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# Accounting Conservatism and Private Enterprise Debt Financing Research

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## Abstract

Under the current situation that the debt financing market has not yet been marketized, the close relationship between state-owned enterprises and the government reduces the utility of accounting information on debt contracts, but the accounting information of private enterprises plays a greater role in debt contracts, and can clearly show the economic effect of accounting robustness on debt contracts. To study the impact of accounting soundness on corporate debt financing from the perspective of property rights, we can combine the characteristics of China's institutional environment and corporate governance to supplement theoretical analysis and empirical evidence on the economic consequences of accounting soundness. The research conclusion proves the positive correlation between accounting soundness and debt financing of private enterprises, and hopes to provide an empirical basis for private enterprises in urgent need of external financing. Improving the soundness of accounting is a new idea for private enterprises to obtain bank loans to solve the problem of financing difficulties.

## Keywords

Empirical Analysis of Accounting Robustness, Corporate Debt Financing, Property Rights Perspective

## 1. Introduction

The private economy is an important force supporting China's economic growth. However, private enterprises have difficulty in financing, and lack of funds has become a "bottleneck" restricting their development. From the current development status of China, the main way for private enterprises to solve the source of funds depends on the proportion of debt funds, mainly because the interest expenses of enterprise debt funds can be paid before tax. The main ways of debt financing are bank loans and bond issuance, while private enterprises generally use debt financing methods of bank loans. Jiao Jinpu, vice chairman of the Ministerial Committee of the People's Bank of China Graduate Department, once said that "there is widespread discrimination and injustice in the credit of domestic commercial banks". Private enterprises face higher financing costs and stricter credit standards. Chinese enterprises are divided into state-owned enterprises and private enterprises, but most of the financial institutions are controlled by the government, which makes it much more difficult for private enterprises to obtain loans than state-owned enterprises.

The International Accounting Standards Board (IASB) has clarified in IAS 1 that one of the three elements for choosing an accounting policy is the principle of soundness. In its Financial Accounting Concepts Bulletin No. 2, the FASB has the most general description of robustness, "a cautious reflection of uncertainty, an effort to ensure that there are inconsistencies in the business environment, that accounting soundness is sufficiently considered with certainty and risk of the nature of property rights, so that robustness requires the use of less optimistic estimates if there is equal probability that two estimated amounts will be received or paid in the future". It can be seen that accounting soundness has a guarantee effect on the quality of financial reports. Since 1992, China has taken this principle as a principle of accounting, requiring that the operation of accounting practice be handled in accordance with the principle of robustness, and in 2006, robustness was taken as a requirement for the quality of accounting information. Soundness is the product of the conflict of interest between enterprises and banks, which is conducive to reducing the agency cost of both parties to the debt contract, so it is necessary to study accounting soundness from the perspective of demand. At present, the creditors of China's private enterprises are mainly commercial banks, and from the perspective of capital security, commercial banks have the need for the soundness of enterprise accounting. Compared with large state-owned enterprises, many private enterprises are relatively small in scale and relatively large in financing risks, and it is understandable that banks determine the whereabouts of loans from a rational point of view, and they are more concerned about the minimum value of enterprises. Moreover, since commercial banks were reformed in 2003, the demand for this area has increased. In addition, any kind of debt financing, in the process of using funds, because the enterprise has to bear the responsibility and obligation to pay interest, excessive debt and interest will bring repayment pressure and operational resistance to the enterprise. Therefore, companies choosing debt financing focus on ways to obtain more debt financing more easily and at the same time reduce the cost of debt financing. In this context, this paper takes China's private enterprises as the research object, hoping to find out the empirical relationship between accounting soundness factors and private enterprise debt financing, mainly bank loans, so as to suggest that the reason why private enterprises should attach importance to accounting soundness is to meet the needs of bank credit evaluation, so as to obtain bank recognition and bank financial support. At the same time, the empirical relationship between accounting soundness and the debt cost of private enterprises is found to meet the needs of enterprises to reduce financing costs.

## 2. Accounting Soundness and Property Rights

Under the condition that other constraints are consistent, we can compare enterprises with different property rights and properties and find that the soundness of accounting information of state-owned enterprises is lower than that of private enterprises, the demand of banks for the accounting soundness of state-owned enterprises is smaller than that of private enterprises, and the impact of debt on the accounting soundness of state-owned enterprises is significantly lower than that on private enterprises. Many literature studies confirm that there is serious "credit discrimination" in China's credit market, that is, bank loans, and banks give loans to enterprises in favor of state-owned enterprises and discriminate against private enterprises. Statistics show that China's banks have relatively little restrictions on state-owned enterprises, especially under the influence of soft budget constraints. When SOEs have difficulties in repaying loans, banks not only do not forcibly recover loans from SOEs or dispose of their collateralized assets, but instead provide assistance by extending the loan period and reducing interest to ensure the normal operation of SOEs (Liu, 2015). Moreover, local governments often interfere in the liquidation process of state-owned enterprises, and some state-owned enterprises evade debts by filing for bankruptcy. The occurrence of these situations has appropriated the bank's funds, resulting in increasingly serious bad debts and seriously harming the interests of the bank. Therefore, as a creditor bank, it has different requirements for the soundness of enterprises with different property rights, so it is necessary to study the impact of accounting soundness on debt financing from the perspective of property rights. Survey data show that in Jiangsu and Zhejiang provinces, where the private economy is developed, private enterprises have encountered "credit discrimination" in the formal financial market. These enterprises are getting lower and lower loans, and the amount of loans is getting smaller and smaller. Moreover, private enterprises are more vulnerable to "credit discrimination" during monetary tightening, and the ownership system has an impact on banks' credit decisions.

The objective "credit discrimination" affects the debt financing of private enterprises, and to break through this dilemma, it is necessary to cater to their needs for accounting soundness. In terms of debt contracts, the loans of most state-owned enterprises in China have the influence of government intervention, state-owned banks are subject to soft budget constraints, and banks themselves are unwilling to take the initiative to supervise state-owned enterprises, and they have neither the ability nor motivation, so they do not pay attention to the accounting soundness of state-owned enterprise debtors. On the contrary, the loans of private enterprises are completely dependent on their own capabilities, and banks should pay attention to their development to ensure the repayment of debts, so they need to grasp the situation of the accounting soundness of private enterprises, so that private enterprises have the incentive to manipulate accounting soundness. Therefore, there should be a significant correlation between debt financing business and accounting soundness at the level of private enterprises. At present, state-owned commercial banks are the main providers of funds for private enterprises, and private enterprises cannot rely on government intervention to obtain loans like state-owned enterprises. On the other hand, banks also obtain data through publicly disclosed information. Therefore, state-owned commercial banks pay high attention to the accounting soundness of private enterprises (Wei, 2010).

Obviously, debt contracts are conducive to improving the level of accounting soundness of enterprises, and debt contracts have significant debt constraints on private enterprises. Enterprises with high debts have high risks and low debts have small risks, so the requirements for accounting policies are different. Compared with enterprises with a relatively low degree of debt, the former considers the rights and interests of creditors and tends to sound accounting policies; the latter tends to favour accounting policy to protect the interests of investors, especially in private enterprises. Studies have shown that when the proportion of bank loans is comparable, the accounting information of privately controlled listed enterprises shows significantly higher robustness than that of state-controlled listed enterprises. After the implementation of the reform of state-owned banks, the demand from the debt market has promoted the accounting information of China's enterprises to become more stable. The overall soundness of the accounting information of listed enterprises has also improved significantly, and the accounting soundness of enterprises with more bank loans has improved significantly. Tors will be more restrictive to the debtor (Li, 2016). As a signaling mechanism, accounting robustness effectively reduces the expected default risk of creditors, which is conducive to obtaining long-term debt financing for debtors. When considering the nature of ownership, banks have stronger robustness requirements for private enterprises. On the contrary, for state-owned enterprises with a high proportion of long-term loans, the requirements for accounting soundness are relatively low.

Therefore, from the above research, it can be seen that credit discrimination is a special phenomenon of the ownership nature of enterprises in China, and it is also a dilemma faced by many private enterprises in debt financing. In the loan business of private enterprises, the degree of soundness can play a role, and soundness, as an accounting information of enterprises, can affect the loan business of private enterprises.

## 3. Theoretical Inference and Research Hypothesis

Relevant research shows that in the data sample of A-share listed enterprises in

China from 2019 to 2021, it is found that the accounting soundness of bank loans of different types of listed enterprises (state-owned enterprises and private enterprises) varies greatly, and private enterprises borrowing from banks are more stable than state-owned listed enterprises borrowing from banks, so it is necessary to study accounting robustness for enterprises with different property rights. The impact of debt financing scale and debt financing on debt cost (Zhu, 2011). Because state-owned enterprises have more social responsibilities, such as providing more jobs and paying more taxes to support local finances, they play an important role in maintaining economic stability. Therefore, the government will implement various preferential policies for state-owned enterprises, and prefer state-owned enterprises in terms of resource allocation. Banks that are creditors may include local government executive orders or even intangible government guarantees. Banks are generally not liable for loan losses to state-owned enterprises. This relatively small loan risk unique to state-owned enterprises has prompted banks to increase loans for policy considerations or other purposes, or even to state-owned enterprises with greater uncertainty in accounting information and high bankruptcy risk. Therefore, banks issuing loans to state-owned enterprises lack spontaneous approval and supervision enthusiasm, rely on and refer to the accounting information of state-owned enterprises in the process of credit decision-making with a low degree of reference, pay less attention to the operating performance of state-owned enterprises, and have lower expectations for the profit margin of net assets of state-owned enterprises, so that the state-owned enterprises themselves have little protection for loans, resulting in reduced banks' demand for the soundness of state-owned enterprises' accounting information, and weakening the constraints of state-owned enterprises' accounting information quality on debt. In contrast, the debt of private enterprises has almost no impact on government intervention, and the characteristics and laws of marketization are more significant, and banks often need private enterprises to provide accounting information with a high degree of robustness as the basis for loan decision-making, which prompts private enterprises to actively improve the robustness of accounting information (Zhao & Wang, 2014). Therefore, the debt financing of private enterprises is greatly affected by the sound accounting type. The accounting information of private enterprises is very closely related to the promotion of debt contracts, and this effective promotion effect is significantly higher than that of state-owned enterprises. Therefore, private enterprises should use prudent accounting policies to make them play a more significant role, that is, the amount of debt financing is significantly increased or the cost of debt is significantly reduced. Such an outcome will promote private enterprises to enhance their accounting soundness, and this impact may be reduced or even disappeared due to government intervention and other phenomena for state-owned enterprises, and cannot reflect the role of accounting soundness in promoting corporate debt financing.

Therefore, it is assumed that under other conditions, the accounting soundness of private enterprises is higher than that of state-owned enterprises.

## 4. Data and Research Design

1) Measurement of accounting soundness

This article uses Givoly and Hayn's accrual-based robustness metrics. Hayn believe that prudent accounting leads to negative accruals, and the greater the negative value of the accrual, the more robust the financial reporting. If there is no robustness requirement in the accounting recognition measurement principles, profits and cash flows will converge over the long term, and accruals will tend to be reversed, so that the cumulative accruals will be zero. However, the existence of a measurement principle of accounting soundness means that accounting surpluses should be recognized in a more timely manner, reducing the accumulated gains for each accounting period and resulting in a persistent negative cumulative accrual. Therefore, the positive and negative and negative amounts of the cumulative accruals of the enterprise can be calculated within a certain period of time to measure the accounting soundness, and the data of these non-operating accruals are derived from the balance sheet of the enterprise, which is less affected by the stock price, market conditions and yield of the stock market, and the financial data source is convenient to collect, and the level of accounting soundness can be calculated more accurately.

The formula is: CONSV = − non-operating accruals/opening total assets

Among them: non-operating accruals = total accruals − operating accruals, non-operating accruals are measures of accounting robustness, if the value is continuously negative, it means that there is accounting robustness.

Total accruals = net profit + accumulated depreciation and amortization − net cash flow from operating activities

Operating accruals = Δ accounts receivable + Δ inventory + Δ+ prepaid accounts − Δ accounts payable − Δ tax payable − Δ Advance receivables

Non-operating accruals are generally negative, and the lower the value, the more remaining part of the company's net profit plus depreciation and amortization and operating cash flow after deducting the change in operating accruals, indicating the higher the company's accounting soundness. For ease of understanding, by putting a negative sign before the non-operating accrual to make the value positive, the larger the CONSV, the higher the robustness level.

2) Sample selection and research models

This paper selects listed companies from 2019 to 2021 as a research sample, excludes companies with missing data, excludes companies that issue shares for the first time in that year, excludes financial and insurance companies and ST and *ST companies, and finally obtains a sample of 1152 listed companies (403 state-owned enterprises and 749 private enterprises), using empirical analysis software of excel and spss.

The test model is as follows:

$$\begin{aligned}\text{LOAN} = {} & \alpha 0 + \alpha 1\text{CONSV} + \alpha 2\text{ROA} + \alpha 3\text{LEV} \\ & + \alpha 4\text{GROWTH} + \alpha 5\text{INASSET} + \alpha 6\text{CG} + \xi\end{aligned} \tag{1}$$

$$\begin{aligned}\text{COD} = {} & \beta 0 + \beta 1\text{CONSV} + \beta 2\text{ROA} + \beta 3\text{LEV} \\ & + \beta 4\text{GROWTH} + \beta 5\text{INASSET} + \beta 6\text{CG} + \xi\end{aligned} \tag{2}$$

The sample enterprises are divided into state-owned enterprises and private enterprises, and they are substituted into the above model for testing to test the hypothesis.

The variables are defined as follows (Table 1).

## 5. Analysis of Empirical Results

1) Descriptive statistics (Table 2)

As can be seen from Table 2, the minimum value of the firm's robustness level in the sample data is −2.5320 and the maximum value is 0.3969, which is quite different, and the mean value is 0.0453, which is generally robust. The minimum debt size is −0.2969, the maximum is 2.4320, and the average is 0.0356, and overall, the debt size of enterprises is expanding. The cost of debt has a minimum value of 0.0001, a maximum value of 4.6155, and a mean of 0.0592, with some difference between the maximum and minimum values. There are significant differences in the debt capital of different enterprises, and the debt cost of most enterprises is positive, indicating that enterprises have a demand for debt financing and apply debt financing in practice.

**Table 1.** Variable definitions.

| The variable name | Variable definitions |
|---|---|
| LOAN | =(Closing Borrowing Balance − Opening Borrowing Balance)/ Opening Total Assets |
| COD | =(Interest expense + capitalized interest)/(total liabilities at the beginning of the year + total liabilities at the end +)/2 |
| CONSV | =Non-operating/opening total assets |
| ROA | =Net profit/average assets |
| LEV | =Total liabilities/total assets |
| GROWTH | =(Current year's operating income − previous year's operating income)/operating income |
| INASSET | =The natural logarithm of the total asset |
| CG | =(Fixed assets + inventory)/total assets at the beginning of the period |

**Table 2.** Descriptive statistics.

| Variable code | Minimum | Median | Maximum value | Mean | Standard deviation |
|---|---|---|---|---|---|
| LOAN | −0.2969 | 0.1160 | 2.4320 | 0.0356 | 0.1496 |
| COD | 0.0001 | 1.6612 | 4.6155 | 0.0592 | 0.1164 |
| CONSV | −2.5320 | −0.0118 | 0.3969 | 0.0453 | 0.1493 |
| ROA | −3.0881 | 0.0846 | 0.4947 | 0.0899 | 0.1474 |
| LEV | 0.0168 | 0.4771 | 0.9738 | 0.5432 | 0.1587 |
| GROWTH | −0.8011 | 0.3077 | 4.1900 | 0.3750 | 1.7605 |
| INASSET | 19.1245 | 21.6200 | 27.8894 | 22.5740 | 1.0169 |
| CG | 0.0589 | 0.5300 | 5.6311 | 0.5194 | 0.3844 |

2) Regression analysis (Table 3)

Impact of accounting robustness on the scale of corporate debt after sample grouping.

Impact of accounting robustness on corporate debt cost after sample grouping.

3) Brief conclusions

Table 3 shows the regression results of model 1 after grouping, and the regression equation $R^2 = 0.815$ of the private enterprise group regression equation shows that 81.5% of the total variation of debt scale is caused by the robustness of the independent variable, it can be seen that the debt scale of private enterprises can be explained by robustness, the regression equation has a high degree of fit, and the robustness is explained strongly. In the significance test of the coefficients of the regression equation, the results show that the correlation coefficient between robustness and the debt scale of private enterprises is 1.157, which is positive (t-value is 2.154) and the result is significant at the level of 1%, indicating that the bank as a creditor can identify the degree of robustness in the debtor's financial information, and accounting soundness can improve the ability of private enterprises to obtain loans. In other words, financial institutions prefer to lend to companies with high soundness. Table 4 shows the regression results of model 2 after grouping. In the regression equation $R^2 = 0.657$ of the private enterprise group, 65.7% of the total variation in debt cost was caused by the robustness of the independent variables, which could be explained by the robustness in the model. The regression coefficient of robustness is −0.068, which is negative (t-value is 2.099) and the result is significant at the level of 1%,

Table 3. The impact of accounting robustness on the scale of corporate debt after sample grouping.

| | State-owned enterprises | Private enterprises |
|---|---|---|
| CONSV | 0.051 | 1.157*** |
| | (0.89) | (2.154) |
| ROA | 0.36 | 1.452* |
| | (0.65) | (0.704) |
| LEV | −0.057* | −0.802** |
| | (−0.46) | (−1.051) |
| GROWTH | 0.056 | 7. 282** |
| | (1.36) | (1.061) |
| INASSET | 0.63* | 1. 527 |
| | (6.7) | (0.088) |
| CG | 0.009 | 0.432** |
| | (0.43) | (9.570) |
| F | 221.367 | 313.084 |
| $R^2$ | 0.458 | 0.815 |
| Adj. $R^2$ | 0.413 | 0.804 |

Table 4. The impact of accounting robustness on corporate debt cost after sample grouping.

| | State-owned enterprises | Private enterprises |
|---|---|---|
| CONSV | 0.171 | −0.068*** |
| | (0.467) | (−2.099) |
| ROA | 0.212 | −0.035** |
| | (0.125) | (−4. 069) |
| LEV | −0.197* | 0.058*** |
| | (−0.990) | (5.576) |
| GROWTH | 0.019 | 0.006* |
| | (0.755) | (0.985) |
| INASSET | 0.457** | 1.033 |
| | (2.159) | (0.352) |
| CG | 0.005 | −0.007** |
| | (1.165) | (−3.603) |
| F | 203.926 | 252.844 |
| $R^2$ | 0.426 | 0.657 |
| Adj. $R^2$ | 0.408 | 0.628 |

indicating that soundness has a significant linear relationship with debt capital, higher accounting soundness protects the interests of banks to a certain extent, and higher accounting soundness can make private enterprises bear lower debt costs, which is also the compensation of banks to private enterprises that provide sound accounting information in terms of debt costs. Compared with private enterprises, it can be seen that the robustness coefficient of a group of state-owned enterprises is not significant, and the impact of robustness on the debt financing scale and debt easy cost of private enterprises is significantly higher than that of state-owned enterprises, thus proving that the hypothesis is valid. Moreover, for private enterprises, accounting soundness is significantly positively correlated with the scale of debt financing, and significantly negatively correlated with debt financing costs. In the group of private enterprises, the coefficient of asset-liability ratio is significantly negative, and the coefficient of operating income growth rate and asset security value is significantly positive. This also shows that private enterprises should pay attention to their own profitability and development prospects when carrying out debt financing, and creditors pay more attention to the debt collateral value of private enterprises, in order to improve the security of debt collection.

## 6. Conclusion

In general, private enterprises with higher accounting soundness have a stronger ability to obtain loans. Private enterprises have no way to obtain government subsidies and do not have implicit guarantees of a state-owned nature. Therefore, private enterprises should recognize the importance of accounting soundness. By improving accounting robustness, banks can reduce their expectations of default risks, reduce information asymmetry and adverse selection risks in the contracting process, promote the governance function of effective contract signing, and improve the possibility of obtaining loans for themselves. As debtors, private enterprises are faced with increasingly stringent review requirements from the CSRC from the perspective of their capital environment, and at the same time need to gain the trust of banks as creditors in order to expand the scale of debt and reduce debt costs, which have prompted private enterprises to tend to improve the level of accounting soundness. This is reflected in the fact that the financial data disclosed must be prudent and prudent, and the "good information" of profits must be strictly confirmed, and the "bad information" of losses must be disclosed in a timely manner. By improving the quality of their own accounting information, private enterprises can prove the authenticity of their profitability and solvency, which is a higher requirement for private enterprises in terms of accounting information quality under the objective conditions of the current economic environment. Moreover, private enterprises need to strengthen their ability to control debt risks, such as standardizing the use of debt and reducing the vicious circle of borrowing new debt to cover old debt. Strictly implement the use of funds according to the purpose of borrowing, and carefully examine the projects that occupy funds, demonstrate whether they comply with the development trend of the industry market and the law of supply and demand, ensure the safe use of loan funds, improve the efficiency of use, and create more value. Private enterprises also need to strengthen the management of assets, maintain and increase the value of assets, continuously reduce bad debt losses, enhance the ability to repay interest and interest, and facilitate obtaining loans. As a debtor, private enterprises have the obligation to gradually improve the standardization of revenue recognition, prevent large changes in indicators that have a significant impact on the determination of revenue, profit and other financial status, and maintain the overall stability of business performance.

From the perspective of macro policy formulation, excessive government regulation will lead to a decrease in the efficiency of financial resource allocation, which will easily affect the self-discipline constraint of debt contracts themselves. Funds are easily allocated to systems with serious budget soft constraints, and if it supports economies with loss-making performance, it will inevitably increase capital risk and reduce the efficiency of overall capital utilization. Therefore, the government and other administrative departments should appropriately reduce excessive control over debt financing, improve the efficiency and fairness of capital allocation, and ensure the financing needs of private enterprises. Fair, just and transparent market guidelines can give full play to the market signal role of interest rates. The market determines the change of debt costs, realizes the marketization of interest rates, and enables private enterprises with good growth to receive financial support. At this stage, China's debt financing has not yet achieved marketization, so it is necessary to improve the soft budget constraint environment of state-owned enterprises as soon as possible, and improve the mechanism that mainly determines debt contracts by the market. In this way, in the capital market, private enterprises can obtain the same debt financing opportunities as state-owned enterprises, and provide sufficient funds to private enterprises to help them develop rapidly. To solve the problem of financing difficulties and high financing costs of private enterprises, we can also use the multi-level and multi-field capital market structure to broaden the financing channels of private enterprises by providing rich financing methods. It meets the capital needs of private enterprises and ensures the healthy and prosperous development of private enterprises, so as to maximize the value of private enterprises, realize the role of private enterprises in promoting economic development, and enable them to contribute to the national economy with sustained and stable growth rates.

## Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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