Accounting Restatements and External Financing Choices*

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Abstract

There is little research on how accounting information quality affects a firm’s external financing choices. In this paper, we use the occurrence of accounting restatements as a proxy for the reduced credibility of accounting information and investigate how restatements affect a firm’s external financing choices. We find that for firms that obtain external financing after restatements, they rely more on debt financing, especially private debt financing, and less on equity financing. The increase in debt financing is more pronounced for firms with more severe information problems and less pronounced for firms with prompt CEO or CFO turnover and auditor dismissal. Our evidence indicates that accounting information quality affects capital providers’ resource allocation and that debt holders help alleviate information problems after accounting restatements.