

Research of Accounting Conservatism of The Listed Company Financing Cost

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Keywords: Accounting conservatism, Debt cost, Cost of equity.

Abstract. Accounting conservatism is "the oldest and most influential principle in accounting measurement". In practical application, its influence is very huge, and it has a very high guiding significance for the implementation of accounting practice and accounting system. In recent years, China's securities market has developed rapidly, and the pursuit of accounting stability is getting higher and higher day by day. With the deepening of accounting system, financial departments, securities regulatory departments and other enterprises should follow the principle of accounting conservatism when choosing accounting policies. Only when the regulatory authorities pay more attention to accounting stability, can Chinese enterprises pay more attention to stability and promote the healthy development of China's economy. This paper mainly starts with the connotation of accounting conservatism to discuss the development of theoretical research on accounting conservatism, and then further focuses on the impact of accounting conservatism on debt cost, as well as the impact of accounting conservatism on the cost of equity, and finally draws a conclusion and puts forward relevant policy recommendations.

1. Introduction

1.1 Background and significance of the study

From our country enterprise financing now, after the 2007 financial crisis, enterprise management environment deterioration, and stock market bull market since 2014 and make huge corporate finance bubble, these caused the creditors and shareholders are undoubtedly face a greater risk of investment, financial data for investors and shareholders investment reference, accounting stability became must consider an indicator, so stability and enterprise financing cost accounting are connected with each other, to study the stability of accounting can be of positive significance to the development of enterprises.

In this paper, the stability mainly explore the a-share listed companies accounting for its financing is positive correlation or negative correlation, hope can through research and analysis, for the accounting conservatism and the relationship between the cost of financing to provide effective evidence, in this article, in order to avoid the 7 years since the financial crisis and a-share stock market huge fluctuations in 14 years, we have to take the data selection of the 2009-2010 a-share listed companies of economic data, in order to circumvent the special period of the environmental factors that affect our study.

1.2 Literature review

1.2.1 Foreign research status

Wittenberg (2008) believed that accounting robustness in financial reports would make corresponding loan transaction spreads significantly lower. In general, the analysis of this paper provides unique empirical evidence that the timely confirmation of losses reduces the advantage of the information dominant party, reduces the asymmetry, and increases the efficiency of the secondary trading market of debt securities. This is the first research paper on the timeliness of loss recognition of bonds traded in the secondary market.

Gigler and Sapra (2009) 's debt contract and accounting conservatism further prove that the negative correlation between accounting conservatism and higher efficiency will reduce, while the debt contract. However, it USES social efficiency to measure the efficiency of debt financing contract, rather than the debt-based cost method adopted by Zhang (2008).

Nikolaev (2010) analyzed the positive correlation between qualitative accounting conservatism and debt ceiling in contracts. Tan (2013) found that the company's financial report would become more stable in the case of debt default by using discontinuous analysis, and the impact would last for at least 8 quarters.

1.2.2 Domestic research status

Xia donglin and Zhu ge (2009) believe that the negative operating cash flow of an enterprise should be able to better reduce the cash flow and the non-operating accrual accounting robustness, which significantly weakens the existence of this relationship.

MAO xinyu (2009) demonstrated that if the accounting income of enterprises is stable, the debt financing cost paid will be relatively small.

Liu yunguo et al. (2010) found that enterprises with a high proportion of current liabilities have higher requirements on the stability of accounting policies than those with a high proportion of long-term liabilities. Combined with the nature of property rights, the bank will require the private property of private holding companies to be more robust, accounting for such companies with a more stringent ratio of current liabilities and a lower ratio of long-term liabilities required by state-owned enterprises.

1.2.3 The conclusion

Throughout the domestic and foreign research present situation, the overseas research on accounting conservatism began earlier time, after the founding of accounting conservatism measures established research literature and the emergence of more and more diversified measures, put forward the model also gradually increase the deepening in the research process, formed a relatively complete system of research, due to various factors in our country, research on this aspect of the later, in recent stage, study more and more scholars in this field in our country, many breakthroughs have been made. However, due to the differences between China's financing environment and foreign countries, more attention should be paid to the measurement and use of some influencing factors in the application of the measurement model.

There are many research literatures on accounting conservatism, and a large proportion of them study the impact of accounting conservatism on investment and financing. The research conclusions are not uniform in some aspects. Part of the reason is that the measurement and classification of accounting robustness have been improved with the gradual deepening of the research on accounting robustness. Part of the reason is that the measurement of relevant indicators in different economic periods and different economic entities is also variable and inconsistent under the relevant research on financing effectiveness. Therefore, in the research on the relationship between the two, this paper chooses more basic and direct indicators in terms of financing contract, and tries to use empirical method to study the relationship between accounting robustness and financing cost.

2. The theoretical study

2.1 Definition of accounting conservatism

Foreknowledge of loss and conservative expected income are the main significance of accounting conservatism. Bliss defines accounting stability more precisely but more rigorously. Accounting conservatism, as understood by Belkaoui (1985), means that when an enterprise discloses financial and accounting information, it will try to strengthen the disclosure of information related to its liabilities and losses, and try to reduce the disclosure of information related to its asset price and income. Through a large number of related studies, the "validation differentiation" of robustness was defined in 2003, that is, when companies apply robustness accounting policies, they will adopt different standards to confirm profits and losses.

2.2 The classification of accounting conservatism

No matter domestic or foreign scholars, the definition of accounting stability has become more and more clear nowadays. Accounting stability is classified according to the different production basis and judgment criteria, specifically divided into the following two categories.

2.2.1 Conditional robustness

Conditional robustness is also known as post-earnings robustness. It requires that the enterprise assets that may be earnings for its generation, cannot revaluation, in the face of the matters that might reduce their profit, want to write down the book value of assets, unlike confirmation against corporate matters, for those matters that may have caused the enterprise net profit increase for confirmation, must obtain relevant and reliable evidence, that is to say, it will first business in this year's surplus reflects a variety of adverse events, for a variety of advantageous events reflect significantly lags behind.

2.2.2 Unconditioned robustness

Also known as news independence, or stability in advance, the balance sheet is to point to in specific accounting methods confirm the assets and liabilities in advance, not to change the condition of enterprise management, this treatment method will not bring expected booked goodwill, make the enterprise the book value of the owner's equity below market value, eventually leading to underestimate.

3. The empirical research

3.1 Data filtering

In the process of research, we adopted the data published by guotai 'an information technology co., LTD., and excluded the enterprises with incomplete data in different sectors of a-shares (refer with: Table 1).

Table 1. Sample situation of a-share listing

	2009	2010
The total number of a-share listed companies	1673	2022
Large financial sector	32	37
ST plate	102	111
Extreme value enterprise	145	286
Data is incomplete	371	587
Actual sample size	1023	1001

3.2 Selection of variables

CON: according to the conclusion of Givoly and Hayn(2000), the value of accounting stability is divided by the result of non-operating accruals divided by the total assets of the company, namely CON

CONMTB: represents the value of accounting stability measured by the method of net assets (the ratio of the market value of net assets at the end of the period to the book value)

SIZE: the SIZE of the company, that is, the total assets at the end of the enterprise

ROA: return on total assets

LEV: asset-liability ratio

GROWTH: the GROWTH rate of an enterprise's operating revenue

STRB: debt structure

3.3 The impact of accounting conservatism on the cost of debt

Table 2. Debt cost model regression analysis

	Expected symbol	model 1 (CON measure accounting robustness)		model 2 (CONMTB measure accounting robustness)	
		Variable coefficient	T statistic	Variable coefficient	T statistic
C (Intercept item)		0.2716***	11.4301	0.2728***	10.0735
CON	-	-0.0272***	-2.7095		
CONMTB	-			0.0005	0.0499
SIZE	-	-0.0084***	-7.623	-0.0086***	-6.4212
ROA	-	0.0675**	2.1776	0.0839***	2.73702
LEV	+	-0.004	-0.6599	-0.0041	-0.6597
GROWTH	-	0	-0.491	0	-0.643
STRB	+	-0.0753***	-12.366	-0.0738***	-12.2172
F value		36.7187		36.2489	
adjR2		0.1103		0.109	
DW statistic		1.9525		1.9544	

It can be seen from table 2 that in the regression equations of CON and CONMTB, F values are 36.71 and 36.24 respectively. When the significance level $\alpha=0.05$ is given, the F values are all greater than 1.29, and the F test passes at a higher level, which indicates that both regression equations are significant, indicating that there is a significant linear relationship between the explained variable and other variables. In general, the DW statistic is close to 2, and then judge no autocorrelation to grasp more. The DW statistic in the regression equation of the two models is approximately equal to 1.95, which indicates that there is no autocorrelation between the two regression equations (refer with: Table 2).

The regression coefficient of debt capital cost and accounting robustness is -0.027, and the negative correlation is significant at 1% level. It proved a good accounting conservatism has positive effect to reduce the debt financing cost, namely, the lower the cost of debt of the enterprise accounting, the higher the degree of robustness in model 2, with a net worth of measurement method to calculate the stability of the regression coefficient is not significant, so do not have statistical significance, cause this kind of situation, should be the shortcomings of with the net method. Because the net assets method is related to the book net assets, but the changes in the stock prices of listed enterprises are relatively large, so the changes in the book net assets of enterprises are also relatively large, so this method is not applicable here.

3.4 The impact of accounting conservatism on the cost of equity

Table 3. Equity cost model regression analysis

	Expected symbol	model 1 (CON measure accounting robustness)		model 2 (CONMTB measure accounting robustness)	
		Variable coefficient	T statistic	Variable coefficient	T statistic
C(Intercept item)		1.7235***	22.1019	1.7367***	21.9077
CON	-	-0.0380***	-2.8471		
CONMTB	-			0.0231	0.6942
SIZE	-	-0.0069*	-1.7572	-0.0076*	-1.9133
ROA	-	-1.0548***	-11.5371	-1.0299***	-11.6831
BM		-0.0146	-0.6695	-0.0268	-0.9475
TAT	-	-0.0071	-1.0121	-0.0073	-1.0425
LEV	+	-0.0043	-0.2437	0	0.0015
GROWTH	-	-0.0001	-0.9798	-0.0002	-1.0362
F value		4564.864		4564.3	
adjR2		0.9479		0.9476	
DW statistic		1.86139		1.861	

It can be obtained from table 3 that in the regression equation of accounting robustness measured

by CON and CONMTB, F values are 4564.8 and 4564.3 respectively. Given significance level $C=0.05$, F values are all greater than 2, and F test indicates that the regression equation is also significant. The DW statistic is about 1.86, and the regression equation has no autocorrelation after the DW test. In model 1, the regression coefficient between accounting conservatism (CON) and equity financing cost is -0.0380, which shows a negative correlation at the significant level of 1%, proving that accounting conservatism is inversely proportional to equity cost. We can refer to the blue chip in a-share for the explanation. Precisely because of its high degree of risk control, relatively low degree of asset change, and more transparent and open accounting information, investors are more willing to invest in such enterprises, which significantly reduces their financing costs. The coefficient in model 2 is not considered because it is not significant (refer with: Table 3).

Whether accounting information is stable or not is inversely related to equity financing. The more stable the accounting information of the company, the less inconvenience caused by the difference between the enterprise and the capital provider, the higher the quality of the company's relevant accounting information disclosure. It saves the cost for external investors to obtain accounting information of the company, and the expected revenue is less, so the financing cost of the enterprise will naturally decrease. Therefore, it can be concluded that accounting robustness is positively proportional to the company's financing cost.

4. Conclusions and Suggestions

4.1 The research conclusion

4.1.1 Accounting conservatism is ubiquitous in enterprises

The general existence of robust features is the result of the combined action of two reasons. On the one hand, it is clearly stipulated in China's accounting standards that the principles of conservatism should be followed in accounting practice. On the other hand, the instability of the economy and the huge earthquake of the stock market all stimulate investors to enhance their risk awareness. Only when the accounting stability of enterprises has been significantly improved, can investors be confident to make bold investments.

4.1.2 Accounting robustness is positively correlated with debt financing cost in China

The higher the accounting stability of enterprises, the easier it is to obtain loan funds from financial institutions and the lower the cost. Because the accounting stability of enterprises is high, the accounting information disclosure of enterprises is sufficient, and investors can clearly understand the situation of enterprises. Similarly, due to the high accounting stability of enterprises, investors can respond quickly to problems and make positive statements when problems arise, which greatly reduces the investment risk of investors. Therefore, investors are willing to invest in these enterprises with lower returns.

4.1.3 The conservatism level of capital stock financing cost and accounting conservatism are inversely proportional

Company information provided more robust, with knowledge of the funds provider is more balanced, can get more comprehensive disclosure, the information of the company's external information users is omitted for the additional fees paid for for more information, from the assignment of the right to the use of funds the less they demand the compensation company, the company paid by shareholders investment costs are less. It can be concluded that the higher the accounting robustness, the lower the cost of equity capital.

4.2 Suggestions

4.2.1 Pay more attention to accounting stability and strengthen management

First of all, the company in the choice of accounting policy, to enhance the accounting disclosure of the robustness of consciousness. We should pay more attention to its debt payment cost, actively provide more robust information, so that users can obtain high-quality information and lay a good foundation for the development of enterprises, so that the fund provides loans with lower interest rates. Thus reducing the company's loan financing costs.

4.2.2 Give play to the role of financial institutions as a constraint

First, we need to improve the current bank-enterprise relationship and strengthen the binding force of credit from Banks and other financial institutions. Banks and other financial institutions, as one of the capital providers of enterprises, have a direct bearing on the implementation effect of their contracts. In this regard, there are still huge problems in China. For example, when state-owned enterprises are in poor management, Chinese Banks did not urge them to strictly require management, but instead provided more convenient loan funds and regarded state-owned enterprises as "flowers in the greenhouse", which is a very wrong example. We must accelerate the commercialization of financial institutions so that the relationship between Banks and enterprises will continue to develop into a form of mutual assistance and cooperation.

4.2.3 Improve the compensation system for enterprise managers

At present, most of China's enterprises use earnings to calculate managers' compensation. Under this compensation system, in order to improve the profits of the fiscal year, managers may adopt aggressive treatment principles driven by their own interests, thus reducing the reliability of accounting information of enterprises. Therefore, the author suggests to improve the compensation system of enterprises and divide the manager's compensation into fixed compensation and variable compensation. The fixed salary is mainly based on the manager's educational background, position, length of service, professional title and other factors that can be measured specifically, and is paid in years. Variable compensation is designed flexibly according to the specific decision-making project and the specific implementation effect of managers' operation and management decisions.

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