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**Dose IFRS convergence in 2007 GAAP continuously improve quality of accounting information? – Evidence from the Chinese Stock-A market**

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# Dose IFRS Convergence in 2007 GAAP Continuously Improve Quality of Accounting Information? – Evidence from the Chinese Stock-A Market


## ABSTRACT

This paper aims to examine whether the convergence of Chinese GAAP in 2007 and IFRS has continuous improvement of accounting information for A-share investors in China. The investor's reaction to the disclosure of annual financial reports that A-share companies are legally required to prepare and release was analyzed based on the data collected during 2008-2017, to stand for the situation during 2007-2016. Multiple regression analysis of 733 Stock-A companies was employed. The results of this paper show that earnings per share is a strong explanatory factor of market return in 2007-2016. A-share investors try to make cautious price decisions, depending heavily on earnings showed by companies. Besides, the findings of this paper suggest that investors are more reliable on balance sheet such as leverage ratio to assure their decisions wise during recent years.



**Keywords**: IFRS convergence; Quality of accounting information; China GAAP2007

**JEL Classifications**: G11, M48.

# I. INTRODUCTION

The government of China eagers to facilitates its “Open Door Policy” and to transform its centrally planned economy to a market-oriented one. Additionally, China's capital market seeks more resources from both domestic and foreign investors to thrive. In order to keep the economy on the track of contemporary international situations, accounting standards are inevitably forced to converge with other standards, particularly International Financial Reporting Standards (IFRS). It is especially meaningful nowadays for various nations to make their accounting standards converge with IFRS, which would help the local economic market get the support of other regions to thrive. Indeed, convergence with IFRS would increase the comparability of financial reports in different countries. Therefore, in 2006, the Ministry of Finance in China (MOF) contributes to the convergence of Chinese GAAP with IFRS by implementing the Accounting Standards for Business Enterprises 2007. It is commonly accepted that IFRS is quite superior standards than others all over the world, thus the convergence of IFRS is expected to attain a higher level of quality of accounting information.

The greater quality of accounting information can generate the value of information used by investors to make investment decisions to get higher market returns. Generally speaking, investors are the biggest beneficiaries because they are external stockholders who are not able to hear exclusively internal information and barely take account of publicly disclosed information. The value relevance between earnings and book value of equity is especially vital to the investors, which are also used to present the quality of accounting information. Besides, the Chinese government and regulators expect the improvement of accounting information, which indicates they do the proper decision about adopting IFRS though GAAP 2007. Because the

IFRS convergence in China faces lots of challenges since the 1990s, and governments need to grab the best opportunities to enforce the adoption of IFRS to attract investors. The success of the implementation of new accounting standards would strengthen the governments' faith in perfecting domestic accounting standards and regulations. In addition, the continuous enhancement of accounting information indicates that the enforcement of new accounting standards is going beyond the literary level and into practice level, which is particularly meaningful to stands for success. On the other hand, if the execution of the GAAP did go on well, the officials would rethink the reason why the recently updated standards did not suit in the contemporaneous capital market.

To estimate the improvement of accounting quality, it is crucial to look into the connections between investment decisions and the accounting information that are provided to overall investors such as financial statements released under stringent regulations and share prices shown in the stock exchange market. As shown in the empirical results, the effect of independent variables (earnings per share, book value of equity per share, leverage ratio, and operating cash flow per share) on dependent variable (market value of share price) is not random, suggesting that it is significant to look into the relationships among these variables. In this study, earnings per share and leverage ratio are explanatory variables, and the book value of equity per share and operating cash flow per share are control variables, which is not consistent with anterior studies. The result does not prove that the value of earnings and book value of equity are becoming more relevant than before, which can not stand for the progressive situation of accounting quality. Because the study remains the question of the value relevance of earnings and leverage ratio, which is caused by the limitation of the study and not fixed by the writer's

pieces of knowledge. In addition, the low ratio of the sample used in the study is consistent with the empirical results, which need further studies. All in all, the proportion of references on financial statements that investors may depend on is different between during the first period 2007-2013 and between the second period 2014-2016. The empirical results can still be the evidence to prove that investors heavily rely upon accounting information from released financial reports especially income statements.

Though the study initially aims to examine the continuous improvement of the quality of accounting information since 2007GAAP through the investors' attitudes and behaviors, the study is only able to provide the evidence that investors rely heavily on the financial statements especially income statements. In addition, the study provides a new perspective for further studies to look into the quality of accounting standards by examining the value relevance of earnings and leverage ratio.

## II. LITERATURE REVIEW

### *Global IFRS Convergence*

After the establishment of IASB (International Accounting Standards Board), IASB seeks to replace the International Accounting Standard Committee, trying to regulate "a single set of global financial reporting standards that will be both understandable and enforceable" (Pickard, 2007). In fact, since 2006, IFRS advocators support that the advantages of uniform global accounting standards, such as increasing the disclosing level, declining the information risk, stimulating international investing and thriving the global economy. On the other hand, some

experts stand against uniform accounting standards, saying that those kinds of standards could not generate comparability across the world unless factors such as institutional and economic ones are becoming semblable in the whole world. (Holthausen, 2009). In other words, Holthausen believes that satisfying comparability can be only ensured when those factors are not distinguished anymore. There is a recent view that both adoption and convergence lead to an increase in comparability after the new enforcement of regulation, which does not cause a significant incremental increase in comparability beyond convergence (Lin, Wang, and Hopkins, 2019) Though various opinions against IFRS convergence come out, It is generally accepted that IFRS results in high quality than most domestic accounting standard (Barth, Landsman, and Lang, 2008), which promotes the convergence of IFRS. Since the standards are generally accepted and recognized for producing more precise, understandable and timely financial accounting information, those standards are expected to provide valuation in the equity markets and hence decrease the risk for investors to make their decisions. (Barth, Landsman, and Lang, 2008; Cheong, Kim, and Zurbruegg, 2010).

Krishnan claims that the IASB as part of its agenda to achieve global accounting harmonization had always promoted the full adoption of IFRS in some developing countries like India and China (Krishnan, 2016). However, the local governments such as the Chinese government were not keen on full adoption, taking into consideration various legal, economic and conceptual factors. To gain a deeper understanding of the convergence decision, Krishnan suggests that it is necessary to understand the opportunities which shape the convergence tendency. This involves the identification of actors, individual and organizational ones involved

in the decision-making process, the means through which such actors exert their influences on the decision and the impact of these influences on the convergence process.

### *IFRS Convergence in China*

On February 15, 2006, the Ministry of Finance of China promulgates the new accounting standards for business enterprises -ASBE 2017, which clearly makes a dominant change that considers fair value as one of the attributes of accounting measurements (MOF of PRC, 2017). This additional measurement represents a reintroduction of FVA (fair value accounting) in China because China's recent adoption of FVA into its national accounting standards has been on a torturous road. According to Bewley, Graham, and Peng (2018), Chinese accounting standards change from initial strict historical cost accounting in the early 1990s to inept adoption of fair value standards in 1997-2000, which are just carbon copies. Furthermore, China tries to fix the hazy adoption in 2001, followed by a vigorous reimport of IFRS including selective differences such as in FVA, which appears to become successful in 2006.

Regarding PRC ASBE No.39, fair value refers to the number of assets in exchange or debt settlement voluntarily carried out by both parties who are familiar with the situation in a fair transaction (MOF of PRC, 2017). This new standard is based on the definition of fair value from both FASB (Financial Accounting Standards Board) and IASB, "The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (Wolfgang and Franck, 2011). Furthermore, in China's new accounting system, fair value is mainly applied in 17 specific standards such as financial instruments, enterprise mergers under non-identical control, debt restructuring, non-monetary

transactions, and biological assets. Although there are still some differences between IFRS and Chinese ASBE, the new standards are expected to have a vital impact on financial information provided to the Chinese stock market via enhanced quality of accounting information (Ng and Lau, 2006).

According to Zhang(2012), the inclusion of FVM (fair value measurement) into the specific basic standards in China not only reflects the integration between China's accounting standards and IFRS but also proves that China is full of confidence in the development of market economy and the wide application of FVA by enterprises because, in current accounting operation, FVM replaces the traditional single measurement model with multiple measurement model especially fair value models. Studies on FVA from multifarious perspectives point out that the increasing use of FVA in IFRS means that FVA is superior and more useful than other locally established standards over different countries(Penman, 2007). Thus, the adoption of IFRS FVA standards is especially highly desirable for China. Plus, along with the rapid enhancement of socio-economic forms inside and outside China, the application of FVM is necessary to open the international market to attract international investors. On the contrary, the lack of some important and necessary determinants such as a well-run capital market is a huge obstruction of smoothly making the adopted accounting stands into practice. (Chen and Chan, 2009) In addition, after applications of FVA under IFRS in European countries, Landsman collects evidence from the research that suggested disclosed and recognized accounting information become more valuable to investors, but that the level of informativeness is affected by the amount of measurement error and source of the estimates - management or external individuals and

organizations(Landsman, 2007). Therefore, IFRS convergence in China, an emerging economy, may meet higher investment returns which are expected by international investors.

For the China market, this implementation and requirement of IFRS convergence are characterized by strong regulatory representation in the capital market (Ding and Su, 2008). These characteristics have been related to a dampening effect on any favorable impact from the implementation of IFRS based standards (Lourenco and Curto, 2008; Karampinis and Hevas, 2011). According to Songlan and Kathryn(2010), the implementation in 2007 GAAP seems like an s success, because there are no chaos or widespread abuses have been observed. Their study's findings suggest that Chinese 2007 GAAP shows further adoption of IFRS over different areas instead of directly copying from IFRS. However, this development is still not getting into full practice level, and both internal and external pressures from China's thriving domestic market and explorable international markets become heavier due to the divergence in standards. For example, an accountant and auditors may be nor capable of making professional judgments of whether assets are supposed to using fair value measurements or historical costs. (KPMG, 2009). However, the current and deep-rooted problems – the divergence in requirements between IASB's IFRS and 2007 GAAP cannot be fixed in the foreseeable future. (Peng, 2008) This study is interested to see the changes in accounting quality even if the divergence does not narrow.

***Hypothesis***

***H1***: *A-share investors believes that the quality of accounting information (value relevance) is becoming better and better during 2007-2016 since the implementation of China 2007 GAAP.*

## III. RESEARCH METHODOLGY

Higher accounting quality means greater accounting information usefulness, which can be reflected by the primary and core users of financial statements and related disclosures-investors. (Lee, Walker, and Zeng, 2013). Therefore, it is sufficient to evaluate the combination of accounting information and capital market values. (Khanaga, 2011) Indeed, if reported accounting numbers are able to provide information to investors, those investors would look for such figures that are associated with the company's share price. Specifically speaking, investors take accounts of the value relevance of amounts and figures reported on financial statements with market values. Based on Beisland's definition (2009), value relevance is the ability of financial statements to obtain and make public companies' value. In addition, Barth and his coworkers(2008) give a similar definition and narrows the companies' value down to the accounting figures that connected with some measure of value such as share prices. In order to see whether the IFRS convergence, implemented by the Chinese government in 2007, has significantly improved the quality of accounting information in the recent years, this paper follows prior study (Wen et al., 2012) to test the H1 through regression analysis model. This method examines whether earnings and book value of equity of A-share listed Chinese companies are becoming more and more value-relevant in the post IFRS convergence periods (in 2007-2016). The regression model used in this paper is the same as Wen's:

$$LnMV_{it} = \alpha + \beta_1 LnEPS_{it} + \beta_2 BVE_{it} + \beta_3 LnLEV_{it} + \beta_4 LnCF_{it} + \varepsilon$$

$LnMV_{it}$=comparable closing price (with cash dividend reinvested) for company $i$ on the day $t$;

$LnEPS_{it}$=earnings per share for company $i$ in time $t$;

$BVE_{it}$= the book value of equity per share for company $i$ at time $t$;

$LnLEV_{it}$= the ratio of debt to equity (leverage) for company $i$ at time $t$ ;

$LnCF_{it}$= operating cash flow scaled by market capitalization for company $i$ in time $t$.

Day $t$ is when the annual financial statements were officially released to the public, which provides information for A-share investors to change their behaviors. Since the annual report shall be prepared and disclosed within 4 months from the last date at the end of each fiscal year, $t$ is usually in early May of each year.

$MV$ is an adjusted closing price based on that on the first day of trading, which is in removal of the changes in time intervals and equity movements. This price would reflect the responses of A-share investors to the latest released accounting information, which present the instant behaviors from the investors. The removal of the changes in time intervals and equity movements would increase the compatibility of closing price at different dates.

$CF$ is calculated as operating cash flow per share over share price. Operating cash flows among companies have wide ranges because companies are of different scales. To set the same standards for various companies, using operating cash flow scaled by market capitalization is sufficient for analyzing.

## IV. EMPIRICAL RESULTS

Since the implementation of the 2007 China GAAP, A-share companies are supposed to prepare their financial statements in accordance with the requirements. This paper investigates the improvements of the accounting information of 733 A-share companies listed on the Shenzhen Stock Exchange and the Shanghai Stock Exchange from the beginning of the

implementation-2007 to the year when the newest data is accessible for our school-2017. Those 733 A-share companies are with fully available information needed between 2007-2017.

All the data used in this study is downloaded from the Chinese Stock Market Accounting Research database (CSMAR). Comparable closing price (with cash dividend reinvested) for companies, earnings per share, the book value of equity per share are directly derived from CSMAR. On the other hand, the ratio of debt to equity and operating cash flow scaled by market capitalization are calculated based on the figures downloaded from CSMAR. The original number used about total debt, total equity, cash flows from operating activities are share prices are all collected form CSMAR.

Due to the lack of permission to get the officially released date of annual reports and the unavailable real-time data for earnings per share, the book value of equity per share, leverage ratio and operating cash flow, the sample data will be collected at the time when the first-quarter report of the next year prepared, 3.31 each year. (e.g. data on 3/31/2008 stands for the date of releasing annual report prepared in 2007) There are some reasons to choose this date. First, it is the nearest available date to early May to get information about earnings per share, the book value of equity per share, leverage ratio and operating cash flow. Second, if the 6.31 was chosen, the 1st quarter report of the next year rather than the annual report will influence the investors' attitudes and actions. However, there are some problems show up-3.31 in 2012 and 2013 are both on weekends when comparable closing price (with cash dividend reinvested) is not available. Since stock markets close after Friday, comparable closing price (with cash dividend reinvested) on 3/30/2012 and that on 2/29/2013 will replace the empty data.

Table 1 descriptive statistics

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| mv | 3338 | 169.916 | 1694.609 | 2.725 | 55234.672 |
| eps | 3338 | .140 | .229 | 0 | 4.87 |
| bve | 3338 | 4.796 | 2.852 | 1.032 | 16.322 |
| lev | 3338 | 1.668 | 5.892 | .010 | 293.458 |
| cf | 3338 | 29.763 | 153.071 | .010 | 6404.775 |

Table 1 shows the descriptive statistics about the used figures of A-share companies in the post IFRS periods, which indicates a strongly positively skewed distribution for MV in 2007-2018 since the standard deviation is 1694.609. CF also exhibits a positively skewed distribution although it is much less significant than MV. In addition, LEV and EPS show signs of deviance in data distributions. It is hard to process the regression model based on original data, thus the data processing is executed as formerly written in the regression model in research methodology. Besides, according to Wen (2012)'s prior results on Wilcoxon signed ranks test (a non-parametric test that is not limited by abnormality in data distribution), the variable BVE does not have a significant differences during the periods, which helps set the baseline for judging whether the value relevance in this variable in the continuous years.

Table 2 Pairwise correlations

| Variables | (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|---|
| (1) lnmv | 1.000 | | | | |
| (2) lneps | 0.321*** | 1.000 | | | |
| (3) bve | 0.210*** | 0.517*** | 1.000 | | |
| (4) lnlev | -0.211*** | -0.093*** | -0.029* | 1.000 | |
| (5) lncf | -0.054*** | -0.401*** | -0.387*** | -0.280*** | 1.000 |

**** p<0.01, ** p<0.05, * p<0.1*

Table2 shows the pairwise correlations about processed data used in the regression models. The pairewise correlations provide understanding of the relationships between independent variables ($\underline{LnEPS}$, $BVE$, $LnLEV$ and $LnCF$) and dependent variable ($LnMV$), which offers the foundation of further testing. All four independent variables individually have remarkable effect on the dependent variables, since the differences are significant. $LnEPS$ alone has the heaviest influence on $LnMV$ with the p value as 0.253. Both $LnEPS$ and $BVE$ separately have strong positive distribution to $LnMV$, and $BVE$ has relatively weak influences. However, $LnLEV$ and $LnCF$ separately hold negative distribution to $LnMV$. In addition, the effect of $LnCF$ on $LnMV$ is the weakest.

Table3 Year by Year Regression

| | lneps | P-value | bve | P-value | lnlev | P-value | lncf | P-value | Cons | P-value | R2 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2007 | 0.264 | 0.000 | 0.016 | 0.525 | -.101 | 0.059 | -.008 | 0.822 | 4.388 | 0.000 | 0.166 |
| 2008 | 0.230 | 0.000 | 0.013 | 0.622 | -.067 | 0.260 | .021 | 0.635 | 4.086 | 0.000 | 0.105 |
| 2009 | 0.256 | 0.000 | 0.019 | 0.434 | -.153 | 0.005 | 0.037 | 0.377 | 4.416 | 0.000 | 0.144 |
| 2010 | 0.248 | 0.000 | 0.002 | 0.925 | -.0172 | 0.005 | -.026 | 0.768 | 4.589 | 0.000 | 0.131 |
| 2011 | 0.298 | 0.000 | 0.017 | 0.467 | -.164 | 0.007 | 0.002 | 0.970 | 4.334 | 0.000 | 0.178 |
| 2012 | 0.278 | 0.000 | 0.005 | 0.835 | -.184 | 0.003 | 0.071 | 0.173 | 4.263 | 0.000 | 0.155 |
| 2013 | 0.328 | 0.000 | -.009 | 0.704 | -.225 | 0.001 | 0.024 | 0.647 | 4.505 | 0.000 | 0.184 |
| 2014 | 0.217 | 0.000 | 0.003 | 0.907 | -.238 | 0.000 | 0.050 | 0.301 | 4.703 | 0.000 | 0.144 |
| 2015 | 0.153 | 0.003 | 0.030 | 0.148 | -.284 | 0.000 | 0.019 | 0.710 | 4.333 | 0.000 | 0.140 |
| 2016 | 0.141 | 0.009 | 0.045 | 0.038 | -.240 | 0.000 | 0.014 | 0.764 | 3.707 | 0.000 | 0.138 |

Table3 shows the results of year-by-year regression, which should be divided into 2 periods to discuss about significant predictors. In the first period between 2007-2013, the year by

year regression results identifies $LnEPS$ as a consistently significant predictor (p-value=0.000 <0.01) for $LnMV$. Besides, this significance exists in the standardized coefficient of $LnEPS$ which has the highest values among all independent variables ( $BVE$, $LnLEV$ and $LnCF$) during these 7 years. This can point out that earning indicator hold stronger influence on market value of share than other factors – book value of equity per share, leverage ratio, and operating cash flow per share in Chinese share-A market. Though the standard coefficients of $LnEPS$ is becoming heavier during 2007-2013, those coefficients decline during 2014-2016, which does not play the dominant roles anymore.

In the second period between 2014-2016, the year by year regression results identifies $LnLEV$ as a consistently significant predictor (p-value=0.000<0.01) for $LnMV$, which has the greatest absolute value among all independent variables( $BVE$, $LnEPS$ and $LnCF$). It is interesting to see that control variables in prior Wen's study become explanatory variables. This indicates that the concentration on earning is turned to the number of leverage ratio. This can point out that leverage ratio holds stronger influence on market value of share than other factors – book value of equity per share, earnings per share for company, and operating cash flow per share in Chinese share-A market.

In the total 10 years, $BVE$ and $LnCF$ are the control variables in this year-by-year regression model. The absolute value of coefficients of $BVE$ and $LnCF$ are relatively smaller than explanatory variables. There are some occasional negative coefficients in these 10 years, which would be vital factor to think of due to the numbers are really small. $BVE$ does help set the baseline for judging whether the value relevance in this variable in the continuous years.

R-squared coefficients during the first period is fluctuating, which become the biggest in 2013. This points out that the applicability of the effect of $LnEPS$ in greatest in 2013. However, those coefficients are gradually declining in the second periods. This evidence shows that there has been an retrogress in the aggregate ability on the independent variables (particularly $LnLEV$ and $LnEPS$, those dominant variables). Besides, these results show that the possibility of $LnLEV$ being an explanatory variable is not so high that could not draw a certain conclusion.

Table 4 Robust t-statistics in parentheses

| VARIABLES | (1)<br>lnmv | (2)<br>lnmv | (3)<br>lnmv |
|---|---|---|---|
| lneps | 0.2291*** | 0.1103*** | 0.1103*** |
| | (13.7959) | (8.4501) | (8.4501) |
| bve | 0.0278*** | 0.0498*** | 0.0498*** |
| | (4.1011) | (7.0798) | (7.0798) |
| lnlev | -0.1891*** | -0.0981*** | -0.0981*** |
| | (-9.7800) | (-3.7257) | (-3.7257) |
| lncf | 0.0315** | 0.0074 | 0.0074 |
| | (2.1799) | (0.8269) | (0.8269) |
| Constant | 4.2627*** | 3.8918*** | 3.8918*** |
| | (58.8099) | (68.4564) | (68.4564) |
| F-test | | 27.17(p=0.000) | |
| LM-test | | 7889.72(p=0.000) | |
| Hausman-test | | 19.52(p= 0.0006) | |
| Observations | 3,338 | 3,338 | 3,338 |
| R-squared | 0.1401 | 0.1279 | 0.1279 |
| Number of stkcd | | 663 | 663 |

*** p<0.01, ** p<0.05, * p<0.1

Table4 shows Robust t-statistics in parentheses. Though 733 companies' statistics are imported to run the regression model, only 663 companies' information are used to output the tables. The 1st column stands for the mix model of fixed effects and random-effects regression.

The 2nd column stands for the results of fixed-effects regression. The 3rd column stands for random-effects regression. The results of F-test equals to 27.17, which means the model fits the fixed model. LM-test that determines whether random-effects or the mixture should be chosen equals to 7889.72, which indicates that random-effect should be used in this case. In addition, the result of Hausman-test is 19.52, which makes it not possible to use random-effect model. In a word, robust t-statistics in parentheses manifests that the regression model should be used in fixed-effects regression. This suggests that the effect of independent variables ($LnEPS$, $BVE$, $LnLEV$ and $LnCF$) on dependent variable ($LnMV$) is not random, which supports the further exploration to see the continuous influences.

## V. CONCLUSION

Since Chinese's government's reintroduction of the IFRS convergence in GAAP 2007, different individuals and organizations in the society such as Chinese government and regulators, domestic and international investors, accountants and auditors are curious about the improvement of the accounting quality after the harmonization of literary accounting standards and real-life practices. This study investigates the quality of publicly released accounting information under regulations that are disclosed for all internal and external users of the companies. Specifically speaking, to statistically generate the results, the value relevance between earnings and earnings per share, earnings and leverage ratio for listed A-share companies between 2007-2016 are presented by the regression model in the research. The paper targets to discover whether financial reporting is becoming more and more valuable for actors especially investors as the requirements of implementing GAAP 2007 exists for several years.

This study has several limitations. At first, the criteria to select companies is not precise enough, because prior study concentrated on listed companies that issue both A-shares and B-share and only look into the differences between prior and post IFRS convergence. The studies ignore the fact that some of selected companies only issue A-shares, but others issue both A-shares and B-shares, which decrease the compatibilities among companies. This defect suggests that the study does not eliminate the potential influence of the IAS and China GAAP 2007 when companies prepare statements under both regulations. Second, another limitation of the study is the limitation of the accounting bits of knowledge of the writer. Due to undergraduate status, the writer does not have a comprehensive understanding of accounting factors and capital market like other professional researchers and could not provide accurate analysis of the tables and the changes of statistics. All analyses are based on the restricted abilities of the writer, which leads to inappropriate understanding. Third, the language is constrained, which may cause inaccurate expressions and arouse misleading messages. In addition, the whole study is finished in only 4 months. The time is so pressing that some problems that occurred during the research are not properly settled.

Even though the study is within several limitations, the results are meaningful to discuss at some points. Using the sample of 733 A-share companies, the empirical results are generated by 663 of those A-share companies indicates that both earnings per share and leverage ratio are explanatory factors of market return, which means investor takes those two figures into consideration when they are making investment decisions. This finding is not consistent with the prior Wen's study, which shows that earnings per share and book value of equity are strong explanatory factors; leverage ratio and operating cash flow per share are control variables. Besides, the book value of equity are used as baseline of each year's changes. The discrepancy

can be explained by the limitation of the study mentioned before. The more accurate results need more time and appropriate samples to prove the fact.

The study would still look into the improvement of accounting quality based on the empirical results, which is divided into two separated periods. In the period of 2007-2013, earnings per share, relative to leverage ratio is stronger. This indicates that investor relies on earnings disclosed by listed companies to make their deliberate decisions in the Chinese stock market. In addition, this result manifests that income statement from those companies are great references for investors to evaluate the companies' potential returns.

On the contrary, in the period of 2014-2016, the relationships are reversed, which means leverage ratio is the heaviest factor. Though the focus of investors has turned, this phenomenon suggests that investors still pay their attention to financial statements but balance sheet. As shown in the empirical results, leverage ratio has strong negative relationships with the closing price. In another words, investors judge the companies' investment returns based on the companies' abilities to meets their obligations. Investors prefer the companies that would operate continuously rather than have indication to go bankrupt. Instead of concentrating on earnings per share to evaluate the profitability of companies and predict the potential growth of companies, investors transfer the attention to leverage ratio to attain higher market returns and bear higher risks. The leverage ratio is able to measure the magnification of little inputs into numerous outputs. A possible rationale for this alternation could be the implementation of new accounting standards go beyond literary level and come to a brand-new practical level. There is a possible reason that previous standards are using historical costs rather than fair value measurement in some assets, debts and equities. Investors are aware of this shortcoming that the values on the

financial statements could not efficiently reflect the actual values, and thus try to avoid making decisions on the basis of suspicious figures. However, since the R-squared coefficients are declining, which also does harm to the accuracy of the results. Though there are possible tendency that investor become depend on leverage ratio rather than earnings per share, the book value of equity, operating cash flow to evaluate the market returns, the investors who make action in this thinking model are not the majority. If growing investors value leverage ratio, the R-squared coefficients would be much higher and have increasing trend in the empirical results.

The findings of this study have some implications. Firstly, though the results of the study are not precise as expected, the study still prove that the investors' heavy reliance upon on financial statements particularly income statement and balance sheet. The finding about the first period suggests that financial reports under new requirements of IFRS convergence provide valuable information to Chines policy makers and regulators to examine the effect of the convergence. After analyzing the empirical results, the quality of accounting information is improving through income statements. Though earnings per share, and leverage ratio play dominant roles in different periods, they are factors associated with the figures on the financial statements. The finding about the second period still generates the earning per share is a strong factor that connected to share price, though its effect is diminished. Therefore, earnings per share are still vital to investor's behavior. Secondly, possible inaccurate results could give a fire-new perspective to look into the relationships between leverage ratio and market return. The reasonable explanations behind this phenomenon is not figured out in this study. There is a probability that investors can catch information about the company and gain more confidence

through the leverage ratios than ever before. Thirdly, to get more valuable results, studies should rethink the comparability of the samples to avoid the errors in this study.

It is particularly meaningful to reconsider the effectiveness of the implementation of adopted accounting standards. Adopted accounting standards would increase the compatibilities among different companies to offer valuable information to both domestic and foreign investors, which would benefit the capital market in China to help thrive the economy situation. As the year pass by, the practice level of new standards is not easily known, which is vital to both regulators and investors. The current feedback of recently adopted accounting standards would reflect the effectiveness and efficiency of the MOF's regulations. On the other hand, Further studies about the influence of other factors from financial statements particularly income statements and balance sheets on investors' behaviors should be examined to see whether the accounting quality is continuously improved after GAAP 2007.

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