Effect of Accruals Quality on Debt Maturity Structure: Evidence from Iranian Firms

Mohammad Reza Asghari¹, Mohammad Amin Ojaghi², Nasrollah Takhtaei³

¹Accounting Department, Dezful Branch, Islamic Azad University, Dezful, Iran
²Department of Accounting, Payame Noor University, I.R of Iran
³Accounting Department, Dezful Branch, Islamic Azad University, Dezful, Iran

Corresponding Author: Nasrollah Takhtaei

ABSTRACT: The purpose of this study is to investigate the influence of accruals quality on debt maturity structure in Iranian context. Using a sample of 98 firms listed on the Tehran Stock Exchange (TSE) over the period from 2002 to 2010, results indicate that accounting quality as measured by accruals quality is an important and relevant factor affecting debt maturity structure. Findings also reveal that financial reporting and accounting quality may be considered by Iranian managers regarding debt covenants due to the role that they have in levels reduction of information asymmetry to be able to make longer-term debt.

Keywords: Accruals quality, Debt maturity structure, Information symmetry.

INTRODUCTION

A large body of studies in accounting and finance has focused on financial reporting quality in recent years. In these studies, the effect of accounting quality measured by various proxies on company's different dimensions including cost of capital, cost of debt, investment efficiency, stock returns, stock market value, and many other factors has been investigated. These studies have primarily based on the agency theory and information asymmetry. In information asymmetry, information distribution between two sides is imbalanced which leads to generating two groups of informed and uninformed individuals where may affect the relations between company and stakeholders. Easley and O'Hara (2004) claim that firms can reduce information asymmetry by providing investors with the extent, accuracy, and the quality of information.

What is the measure of accounting quality? Dechow (1994) states that accrual-based accounting earnings is one of the most important factors in accounting quality issues. Accounting earnings used as a means to solve the problems of measurement and also to evaluate the firms that will continue to operate for a long period of time, because cash flows have timing problems and are not regarded as useful measures for firm performance. Nevertheless, accrual-based earnings is calculated based on revenue recognition principle, may not reconcile with the actual cash flows. The higher (lower) the reconciliation of firm's earnings with the extent of cash flows, the higher (lower) the quality of accruals and consequently lower quality of accruals leads to an increase in information risk. Therefore, the difference between accrual-based earnings and cash flows is considered as the measure of earnings quality and also accounting quality. In previous studies, (e.g, Francis et al., 2005; Bharath, Sunder & Sunder, 2008; Bhattacharya, Desai & Venkataraman, 2008) the quality of financial reporting has been measured by accruals quality.

Biddle and Hilary (2006) indicate empirically that better-quality of financial reporting with reduction in levels of information asymmetry leads to levels reduction of information asymmetry between firm and investors and also between investors and managers. Bhattacharya et al (2008) state that accounting quality is an effective factor in reducing levels of information asymmetry that may have influence on firm's various aspects. These studies suggest that information asymmetry affects firm's debt structure and higher levels of information asymmetry leads to shorter-term debt. In fact, higher quality of accounting reduces the adverse selection as well as levels of information asymmetry. Consistent with this arguments, Ortiz-Molina and Penas (2008) find that higher levels of information asymmetry is related to shorter-term debt. Moreover, the study conducted by Bharath et al (2008) regarding to economic results of accounting quality demonstrate that higher accounting quality may lead to lower cost of capital and debt, higher return on equity, and longer-term debt maturity. Accounting quality may have effects on debt covenants conditions including debt maturity structure due to the effects on which information asymmetry and information risk it may has.
Therefore, this study examine the effect of accounting quality as defined in Francis et al (2005) on firm's debt maturity. Section 2 deals with the studies of relationship between information asymmetry and debt maturity, the association between accounting quality and debt maturity, and hypothesis development. Section 3 presents the research design, measuring the dependent and independent variables. In section 4, empirical results are presented and finally, the study will end with a conclusion in section 5.

**Information asymmetry and debt maturity**

In recent years, the financial literature has emphasized the importance of asymmetric information between insiders and investors in determining the debt maturity of firms. Specifically, from different viewpoints, higher levels of asymmetric information are associated to shorter debt maturities (García-Teruel, Martín-Nez-Solano, & Sanchez-Ballesta, 2010). In this regard, Kale and Noe (1990) indicate how debt maturity structure of firm transfer signals to the market about firms' quality. Flannery (1986) discusses that firms with higher levels of information asymmetry are more likely to short-term debt, since they will face with higher levels of information costs whereas those firms with lower levels of information asymmetry are more likely to have long-term debt. This argument suggests that higher levels of information asymmetry lead to shorter-term debt maturity.

In support of the Flanner's model, Berger et al (2005) argue that levels reduction of information asymmetry may affect debts maturity in firms with low risk. Pecking order theory developed by Myers and Majluf (1984) also expects a negative association between information asymmetry and debt maturity. Berger and Udell (1998) discuss that informational problems which creditors are faced in evaluating firms may affect debt maturity as one of the debt covenants characteristics. Schmidt and Tyrell (1997) also argue that these problems are more related to bank-base financial systems in where resources essentially are provided by financial intermediaries and borrowers are subject to regulations and disciplines of the banks. In this regard, Ortiz-Molina and Penas (2008) argue that creditors use shorter-term maturity in debt covenants in order to increase the frequencies of renegotiations of covenants terms so as to have more oversight on borrowers who have informational opaque and high risk.

**Accounting quality and debt Maturity**

Concerning information asymmetry and agency conflict, Healy and Palepu (2001) state that accounting quality leads to reduction in moral hazard and adverse selection and also improves monitoring on contracts. Bushman and Smith (2001) believe that investors and creditors may obtain more returns and less loss on their investments with investing in firms with higher accounting quality. Moreover, higher accounting quality leads to reduction in the levels of information asymmetry between principals and agents and also improves monitoring on managers. Therefore, less shorter contracts for monitoring managers is needed.

Furthermore, Easley and O'Hara (2004) and Lambert, Leuz, and Verrecchia (2012) argue that accounting is a tool for predicting information risk and expected return. McNichols and Stubben (2008) state that investment returns is increased with higher accounting quality. Accordingly, the economic consequences of accounting quality have been studied in some research. For instance, Francis et al (2005) find that increase in accounting information quality results in reduction in cost of capital and debt. Bharath et al (2008) demonstrate that accounting quality affects cost of debt, debt maturity, and the likelihood of posting collateral. In private debt market, firms with lower accounting quality are faced with shorter maturity and a greater likelihood of providing collateral. These results indicate that creditors impose stringent contract terms as regards to firms with lower accounting quality in order to compensate their information risk. With regard to other factors which affects debt maturity, Diamond (1991) indicate that firms with higher leverage are more likely to choose longer debt. Because firms with high debt due to higher financial risk attempt to obtain loans with longer maturity in order to control their risk. Diamond (1991) extended the model of information asymmetry effective on credit risk developed by Flannery (1986) and Kale and Noe (1990). Firms with low credit risk are able to have longer debt and they could be financed without facing up to the refinancing risk of debt contract whereas firms with high risk are not able to obtain long-term debt due to the high cost of adverse selection. Myers (1977) argues that agency problems will be reduced when the maturity of debts are consistent with assets. Bevan and Danbolt (2002) discuss that firms with growth opportunities are more likely to have shorter debts. Jun and Jen (2003) found that small firms have more agency conflicts, higher levels of information asymmetry and higher bankruptcy risk, and less accessibility to the capital markets which implies that these companies have more problems in obtaining long-term debts. Chen, Xu, and Yang (2012) argue that firms are more likely to have debts with longer maturity when they have higher systematic risk.

No research has been conducted on the effect of accruals quality on debt maturity structure, however the accruals quality and its measurements methods have been investigated in some studies (Nouravesh, Nazemi & Heydari, 2006; Resaeyan & Hoseini, 2008; Ahmadpour Kasgari & Ajam, 2010). On the examining of the accruals quality with emphasis on the role of estimation error of accruals, Nouravesh et al (2006) indicate that high levels of accruals lead to reduction in earnings quality and accruals quality, and thus the higher the accruals, the lower the earnings quality and lower persistence. Their results also indicate that Dechow and Dichev (2002) model is proper for assessing accruals quality in Iranian context. Using a sample of Iranian firms on the Tehran Stock Exchange (TSE), Ahmadpour Kasgari
and Ajam (2010) investigate the relationship between accruals quality and information asymmetry. They provide evidence that investors are likely to invest in firms with higher accruals quality. Concerning the association of accruals quality and cost of capital, Resaeyan and Hoseini (2008) demonstrate that cost of capital is not affected by the accruals quality and accruals components. In other words, there is no significant difference in cost of capital between firms with low accruals quality and firms with high accruals quality. Based on the above literature and arguments in previous literature, the following hypothesis is proposed in this study: there is a significant association between accruals quality and debt maturity structure in Iranian firms.

**METHODOLOGY**

**Sample selection and methods**

The sample consists of 98 listed non-financial firms on the Tehran Stock Exchange (TSE) ended 20 March over the period from 2002 to 2010 (9 fiscal years). The data were collected using annual financial statement and accompanied notes. Using SPSS package, Pearson correlation, multivariate regression are employed to analyze data. In this regards, F-statistic is used to test the model significance and t-statistic to test the variables coefficients. Durbin-Watson test also is applied to test the residuals independence.

**Variables definition**

**Dependent variable**

The dependent variable, long-term debt (LTDEBT), is defined as the ratio of long term debt to total debt. We consider long-term debt as debt that matures after more than one year.

**Independent variable**

We follow the model developed by Dechow and Dichev (2002) to estimate accruals quality as independent variable. In this model, accruals quality is measured by the extent to which current working capital accruals map onto operating cash flows of the prior, current and future periods. Thus, Dechow and Dichev (2002) regress current working capital accruals (WCA) on cash flow from operations of the previous fiscal year (CFO\(_{t-1}\)), of the current year (CFO\(_{t}\)), and the subsequent fiscal year (CFO\(_{t+1}\)), all deflated by average total assets.

\[
WCA_{i,t} = \lambda_0 + \lambda_1 CFO_{i,t-1} + \lambda_2 CFO_{i,t} + \lambda_3 CFO_{i,t+1} + \epsilon_{i,t}
\]

Where WCA\(_{i,t}\) working capital accruals of firm \(i\) in year \(t\), is calculated as the change in current assets (\(\Delta CA\)), minus the change in cash and cash equivalents (\(\Delta Cash\)), minus the change in current liabilities (\(\Delta CL\)) plus the change in short-term bank debt (\(\Delta Debt\)); and CFO\(_{i,t}\), CFO\(_{i,t-1}\) and CFO\(_{i,t+1}\) cash flow from operations of firm \(i\) in years \(t\), \(t-1\) and \(t+1\), respectively are calculated as the difference between net income before extraordinary items (NIBE) and Total accruals (TA). Total accruals are calculated for each firm in year, following Dechow et al. (1995), as working capital accruals (WCA\(_{i,0}\)) minus depreciation and amortization expenses for the period (Dep\(_{i,0}\)).

All variables are deflated by average total assets in order to avoid problems of heteroscedasticity. Average total assets are calculated for firm \(i\) in year \(t\) as the mean of firm’s total assets in years \(t-1\) and \(t\). The model is estimated in its cross-sectional version for each industry-year combination based on the industry classification of the Madrid Stock Exchange. The residual vector reflects the variation in working capital accruals unexplained by cash flows of the previous, current and subsequent periods. Therefore, the absolute value of the residual for each firm-year observation is an inverse measure of accruals quality (AQ_DD\(_{it}\)=[|\(\epsilon_{it}\)|] [the higher the residual, the lower the accruals quality]).

**Control variables**

To control for the effect of credit quality we use the firm’s financial strength (\(Z\)), measured with one of the usual models used to predict firm insolvency. A bankruptcy model attempts to measure the financial capacity and degree of solvency of a firm. The result can be considered a proxy for its financial situation. Specifically, we use the model developed by de Lema, Segura, and Pérez (1997) for Spanish firms, where \(Z\) is defined as follows.

\[
z_A = -0.835 + 0.950 \times R_1 + 0.272 \times R_2 - 11.848 \times R_3 + 2.422 \times R_4 + 6.976 \times R_5
\]

Where:

\[
R_1 = \frac{\text{Receivables + Cash and equivalents}}{\text{Current liabilities}}
\]

\[
R_2 = \frac{\text{Working capital}}{\text{Total assets}}
\]

\[
R_3 = \frac{\text{Sales}}{\text{Total assets}}
\]

\[
R_4 = \frac{\text{Net income before extraordinary items}}{\text{Total assets}}
\]

\[
R_5 = \frac{\text{Total current liabilities}}{\text{Total assets}}
\]
To capture the nonlinear relation predicted by Diamond (1991), we introduced \( Z_A \) and its square. To measure growth options (GROWP) we used Tobin’s \( q \) calculated as the ratio between the firm’s market value and its replacement value of capital. Since firms with more growth opportunities have more agency problems, we expect a negative relationship with the dependent variable.

Following Myers (1977), we controlled for asset maturity (AM). In this case we measured the asset maturity using the following expression (Jun and Jen, 2003):

\[
AM = p1 \times \frac{\text{Net fixed assets}}{\text{Annual depreciation}} + p2 \times \frac{\text{Receivables}}{\text{Sales}} + p3 \times \frac{\text{Inventories}}{\text{Sales}} + p4
\]

Where \( p1, p2, p3, \) and \( p4 \) are respectively the proportion of net fixed assets, receivables, inventories, and other current assets (excluding cash) to total assets.

Net fixed asset maturity is measured by annual depreciation rates. Receivables and inventories are estimated by the length of the time they take to be converted into cash. Cash and cash equivalents are considered to be liquid immediately and other current assets are assumed to have a one-year maturity. We expect this variable to relate positively to the level of long-term debt. As a proxy for size (SIZE) we used the log of market value of the firm. Larger firms have less difficulty in obtaining long-term debt financing. Consequently we expect a positive relation between the level of long-term debt and the firm’s size. We used as a proxy of corporate tax rate the ratio of total tax charged to total taxable income to analyse the tax effects. From a tax perspective, we expect a negative relationship with LTDEBT (Kane, Marcus, and McDonald, 1985). Finally, the level of debt (LEV) is measured as the ratio of total debt over total assets. Consistent with the argument of Diamond (1991) in which firms with a high level of debt are likely to prefer longer maturity debt, a positive relationship between LEV and LTDEBT is expected.

**Model specification**

\[
LTDEB_{it} = \beta_1 AQ_{it} + \beta_2 Z_{it} + \beta_3 Z_{it}^2 + \beta_4 GROWP_{it} + \beta_5 AM_{it} + \beta_6 SIZE_{it} + \beta_7 TAX + \beta_8 LEV_{it} + \eta_{it} + \lambda_t + \upsilon_{it}
\]

Where:

\( LTDEB_{it} \) = measures long-term debt,
\( AQ_{it} \) = an inverse proxy for information quality,
\( Z_{it} \) = measures financial strength,
\( GROWP_{it} \) = growth options,
\( AM_{it} \) = asset maturity,
\( SIZE_{it} \) = firm size,
\( TAX_{it} \) = the corporate tax rate,
\( LEV_{it} \) = the level of debt the firm has,
\( \eta_{it} \) = individual unobservable effects for each particular firm,
\( \lambda_t \) = temporary effects, and
\( \upsilon_{it} \) = random disturbances

**RESULTS**
The table 1, 2, and 3 present the descriptive statistics, correlation and regression results respectively. The results of Durbin-Watson indicate that independence assumption is meted for all models. According to the tables, the significance levels are less than 5 per cent (p-value < 0.05) for all models, hence all models are well fitted, that is to say F-statistic is significant, thereby regression equation is significant.

Table 1 indicates that the number of observation is 686. As it is shown the dependent variable, long-term debt, information quality, and financial leverage have less measures of dispersion (Standard Deviation, Kurtosis, and Skewness) in comparison to other variables and other variable have relatively high dispersion measures. For instance, the standard deviation, kurtosis, and skewness for accounting quality 0.000267, 2.035591, and 0.957072 and standard deviation, kurtosis, and skewness for debt maturity are 2.056081, 4.070867, and 0.265855 respectively that have more normal distributions compared to other variables.

### Table 1. Descriptive Statistics.

<table>
<thead>
<tr>
<th>Variables</th>
<th>AQ</th>
<th>Z</th>
<th>GROW</th>
<th>AM</th>
<th>SIZE</th>
<th>TAX</th>
<th>LTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>0.000191</td>
<td>150.7384</td>
<td>52981.2</td>
<td>350443.1</td>
<td>1248448</td>
<td>18840408</td>
<td>0.124325</td>
</tr>
<tr>
<td>Median</td>
<td>1.25E-05</td>
<td>1.462612</td>
<td>70000</td>
<td>90182.5</td>
<td>231677.5</td>
<td>1540566</td>
<td>0.142325</td>
</tr>
<tr>
<td>Maximum</td>
<td>0.000668</td>
<td>45575</td>
<td>1.76E+08</td>
<td>10835070</td>
<td>46666625</td>
<td>2.70E+09</td>
<td>0.475882</td>
</tr>
<tr>
<td>Minimum</td>
<td>2.46E-06</td>
<td>-26.3379</td>
<td>420</td>
<td>1248</td>
<td>3617</td>
<td>29691.11</td>
<td>0.000133</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>0.000267</td>
<td>1920.582</td>
<td>6779052</td>
<td>960223.1</td>
<td>3971832</td>
<td>1.33E+08</td>
<td>0.06559</td>
</tr>
<tr>
<td>Skewness</td>
<td>0.957072</td>
<td>21.26375</td>
<td>25.33708</td>
<td>6.319874</td>
<td>6.785309</td>
<td>17.10446</td>
<td>0.096364</td>
</tr>
<tr>
<td>Elongation</td>
<td>2.035991</td>
<td>478.7455</td>
<td>655.7456</td>
<td>51.65172</td>
<td>58.66478</td>
<td>317.2196</td>
<td>3.890432</td>
</tr>
<tr>
<td>Observations</td>
<td>686</td>
<td>686</td>
<td>686</td>
<td>686</td>
<td>686</td>
<td>686</td>
<td>686</td>
</tr>
</tbody>
</table>

Notes: LTD = measures long-term debt; AQ = accruals quality; Z = financial strength; GROW = growth options; AM = asset maturity; SIZE = firm size; TAX = the corporate tax rate; and LTD = the level of debt.

As it is shown in table 2, negative and positive signs indicate negative and positive correlation coefficients respectively ranges between -1 and +1 and if the correlation is nearer to +1, the correlation would be more positive and complete and the correlation is nearer to -1, the correlation would be more negative and complete. However, zero correlation indicates no correlation. The highest correlation is between Z and Z' that is 0.97 and the lowest correlation is between tax and Z that is -0.001. The table also shows a negative correlation between accruals quality and long-term debt which is equal to 15 percent.

### Table 2. Pearson Correlation Matrix.

<table>
<thead>
<tr>
<th></th>
<th>GROW</th>
<th>LEV</th>
<th>LTD</th>
<th>AM</th>
<th>AQ</th>
<th>SIZE</th>
<th>TAX</th>
<th>Z</th>
<th>Z'</th>
</tr>
</thead>
<tbody>
<tr>
<td>GROW</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LEV</td>
<td>-0.100</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LTD</td>
<td>-0.040</td>
<td>0.040</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AM</td>
<td>0.070</td>
<td>-0.070</td>
<td>0.159</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AQ</td>
<td>0.040</td>
<td>-0.008</td>
<td>-0.154</td>
<td>-0.057</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SIZE</td>
<td>0.090</td>
<td>-0.080</td>
<td>0.175</td>
<td>0.866</td>
<td>-0.048</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TAX</td>
<td>0.010</td>
<td>-0.020</td>
<td>0.079</td>
<td>0.099</td>
<td>-0.027</td>
<td>0.259</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Z</td>
<td>0.007</td>
<td>0.006</td>
<td>-0.021</td>
<td>-0.016</td>
<td>0.017</td>
<td>-0.018</td>
<td>-0.001</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Z'</td>
<td>-0.003</td>
<td>0.022</td>
<td>-0.020</td>
<td>-0.012</td>
<td>-0.015</td>
<td>-0.012</td>
<td>-0.710</td>
<td>0.970</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Notes: LTD = measures long-term debt; AQ = accruals quality; Z = financial strength; GROW = growth options; AM = asset maturity; SIZE = firm size; TAX = the corporate tax rate; and LEV = the level of debt.

As table 3 indicate that Durbin-Watson is equal to 1.7 which is between 1.5 and 2.5 and consequently it can be concluded that there is autocorrelation between residuals. Moreover, F-statistic is 5.4616 and the significance level is less than 1 percent (p-value <0.01), indicating that the model is significant.

Since AQ is an inverse proxy for accruals quality, therefore negative coefficient shows a positive relationship between accruals quality and long-term debt maturity, indicating that this association is significant at significance level of 99 percent. This is in line with the hypothesis that firms with higher accruals quality can have more long-term debt in comparison with those of lower accruals quality and leads to reduction in adverse selection and information asymmetry. Additionally, the results provide no evidence of the effect of other variables on long-term debt, indicating that Z, tax, and assets maturity have no influence on debt maturity structure while Diamond (1991) and Garcia-Teruel et al (2010)
demonstrate that coefficient sign of growth opportunity variable is negative and coefficient signs of variables including firm size and leverage are positive but all variables are insignificant.

Table 3. Regression Analysis of Model.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>5.048435</td>
<td>25.47265</td>
<td>0.0000</td>
</tr>
<tr>
<td>AQ</td>
<td>-1128.260</td>
<td>-3.883526</td>
<td>0.0001</td>
</tr>
<tr>
<td>Z</td>
<td>0.000129</td>
<td>0.736265</td>
<td>0.4618</td>
</tr>
<tr>
<td>TAX</td>
<td>6.05E-10</td>
<td>0.980942</td>
<td>0.3270</td>
</tr>
<tr>
<td>SIZE</td>
<td>6.88E-08</td>
<td>1.668891</td>
<td>0.0956</td>
</tr>
<tr>
<td>Z2</td>
<td>-4.14830</td>
<td>-0.852461</td>
<td>0.3943</td>
</tr>
<tr>
<td>AM</td>
<td>8.72E-08</td>
<td>0.527167</td>
<td>0.5983</td>
</tr>
<tr>
<td>LEV</td>
<td>1.760549</td>
<td>1.492550</td>
<td>0.1360</td>
</tr>
<tr>
<td>GROWTH</td>
<td>-1.49E08</td>
<td>-1.302099</td>
<td>0.1933</td>
</tr>
</tbody>
</table>

R-squared 0.049526
Durbin-Watson Stat 1.709665
F-statistic 5.4616
Prob. (F-Statistic) 0.000001

Notes: AQ = accruals quality; Z_{i,t} = financial strength; GROW_{i,t} = growth options; AM_{i,t} = asset maturity; SIZE_{i,t} = firm size; TAX_{i,t} = the corporate tax rate; LEV_{i,t} = the level of debt

CONCLUSION

The findings of this study emphasize on information asymmetry theory in agency framework regarding factors affect debt maturity structure in Iranian companies. According to our sample firms from Tehran Stock Exchange (TSE), the results indicate that accounting quality as proxied by accruals quality is an important and relevant factor affecting debt maturity structure. These findings also reveal that financial reporting and accounting quality should be regarded by Iranian managers with reference to debt covenants due to the role that they have in reducing information asymmetry to be able to make more long-term debt. Since higher accounting quality leads to a reduction in information asymmetry between managers and owners and having oversight of managers will be improved, thereby less short-term contracts would be required to monitor mangers. The results of this study is consistent with the results of Berger and Udell (1998), Healy and Palepu (2001), Flannery (1986), Myers and Majluf (1984), and Berger et al (2005) who dealt with the effect of accounting quality on reducing adverse selection and information asymmetry.

Specifically, the results of this study is similar to results of study conducted by García-Teruel et al. (2010) who document that accruals quality plays an important and significant role in determination and description of debt maturity structure. These findings provide managers, creditors, and academician with useful insight similar to that of discussed by Bushman and Smith (2001). As regard to the results, the results demonstrate that managers can improve resources management and make more long-term debt. With reference to creditors, the results indicate that they consider the quality of accounting information as a useful factor in decision making when they provide their customers with credit. Regarding academician, the results also show that accounting quality is one of the issues that can be of relevant in future studies in relation to debt management and refinance. On the other hand, since concentrated ownership is the dominant form of ownership structure in Iran and the regulations of investors’ protection is relatively weak, taking financial reporting and accounting quality into consideration and their improvement can be considerable for stock exchange politicians.

REFERENCES


