

Xintai Electric IPO Financial Fraud Case Analysis

Yintong Huo^{1, a}, Mengqi Tong², Qianyan Li³, Feng Li¹

¹School of Management Science and Engineering, Anhui University of Finance and Economics, Bengbu, China

²School of International Economics and Trade, Anhui University of Finance and Economics, Bengbu, China

³School of Finance, Anhui University of Finance and Economics, Bengbu, China

^a1151021032@qq.com

Abstract

Financial fraud has a long history and is very harmful to enterprises. This article analyzes the financial fraud of Xintai Electric's IPO, analyzes and discusses its existing problems, and puts forward relevant suggestions on the convenience of financial fraud for the follow-up. Scholars' research provides ideas.

Keywords

Xintai Electric IPO; Financial Fraud.

1. Xintai Electric IPO Financial Fraud Case

Xintai Electric (300372, SZ), a company on the banks of the Yalu River, its main business is electricity, wind power, oil business, the main products are substations and power transformers, listed on the GEM on January 27, 2014, July 14, 2015 On July 8, 2016, the China Securities Regulatory Commission announced that Xintai Electric had fraudulently listed and initiated the compulsory delisting procedure. On August 28, 2017, it was delisted from the Shenzhen Stock Exchange.

It is less than 4 years of stock age. Since its listing, its performance has been worse than one year. After 2015, the net profit directly turned into a loss.

On July 14, 2015, Xintai Electric announced the "Indicative Announcement of the Risk of Suspension of Listing of Stocks", saying that it was investigated by the China Securities Regulatory Commission for suspected violation of securities laws and regulations.

After receiving the investigation, the company immediately launched a financial self-examination, and on November 27, 2015, issued the "Announcement on Correction and Retrospective Adjustment of Major Accounting Errors in Previous Years": The company has made 4 consecutive years from 2011 to 2014. , Fictitious collection of accounts receivable and transfer of funds and transfer of accounts receivable at the beginning of the next accounting period, resulting in the company under-accrued bad debt provision for accounts receivable, incorrect listing of financial statement items, and non-compliance with the standards.

The so-called incorrect listing of financial statement items is actually financial fraud, and it is IPO fraud and annual report fraud.

In 2012 and 2013, the profits were inflated by 6.18 million and 10.54 million respectively, and in 2014, the profits were inflated by 2.55 million. Correspondingly, in 2012 and 2013, the income tax was overpaid by 1.09 million and 1.86 million respectively, and in 2014, the income tax was underpaid by 450,000.

2. Reasons for Xintai Electric's IPO Financial Fraud

2.1. IPO Test Requirements are High

According to the requirements of relevant laws and regulations such as "Administrative Measures for Initial Public Offering and Listing on the Growth Enterprise Market", "Administrative Measures for Initial Public Offering and Listing of Stocks" and other relevant laws and regulations, during the IPO process, the issuer's financial net profit, operating income, cash flow, etc. All requirements are met, which is one of the reasons for the financial fraud of the issuing company to meet the IPO issuance conditions.

2.2. Interest Driven by IPO and M&A Financing

2.2.1. IPO's Benefits to Original Shareholders and Issuing Companies

Because the original shareholders entered the company earlier and held shares at a lower equity price, in most cases, the company's IPO will bring explosive gains to the original shareholders' equity, which is much higher than the establishment and history of the company. The cost of equity for the round of financing. IPOs have a huge impact on a company's ability to raise funds, prompting management to whitewash financial statements.

2.2.2. Interests in M&A Financing

For venture capital companies that do not yet have the ability to IPO, they can raise funds by attracting market investment institutions. Private equity funds and other financial investors are interested in financial indicators of profitability, driving the founding team to whitewash the financial indicators. In addition, due to the unequal information between investors and investee companies, there are usually gambling clauses related to financial indicators and performance in investment agreements. The team falsified financial metrics.

3. Xintai Electric's Financial Fraud Methods

3.1. Fictitious Collection of Accounts Receivable to Reduce the Provision for Bad Debts

As mentioned above, the third and fourth quarters are peak sales seasons, and the balance of accounts receivable is relatively large. At the end of each year, enterprises must make provision for bad debts on accounts receivable, which are used as asset impairment losses to offset current profits and losses.

For Xintai Electric, whose accounts receivable has risen, the collection has declined and cash flow has been under pressure in the face of the downturn in the industry.

Therefore, in order to make Xintai Electric go public smoothly, the chief accountant of the company suggested to the chairman to adopt the practice of "reducing accounts receivable with external borrowings and repaying them at the beginning of the next period" at the end of the accounting period.

For example, in December, the accounts receivable are fictitiously collected, and the accounts receivable are returned to the account in January of the following year. When the quarterly report is to be issued in March, the above operations are repeated. To give external information users an intuitive feeling that the accounts receivable and collections at the end of the period are at normal levels, and the financial indicators are "beautiful".

Other accounts receivable is the same as the above operating principle.

Its specific operation method is:

Borrowing from the outside, let the finance go to the bank to handle the cash withdrawal and payment business at the same time, after withdrawing the other party's borrowing funds, and then make the borrowed amount into the collection business in batches, fill in the cash payment

slip, and the payer writes The names of the companies that have business transactions, pretending to be the company's sales receipts are recorded, thereby offsetting the current accounts receivable, and reducing the bad debts when accruing bad debts according to the aging method; after the reporting period, the bank account The funds are withdrawn and returned to the borrower.

The breakthrough point of this type of operation is that by checking the bank flow, you can find abnormal cash inflows and outflows at the end of the period and the beginning of the period; in addition, you can check the accounts receivable sub-ledger to see if there is a large amount of recovery at the end of the period and a large amount of red-letter reversal at the beginning of the period. business processing.

From 2011 to 2014, in the financial report for four consecutive years, the fictitious collection of accounts receivable in each period ranged from more than 70 million to nearly 200 million.

Since the recovery of the above payment for goods is fictitious, the cash flow of the company will not be improved, so in the long run, the company's cash flow and debt indicators will also be abnormal.

3.2. Decreased Costs and Expenses

Compared with inflated income, inflated costs are simpler and more hidden.

But for that kind of fraudulent external data, such as customs import and export data, steel sales prices, etc., the cost is high, and careful people will always find clues, such as the heavyweight Erkang Pharmaceutical (5.340, -0.20, -3.61%) (rights protection) (300267, SZ), the customs data proves that the sales of tapioca starch are abnormal.

According to the information disclosed in Xintai Electric's prospectus at that time, Xintai Electric's average unit price of silicon steel purchases in 2010 was 14,905.8 yuan per ton, the purchase volume was 6,310 tons, and the total purchase amount was 94.05 million. Compared with the purchase price of silicon steel disclosed by "China United Steel Network", the purchase price of silicon steel sheet in 2010 was between 17,000 yuan / ton and 21,000 yuan / ton, so Xintai Electric's 14905.8 yuan / ton is higher than the national minimum purchase price. to be low.

Therefore, it also means that the fact that the procurement cost in 2010 disclosed in the prospectus was inflated, resulting in an inflated increase in net profit in 2010.

4. Conclusion and Inspiration

Based on the conclusions drawn from the analysis, in order to prevent and control IPO financial fraud, the external system needs to be improved, law enforcement and punishment should be strengthened, and professional ethics education and supervision should be strengthened. The quality of employees, both internal and external, will jointly promote the healthy development of the capital market.

4.1. It is Necessary to Further Improve the Issuance System of Stocks

At present, my country's stock issuance system is based on the "approval system." Under this system, securities regulators need to review the compliance conditions for companies' listing on the one hand, and make judgments on the company's growth on the other hand. IPOs on the GEM or GEM must meet certain conditions in terms of profitability and growth. These rigid requirements cause many companies that fail to meet the requirements to choose financial fraud. In order to facilitate the healthy development of listed companies and further increase capital The overall international competitiveness of the market. Improving the listing mechanism of enterprises and reforming the issuance review system is an effective means to control the fraudulent behavior of enterprises and improve the construction of the capital

market. Promoting the reform of the registration system for stock issuance will help to improve the multi-level capital market system, develop and Regulate the bond market.

4.2. To Establish an Effective Corporate Governance Structure and Internal Control System

To control the phenomenon of financial fraud, we must start from the enterprise itself. First, we must establish a modern company system, improve the corporate governance structure of the company, separate the management rights, management rights and supervision rights, and strengthen the mechanism construction of the board of directors, management and supervisory committees. The awareness of standardized operation shall be brought into full play, and the supervisory role of the board of supervisors and independent directors shall be brought into full play in the supervision of executives' business decision-making behaviors, so that supervision can be effectively implemented. The second is to establish and improve the company's internal control system. Enterprises should take strengthening internal control as a basic task, combine their own actual conditions, learn from advanced internal control experience, formulate a more standardized, practical and planned enterprise internal control system, and ensure the implementation of internal control, so that the enterprise's own "" Firewall" functions to improve the credibility of accounting information. The third is to take the formulation and control effect of the internal control system as the primary reference standard for evaluating listed companies, strengthen financial supervision, and control management loopholes. Only by constantly improving the company's internal management system and strengthening the execution of the system can we be able to curb the increasingly rampant fraudulent behavior from the root cause.

In short, through the analysis of Xintai Electric's IPO financial fraud case, it can be seen that in order to establish a securities market with clear rewards and punishments, rules and integrity, it is necessary to strengthen the internal management and external supervision of listed companies, and increase financial fraud of listed companies. Penalties for violations of laws and regulations. Although the current reform of the delisting system has made great breakthroughs compared to the previous ones, it still needs to increase the cost of illegal activities in order to have a deterrent effect on fraudulent behaviors.

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