUSION

In the second half of 2018, Guangming dairy merger process has exposed many problems in practice, such as incomplete disclosure, incomplete evaluation and so on.

This paper analysis this case, focuses on the rationality of the accounting treatment method of business combination under the same control, and puts forward some feasible suggestions for the related problems.

The first chapter introduces the concept of merge and acquisition. Merge and acquisition is usually a combination of two or more enterprises, mainly a large company to absorb another one or more small companies. The main symbol of merge and acquisition is the transfer of control. The motivation of merger may be enterprise expansion or synergy. Enterprise expansion is the inevitable result of enterprise merger, but the development of synergy is difficult to predict. Generally speaking, merge and acquisition will increase the scale and further reduce the production cost and labor cost. It also helps to optimize resources. Then it helps to enhance the status of enterprises in the industry and increase goodwill. Therefore, business combination can also be regarded as a business management strategy. On the other hand, through the merger strategy, enterprises can quickly set foot in another industry, implement the strategy of diversified development, and disperse the unexpected risks that may occur in a single industry.

According to the relationship between enterprises before merger, business merger can be divided into vertical, horizontal, and mixed merger. Among them, horizontal merger can better reflect the advantages of scale effect. Vertical merger is more strategic, which can effectively control the input-output ratio of the enterprise. It is usually carried out with upstream enterprises, such as merging their raw material manufacturing enterprises, to reduce their own production costs. The last one is mixed merger, which is used to improve the coverage and scale of enterprises. It helps to spread risk, and mixed mergers are extremely effective in times of market turbulence.

The theories involved in merge and acquisition mainly include: accounting rent-seeking theory which is based on the premise that the total wealth of the society or the real performance of the enterprise does not change, and obtains more resources and wealth through accounting means, so that the resources cannot be allocated fairly or the wealth cannot be transferred fairly, thus damaging the interests of other social subjects. The economic consequence is that choosing different accounting policies will affect the enterprise value, which has nothing to do with whether the capital market is effective or not. Synergy mainly refers to the integration of various resources by the parties of merge and acquisition. Good synergy can achieve the effect of "1 + 1 > 2". Consolidated financial statement is a symbol of the result of business combination. Consolidated financial statements have attracted the attention of many parties, such as investors, management, and consumers. Because the consolidated statement is a symbol of cash flow, assets and liabilities, and operation of an enterprise. These basic theories are also the key to a deep understanding of business combination.

Then, the last sector of the first chapter introduces the accounting treatment in business combination. Accounting treatment is just a starting point and a tool for the case study in this paper. There are two kinds of accounting methods used in merge and acquisition, namely, purchase method and pooling of interests method. According to the purchase law, merge and acquisition is a kind of market transaction behavior similar to the acquisition of assets, and the acquisition price is the fair price. Contrary to the purchase law, pooling of interests method holds that merge and acquisition is not essentially a buying and selling behavior. It is only the integration of the rights of shareholders of two companies, the integration of production resources, and the merger of corresponding assets and liabilities at the same time, which is a re division of resources. From the perspective of enterprise asset value, the net assets of consolidated enterprises under the purchase method are often greater than those under the pooling of interests method. The value of assets under the purchase method will be higher than that under the pooling of interests method, which often leads to overestimation of the merged party. From the perspective of investors, ordinary investors cannot identify the false profit of enterprises, which makes the funds in the investment market flow to those enterprises with higher reported income but poor actual profitability. For the management, in order to get a good financial statement, it is easy to produce the phenomenon of fraud.

The second chapter mainly analyzes the case of bright dairy business combination. Bright Dairy is a listed company with diversified property rights. The main business is the development, production and sale of dairy products and dairy cattle breeding. The company has a strong corporate culture and a long history. The core competitiveness of Bright Dairy Company is due to its good whole industry chain management mode, and the front, middle and back end of the industrial chain are relatively mature. It also ranks top in the industry and has the qualification of business combination. Secondly, this paper introduces the changes of equity before and after the merger of Guangming dairy industry. The merged Dairy Research Institute is a data test and related technical service type company. Dairy training center is a company that conducts experiment modulation and personnel training. Milk shed mainly deals with food sales, ticket agent and other business. Yimin No. 1 factory mainly deals with the production of frozen drinks, frozen foods and other products, as well as the sales of food additives. From the perspective of profit, the overall income of the combined party is not very good. From the perspective of income, most of the merged parties are relatively stable except for the dairy training and research center. In the merger, the evaluation value of Shanghai Cairui office for milk shed is determined based on the income method with large amount. Wokson International Assets Appraisal Co., Ltd. regards the results of asset-based law as the evaluation value of the first factory for the benefit of the people. It reflects the handling of business travel opposite sex, which causes up to 4million yuan difference in book value. On the other hand, Guangming dairy only agreed to continue to perform the labor contract with the workers with the first factory of the benefit of the people, and it is unable to judge whether there is a relationship of interest transmission.

This paper focuses on the analysis of the motivation of merger, from which to understand the real driving force of business combination. The paper makes an observation on the impact of merger on enterprises, draws reasonable conclusions and makes suggestions for beneficial development.

First, from the overall effect of the enterprise, the vertical merger of bright dairy industry is successful, with the realization of synergy as the first. Although the increase of net profit items in consolidated statements appears to be highly profitable, in general, the suspicion of profit manipulation is not very large, which will not have a bad impact on the vast majority or a number of investors.

Secondly, the merger of bright dairy industry has integrated the upstream and downstream resources of the enterprise, which is also beneficial to the development of the merged party. Finally, from the steady increase of market value after merger, it can be seen that the overall profitability of the company will not be lost without any individual circumstances.

Of course, as a poor management merged party, the cow Research Institute has a low net assets and a net profit of 0. However, the consideration for merger is very high, and there is no obvious progress in the subsequent annual report, which is a failure of merger. In view of such individual case analysis, this paper holds that the evaluation value-added rate of Dairy Research Institute is high, which leads to the high consideration of merger. If debt is paid off, investors in the dairy research institute may not even be able to recover costs. Therefore, in the process of merging, the selection of evaluation methods and the prediction of relevant data will affect the evaluation results.

Finally, incomplete information disclosure leads to the high consideration of merger. This paper finds that some relevant information disclosure is incomplete and some data information is not consistent in different announcements. The subjectivity of the evaluation institution affects the success of the merger.

The third chapter first proposes the merger of bright dairy industry, and then puts forward the suggestions for the overall standard of business combination.

First, the assets and liabilities of the combined party are different from bright dairy industry, and similar equity law is not applicable. And the non controlling shareholders of Bright Dairy hold nearly 50% of the shares in Bright Dairy. If the merger party has the suspicion of profit transfer or manipulation, it will affect the interests of most shareholders, and will not benefit the effective allocation of resources and the development of capital market. It is not advisable for enterprises to change their performance without too much effort. It is not advisable to change the performance of enterprises in book by adopting the method of combining similar interests and interests, thus helping enterprises attract more resources. In this case, the property right ratio under the similar equity combination method is smaller than the property right ratio under the purchase method. At the same time, the return rate of net assets is greater than the return rate of net assets under the purchase method. The smaller the property ratio is, the smaller the enterprise risk is, the greater the return on net assets is, the easier it is to attract investment.

The accounting treatment method in business combination will bring a lot of profit manipulation space to the enterprise. Therefore, this paper thinks that the first step is to improve the accounting treatment method of business combination, reduce the defects of accounting treatment method itself, provide more relevant information and reduce the possibility of manipulation. The concept of fair business price is introduced. Firstly, the consolidated assets and liabilities of the merged party are measured at fair value. Secondly, the difference between the fair value of business and the identifiable fair value is processed. If it is a positive value, it will be included in the consolidated goodwill, and if it is negative, it will be included in non operating income. Because the combination consideration is unreasonable, there will be a difference. The unreasonable part should not affect the profit and loss. This method fundamentally solves the problem of changing the performance of the enterprise.

Secondly, to improve the information disclosure system can not only provide more relevant and comparable information, reduce the space of profit manipulation, but also provide reference for more business combinations.

Third, relevant regulatory authorities shall formulate uniform, detailed and strict regulations on the specific contents and specific requirements of disclosure, provide reference basis for information disclosure of relevant institutions or companies, and punish the institutions or companies that do not disclose information strictly in accordance with the regulations, so as to ensure the authenticity and integrity of the information disclosed by relevant institutions or companies.

Fourth, in the capital market, the cost of illegal regulations will be increased only when the relevant departments increase the intensity of law enforcement and punish the illegal behaviors severely. The benefits obtained by relevant organizations or individuals through the illegal behaviors may not be enough to pay for the costs of illegal violations.

Fifth, it is strictly required that the company regularly replace the intermediary to avoid fraud of the firm and reduce the loss of investors.

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