

The Relationship between Debt Structure and accounting conservatism of the Listed Companies in the Stock Exchange of Thailand

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Abstract: - This study examines the debt structure and the relationship between accounting conservatism and the debt structure of listed companies on the Stock Exchange of Thailand from 2017 to 2020. The results show that the main sources of debt financing are loans from financial institutions, bond issuance, trade payables, and leases. Key factors in debt financing include tax benefits, profitability, asset structure, access to capital, financing purposes, interest rates, contract terms, collateral, debt seniority, and government support. The study also finds a positive relationship between accounting conservatism and debt structure, indicating that companies use conservatism to reduce bankruptcy risk, lower financial costs, and make prudent decisions under uncertainty.

Key-Words: - accounting conservatism, debt structure, external financing, Stock Exchange of Thailand, leverage, revolving credit, corporate governance, bankruptcy risk.

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1 Introduction

Business operations and investments aimed at expanding production capacity, especially through debt financing, require careful evaluation by both businesses and lenders. They must assess profitability to ensure the repayment of principal and interest. Accounting conservatism is crucial in preparing reliable financial reports and serves as a key element of good corporate governance, providing lenders and investors with dependable information to make funding decisions [1]. The study by found that the principle of accounting conservatism helps reduce the risk of corporate bankruptcy [2]. In addition, the conservative accounting practices can lead to a more accurate representation of a firm's financial health, potentially maximizing its value [3]. Therefore, accounting conservatism impacts financing, reduces the risk of bankruptcy, and influences a firm's performance.

Regarding debt financing, highlight the relationship between debt maturity, agency costs, information asymmetry, taxes, and asset lifespan [4]. Additionally, debt contracts and financial reports based on accounting conservatism help reduce agency conflicts between managers, shareholders, and creditors [5]. Lenders prefer businesses that apply accounting conservatism,

benefiting from lower loan interest rates. Empirical evidence showed that conservatism influences loan terms and future growth rates [6]. Moreover, it reduces corporate bankruptcy risk [2], impacting both debt financing and business performance. Accounting conservatism in Thailand is influenced by various factors, including corporate governance, financial leverage, and political corruption. This approach emphasizes cautious earnings recognition, often leading to the early acknowledgment of losses over gains. The interplay of these elements shapes the financial reporting landscape in Thailand, reflecting broader trends observed in the ASEAN region. Companies in Thailand that adhere to better governance standards tend to exhibit greater conservatism, indicating a relationship between governance quality and financial reporting practices [7]. The study found that accounting conservatism is generally viewed as a prudent approach; it can also lead to underreporting of potential gains, which may hinder investment attractiveness and growth opportunities for firms in Thailand

Thailand's Financial Reporting Standards (TFRS) are aligned with the International Financial Reporting Standards (IFRS) and the IFRS Conceptual Framework for Financial Reporting. This ensures that Thailand's financial reporting is consistent with international standards. By adopting

these standards, Thailand enables easier comparison of business performance and financial position between local and international companies. It also facilitates access to foreign capital, as financial reports are presented in a universally understood format, recognized by investors and international lenders. Furthermore, being classified as an IFRS adoption country demonstrates Thailand's close adherence to global standards, which enhances its ability to compete in the global market.

Several contributions emerged from this study. First, it contributes to understanding the financing strategies of companies listed on the Stock Exchange of Thailand take into account: (1) the company's image, where excessive debt may reduce future attractiveness to new investors, (2) the potential for conflicts between shareholders and creditors when considering high-risk investment projects, (3) the country's internal economic conditions, and (4) government support measures and financial easing policies. In addition, applying accounting conservatism should consider: (1) integrating it with agency theory to effectively manage loan agreements, (2) exercising caution and sound judgment under conditions of uncertainty, and (3) evaluating external financing options that support the company's social initiatives.

Section 2 reviews the literature on accounting conservatism, debt structure, and hypothesis development. Section 3 outlines the data and methodology. Section 4 reports and discusses the empirical results. Section 5 concludes and suggests directions for future research.

2 Theory and Literature Review

2.1 Accounting Conservatism

The principle of accounting conservatism is a long-standing practice that influences accounting procedures, including the preparation of financial statements. It involves making judgments and estimates under uncertainty regarding economic events. Accounting conservatism has been defined as reporting net asset values at amounts lower than their market value in the long term [8]. Additionally, it prevents the recognition of unverifiable positive information in financial reports while ensuring that negative information is recognized immediately [9] . Accounting conservatism can be divided into two types: Unconditional Conservatism and Conditional Conservatism [10] . These types lead to biases in

recognizing accounting values, but they differ in how conservatism is applied through accounting policies [11] . Several key factors influencing the application of accounting conservatism have been identified in the literature, including mechanisms, litigation risk, taxation considerations, and regulatory environments [1]. Empirical evidence also indicates that accounting conservatism has been extensively applied in measuring accounting profits, particularly following the mandatory adoption of IFRS, with a relatively high level of implementation observed in capital markets such as the Amman Stock Exchange [12].

According to [9] , the principle of accounting conservatism creates an asymmetry in recognizing good and bad news in financial statements. Specifically, bad news, reflected as accounting losses, is recognized more quickly than good news, reflected as accounting profits. Furthermore, accounting conservatism leads to a greater disparity between the recognition of profits and losses, indicating a higher degree of conservatism in financial reporting [1] . Prior studies also suggest that accounting conservatism results in net income figures that are lower than operating cash flows, as cash flows tend to better reflect a firm's underlying economic value. This difference arises from accrual-based accounting practices and is commonly referred to as total accruals, while the condition in which net income is lower than operating cash flows is known as negative accruals [13] . In addition, accounting conservatism has been found to have significant implications for financial reporting quality and its users [11] . It helps reduce information asymmetry and enhances the reliability of financial information [14] . Consistent with this view, firms that adopt conservative accounting practices are generally less affected by financial crises [15]. Moreover, accounting conservatism has been associated with more efficient cash management, as reflected in the higher value of cash holdings [16]. It also contributes to improved future profitability [17] and plays an important role in mitigating agency problems within organizations [18].

The principle of Accounting Conservatism is an important mechanism in corporate governance. If a company's management applies Accounting Conservatism as a guideline in their operations, business owners can be confident that the operations will be carried out with maximum effort and aligned with the returns received by the agents. This is consistent with agency theory. Meanwhile, when sourcing funds through debt, the company must consider the benefits of tax deductions,

associated costs, and the nature of its operations. Therefore, the company needs to evaluate both the costs and benefits of financing through debt to ensure it is appropriate and aligned with the Trade-off Theory. In terms of funding sources, a company typically seeks internal funding first. If internal funds are insufficient and additional capital is needed, external funding is considered, in line with the Pecking Order Theory of financing.

2.2 Debt Structure

Debt financing can be classified into debt without interest payments and debt requiring collateral. For collateralized debt, both borrowers and lenders must consider factors such as the coupon rate, contract terms, repayment conditions, collateral, debt seniority, currency, and both domestic and international financial conditions. Additionally, managing exchange rate risks is crucial when obtaining debt from foreign institutions. Global financial market conditions, including domestic interest rates and financial easing measures, have been found to influence the debt level of SMEs in emerging economies by constraining their access to external financing [19].

The characteristics of financial institutions directly influence debt financing and its intended use. In emerging economies, these characteristics impact lending practices [20]. Stricter bank policies have been found to positively affect firms with government ownership as well as larger firms [21]. Additionally, debt structure has been identified as a key factor in accessing the credit market [22].

2.3 Accounting Conservatism and Debt Structure

The principle of accounting conservatism impacts debt structure. Accounting conservatism has been found to influence firm size and profitability [23], consistent with evidence linking short-term debt to accounting conservatism [24]. An increase in short-term debt is associated with a decrease in the level of accounting conservatism, as supported by evidence on the relationship between accounting conservatism and debt burden [16]. Moreover, as current liabilities rise, companies tend to adopt more accounting conservatism to secure future long-term debt financing. Additionally, accounting conservatism positively affects both debt levels and firm size [25], [26], [27].

Larger firms have been found to exhibit higher levels of accounting conservatism than smaller firms, with conservatism increasing alongside higher debt levels [28]. However, no significant

effect of accounting conservatism on debt maturity structure has been found, consistent with prior evidence [13], [29]. This may be attributed to the emphasis on stock markets in developing countries, with evidence indicating that accounting conservatism does not significantly influence debt maturity structure [30]. Additionally, the effect of International Financial Reporting Standards (IFRS) on the country-specific unconditional conservatism [31].

The study also found a positive relationship between accounting conservatism and the effectiveness of debt financing contracts. Accounting conservatism has been shown to protect creditor's rights by enabling the timely recognition of profits and losses, thereby facilitating the monitoring of debtors and the early detection of contract breaches [11]. Accounting conservatism has been found to align with lenders' needs by reducing lending risks [30]. Accounting conservatism has been found to help lenders prevent losses through the use of stricter contracts and collateral requirements [32]. Companies are increasingly adopting accounting conservatism to meet lender requirements and improve credibility for securing future debt financing [16].

The reviewed literature emphasizes the link between accounting conservatism and debt structure. However, the distinct behaviors of total debt and revolving credit in relation to accounting conservatism require further investigation due to inconsistent findings in prior studies. The effect of accounting conservatism on corporate social responsibility in the context of debt financing has been examined using the debt ratio as a proxy [33]. Revolving credit is negatively correlated with accounting conservatism [24]. An increase in short-maturity debt results in less conservative financial reporting. Debt structure is assessed through the debt ratio and the revolving credit ratio. Based on this, the following hypotheses are proposed to examine the relationship between accounting conservatism and debt structure:

H1. Accounting conservatism is associated with debt structure, as measured by the debt ratio [9].

H2 . Accounting conservatism is associated with debt structure, as measured by revolving credit [9].

H3 . Accounting conservatism is associated with debt structure, as measured by the debt ratio [13].

H4 . Accounting conservatism is associated with debt structure, as measured by revolving credit [13].

2.4 Benefit of Financing with Accounting Conservatism

The application of accounting conservatism in a company's operations and financial reporting benefits the company, lenders, and stakeholders in several ways: First, it reduces bankruptcy risk by mitigating earnings manipulation and improving cash efficiency [2]. Second, it lowers the cost of capital, as firms adopting accounting conservatism tend to experience a reduced cost of capital [3 4]. Third, it reduces information asymmetry by limiting financial manipulation that may influence executive compensation [35]. Fourth, it mitigates conflicts between shareholders and lenders, particularly by reducing agency costs associated with investment decisions [36].

2.5 Relationship between Debt Structure, Firm Performance, Size, and Growth Rate

The study found that debt negatively impacts profitability and that agency theory may drive increased debt financing, which reduces organizational performance. This is consistent with evidence indicating that debt financing adversely impacts firm performance [37]. Further evidence shows that long-term and total debt ratios negatively influence firm performance, as measured by return on assets, while short-term debt exhibits no significant effect, [38]. Effecting capital structure management has also been identified as a key factor in enhancing corporate performance [39]. Moreover, higher levels of debt are associated with reduced firm performance, consistent with finding that debt financing negatively affects profitability and increases agency costs [40], [41]. Debt structure, including leverage and short-term debt, has also been linked to greater future financing needs, while the use of secured debt is associated with improved future performance [42].

3 Research Method

3.1 Data and Sample Size

This study used data from 100 companies in the SET 100 Index of the Stock Exchange of Thailand, collected from financial reports and the SET SMART website (www.setsmart.com) during 2017-2020. The purposive sampling technique yielded 365 company-year observations after excluding those with missing data.

The data analysis investigates the relationship between accounting conservatism and debt structure using regression analysis with statistical

software, based on the conceptual framework shown in Figure 1.

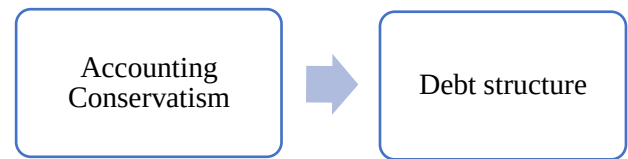


Fig. 1: Conceptual framework
Source: created by the author

3.2 Variables

The variables used in the study consist of independent, dependent, and control variables. Their operational definition and measurement methods are presented in Table 1.

Table 1. Definition and Measurement

Variable	Variable abbreviation	Measurement
1. Independent variables		
Accounting Conservatism [9]	CON_Basu	C_Score
Accounting Conservatism [13]	CON_GH	Total Accruals
2. Dependence variables		
Debt Ratio [43]	LEV	Total liabilities divided by total assets
Revolving Credit [43]	RC	Current liabilities divided by total assets
Bank Debt Ratio [4]	Bank Debt	Bank loans divided by total liabilities
Account Payable Ratio [4]	AP	Accounts payable divided by total liabilities
Bond Ratio [4]	Bond	Bond divided by total liabilities
Leases Ratio [4]	Leases	Leases divided by total liabilities
3. Control variables		
Firm Size [44]	Size	Log of total assets
Growth [45]	Growth	Sales Growth
Return on Assets [43]	ROA	Net profit after tax divided by total assets

Sources: created by the author

3.3 Statistical Technique

The analysis employed descriptive statistics, classical assumption tests, and multiple regression analysis with a significance level of 5% ($\alpha = 0.05$). Logistic Regression Analysis was used to examine the relationship between accounting conservatism

and debt structure, focusing on the likelihood of applying accounting conservatism to a firm's debt structure at a 95% confidence level.

4 Results

4.1 Descriptive Analysis

Table 2 presents the descriptive statistics for the Debt Structure variable. The average debt ratio (LEV) of listed companies in Thailand is 52% of total assets, while the revolving credit (RC) accounts for 48%. The bank debt ratio is 34%, accounts payable ratio is 20%, bond ratio is 24%, and lease ratio is 28% of total assets for these companies. Moreover, the study also presents the average debt structure during the period 2017–2020.

Table 2. Debt Structure

Variable	Min	Max	Mean	SD
LEV	13.00	95.00	52.04	18.23
RC	0.00	99.00	48.70	25.02
Bank Debt	0.00	99.00	34.83	24.94
AP	0.00	91.00	20.69	19.86
Bond	0.00	92.00	24.80	25.67
Leases	0.00	73.00	2.83	9.08
Year	2017	2018	2019	2020
LEV	0.500	0.519	0.520	0.536
RC	0.501	0.497	0.496	0.447
Bank Debt	0.334	0.361	0.342	0.361
AP	0.216	0.210	0.220	0.178
Bond	0.222	0.257	0.275	0.240
Leases	0.013	0.008	0.012	0.080

Sources: created by the author

As shown in Table 3 (Appendix), the correlation matrix confirms the absence of multicollinearity.

4.2 Results

As shown in Table 4 (Appendix), accounting conservatism is associated with debt structure. The findings indicate that accounting conservatism, based on established measurement frameworks, is directly related to debt structure as measured by the debt ratio [9], [13].

Accounting conservatism shows a positive relationship with the debt ratio [9]. Therefore, H1 is accepted, indicating that listed companies in Thailand apply accounting conservatism in their operations, leading to an increase in debt levels. Additionally, firm size is positively correlated with both the debt ratio and the short-term debt ratio,

while growth rate has no correlation with these debt ratios. In other words, larger companies tend to have higher debt ratios and short-term debt ratios. This is consistent with evidence indicating that accounting conservatism is positively related to a firm's debt burden [16]. The application of accounting conservatism has been found to increase in firms with higher debt burdens [24], [9]. Furthermore, companies seeking external funding tend to apply accounting conservatism in their financial reporting [27], [24], [46].

In contrast, accounting conservatism is negatively associated with the debt ratio [13]. Therefore, H2 is supported, indicating that companies listed on the Stock Exchange of Thailand apply this accounting conservatism approach, with higher debt levels associated with increased conservatism [24].

The study also found that accounting conservatism is not directly related to debt structure as measured by Revolving Credit. Evidence from both measurement frameworks indicates no significant relationship with revolving credit [9], [13]. Therefore, H3 and H4 are rejected. However, firm size and return on assets (ROA) are related to debt structure as measured by revolving credit. This is consistent with evidence indicating that short-term debt is not influenced by accounting conservatism and that accounting conservatism is no related to debt maturity structure [10], [29], [13]. The results of the hypothesis test are summarized in Table 5 (Appendix).

Additionally, a robustness test was conducted on the debt structure variables, classified by debt type, including Account Payable Ratio, Bank Debt Ratio, Bond Ratio, and Leases Ratio. The study found that accounting conservatism is related to debt structure, specifically trade payables, bonds, and leases. This is consistent with evidence indicating a relationship between accounting conservatism and various forms of debt, including convertible debt, securitized debt, senior debt, and private sector debt [47].

5 Conclusion

The study highlights the significant factors influencing debt financing decisions of companies listed on the Stock Exchange of Thailand. It is evident that companies must carefully balance the tax benefits and financial costs of debt to ensure that interest expenses do not erode operating profits. Higher profitability is positively associated with the company's ability to repay debt, while non-current assets can be used as collateral,

reinforcing the link between debt financing and asset management. The application of Accounting Conservatism plays a crucial role in improving the efficiency of debt management, as well as enhancing the effectiveness of corporate governance [48]. By promoting cautious recognition of revenues and expenses, this approach enhances transparency and reduces financial risks, fostering greater lender confidence. Furthermore, Accounting Conservatism helps companies better manage their debt by reducing the likelihood of default, thereby securing more favorable terms for external financing at lower costs. These findings are consistent with prior research on accounting conservatism in the Indonesian Stock Exchange IDX, underscoring the importance of prudence in financial reporting and debt financing [49].

However, excessive reliance on conservative accounting may also expose companies to increased financial risks in the long term, potentially leading to greater dependence on internal funding sources. Despite this, the study underscores that Accounting Conservatism reduces bankruptcy risks, enhances investor and creditor confidence, and provides reliable financial information, all of which improve access to financing. Additionally, the unique characteristics of Thailand, where the government promotes investment and implements monetary easing measures, may act as a limitation in accessing funding sources [19].

For more effective debt structure management, companies should integrate Accounting Conservatism with agency theory to manage debt agreements better and avoid conflicts between shareholders and creditors, as well as to mitigate information asymmetry effectively [18]. Additionally, leveraging external funding sources that promote corporate social responsibility can further reduce financial costs and enhance credibility. In conclusion, adopting conservative accounting practices plays a pivotal role in optimizing debt management, ensuring sustainable growth, and benefiting both companies and their stakeholders. Moreover, [50] found that the principle of conservatism allows shareholders to effectively assess a company's future profitability.

This study recommends that firms adopt accounting conservatism in managing debt contracts. Exercising prudent and unbiased judgment under uncertainty, while remaining consistent with actual information, can help mitigate bankruptcy risk and cushion the impact of uncontrollable external changes. Additionally, the

Stock Exchange of Thailand should promote awareness and understanding of accounting conservatism and encourage its application in financial disclosures, corporate social and environmental activities, and governance practices.

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Declaration of Generative AI and AI-assisted Technologies in the Writing Process

During the preparation of this work, the author(s) utilized artificial intelligence (AI) technologies solely for the purpose of linguistic refinement and grammatical correction. Following the application of these tools, the author(s) comprehensively reviewed, verified, and edited the resulting text. The author(s) maintain full accountability and responsibility for the accuracy, integrity, and final content of the publication.

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The author performed all the research tasks, including the formulation of the research problem, literature review, data collection, statistical analysis, and the writing of the manuscript.

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APPENDIX

Table 3. Pearson's correlation matrix

	Con_Basu	Con_G	LEV	RC	Bank Debt	AP	Bond	Leases
Con_Basu	1.00							
Con_GH	.004	1.00						
LEV	.084	-.056	1.00					
RC	.096	-.010	-.305**	1.00				
Bank Debt	-.010	.043	.082	-.169	1.00			
AP	.158	.157	-.429	.714	-.333	1.00		
Bond	-.079	-.275	.252	-.413**	-.480	-.419**	1.00	
Leases	.024	.126	.174**	-.080	-.120**	-.053**	-.141**	1.00

Note(s): Correlation is significant at * $p < 0.05$ and ** $p < 0.01$ (two-tailed)

Sources: created by the author

Table 4. Regression results

Variables	Enter Method		P Value	Collinearity statistics	
	Unstandardized Coefficients B	Standardized Coefficients B		Tolerance	VIF
Panel A : Debt Ratio (LEV)					
(constant)	.034	.078			
Con_Basu (X ₁)	.023	.003	.000**	.634	1.576
Firm Size (X ₂)	.082	.015	.000**	.870	1.150
Growth (X ₃)	.093	.031	.003**	.941	1.063
ROA (X ₄)	-.012	.001	.000**	.567	1.764
Adj R ² = .292, SE of Estimate = .15342, F = 38.420, Sig F = .000, Durbin Watson = 1.991					
(constant)	.190	.081			
Con_GH (X ₁)	-.251	.112	.026*	.936	1.069
Firm Size (X ₂)	.082	.016	.000**	.867	1.154
Growth (X ₃)	.105	.033	.002**	.941	1.063
ROA (X ₄)	-.007	.001	.000**	.790	1.266
Adj R ² = .197, SE of Estimate = .16342, F = 23.212, Sig F = .000, Durbin Watson = 1.877					
Panel B : Revolving Credit (RC)					
(constant)	1.296	.114			
Con_Basu (X ₁)	-.004	.004	.323	.634	1.576
Firm Size (X ₂)	-.170	.022	.000**	.870	1.150
Growth (X ₃)	-.021	.046	.653	.941	1.063
ROA (X ₄)	.005	.002	.023*	.567	1.764
Adj R ² = .189, SE of Estimate = .22541, F = 22.116, Sig F = .000, Durbin Watson = 1.877					
(constant)	1.263	.112			
Con_GH (X ₁)	.068	.155	.661	.936	1.069
Firm Size (X ₂)	-.170	.022	.000**	.867	1.154
Growth (X ₃)	-.023	.046	.623	.941	1.063
ROA (X ₄)	.004	.0	.034*	.790	1.266
Adj R ² = .189, SE of Estimate = .22541, F = 22.116, Sig F = .000, Durbin Watson = 1.877					

Note(s): Variable are significant at * $p < 0.05$ and ** $p < 0.01$

Sources: created by the author

Table 5. Hypothesis Test results

Hypothesis	Debt structure	
	Debt Ratio	Revolving credit
Accounting conservatism [9], is associated with debt structure.	There is a positive relationship. H1 is accepted. (p-value 0.000**)	Not directly related. H3 is rejected. (p-value 0.323)
Accounting conservatism [13], is associated with debt structure.	There is a negative relationship. H2 is accepted. (p-value 0.023*)	Not directly related. H4 is rejected. (p-value 0.661)

Sources: created by the author