

A Review of Research on Accounting Information Quality

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Abstract: The quality of accounting information, as the core of corporate financial reporting and information disclosure, directly affects the decision-making of enterprises, the protection of investors' interests, and the healthy development of the capital market. With the continuous development of the global economy and the increasing maturity of capital markets, the requirements for the quality of accounting information are also increasing. The quality of accounting information has become a topic of great concern for internal managers and external investors, and has therefore become a hot topic of research for scholars. Domestic and foreign scholars have achieved fruitful results in the study of accounting information quality. This article summarizes and generalizes the influencing factors of accounting information quality, the measurement of accounting information quality, and related empirical research from three aspects. It sorts out the literature on accounting information quality at home and abroad, hoping to provide more reference value for related research.

Keywords: Accounting information quality; Influencing factors; Measurement; Empirical research.

1. Introduction

With the continuous development of the capital economy market, more and more enterprises are appearing in the capital market, and their financial accounting information is also constantly increasing. However, there have been incidents of financial fraud, such as financial fraud, in listed companies such as Luckin Coffee and Kangmei Pharmaceutical. The exposure of financial fraud incidents has aroused increasing attention to the quality of corporate accounting information. For investors, the quality of accounting information is one of the criteria for their investment judgments; For enterprises themselves, the higher the quality of accounting information, the more beneficial it is for their own business decisions, as well as for attracting external investors and improving the company's operating performance; For the government, high-quality accounting information can be more effectively regulated; For the capital market, the quality of accounting information directly affects the operation of the capital market. This indicates that the quality of accounting information is particularly important and serves as the cornerstone for ensuring the healthy development of the capital market. So what is the measure of the quality of accounting information? What will affect the quality of accounting information? What are the empirical studies related to accounting information quality? This article reviews and sorts out these issues through domestic and foreign literature, hoping to help with future research on the quality of accounting information.

2. Factors Affecting the Quality of Accounting Information

2.1. Internal Control Aspect

Goh and Li (2011) used companies with internal control deficiencies under the US Sarbanes Oxley Act as samples and found that due to internal control loopholes, the financial situation of the company is unstable. Companies that actively improve their internal control deficiencies tend to have better stability. Alope Ghoshk et al. (2013) studied the impact of

implementing internal controls in companies before and after the enactment of the Sarbanes Oxley Act. The research results showed that the negative effects of internal control deficiencies in companies were more significant than before the enactment of the Act. Kwangwuk Oh (2014) proposed that a company's internal controls can affect the quality of its financial statements, with companies that continuously promote and improve their internal controls having higher financial statement quality.

Domestic scholars also attach great importance to the relationship between internal control and accounting information quality, actively researching and achieving rich research results. Liu Qiliang's (2013) research shows that there is a relationship between the quality of internal control and the concentration of executive power. Due to the structure of executive power allocation within a company, it is believed that improving internal control cannot improve the quality of accounting information and will be limited by the internal power of the company. Yao Haixin et al. (2016) established a dynamic game model to evaluate the accounting information disclosure of listed companies through internal control, external supervision, and other aspects. The results showed that the quality of accounting information disclosure of listed companies can be improved by enhancing internal control management and related punishment. Wu Xiaoling (2021) proposed that internal control can not only enhance the quality of accounting information, but also improve the effectiveness of internal control, and it is necessary to strengthen the investment in internal control. Chi Guohua's (2021) research has demonstrated that a scientifically sound internal control system can enhance the quality of accounting information disclosed by enterprises to the outside world. Cui Lizhi's (2023) research found that internal control has a significant impact on the accuracy, completeness, timeliness, reliability, and other aspects of accounting information, but internal control deficiencies, failures, deception, and other issues can also affect the quality of accounting information. Yu Hongze (2023) pointed out the need to strengthen internal controls, such as establishing rules and regulations,

implementing comprehensive monitoring, preventing false information, and conducting compliance management, which can effectively improve the integrity and quality of accounting information.

2.2. Corporate Governance Structure

Regarding research from the perspective of equity structure, Gopalan and Jayaraman (2012) believe that equity concentration can enhance the willingness of shareholders to supervise executives, thereby reducing earnings management behavior and improving the quality of accounting information. Jianrui and Dai Chunxiao (2019) believe that high concentration can easily lead to the problem of ultimate shareholders seizing control benefits, so the equity structure should be more balanced, thereby strengthening the effectiveness of supervision and suppressing earnings management. Regarding the research from the perspective of the board of directors, Lin Han (2018) used data from A-share listed companies in the Shenzhen Stock Exchange from 2012 to 2017 as a sample and found that the higher the degree of separation of ownership and control, the larger the size of the board of directors, and the poorer the quality of accounting information. Ye Bangyin et al. (2022) found that the stronger the fault zone of the board of directors, the lower the cohesion within the board, and the lower the willingness to supervise, resulting in a decrease in the quality of the company's accounting information. Ou Liping and Zhao Zhiting (2022) proposed that there is a positive correlation between overconfidence and earnings management, and enhancing the independence of the board of directors can suppress earnings manipulation induced by managerial overconfidence. Regarding the research from the perspective of management, Xu Fei (2017) pointed out that there is a positive correlation between the independence of CFO and the quality of accounting information. The departure of CFO will reduce the strengthening effect of independence on the quality of accounting information. Yao Lijie et al. (2020) believe that excessive management power can reduce accounting conservatism, while improving managerial capabilities can improve information disclosure issues and reduce the degree of information asymmetry. Chen Shufang et al. (2020) believes that increasing the power of management will reduce the effectiveness of internal control, weaken the role of the board of directors, increase management's selfish behavior, and have a negative impact on the quality of accounting information.

2.3. In Terms of Legal Policy and Environmental Supervision

Legal policies are an external constraint for companies, and their impact on the quality of accounting information varies depending on the external environment in which the company operates. Gordon and Hsu (2018) proposed that the formation of accounting information cannot be separated from the standardization of standards and systems, and the frequent changes in accounting standards and policies have led more and more scholars to pay attention to the impact of changes in accounting standards and systems on the quality of accounting information. Wang Shuangjin and Chang Juan (2020) conducted empirical research, and the results showed that environmental uncertainty can affect a company's earnings management, and this impact is positive. Environmental factors can affect the quality of accounting information. Wang Jiachen et al. (2021) found that as the level

of social trust in a region increases, the quality of accounting information will also improve, especially in the eastern region. The level of legalization can positively regulate this relationship. External supervision can enhance the quality of accounting information. According to Liu Guangqiang and Wang Di (2021), the Ministry of Finance's use of irregular inspections is beneficial in curbing earnings manipulation by enterprises, resulting in higher quality accounting information disclosed by them.

3. Measurement of Accounting Information Quality

3.1. Measuring by Earnings Quality

Accounting earnings can reflect a company's profitability and are an important financial indicator that demonstrates its operating status and efficiency. The accounting standards issued by the Chinese government in 1997 have more detailed requirements for accounting earnings, which regulate the accounting behavior of listed companies and enhance the relevance and reliability of accounting earnings as accounting information. The quality of accounting earnings has significant reference value for both market investors and market regulators, indicating the importance of accounting earnings. Many scholars use earnings quality or management level as a measure of accounting information quality. Healy (1985) studied the overall level of accrual earnings management and calculated the operating profit of accrual items. Jones (1991) used earnings quality as a method to measure the quality of accounting information, which is the most classic Jones model. This model is divided into normal and manipulable earnings items, with manipulable English items reflecting the manager's level of earnings manipulation to reflect earnings quality. Afterwards, Dechow et al. (1995) revised and improved the Jones model, proposing that accounts receivable should be excluded as manipulable earnings in the model. Dechow and Dichev (2002) studied liquidity accrual projects and proposed the DD model. The DD model establishes the relationship between the accrued profit of a company's current operating capital and its current operating cash flow. The larger the absolute residual value, the poorer the quality of accounting information. At present, for measuring the quality of accounting information using the above-mentioned models, it is believed that the modified Jones model has the smallest error, and the most used models are the Jones model and the modified Jones model. For example, Doyle et al. (2007) used a modified Jones model to examine the impact of internal control on accrual quality. When Li Yongmei and Bai Xiaojuan (2020) studied the relationship between accounting information quality and financing costs, Wu Jianzhong et al. (2020) studied the impact of accounting tax differentials and media regulation on accounting information, and Zheng Huitong and Wang Haiou (2023) used the modified Jones model when studying the relationship between accounting information quality and investment efficiency.

3.2. Measuring the Quality of Information Disclosure

The accounting information of a company is mainly reflected in the form of financial statements, which is an important content affecting the quality of accounting information. It can be measured by the quality of information disclosure, which can be divided into the number of

disclosure violations and information quality. Regarding the number of violations in disclosure, Li Renqian (2013) analyzed information disclosure violations based on the punishment records and reports of listed companies, and found that 67% of the violations were caused by delayed disclosure. In the capital market, the timeliness of accounting information is crucial, and accurate, effective, and timely information disclosure can reduce information asymmetry. The use of disclosure violations is mainly because if a company's information disclosure is punished for violations, it indicates that the quality of the company's information disclosure is not high, thereby reflecting the poor quality of the company's accounting information.

In terms of information quality rating, the information quality rating of listed companies provided by professional institutions of the Shenzhen Stock Exchange is often used to measure the quality of accounting information. This rating considers the characteristics of various information disclosures such as corporate financial information, corporate governance, and audit opinions, and reflects the quality of accounting information well. Therefore, many scholars choose it as an indicator to measure the quality of accounting information. For example, the method used by Sun Lihua and Wei Deyun (2013) to measure the quality of accounting information is to use the information disclosure assessment results of the Shenzhen Stock Exchange, with standards of compliance with laws, accuracy, completeness, and timeliness. Tao Ya (2018) measured the quality of information disclosure through the information quality rating of listed companies released by the Shenzhen Stock Exchange, and studied the relationship between market competition, company value, and accounting information transparency. Wang Jiachen (2021) used the information disclosure rating of listed companies on the Shenzhen Stock Exchange in China as the accounting information quality standard, and assigned values to different ratings to measure the quality of accounting information.

3.3. Multiple Indicators for Measurement

The number of violations can measure the quality of accounting information, but it is not easy to include hidden violations or events in the assessment. The information quality rating data sources of professional institutions are more objective, but their coverage is not comprehensive and limited, resulting in poor comprehensiveness and timeliness of the data. More and more researchers are no longer using a single indicator to measure the quality of accounting information, but rather considering various characteristics of accounting information from multiple perspectives and using multiple indicators to measure the quality of accounting information. Li Qingyuan (2009) comprehensively used DD model, Jones model, and nonlinear accrual model to evaluate the quality of accounting information. Jin Yuna et al. (2011) used the extended Jones model to calculate accounting earnings management, measured internal control using information disclosure quality, and constructed a model for empirical research. Liu Jiyun (2021) used the modified Jones model and the information rating disclosed by the Shenzhen Stock Exchange to measure the quality of accounting information and study the relationship between accounting information quality and investment efficiency.

4. Related Empirical Research

The quality of accounting information has always been a

hot research topic among scholars, and there is a wealth of empirical research on it. This article reviews relevant empirical research literature at home and abroad, and summarizes that the quality of accounting information mainly affects investment efficiency, corporate performance, capital costs, and other aspects.

4.1. Research on the Impact on Investment Efficiency

The conclusion of domestic and foreign research on the relationship between accounting information quality and investment efficiency is basically consistent, that is, the higher the quality of accounting information, the higher the investment efficiency of enterprises. Verdi (2006) found a negative correlation between the quality of accounting information and overinvestment and underinvestment. High quality accounting information can alleviate agency and information asymmetry problems, thereby improving investment efficiency. Yang Xia and Zhang Yingwei (2019) studied the impact of accounting information quality on investment efficiency, analyzing that high accounting information quality has a more significant inhibitory effect on overinvestment, while its effect on alleviating underinvestment is slightly worse. Xiu Guoyi et al. (2019) pointed out that if a company is in the growth or maturity stage, improving the quality of accounting information disclosure can promote investment efficiency; But if a company is in a recession, it will not have a restraining effect on overinvestment, but only have a significant effect on alleviating underinvestment. Hidayat and Mardijuwono (2021) studied the impact of accounting information quality on Indonesian manufacturing enterprises and found that companies with high accounting information quality have higher investment decision-making efficiency. Zhu Runying (2022) believes that strong comparability of accounting information can enhance industry competitiveness, increase investment opportunities, and alleviate agency problems, thereby improving investment efficiency. Yuan et al. (2022) found that the high quality of accounting information can reduce the financing constraints of enterprises, leading to a decrease in financing costs and ultimately reducing the problem of insufficient investment.

4.2. Research on the Impact on Corporate Performance

Elliott and Jacobson (1994) found that improving the quality of accounting information disclosure can effectively reduce competition costs and enhance corporate value. Patel et al. (2002) proposed that the higher the quality of information disclosure, the better the performance of the enterprise, and high-quality accounting information can help improve the performance of the enterprise. Chan et al. (2004) found that companies with good accounting information quality are more likely to have good performance and can continue to affect the company's future performance. Tong Yan's (2011) study proposed that improving the quality of information disclosure can effectively enhance a company's return on equity, which is an important indicator for measuring corporate performance. Fang Fang (2014) found that improving the quality of accounting information in enterprises can reduce agency as an intermediary variable, resulting in better performance of the enterprise. Shi Ziqiang (2020) proposed that the impact of accounting information quality on market value is positive. Ji Tianjiao (2021)

confirmed through research that high accounting information quality can significantly affect corporate performance in highly competitive industries. Zhang Duolei et al. (2021) studied data from A-share listed companies and found that the quality of accounting information has a positive impact on corporate innovation by improving corporate governance and alleviating financial pressure. Qian Jing and Zeng Huafeng (2022) studied the relationship between agency costs, corporate performance, and accounting information quality, and found that improving accounting information quality can reduce agency costs and improve corporate performance. Theodore et al. (2022) found an inverse relationship between the quality of accounting information and fluctuations in operating cash flows by studying US listed companies.

4.3. Research on the Impact of Capital Costs

Many studies have confirmed that the higher the quality of accounting information, the lower the capital cost of enterprises, which can alleviate financing constraints. Zhu Song (2013) studied whether participants in the bond market value corporate accounting information and proposed that higher quality accounting information leads to better ratings from professional institutions, resulting in lower bond costs. Barth et al. (2013) proposed that using earnings transparency to measure the quality of accounting information significantly reduces a company's cost of equity capital. Xu Sheng's (2013) empirical research suggests that companies can improve internal controls, enhance the quality of accounting information, reduce the cost of equity capital, and thus achieve maximum value for the company. Wang Yan (2016) selected data from A-share listed companies on the Shenzhen Stock Exchange from 2012 to 2014 to study the correlation between equity structure, cost of equity, and accounting information. The results showed that the quality of accounting information was positively correlated with equity concentration, while the cost of equity capital of enterprises was negatively correlated with accounting information quality. Liu Juan (2018) studied the correlation between the quality of accounting information and the cost of capital of small and medium-sized enterprises through data from the Growth Enterprise Market and small and medium-sized enterprises from 2010 to 2015, and found that high quality of accounting information disclosed by enterprises can effectively reduce the cost of capital. Yin Yongmei (2019) found that banks are willing to provide low-cost loans to companies with high-quality accounting information because these companies have low credit risk.

4.4. Research on the Impact on Corporate Governance

Dai Yanling (2019) used the main board listed companies from 2011 to 2017 as samples and found that corporate governance can effectively reduce the relationship between off balance sheet financing and accounting information quality, and the relationship between the two is negatively correlated. Tian Min et al. (2019) found that good corporate governance can help improve the quality of accounting information, and the relationship between the two is more significant in areas with a good legal environment and low levels of government intervention. Wang Xinxin (2021) empirically studied the relationship between corporate governance, research and development expenses, and accounting information quality based on data from A-share listed companies from 2015 to 2020. The research conclusion

is that there is a negative correlation between research and development expenses and accounting information quality; The higher the proportion of independent directors, the less negative impact of R&D expenses on the quality of accounting information. Zhou Benchun (2021) found that the internal structure of a company is not scientific, and the accounting information of the enterprise lacks reliability and completeness, which will affect investors' judgment and choices. This proves that the better the corporate governance mechanism, the higher the quality of the company's accounting information, and the stronger the improvement effect on investment efficiency. Lan Ziwen et al. (2023) found that in social relationships, the social capital of senior management has a corporate governance effect and can improve the quality of accounting information in companies. For local executives, their companies have fewer abnormal accruals and lower levels of financial fraud.

5. Conclusion

The factors that affect the quality of accounting information in existing literature mainly include internal control, equity structure, board of directors, senior management, and external legal and policy environment supervision. The measurement of accounting information quality mainly adopts earnings management quality and information disclosure quality. According to existing literature, it has not considered the balance sheet, cash flow statement, and related off balance sheet information. Moreover, researchers use different methods to measure them, and there is no unified standard. With the convergence of accounting standards to international accounting standards, the requirements for the quality of accounting information will also become higher. Whether there are better measurement indicators and unified standardization of accounting information quality indicators is an important and arduous topic for future research. The empirical research on the quality of accounting information mainly focuses on investment efficiency, corporate performance, cost of capital, corporate governance, and other aspects. It can be found that researchers often focus on empirical research related to company development, and future research can pay more attention to the external environment. For example, digital transformation is a current trend, and scholars can study the relationship between digitalization and accounting information quality; There can also be empirical research on the relationship between government supervision and accounting information quality.

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