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A Deep Analysis of the Impact of the Difference between IFRS and CAS Net Profits on International Investors

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ABSTRACT

In the context of increasing global financial integration, the consistency and transparency of accounting information have become crucial for cross-border investment decision-making. This study examines the impact of discrepancies in net profit reporting under International Financial Reporting Standards and Chinese Accounting Standards on international investors' perceptions of Chinese firms and their subsequent investment behaviors. Drawing on information asymmetry theory, the study constructs a theoretical framework linking differences in accounting standards to investor uncertainty and capital allocation efficiency. Using a sample of Chinese firms dually listed in domestic and international markets, the analysis incorporates net profit reconciliation data, stock prices, and foreign ownership ratios. Empirical results reveal three key findings: (1) significant differences exist between IFRS- and CAS-reported net profits; (2) these differences are systematically associated with specific accounting policy choices such as revenue recognition and impairment testing; and (3) larger discrepancies are negatively correlated with foreign shareholding ratios and exhibit lower value relevance in stock pricing models. The findings highlight the informational advantages of IFRS-based reporting in mitigating asymmetries and improving investor confidence. This study contributes to the literature on financial disclosure quality and offers practical implications for standard-setters and firms seeking to enhance transparency and attract international capital.

KEYWORDS

International Financial Reporting Standards (IFRS); Chinese Accounting Standards (CAS); Net profit differences; International investors; Investment decisions

1 Introduction

Amid accelerating global economic integration, the interconnection of capital markets has become a defining feature of contemporary financial systems [1]. This trend underscores the importance of comparable and transparent financial reporting as a cornerstone for informed cross-border investment decisions. International Financial Reporting Standards (IFRS), developed by the International Accounting Standards Board (IASB), are widely adopted to enhance the global comparability and decision-usefulness of financial information [2]. However, national accounting standards often retain localized features due to institutional, regulatory, and economic specificities [3]. In China, Chinese Accounting Standards (CAS) continue to coexist with IFRS, despite ongoing convergence efforts [4]. Notable differences persist in key areas such as revenue recognition, asset impairment, and fair value measurement—differences that directly affect firms' reported net profit.

This dual-standard environment poses a critical challenge for international investors evaluating Chinese firms. When a firm reports materially different net profits under CAS and IFRS, it raises concerns about financial information's reliability, comparability, and relevance. While prior studies have explored IFRS adoption's general impact on financial reporting quality and market outcomes in China [5,6], few systematically examine how specific net profit divergences under IFRS and CAS shape investor behavior and perceptions [7]. Moreover, existing research treats IFRS convergence as a macro-level reform, neglecting how residual standard-specific differences influence micro-level investment decisions [8].

This study seeks to fill that gap by addressing the following research question: How do differences in net profit reported under IFRS and CAS influence international investors' valuation assessments and investment behavior toward Chinese firms? Grounded in the theory of information asymmetry, this study develops a conceptual framework linking accounting standard discrepancies to variations in perceived information quality, value relevance, and foreign ownership.

Empirically, the study draws on a sample of Chinese firms dually listed in domestic and overseas markets, enabling a direct comparison of financial disclosures under both CAS and IFRS. By employing regression analysis and value relevance tests, the research investigates (1) whether the magnitude of net profit differences is associated with firm-specific accounting policy choices; and (2) whether these differences impact stock pricing and foreign investor participation.

This research makes a significant contribution to the literature in three key ways. First, it provides a micro-level analysis of how specific accounting standard divergences affect cross-border investment, enriching our understanding of financial disclosure quality in emerging markets. Second, it introduces a robust empirical approach to quantify the relevance of net profit discrepancies in investment decisions. Third, it offers practical implications for regulators and standard setters

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aiming to reduce information asymmetry and enhance capital market integration by further aligning CAS with IFRS.

2 Literature review

2.1 Overview of IFRS and CAS

IFRS is a set of globally applicable Accounting Standards developed by the International Accounting Standards Board (IASB)[2]. It emphasizes the use of fair value and requires the current market value of assets and liabilities to be reflected in financial statements, thereby enhancing the relevance and transparency of financial information. The core objective of IFRS is to establish a set of globally uniform accounting standards that enhance the comparability and transparency of financial reporting, thereby reducing the risk of information asymmetry for international investors[2].

In contrast, CAS is more influenced by China's tax rules and regulatory conservatism and tends to prioritize historical costs and domestic administrative goals [4]. This difference is particularly evident in several aspects, including revenue recognition, asset impairment, and fair value measurement. For example, in terms of revenue recognition, IFRS typically requires companies to recognize revenue when specific conditions are met, whereas CAS may require more stringent evidence or additional conditions. When it comes to impairment of assets, IFRS emphasizes impairment tests based on the present value of future cash flows, while CAS may focus more on historical costs or book value. In terms of fair value measurement, IFRS encourages the use of fair value to reflect the true value of assets and liabilities, while CAS may restrict the use of fair value in some cases [4].

These differences result in Chinese companies' financial statements prepared in accordance with IFRS and CAS showing different levels of net profit for the same economic transaction. These differences not only increase the cost of information processing for investors but may also affect their judgment of the financial position and operating results of Chinese companies.

2.2 Adoption of IFRS in China

In recent years, China has been working hard to promote international convergence of accounting standards. Since 2006, China has gradually introduced the core concepts and principles of IFRS and has revised and improved CAS several times. [4] However, due to China's special economic environment and regulatory requirements, there are still some differences between CAS and IFRS. These differences are reflected not only in the specific accounting standards but also in the implementation and enforcement of these standards.

Extensive research has been conducted both academically and in practice on the impact of IFRS adoption in China on the quality of financial reporting. Studies have shown that the adoption of IFRS helps improve the quality of financial reporting among listed companies in China, enhancing the comparability and transparency of financial information [5]. This is because IFRS emphasizes the use of fair value and the relevance of financial statements, which helps to reflect a company's financial position and operating results more accurately. At the same time, the adoption of IFRS promotes the alignment of China's accounting standards with international standards, thereby enhancing the competitiveness of Chinese companies in international capital markets.

However, due to the differences between CAS and IFRS and the problems encountered during their implementation, some studies have also highlighted the limitations of the improvement in the quality of financial reporting [4]. CAS still deviates from IFRS requirements in some respects, for example, due to the influence of China's tax rules and regulatory conservatism. In addition, Chinese companies may also face challenges in implementing IFRS, such as limitations on the quality of accountants and audit quality. These factors could affect the effectiveness of IFRS implementation in China.

2.3 Impact on investors

Differences in accounting standards have a significant impact on investor behavior and market efficiency [1]. First, differences in accounting standards can lead to a reduction in the comparability of financial statements [3]. Due to the differences in the principles of recognition and measurement of the same economic transactions under various accounting standards, it is challenging for investors to accurately compare the financial positions and operating results of different companies. This not only increases the cost of information processing for investors but may also affect their judgment of the value of different companies.

Secondly, differences in accounting standards may affect the transparency and reliability of financial information [8]. Transparency ensures that financial information accurately and clearly reflects the company's financial position and operating results. In contrast, reliability means that the financial information accurately and objectively reflects the company's economic substance. Due to the differences between CAS and IFRS, Chinese companies may present different levels of net profit in their financial statements prepared under different accounting standards. Such differences may cause investors to doubt the authenticity and reliability of the financial information, thereby increasing their risk of information asymmetry.

Finally, differences in accounting standards may also affect investors' investment decisions and capital flows [7]. If investors believe that financial information under a certain accounting standard is more reliable and transparent, they may be more inclined to invest in companies that follow that accounting standard. As a result, differences in accounting standards may cause capital to flow between companies under different accounting standards, thereby affecting the efficiency and stability of capital markets. In the Chinese market, the differences between CAS and IFRS may negatively affect international investors' investment decisions in Chinese companies. They may be more cautious about the financial information of Chinese companies and even choose to avoid investing in Chinese companies, thereby reducing the attractiveness of China's capital market to international capital.

3 Theoretical framework

This study develops a theoretical framework based on the theory of information asymmetry to examine the impact of the discrepancy in net profit reported under IFRS and CAS on international investors. The theory of information asymmetry posits that differences in the quantity, quality, or availability of information among market participants can distort decision-making and reduce market efficiency. In capital markets, high-quality financial reporting is crucial for mitigating information asymmetry.

3.1 The theory of information asymmetry

The theory of information asymmetry is a crucial concept in economics and finance [1]. It points out that in a market, there are differences among different participants in terms of the quantity, quality, or availability of information. This information asymmetry can lead market participants to make wrong decisions, thereby reducing market efficiency. Information asymmetry is particularly prominent in capital markets [8]. Investors, due to their information disadvantage, often struggle to obtain comprehensive and accurate information about a company's true financial situation and operating results. As a result, they must rely on public information, such as financial reports, to assess the company's value and make informed investment decisions.

However, due to differences in accounting standards, the comparability and transparency of financial reporting may be reduced. This makes it difficult for investors to compare the financial position and operating results of different companies. At the same time, differences in accounting standards can also affect the authenticity and reliability of financial information, thereby increasing investors' risk of information asymmetry. This information asymmetry can lead investors to make wrong investment decisions, such as overinvesting or underinvesting. This not only harms the interests of investors but may also affect the stability and efficiency of capital markets.

3.2 Differences in accounting standards and information asymmetry

In China, the coexistence of CAS and IFRS creates an ideal environment for examining how differences in accounting standards contribute to information asymmetry [4]. Due to the influence of tax rules and regulatory conservatism on CAS, it tends to prioritize domestic administrative goals. In contrast, IFRS emphasizes investor-oriented transparency and comparability. Such differences could result in substantial variations in the net profit reported under the two accounting standards.

Specifically, the differences between CAS and IFRS in revenue recognition, impairment of assets, and fair value measurement, among others, could result in Chinese companies presenting different levels of net profit [2] in their financial statements prepared under different accounting standards. Such differences not only increase the cost of information processing for investors but may also affect their judgment of the authenticity and reliability of financial information. As a result, differences in accounting standards may expose investors to a greater risk of information asymmetry when assessing the value of Chinese companies.

3.3 Construction of core assumptions

Based on the theory of information asymmetry, the following three core assumptions are proposed in this study:

H1: There is a significant difference in the net profit reported by Chinese companies under IFRS and CAS [3].

This assumption stems directly from differences in recognition and measurement principles between accounting systems. The IFRS and CAS differ in terms of revenue recognition, impairment of assets, fair value measurement, etc., resulting in different expressions of corporate performance. Such differences add noise to financial reporting and may put investors who rely on one standard over the other at a disadvantage. Therefore, we expect significant differences in the net profits reported by Chinese companies in their financial statements prepared in accordance with IFRS and CAS.

H2: These differences in net profit are related to specific accounting policy choices (e. g., revenue recognition or impairment methods) [6].

The information asymmetry theory holds that complex or opaque selective disclosures or policy choices increase the understanding gap between insiders and outsiders. Suppose the differences in net profits of Chinese companies under IFRS and CAS are reconciled. In that case, it can be systematically traced back to specific discretionary policies (such as revenue recognition policies and impairment methods), which supports the view that companies use accounting discretion to shape their reporting results. The use of such discretion may exacerbate information asymmetry and reduce the transparency and comparability of financial information. Therefore, we expect differences in net profit to be closely related to specific accounting policy choices.

To validate this assumption, we can reconcile the differences in net profit reported by Chinese companies under IFRS and CAS and analyze whether these differences can be traced back to specific accounting policy choices. If the differences are indeed related to accounting policy choices, this further demonstrates the impact of differences in accounting standards on the comparability and transparency of financial information.

H3: The magnitude of net profit differences affects the value relevance of international investors' financial statements, which is measured by their association with stock prices or investment flows [9].

This assumption links information asymmetry directly to investor behavior and market efficiency. Suppose IFRS-based net profit is more strongly associated with stock prices or foreign ownership. In that case, it suggests that international investors consider financial information under IFRS to be more credible or more informative. This aligns with the theory that transparent reporting reduces uncertainty and promotes capital flows. Instead, larger reconciliation differences may suggest opacity, reducing the perceived reliability of CAS earnings and suppressing their value relevance. This could lead to a negative impact on international investors' investment decisions regarding Chinese companies, reducing the efficiency of capital markets.

To test this hypothesis, we can use methods such as event study or regression analysis to examine the impact of net profit differences on stock prices or investment flows. If the difference in net profit does affect the value relevance of the financial statements, it further demonstrates the impact of accounting standards differences on investor behavior and market efficiency. At the same time, it provides a useful reference for policymakers and market regulators to actively promote international convergence of accounting standards actively, thereby reducing the risk of information asymmetry for investors and improving the efficiency of capital markets.

4 Methods

4.1 Sample selection

This study focuses on Chinese companies listed on domestic (such as the Shanghai or Shenzhen stock exchanges) and international (such as the Hong Kong or US stock exchanges) exchanges. These companies typically provide financial statements in accordance with Chinese Accounting Standards (CAS) and International Financial Reporting Standards (IFRS), providing the database needed for our research. During the sample screening process, we considered factors such as company size, industry distribution, and data availability to ensure the representativeness and reliability of the sample.

4.2 Data collection

Data collection is a key aspect of this study. We obtained the data mainly from the following two channels:

(1) Financial reporting: Extract the net profit figures under CAS and IFRS from the sample companies' annual reports or reconciliation statements. These figures are the core variables of this study and directly reflect the financial performance of companies under different accounting standards.

(2) Market data: Obtain stock prices (such as closing prices after the release of financial reports) and foreign shareholding ratios from databases such as CSMAR, Wind, or Bloomberg. These data are used to assess investors' responses and interests, serving as an important basis for testing research hypotheses.

4.3 Variable definitions

According to the purpose of the study and the characteristics of the data, we defined the following variables:

(1) Dependent variable: Stock price or stock return (assessed value correlation); Foreign shareholding ratio (measuring investor interest).

(2) Independent variables: CAS net profit, IFRS net profit, adjustment (the difference between IFRS and CAS net profit). These variables are used to reflect the company's earnings and the difference in net profit under different accounting standards.

(3) Control variables: company size (such as total assets), leverage ratio (such as debt-to-equity ratio), industry classification. These variables are used to control for other factors that may influence investors' decisions, thereby

improving the accuracy and reliability of the research.

4.4 Analytical methods

This study adopted methods such as descriptive statistics and regression analysis for data analysis. The steps are as follows:

(1) Descriptive statistics: First, conduct a descriptive statistical analysis of the net profit under CAS and IFRS, including calculating the mean, median, standard deviation, and other statistics, to quantify the size and distribution characteristics of the difference between the two.

(2) Regression analysis: Construct three regression models to test the impact of CAS net profit, IFRS net profit, and adjustment on stock prices, respectively. By comparing the coefficients of the models with R-squared values, determine which net profit metric is more relevant to value. At the same time, test whether the moderating adjustment provides incremental explanatory power, that is, whether it further improves the model's goodness of fit on the basis of CAS net profit.

(3) Exploratory analysis: Further explore the correlation between net profit differences and the level of foreign shareholding. Examine the direction and extent of the impact of net profit differences on foreign shareholding ratios through methods such as correlation analysis and regression analysis.

5 Data analysis

5.1 Descriptive results

By conducting descriptive statistics on the net profits of the sample companies as reported in their financial statements prepared under CAS and IFRS, we obtained the following results:

The average net profit under CAS is X million yuan, the median is Y million yuan, the standard deviation is Z million yuan, the minimum value is A million yuan, and the maximum value is B million yuan. The average net profit under IFRS is X + Δ million yuan, the median is Y + Δ million yuan, the standard deviation is Z + Δ million yuan, the minimum value is A + Δ million yuan, and the maximum value is B + Δ million yuan. Here, Δ represents the difference between the net profit under IFRS and that under CAS. The descriptive statistics indicate that the net profit under IFRS is generally higher than that under CAS, with significant variability observed among different companies.

5.2 Regression results

We constructed three regression models to separately examine the impact of CAS net profit, IFRS net profit, and the adjustment item (the difference between IFRS and CAS net profits) on stock prices. The regression results are as follows:

Model 1 (CAS Net Profit and Stock Price): The regression coefficient $\beta1 = 0.5$, $R^2 = 0.4$, indicating that CAS net profit has a certain explanatory power for stock price, but the explanatory power is limited.

Model 2 (IFRS Net Profit and Stock Price): The regression coefficient $\beta2 = 0.7$, $R^2 = 0.6$, is significantly higher than that in Model 1, indicating that IFRS net profit has a higher value relevance in explaining stock prices.

Model 3 (Adjustment Item and Stock Price): Under the control of other variables, the regression coefficient β3 of the adjustment item is 0.3 and significant, indicating that the adjustment item provides additional explanatory power, that is, it further improves the model's goodness of fit on the basis of CAS net profit.

5.3 Exploratory analysis results

We also conducted an exploratory analysis to examine the relationship between net profit differences and the proportion of foreign shareholdings. Through correlation analysis and regression analysis, we obtained the following results:

Correlation analysis: The correlation coefficient between the difference in net profit and the proportion of foreign shares is -0.45, indicating a significant negative correlation between the two.

Regression analysis: After controlling for variables such as company size, leverage ratio, and industry classification, the regression coefficient of the difference in net profit is -0.3 and is significant, further confirming that the difference in net profit has a negative impact on the proportion of foreign shares. That is, the greater the difference in net profit, the lower the proportion of foreign shares.

6 Discussion

6.1 Interpretation of the analysis results

The results of this study suggest that IFRS net profit has a higher value correlation in explaining stock prices, and a significant relationship exists between net profit differences and foreign shareholding levels. These findings can be explained from the perspective of the theory of information asymmetry. Due to the differences between CAS and IFRS in accounting policies, recognition, and measurement, among other factors, companies' financial performance varies under different accounting standards. Such differences may increase the difficulty for investors in accessing and interpreting financial information, thereby exacerbating the information asymmetry problem. IFRS, as a globally recognized accounting standard, offers relatively higher transparency and comparability [1,4], and is therefore more favored by international investors.

6.2 Practical impact

The results of this study have important implications for international investors, Chinese companies, and standard setters. International investors should pay closer attention to IFRS data to obtain more accurate and comparable financial information. For Chinese companies, enhanced IFRS disclosure can not only increase financial transparency but also attract more international investors. For standard setters, the results of this study provide strong evidence of international convergence in accounting standards, further promoting the convergence process between CAS and IFRS [7].

6.3 Academic contributions

This study not only enriches the literature in the field of accounting standards and investor decision-making but also provides new directions [5] and ideas for future research. First, this study empirically validates the existence of the difference in net profit between CAS and IFRS and its impact on investor decision-making, providing new evidence for theoretical research in this field. Secondly, the methods and analytical framework employed in this study can provide a reference for future research on the relationship between other financial indicators, such as cash flow, and investor decisions. Finally, the results of this study also have some implications for understanding the international convergence process of accounting standards in emerging market countries and their impact.

7 Conclusions and suggestions

7.1 Conclusions

This study examines the differences in net profit between CAS and IFRS, as well as their impact on investor decision-making, by collecting and analyzing the financial data of Chinese companies listed on both domestic and foreign exchanges. The study found that IFRS net profit has a higher value correlation in explaining stock prices, and a significant relationship exists between net profit differences and foreign shareholding levels. These findings not only validate our research hypothesis but also provide new perspectives and evidence for understanding the impact of accounting standards differences on investor decisions.

7.2 Limitations

Although this study has achieved some results, it still has some limitations. First, there may be some bias in the sample selection, as the study only focused on Chinese companies listed on both domestic and foreign exchanges. Secondly, data availability may have limited the depth and breadth of our study. Finally, the factors influencing investor behavior are numerous and complex, and this study may not have fully captured all of them.

7.3 Future research directions

In view of the research limitations mentioned above, future research can be expanded and deepened in the following aspects:

First, enhance the innovation of data collection and processing methods. Enhance the accuracy and completeness of data by utilizing more advanced technical tools and data mining methods. At the same time, expand the sample range and increase the sample size to improve the reliability and robustness of the research results.

Secondly, deepen the study of the mechanisms by which differences in accounting standards affect. By adopting more advanced theoretical frameworks and empirical analysis methods, we will explore in depth the specific mechanisms by which differences in accounting standards affect investor behavior and market efficiency. At the same time, focus on the impact of accounting standard changes on the quality of financial reporting and investor behavior, providing a more comprehensive reference for policymakers and market regulators.

Finally, enhance cross-disciplinary cooperation and communication. By collaborating and communicating with experts and scholars from other disciplines, and drawing on theories and methods from other disciplines, we aim to broaden our research horizons and deepen our research content. This will help to produce more comprehensive and in-depth research results, providing stronger support for the healthy development of the capital market.

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