



**Review Article**

# Quality of Accounting Information Disclosure and Debt Financing Cost: Literature Review

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**Abstract:** This paper mainly summarizes the domestic and foreign literature on accounting information and debt financing to analyze the impact of accounting information disclosure on debt financing cost. In the case of rapid changes in the external environment, it is a critical moment for companies to adapt to the environment and survive. In this context, if an enterprise wishes to survive, it must find a way of survival suitable for its development according to its actual situation. However, the survival of some companies is facing a serious crisis. To stimulate their potential and ensure their long-term progress, companies must seek external help. Therefore, debt financing activities have become the first choice for companies. When an enterprise conducts external financing, it must present the accounting information disclosed by the enterprise to the relevant external creditors. Creditors use this to understand the various conditions of the enterprise and use this as the basis for investment. Only high-quality accounting information disclosure can win the trust of relevant external investors, reduce debt financing costs, and obtain more financing. Based on this, this article combs、 summarizes and analyzes the relevant literature on the relationship between the quality of accounting information disclosure and the cost of debt financing, and proposes some shortcomings and prospects.

**Keywords:** Accounting Information, Quality of Information Disclosure, Debt Financing Costs

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## 1. Introduction

The rapid changes in the external environment, especially the impact of coVID-19 this year, have taken a heavy toll on business, mostly small and micro-businesses. Luo Zhiheng (2020) analyzed the impact of the new COVID-19 on the economy, capital market and national governance in China. While analyzing the impact of the new COVID-19, he compared it with SARS in 2003 and finally put forward corresponding suggestions from the perspectives of economic development and national governance [1]. Under such circumstances, enterprises need to have sufficient capital to ensure normal internal operation and long-term development. Therefore, in the process of business operation, when the enterprise capital is insufficient, to survive and develop the enterprise, the enterprise will carry out financing activities. At present, listed companies mainly adopt two ways of financing: debt financing and equity financing. However, compared with

equity financing, debt financing has advantages such as low financing cost, fast financing speed and favorable for optimizing equity structure. Therefore, debt financing activities become the first choice for the survival of enterprises. However, China's capital market has been in a state of turmoil for more than 30 years. In the process of China's economic development, enterprises consider that the outstanding problem of development is always the high cost of financing so that some enterprises cannot obtain enough development funds through debt financing. However, after the new Securities Law was promulgated, which explicitly put forward, to further strengthen the protection of investors, to clearly emphasize the related degree of the punishment of the illegal act, China's capital market-based system gradually perfected in the reform of the new securities law has the very good reflected. At the same time, the enactment and implementation of the new securities law also mark a further marketization of China's capital market, under the rule of law, have been a more noticeable improvement. This further shows

that the implementation of the New Securities Law is of great help to the improvement of corporate debt financing capacity. Moreover, Tian Niu (2019) concluded through empirical research that with the constant revision of the securities law, the financing cost of corporate bonds would be effectively controlled [2]. Therefore, it is still vital to study the cost of debt financing.

The function of accounting information is to convey the relevant information of the enterprise's financial and business status to the relevant users and to provide the basis for the enterprise's stakeholders to identify risks and control debt risks. For enterprises and relevant external creditors, the higher the accounting information disclosed by enterprises, the more conducive it is to the improvement of the efficiency of debt contract formulation and execution. Information disclosure is an essential support for enterprises to cope with the changes in the external environment. Lisowsky et al. (2017) and Zhang Qi et al. (2013) believe that high-quality accounting information disclosure can obtain better financing support from external stakeholders to reduce their financing costs [3, 4]. Moreover, after the implementation of the new securities law, it is proposed that enterprises should attach great importance to the disclosure of information, which indicates that the government has gradually attached importance to the disclosure of high-quality accounting information.

Given the above analysis, this article will sort out, summarize and analyze the related literature on the relationship between the quality of accounting information disclosure and the cost of debt financing, and put forward the deficiencies of existing literature research and future research prospects.

## 2. Literature Review: The Quality of Accounting Information Disclosure and Debt Financing

The quality characteristics of accounting information include relevance, comparability, reliability, robustness, timeliness, prudence, substance over form, understandability, eight characteristics. The eight characteristics of accounting information can be said to be throughout the development of the entire accounting. Thus it can be seen that the quality of accounting information plays a vital role in accounting, as well as the quality of accounting information plays an essential role in the development of enterprises. After the implementation of the new securities law, it not only shows that the government attaches great importance to information disclosure but also arouses more scholars to pay great attention to the quality of information disclosure.

### 2.1. Foreign Literature

As one of the characteristics of accounting information quality, accounting soundness is also regarded as an essential basis for conveying relevant financial information and evaluating the authenticity and reliability of financial

information, and also receives excellent attention from investors. For example, Watts (2003) took American listed companies as the research object and concluded that the higher the accounting conservatism of enterprises was, the larger the debt financing scale would be [5]. However, Peek (2006), Karpoff and Lou (2010) believe that the higher the enterprise's robustness is, the smaller the debt financing scale will be [6, 7]. Accounting information disclosure is the key basis of debt financing. For example, Jaffee and Russell (1976), Stiglitz and Weiss (1981) found that the lower the accounting information quality of enterprises, the higher the degree of information asymmetry between external creditors and enterprises will be [8, 9]. When an enterprise conducts debt financing, many restrictive clauses in its debt covenants are based on accounting information (Watts and Zimmerman, 1986; Ramanna and Roychowdhury, 2010) [10, 11]. Meanwhile, Altman (1968), Stiglitz and Weiss (1981) believe that accounting information is of great help in predicting the development of enterprises [12, 9]. Blinder and Maccini (1991), Laeven (2003) and Costello (2011) found through empirical research that when the accounting information disclosed by enterprises is of high quality, it is of great help to reduce the financial and operational risks of enterprises [13-15]. Therefore, external investors will reduce the loan interest rate based on the operating conditions of enterprises, thus making the debt financing cost of enterprises lower.

### 2.2. Domestic Literature

As for accounting information disclosure, most scholars' conclusions are the same. However, with the help of other variables, there are relatively few studies on the perspective of accounting information disclosure alone. For example, Jiang Yan (2009), Huang Mei et al. (2009), Ni Guoai, Dong Xiaohong (2019) took accounting conservatism as a moderator variable to study the relationship between economic policy uncertainty and debt financing and concluded that economic policy uncertainty was significantly negatively correlated with debt financing [16-18]. Accounting conservatism could help alleviate the negative correlation between the two. Zhang Zhang (2011), Deng Jianping et al. (2011), Wu Huiyun (2012), Huang Yixiang et al. (2012), Su Wujun, Chen Feng (2019) took accounting information as an intermediary variable and found that firm size could influence the debt financing cost of enterprises through the intermediary variable of accounting information quality [19-23]. Yu Fusheng and Zhang Min (2007), Yao Lijie and Xia Donglin (2009), Yu Jingxia (2011), Xu Yude and Chen Jun (2011), Deng Jianping (2014) studied the relationship between accounting information and debt financing from the perspective of bank correlation [24-28]. They reached different conclusions under different financial environment and political correlation. Some scholars have directly studied the negative relationship between accounting information disclosure and debt financing cost. Through empirical research, He Xianjie et al. (2012), Zhang Lin (2016), Wu Zhongxin et al. (2016) and Fan Songwei (2020) concluded that accounting information is significantly negatively

correlated with debt financing, and high-quality accounting information can effectively alleviate the credit financing constraints between enterprises and creditors [29-32]. Through empirical research, Wang Wei et al. (2004), Zhi Xiaoqiang (2010), Yang Jiandong (2016) and Li Wenfei (2019) found that the higher the quality of information disclosure, the more beneficial it is to reduce the debt financing cost [33-36]. According to empirical analysis, it is believed that the higher the accounting information quality of an enterprise, the more it will win the trust of its creditors, and the lower its corresponding bond financing cost will be. Therefore, it is of great practical significance to study the relationship between the quality of accounting information disclosure and debt financing cost.

From the above literature research, it can be seen that the debt financing cost is studied from the perspective of the characteristics of accounting information quality. However, only from the perspective of the quality of accounting information disclosure, it is relatively rare to study the relationship between accounting information disclosure and corporate debt financing costs.

### 3. Brief Comments and Prospects for Future Research

#### 3.1. Make a Brief Comment

Many achievements have been made in the research of debt financing in the past, which provides a great reference for the further research of later scholars. However, there are still some deficiencies in previous studies:

First, previous studies mostly focused on external governance, internal governance, internal control, economic policy and other significant perspectives. These perspectives have a more comprehensive range, especially under the current economic development conditions, debt financing costs can be studied in combination with the current economic development status and the difficulties faced by enterprises.

Second, the current research on the cost of debt financing mainly focuses on influencing factors. In contrast, while the research on the economic consequences of the cost of debt financing is relatively lacking, which requires further in-depth research.

Third, China's capital market started late, and the research on the combination of accounting information disclosure quality. Debt financing cost and capital market are not mature enough. It needs to be further combined with China's situation and carried out more mature research with Chinese characteristics.

#### 3.2. Prospect of Future Research

First, the debt financing cost of research may be combined with the implementation of the new securities law, the debt financing and equity financing, combined with the feature of enterprise, effectively reduce problem between enterprise and

the outside creditors, from the factors of more detailed and more profound research, on the one hand, the enhancement enterprise's quality of accounting information disclosure, on the other hand, enhance the trust between enterprises and creditor, reduce the cost of debt financing.

Second, based on domestic and foreign research, further expand the research of debt financing cost. The economic consequences of debt financing costs can be studied from the perspective of long-term development of enterprises and social responsibility of enterprises, to provide substantial and beneficial suggestions for enterprises and government departments.

Third, study debt financing costs of small and medium-sized enterprises in the context of coVID-19. Under the impact of the coVID-19, not only the Chinese economy but also the world economy has been dramatically impacted. This undoubtedly provides a useful perspective for scholars to study the debt financing of small and medium-sized enterprises, and further studies can also be carried out from the perspective of national governance. It not only provides good suggestions for the long-term development of small and medium-sized enterprises but also provides reference for national governance.

Fourth, the relevant government departments should also standardize the system, strictly enforce the law, and properly regulate the capital market. Financing difficulties and "high threshold" problems faced by many enterprises must be attached great importance by the relevant government departments, to properly regulate the market and give enterprises a fair and just opportunity for their long-term development. Therefore, we can combine the perspective of government to carry out the research.

### 4. Conclusion

Although there have been many literature examining the influence of accounting information quality on debt financing cost from the perspectives of reliability and robustness, at present, the perspective of accounting information disclosure quality is still less involved. By combing domestic and foreign literature, this paper analyzes the economic consequences of accounting information disclosure quality and the factors affecting the cost of debt financing. On this basis, the relationship between the quality of accounting information disclosure and debt financing cost is further summarized and analyzed in domestic and foreign literature. It is concluded that the higher the quality of accounting information disclosure is, the more favorable it is for enterprises to reduce debt financing cost and further improve the investment efficiency of enterprises.

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