

**AKENTEN APPIAH-MENKA UNIVERSITY OF SKILLS TRAINING AND
ENTREPRENEURIAL DEVELOPMENT, KUMASI**

**ACCOUNTING INFORMATION QUALITY AND COSTS OF CAPITAL OF
LISTED FIRMS IN GHANA: THE MODERATING ROLE OF
AUDIT QUALITY**

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MASTER OF BUSINESS ADMINISTRATION (ACCOUNTING)

2023

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**Thesis submitted to the Department of Accounting Studies Education, Faculty of
Business Education, School of Graduate Studies, Akenten Appiah-Menka
University of Skills Training and Entrepreneurial Development, Kumasi, in
partial fulfillment of the requirements for the award of Master of Business
Administration (Accounting).**

SEPTEMBER, 2023

DECLARATION

Candidates' Declaration

I hereby declare that this submission is my own work towards the Master of Business Administration (Accounting) degree, and that, to the best of my knowledge and belief, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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Signature Date

Supervisor's Declaration

I hereby declare that the preparation and presentation of the thesis was supervised in accordance with the guidelines on supervision of thesis laid down by the University.

Supervisor's Name: **MR. ERIC EFFAH SARKODIE**

Supervisor's Signature Date

DEDICATION

I dedicate this work to the Most High God for His Guidance and Mercy toward this thesis, to my wife, Gyinaa Bernice (Mrs.) and Mr. Eric Effah Sarkodie of Akenten Appiah-Menka University of Skills Training and Entrepreneurial Development, Kumasi, for his guidance and immeasurable contribution. I also dedicate it to my children, Jayden and Nathan Marfo.

ACKNOWLEDGEMENTS

The greatest of acknowledgement goes to God from whom emanates wisdom and strength. My appreciation goes to Mr. Eric Effah Sarkodie, my thesis supervisor. His tolerance, understanding, constructive criticisms and useful suggestions has been monumental in coming out with this work.

I wish to thank my family for their support throughout this period.

God richly bless you all.

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LIST OF ABBREVIATIONS/ACRONYMS

CAPM	-	Capital Asset Pricing Model
GSE	-	Ghana Stock Exchange
WACC	-	Weighted Average Cost of Capital
IRR	-	Internal Rate of Return
ISE	-	Indonesia Stock Exchange
MRA	-	Moderated Regression Analysis
SPSS	-	Statistical Package for Social Sciences
REM	-	Random Effect Model
FE	-	Fixed Effect Model
COE	-	Cost of Equity Capital
COD	-	Cost of Equity Capital
AIQ	-	Accounting Information Quality
AQ	-	Audit Quality
FSIZE	-	Natural Log of Total Assets of the Firm
LEV	-	Leverage
INF	-	Inflation
MPR	-	Monetary Policy Rate
GDPG	-	Real GDP Growth
FE	-	Fixed Effect
RE	-	Random Effect
DPS	-	Dividend Per Share
MPS	-	Market Price Per Share

ABSTRACT

In the dynamic landscape of corporate finance, the quality of accounting information has emerged as a critical determinant of firms' costs of capital. This study delves into the intricate web of relationships between accounting information quality, capital costs, and the often-overlooked dimension of audit quality within the context of listed firms in Ghana. The study's target population comprised all the listed companies in Ghana and this was based on Ghana Stock Exchange (GSE) annual report for the period of ten (10) years spanning from 2011 to 2022. Purposive sampling technique was used in selecting 10 listed companies for the study. Data for the study were obtained from the audited annual financial reports of the selected firms from GSE. Cost of Debt and cost of equity was used to represent cost of capital, earnings per share and market price per share was used to measure accounting information quality whilst audit quality was represented by audit fees and the BIG 4 auditing firms such as KPMG, Price Waterhouse coopers, Deloitte and Ernst and Young. Panel data regression model was used to elucidate the nexus between accounting information quality, audit quality, and cost of capital. Cohen (1983) hierarchical regression model was subsequently used to establish the moderation analysis. The research established a significant relationship between the quality of accounting information and the costs of capital for listed firms in Ghana. Adding to discoveries of this research, the researcher found that audit quality plays a crucial role in shaping the cost of capital and that audit quality is a critical factor that moderates the relationship between accounting information quality and capital costs. High-quality audits (audits carried out by the BIG4) enhance the credibility of financial statements, reducing information asymmetry and further lowering capital costs. The researcher's recommendations revolve around two primary domains: enhancing accounting information quality and promoting audit quality.

CHAPTER ONE

INTRODUCTION

1.0 Overview

The background of the study, the issue at hand, the goals, the research questions, the significance of the study, the scope and limitations of the research being done, and the study's structure are all included in this chapter.

1.1 Background of the Study

Ghana, a nation notable for its flourishing stock exchange and developing economy, offers a captivating venue for this research undertaking. In the past few years, On Ghanaian stock market, the number of registered firms has grown significantly, showing a developing curiosity in possible investments and expanding scope of the monetary industry. Considering this, these listed businesses financial reporting quality provides a vital role of building trustworthiness, attracting in capital, and gaining an edge over their competitors.

Understanding its capital spending is one of the most essential choices a business has to make. In accordance with Latif and Shah (2021), accounting data is especially crucial for promoting wise decisions and defending the well-being of owners and creditors. Improved financial data can help achieve a lower cost of capital by giving investors as well as shareholders the insight they require to make prudent decisions regarding investments. Notably, a company's profitability and financial reporting are greatly influenced by its cost of capital (Türegün, 2021). In accordance with Ikhatua (2013), accounting information is an outcome of accounting systems and presents proved quantitative data concerning a company's profitability and its financial condition.

Accounting data is very beneficial because it influences how the market offers capital among enterprises. If investors and business owners work together with greater efficiency to manage capital investment decisions, there ought to be a boost in the predicted cash inflow, additionally if there's no evidence of a rise in the correlation between the company and the market. This is therefore predicted to improve the cost of capital for the business (Apergis et al., 2011; Cai, 2023).

The projected return that investors are expecting upon offering a company the funds it needs is referred to as the cost of capital. In general terms, a company acquires capital from creditors who expand credit to the business and investors who buy equity (Hertig, 2019) As a result, enterprises must produce returns that satisfy the requirements of debt holders and equity investors by satisfying their anticipated rate of return on investment. A company's cost of capital may be affected by the mix of specific accounting indicators in its financial statements (Türegün, 2021). It is essential to realize that information structure influence stock returns and, as a result, capital costs (Christensen et al., 2016).

In a setting of debt financing, accounting data is vital to lowering the agency costs linked to external debt financing. These agency costs, which come from business management interacting with the best interests of shareholders when making decisions, include equity and debt agency costs. Investors ought to take observe of strong financial statement audits since they affirm and give guarantee. the fairness and accuracy of financial statements. A high-quality audit report improves the worth of accounting information in yearly reports, which is precisely why investors depends on them for trustworthy and excellent financial data (Coffie, Bedi, & Amidu, 2018).

Financial statements are the result of several kinds of inputs, including particular industries, company-specific, and oversight elements, whether they are created in Ghana or other places in worldwide (Ogeh Fiador, 2013). The reliability of financial data and its effects on the cost of capital are now significant areas of study because of the vital function that financial reports perform in telling stakeholders and the general public concerning an enterprise. Based on the Capital Asset Pricing Model (CAPM), this study appears at the link between Ghanaian listed business's cost of capital and the accuracy of their accounting records. It will also look through how superior auditing changes the connection among the cost of capital and the correctness of accounting information. It will also look through how superior auditing changes the connection among the cost of capital and the correctness of accounting information.

1.2 Problem Statement

A number of academics have pointed out that allowing users to make intelligent choices is one of accounting information's principal objectives. In addition, a company's capital investment direction alongside the associated cost of capital can be quickly identified by examining high-quality accounting data (Khoufi, 2021). likewise accounting data improves the quality of profits, allows for the obtaining of both debt and equity funding, accelerates up business dispositions, and makes income statements admissible to fiscal authorities (Elsiddig Ahmed, 2020; Liemmuell and Eriandani, 2022).

While wealthy nations have done a great deal of research regarding the connection among the quality of accounting data and the cost of investment (Plumlee, 2016; Hsieh, Shiu and Chang, 2019; Safrida and Surianti, 2020), emerging nations such as Ghana have not had similar chances. The effects of corporate inquiries or accounting data on

capital costs is not clear in Ghana. The consequences of accounting information quality on capital costs are not well-examined through experience in Ghana, a country with minimal stock market trading and heavily depends on lending institutions for corporate financing.

Previous research have shown beneficial association among the cost of capital and the degree of accuracy of accounting information. Furthermore, it has been suggested that one important variable affecting audit quality and capital cost is the auditors' credibility (Karthan and colleagues, 2013; Ahmadzede et al., 2013). The connection among audit excellence and cost of funding has been the focus of considerable interest in the literature on accounting and finance. (Iatridis and Persakis, 2015). It has not been fully investigated, though, how audit quality shapes the link among capital costs and the level of accuracy of accounting information.

In Ghana, all businesses, regardless of size, must provide financial statements that have been audited and prepared by impartial outside auditors. Despite this formal commitment, empirical evidence regarding the impact of audit quality and accounting information quality on capital costs in Ghana's particular market environment is lacking.

By looking at the link between capital costs and the level of accuracy of accounting information for Ghanaian listed companies, this study seeks to address those discrepancies in the literature. It further seeks to discover the role that audit quality serves as a liaison in this relationship. In simple terms, the intent of this research is to make clear the multifaceted relationships that take place between capital costs, the

effectiveness of audits, and financial data accuracy in Ghana's developing financial sector. The insight obtained from this research is beneficial for businesses and is not just for studies but have real-world implications for Ghanaian laws governing regulation and business ethics. The long-term objective of this research is to foster raised safeguards for investors, financial openness, and expansion of the economy in this vibrant West African country.

1.3 Objectives of the Study

The primary goal of the study is to determine the impact of quality of accounting information on capital costs while taking audit quality into consideration. More specifically, the following goals are the focus of this study:

1. To determine the influence of accounting information quality on listed companies' capital costs in Ghana.
2. To evaluate how the capital costs of Ghanaian listed companies are affected by the quality of the audits.
3. Investigate the ways in which the capital expenditures of publicly traded businesses in Ghanaian and the quality of accounting information are influenced by the audit quality.

1.4 Research Questions

The study seeks to address the following research questions:

The following research questions are the focus of this study:

1. What effect does accounting information quality have on the capital costs of Ghanaian listed firms?
2. What influence does the quality of audits exert on the capital costs of Ghanaian listed firms?

3. How does the quality of the audit affect the relationship among the cost of capital and the accuracy of accounting information?

1.5 Significance of the Study

The findings of the study will be noteworthy to management, buyers and sellers, members of parliament, authorities, and educators. The outcomes ought to point out to managers that there is a profit to maintaining an excellent reporting framework, which is that the market is very willing to the information provided in yearly reports when companies declare high returns. The study will assist analysts and individual investors understand the likely threats involved in depending on these disclosures. Lawmakers and regulators will also benefit from the findings. The biggest danger facing authorities is that managers will make appealing says that would fall prey to stakeholders. By showing their decisions after the reported earnings quality of the company, investors lowers this risk.

Finally, the research will supplement previous research in the academic domain. Additionally, it will serve as a resource for students researching similar or related subjects. Governmental organizations and regulatory bodies, like the Ghana Stock Exchange, can use the study's conclusions to enforce discipline in the banking sector. This will assist them in creating policies and other initiatives that will support the growth and accomplishments of listed businesses.

1.6 Limitations and Scope of the Study

The goal of the current study was to examine the relationship between audit quality, accounting information quality, and capital expenditures of businesses mentioned on

the stock market of Ghana. For this study, a group of listed companies from the various economic sectors will be used.

The primary source of secondary data for the study will be the Ghana Stock Exchange and the listed companies in the corresponding nations. This implies that the data that is available sets how reliable research findings are. The yearly data will serve as a starting point for the study during the ten-year inquiry period, which runs from 2011 to 2020. This is the most recent time frame for which data that is current and relevant to the state of the economy is available. A longer research period, however, would cover times with unique financial impact, such as rises and downturns and provide a wider temporal focus, thereby broadening the issue's size.

1.7 Organization of the Study

The study's background, problem statement, goals, and research question were all covered in the first chapter of this research. The chapter also covers the value of the research, limitations, and scope as well as its structure. The study's second chapter inquiries the body of appropriate literature on the topic. It presents a summary of previously released data about the study that was gathered from various sources. Chapter Three serves as an outline of the study's research methodology. Included are the data accumulation techniques, population trends, sample size, data source, research design, and results evaluation. Chapter Four presents the investigation's conclusions and outcomes. Chapter 5, the last chapter, offers a synopsis, conclusions, and suggestions for prospective changes.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

In this session, important theories and literature by different researchers about the expenditure on capital, the quality of auditing, and accounting data quality are examined. The chapter will express the connections between the variable that is dependent, the moderator variable, and the variables that explain the results that were utilized in the research via a conceptual literature review, the theoretical literature, empirical work review, and a conceptual structure.

2.1 Accounting Information Quality

All major decisions, including those pertaining to ownership, management, potential investors, unsecured creditors, loan providers, personnel, the authorities, investigators, and the general population as a whole, are based on information from final accounts (Su, Yang, and Dutta, 2018). Strong accounting data reduces the information imbalance that is present among unsecured creditors along with borrowers, claim Su, Yang, and Dutta (2018). This lowers the transaction price gap that is present within the secondary providing market and raises the productivity of the secondary lending market. A Corporation's Accounting data often distinguished as being publicly or privately owned information (Türegün, 2020). The overall makeup of the information found in financial charts impacts capital costs, and investors may demand greater rewards for personal information. On the other hand, given publicly accessible data, investors might ask for lower returns (Amusawi, Almagtome, & Shaker, 2019). Private information raises potential hazards for investors that do not have the information since such individuals may adjust their portfolios and integrate the newly acquired data into their investments.

Investors with limited information prefer to maintain a large number of stocks when the stock market falls and a small number of stocks when the market rises (Healy and Palepu, 2001). Nevertheless, keeping a great deal of stock fails to reduce the risks involved with stocks because individuals with limited information are constantly making incorrect market predictions. Within the same time, having no stock results in inefficient judgments because the fulfilment of maintaining risky investments is typically greater than that of holding less risky assets. Because various investors may have different portfolios, the asset pricing approach may not hold in scenarios involving privately and publicly data. The inclusion of personal information poses additional systematic risks, requiring investors to devise risk-adjustment strategies (Bloomfield and Bloomfield, 2015).

Accounting information disclosure may lessen knowledge asymmetry among investors (Ikhatua, 2013). Understanding the function of accounting information in contracting is central to Watts and Zimmerman's (1986) positive accounting theory. According to positive accounting theory, the application of accounting information improves contractual efficiency by lowering contracting costs.

Accounting information quality is defined as a product of information that possesses traits, properties, or qualities that increase the value of the information (O'Brien and Marakas, 2009) to them. Moreover, O'Brien and Marakas (2010) propose those features of useful and beneficial information can be identified using the elements of time, content, and form. The following qualities of pertinent accounting information are listed by Hall (2011) and Fitrius (2016): timeliness, accuracy, completeness, conciseness, and relevance. Zhai and Wang (2016) define quality information as being precise, trustworthy, up to date, comprehensive, and provided in the right manner.

2.1.1 Assessment of Accounting Data Accuracy

Financial statements are primarily used to evaluate the first, which comprises metrics like accumulations accuracy, earnings tenacity, consistency, softening, anger, and decline prevention. An alternative method is to assess the quality of accounting information, such as the importance of revenue worth, the rapidity of revenue, and the rigidity of revenue, based on the stock price of the company. This tactic draws attention to investors' awareness of the quality of accounting information, which is impacted by factors like the development of the capital markets and individual professional expertise. This study defines accounting information quality as earnings-related qualities based on financial statement data because Ghana's capital market is underdeveloped or inefficient. Reported revenues are thought to be a basic indicator of the quality of the information. Like previous studies, this one makes use of earnings per share.

2.2 The Measuring and Assessment of Audit Quality

DeAngelo (1981) defined audit quality as the ability of a certified public accountant to recognize and convey any inaccuracy in financial data. According to Xiao, Geng, and Yuan (2020), audit quality is the measure of an auditor's integrity and compliance with auditing standards. This suggests that auditors perform their duties impartially, skillfully, and with great thought. However, it is challenging to put these audit quality standards into numerical form. According to Omar and Frederick (2019), audit quality is a dynamic concept with indicators that change over time and space. Therefore, reaching an agreement on what it stands for can be difficult (Defond & Zhang, 2017). There are several ways to gauge the quality of an audit.

Audit charges and businesses examined by KPMG, Price Waterhouse Coopers, Ernst & Young, and Deloitte, the Big Four auditing firms are among the most renowned benchmarks of audit quality (Bédard, Gonthier-Besacier & Schatt, 2014). The usage of audit fees and the Big 4 is justified by the fact that excellent audit is costly, and companies that are able to pay obtain it. The Big Four auditing companies demand high audit fees while providing high-quality audits carried out in compliance with the requirements for auditing as well as commonly agreed to accounting principles. Another often used measure audit firm dimension is a measure of audit quality. (Lennox et al., 2019; Francis 2014). This could be due to larger audit companies' capacity of keeping the best qualified auditors, recruit competent specialists, and hire a significant number of college graduates and equip them with the appropriate education and experience. As a result, compared to smaller organizations, this type of audit firm is expected to encounter less lawsuits in the future. This is also mentioned as a way to boost their publicity (Okolie and Izedonmi, 2014). This study, like previous research, employs Big Four auditing firms as a stand-in for measuring the caliber of an audit.

2.2.1 Audit Quality as a Tool Used in Improving Accounting Information Quality

Auditing, according to Assad and Alshurideh (2020), delivers dependable and high-quality financial information. According to these research, top-notch auditing boosts the reliability of financial information, and this lowers the manipulation of earnings by managers. Consequently, the quality of the audit is a key aspect of an ideal IP mechanism since it enhances the accuracy of financial information, resulting in reduced levels of management of earnings (Ahmad & Ilyas, 2019).

The procedure for auditing and audit quality can help to reduce information asymmetry and, as a result, boost optimism regarding the capital market (Okolie and Izedonmi, 2014). Large auditing companies, in particular, are said to be better at limiting questionable accounting accruals (DeAngelo 2018; Francis 2014). As a result, audit companies of this type may exert a beneficial influence on the reporting of companies (Francis, Pinnuck, and Watanabe, 2014; Gul et al., 2018). According to a number of researchers (Gul et al., 2018; Okolie and Izedonmi, 2014), there is a possibility that audit quality will increase the value of a company's shares because of the anticipated increase in the trustworthiness of company reports.

2.3 Concept of Cost of Capital

The capital cost is the sum of money that investors expect to pay after providing the cash necessary for an organization. In theory, the capital cost being a metric that evaluates the overall cost of money applied by the companies in question. The majority of a firm's capital comes from investors who buy stocks and bondholders who lend money to the company (Hertig, 2019). As a result, organizations are required to provide earnings that guarantee both debt holders and shareholders receive projected earnings on expenditures. The cost of capital could include financial professionals performing technical computations that are then used by managers to determine a hurdle or discount rate. Organizations must outperform the threshold rate required to support expenditures (Anderson, Byers, & Groth, 2000; Teign, 2020).

As per the findings of Dhaliwal et al. (2016) and Steffen (2020), the costs of capital will generally be marginally less than the required rate of return. The cost of capital maintenance for a business can be used to assess the efficacy of an investment. Investors also consider the costs of capital when assessing the likelihood of failure of an

investment they might make. Only projects that offer an income greater than the sum required to finish the project will attract the interest of businesses. Easley, O'Hara, and Yang (2016) assert that managers ought to be on the lookout for investments that have a chance of yield comes back that exceed the capital costs associated with them. Investors, on the contrary, weigh both the beta and fluctuation of an investment when determining whether or not to make it. The main element influencing an organization's ability to implement company tactics and maintain its competitive advantage over time is its cost of capital. Companies can employ the costs of capital to inform decisions about their capital spending plans, which may offer temporary technical advantages to an organization.

2.3.1 Classification of Costs of Capital

Capital costs are divided into four categories: the opportunity cost, explicit and implicit cost, specific and total cost, as well as the insignificant cost of funding (Rose, 1987; Arditti and Tysseland, 1973). The amount of return forfeited on a comparable investment prospect is referred to as the opportunity cost. A company or individual loses the opportunity to earn this kind of return on their investments when they decide to put their money into an alternative endeavor instead of buying an instrument that yields a return. When a business or organization doesn't make the best utilization of its financial assets, it pays a potential cost.

One way to measure an organization's stated expenditure on capital is the payment inflow that the fund makes to its providers (Barth, Konchitchki, and Landsman, 2013). The rate of discount that compares the current worth of finances gained by a corporation with the current worth of predicted cash outflows is the explicit cost of any funding

source. Implicit cost, in contrast, is a type of opportunity cost because it does not need the corporation to make any specific financial outlay or payment. The projected growth rate of come back associated with the best investment opportunity for the company and its owners that has to be foregone if the venture that the company is evaluating is approved is known as the implicit cost (Gebhardt et al., 2001). The money the owners would have made if the revenue had been released and invested somewhere is the hidden expense incurred by a company that keeps its profits. The capital of a particular source of funding is known as the specific cost of capital (Helms et al., 2020). The costs associated with debt, preference capital, equity, and retained earnings are examples of specific capital costs. Consequently, a corporation's out-of-pocket expenses for funds acquired through a specific channel constitute the specific cost of capital. The total cost of capital is equal to the weighted average of the individual capital costs. Because of this, the weighted average cost of capital (WACC) or just the "average cost of capital" are other names for the total cost of capital. The total cost of capital, then, is the amount the business pays for all of its financing.

According to Arditti and Tysseland (1973), the median cost of the organization's extra funds brought up is referred to as a marginal cost of capital. It should be mentioned that the cost of debt and cost of equity rise rather than stay unchanged when a company's debt capital increases. Therefore, the marginal cost of capital takes into account any increase in this particular cost of capital. Market prices are typically the foundation for the weights used to calculate marginal cost of capital.

2.3.2 Relevance of Cost of Capital

Financial managers frequently utilize the cost of capital to be a standard or a qualifying factor when selecting new initiatives for a business or conducting a review of present ones. When a business takes on or adopts projects with an internal rate of return (IRR) lower than the cost of capital, it indicates that investors' wealth is being diminished because the business did not maximize the use of the money that was contributed. It signals to shareholders, in an oblique way, to transfer their funds to more profitable assets. There's a chance they won't meet their own goals for return on investment if they leave the funds they've placed in the company.

A valuable measure of a company's general liquidity, the cost of investments can inform company choices. When figuring out the potential outlay of a chance to succeed, the cost of capital enables organizations to evaluate the progress of present projects by contrasting their present conditions with the tasks' costs.

The organization's owners and leadership regularly perform a cost of capital analysis to make sure they can make promptly and well-informed financial decisions. In an ideal world, businesses would manage their finances to reduce their cost of capital. This indicator can be employed by shareholders to assess the degree of uncertainty involved in buying shares in an organization.

2.4 Theoretical Literature Review

A few theories about bank liquidity and the financial results are looked at in this section. Among these ideas are the Lending Trustworthiness Theory and the Pecking Order Theory. While Lending Trustworthiness Theory explains the relationship between audit

quality and the cost of capital, Pecking Order Theory examines the connection among the integrity of accounting information and the cost of capital.

2.4.1 Pecking Order Theory

Myers and Majluf (1984) stated that the primary problem with the capital structure of an organization decision was that both shareholders and management did not have equal knowledge about the insider issues facing the organization, as well as the notion that management favored older shareholders. Because of these issues, the corporation has a financial hierarchy that begins with internal cash flow, then debt, and finally shares. Myers and Majluf (1984) argue that a corporation needs issue common stock to boost capital in order to pursue valuable investment possibilities in their model.

Management is regarded to be more knowledgeable about the company's value than prospective shareholders (Surianti & Safrida, 2020). The shareholders view the organization's actions logically. Myers and Majluf (1984) developed an optimal framework for choice of investments based on these preconceived notions.

The framework indicates corporation might choose not to sell shares, so missing out on potential investments that are lucrative. The model explains numerous elements of corporate funding actions, such as the inclination to depend on internal sources of financing and favor credit to stock when outside financing is required. According to Myers and Majluf (1984), equity is the least favorite means for boosting capital due to the fact that when managers (who are believed to understand more about the real situation of the organization than investors) issue fresh equity, investors feel that management believe organizations have been overestimated and that managers are

taking advantage of this over-valuation. Consequently, investors are going to assign a lesser value on new equity offering.

In a market that operates effectively with a superior information environment, prices for stocks reflect all available information. As a result, in markets with minimal disparity of knowledge about the market would become more financing sound as a result of firms being more willing to issue equity as a means of raising capital due to the decreased cost of funding absorption. As a result, management is keen on providing high-quality accounting information in order to bridge the knowledge gap between management and investors.

2.4.2 Lending Credibility Theory

The researcher attempts to determine the degree by which excellent auditing may lower the costs of obtaining financing for businesses, the borrowing trustworthiness theory is employed as the theory in assessing the impact of audit quality on capital costs. Another public impression is that the fundamental job of auditing is to provide legitimacy to financial accounts (Stone, 2012; Olagunju & Owolabi, 2021). As per Limperg's (1974) assertion, the need for audit services arises directly from the business's engagement with other interested parties. Participants expect management to take responsibility for the value they bring to the company.

The opinion holds that trustworthiness is an invaluable and superior asset that the auditor can offer the general public. Regarding this, the concept of lending credibility proposed that if trustworthiness is not present, a financial statement is null and void. If stakeholders such as investors, government agencies, or creditors must base their decisions on the knowledge they get, they must own confidence that the information is

an accurate depiction of the firm's economic value. As a result, an audit minimizes "Information imbalance" involving other interested parties and management. The lending trustworthiness theory states that investors would select capable auditors to produce outstanding system and financial audit reports, increasing shareholder confidence and lowering the required rate of return (Olagunju & Owolabi, 2021).

2.5 Empirical Literature Review

The literature on empirical studies in the field is reviewed in this section, with a focus on the connections among the cost of capital, audit quality, and accounting information quality. The following studies are discussed next:

2.5.1 The Impact of Accounting Information Quality on Cost of Capital

Lambert et al. (2007) investigated whether and to what extent an organization's cost of capital reflects accounting information about it, despite the forces of diversification. The specific inclusion of multiple assets with associated cash flows in this work expands upon the Capital Asset Pricing Model. The study demonstrated that the cost of capital can be impacted by accounting-related information reliability in two different ways. The quality of those non-diversifiable reports affects the business's evaluated variability with the cash flows of other firms. The passive consequence arises from a firm's actual decisions being influenced by more accurate reports, which is likely to alter the organization's share of projected future earnings to the variability of these cash flows with the overall earnings of its competitors. The study showed that the impact is not always positive, but it also identified circumstances in which a clear reduction in the cost of capital follows from an improvement in the level of accuracy of the data being analyzed.

Bokpin (2013) investigated the connection between corporate transparency, responsibility, and the expenditure of capital put in in equity using data from the stock market in Ghana. This research discovered that in an economy with few disclosure standards, greater variance in business disclosure practices leads to a considerable reduction in the cost of equity capital. Businesses that invest in improving information openness and candor reap the benefits of lower equity capital costs, fewer disparities in information between investors and company trusted sources, which lowers or eliminates the price reduction on their shares, and ultimately lower revealed equity capital costs. The study's conclusions indicate that the cost of equity capital on the stock market in Ghana is substantially inversely correlated with business information and openness

Khelif et al. (2015) examined the effects of rapid communication, ownership feature structure, and open communication on the cost of equity capital in Egypt's developing capital market through content analysis of yearly reports. The cost of capital from equity was found to negatively correspond with open communication by the researchers. They demonstrate that greater degrees of open quick reporting reduce the cost of borrowing from outside sources and enhance the commercial viability of companies' stocks, which may directly impact their capacity for growth, especially when investors are provided with current data.

The panel smooth transition regression technique was employed by Hsieh et al. (2019) to examine the impact of institutional control on the relationship among cost of capital and accounting quality. The aim of the research was to determine whether the degree of control held by organizations could explain any discernible variations in the

relationship among accounting excellence and the cost of capital. The findings seemed to suggest that there is a relationship among accounting excellence and the cost of capital that varies depending on the corporate control level. The idea that earnings flattening has more drawbacks than advantages due to reduced data disparity is supported by the finding that when the percentage of institutional control is lower than 46.35%, the cost of equity capital falls as accounting quality improves. However, there is an adverse relationship among the cost of debt capital and accounting quality.

Türegün (2020) investigated how the cost of capital changes when excellent accounting knowledge is available. Using earnings quality as a proxy, the paper investigates the influence of the firm's accounting information on capital costs. The sample data used in this study are from US manufacturing enterprises from 2010 to 2019. According to the findings of the study, accounting information has a positive influence on the firm's capital cost. It essentially means that all necessary information related to the accounting context is integrated. In terms of profits quality, the data lend support to the notion that capital costs ought to account for unbalanced data since it exposes unsophisticated investors in danger.

The impact of accounting information and imbalanced data on the cost of capital of businesses listed on the Indonesian stock market was examined by Safrida and Surlanti (2020). The primary objective of the study was to collect real-world information regarding the variables affecting the cost of funding on the Indonesian stock market. Secondary source derived from the yearly financial statements of Indonesia Stock Exchange-listed manufacturing companies was utilized. According to the findings of hypothesis testing, the level of quality of accounting information is unaffected by

unbalanced data, and the cost of capital is influenced by unbalanced data. The direct impact of information from accounting quality on capital costs is less than the secondary impact of accounting information quality on capital costs.

Latif and Shah (2021) evaluated the effect of accounting information quality on cost of capital using data from a nation with an emerging market. Examining the impact of accounting information quality on the cost of capital for companies listed on the stock market of Pakistan was the aim of the study. The cost of capital is determined using a discounted cash flow strategy, while the basic qualitative characteristics of accuracy, impartiality, fullness, and perfect are used to determine the quality of accounting information. Findings of the regression study revealed that the following accounting information properties influence the cost of capital on the Pakistan Stock Exchange: accuracy, impartiality, fullness, and perfect. The report advised that the quality of accounting information be thoroughly examined so that owners may make informed decisions.

2.5.2 The Impact of Audit Quality on Cost of Capital

Focusing on the development of Brazilian code law and South African common law, Iatridis (2012)) explored whether having an audit by a large auditor could result in decreased agency expenses and a reduced cost of equity. Their findings reveal that, even when organizations are inspected by top-notch auditors, organizational variations have a considerable impact on the agency fees and equity costs of organizations. The availability of strong oversight procedures lessens agency costs, while organization-level success, expansion, and market drivers aggregate to contribute to a reduced cost of equity. In a similar vein, Ramly (2012) looked into how good corporate governance

levels affected equity costs. Organizations with top-notch corporate oversight processes had a lesser cost of equity. It was also discovered that the structure of organizations board and processes, actions that promote shareholder interests and greater responsibility, and audit procedures have a considerable influence on the cost of equity.

Fortin and Pittman (2007) and Khurana and Raman (2004) state that improved quality of audits results in greater trustworthy and precise financial information, enhances the precision of a company's profitability, and decreases information risk, lowering the cost of equity. When investors lack knowledge, they will always look for a higher rate of return to make up for the likelihood associated with managers' utilization of their resources, claim Krishnan et al. (2013). The market responds when businesses move from low audit quality to high audit quality; this reaction may be brought on by a decline in the discount rate or greater anticipation of future cash flows (Knechel and Vanstraelen, 2007; Krishnan et al., 2013).

According to Wahyuni (2013), auditor expertise has a significant and negative correlation with the cost of debt financing and has an impact on the company's bond rating assigned by rating agencies. Overall, the results show that owners in Indonesia's bond market place a premium on auditor expertise. Hwang et al. (2008) looked into the relationship among Korean listed companies' bond market reactions and their auditor changes. They investigated the relationship among bond market responses to earnings quality and the favorable relationship found between moving auditors and bond market response. Investors from outside react to auditor substitution and take changing patterns into account when judging earnings quality.

From a Tunisian viewpoint, Achek and Gallali (2015) investigated the nexus involving the quality of the audit, prompt disclosure, and debt cost. The purpose of the study was to investigate how the type of auditor and the timing of earnings release affected financing costs. Earnings release delay and auditor dimension (Big 4 versus non-Big 4) were used to assess the quality of the audit is used to approximate prompt disclosure. The findings revealed that auditor type has an adverse relationship with debt cost. In contrast, the connection between earnings release delay and debt cost is both significant and noteworthy.

Coffie et. al, (2018) investigated the effect of the quality of audits on business capital expenses in Ghana. Data was collected from forty non-financial listed and non-listed enterprises between 2008 and 2013. The study's findings provide enough evidence to demonstrate that the external auditors' caliber can account for the company's debts and total cost of capital in Ghana. The study's findings indicate that Ghanaian enterprises' cost of debt, cost of equity, and overall weighted average cost of capital are significantly impacted negatively by the audit's quality. The study's conclusions also showed a correlation between a high board size and a low cost of debt.

Houqe et al. (2017) looked into the connection between equity capital costs in India, oversight of earnings, and audit quality. The research indicates that companies with superior auditors have lower costs for equity capital and a lower degree of the management of earnings. Houqe et al. (2017) looked into the connection between equity capital costs in India, oversight of earnings, and audit quality. The research indicates that companies with superior auditors have lower costs for equity capital and a lower degree of the management of earnings.

The connection among the cost of equity, accruals quality, and audit quality was carefully investigated in the setting of Vietnam et al., 2021. Using a sample of traded on the stock exchange Vietnamese companies, the study found that firms audited by a Big Four auditor had a lower cost of equity than firms audited by a non-Big Four auditor. The results suggested that the information role of auditors is more significant than the insurance role in a civil law framework where the risk of auditor dispute resolution is relatively low.

Indiati and Widiatmoko (2021) used real-world data from Indonesia to examine the influence of management of earnings and quality of audit on the cost of equity capital. The purpose of the study was to determine whether audit quality acts as a moderator for the effect of earnings management on the cost of equity capital, as well as the effects of audit quality and management of earnings on the cost of equity capital. The cost of equity capital is positively impacted by earnings management, according to the results of the Moderated Regression Analysis (MRA). Conversely, businesses with excellent audit quality will pay less for equity capital.

The regulating the theory test results indicate that the impact of earnings management on equity capital costs is mediated by the caliber of audit. This suggests that investors place more trust in the results of audits carried out by certified auditors, even in the absence of earnings management practices by the company, which lowers the cost of equity capital.

2.6 Gap in Literature

According to the empirical findings, the sole threshold element that can be used to modify the connection among the cost of capital and the accuracy of accounting information is the degree of organizational control. Other threshold elements, such as the quality of the audit, may alter the link between accounting information quality and cost of capital. A top-notch audit enhances the standard of financial information by identifying and reporting discrepancies in reported earnings (Gerayli et al., 2011). On the other hand, increased information asymmetry causes reported earnings to be distorted. The published earnings have a big impact on the cost of capital for the company. By examining how the caliber of audits influences the relationship between the caliber of accounting information and capital costs, this study seeks to close the hole in knowledge.

A further disparity in the evidence base is the paucity of information regarding the relationship among cost of capital, audit quality, and accounting information quality in developing nations. Numerous studies have been carried out in both developed and developing market economies. Since developing nations have their own different securities markets and institutional settings, the findings from developed and emerging market economies cannot be applied to these nations.

2.7 Conceptual Framework

Independent, moderator, and dependent elements were all present in the conceptual model that is shown below. The dependent elements, over which the investigator has complete control, are impacted by the explanatory elements. According to the model, cost of capital is the variable of interest and accounting information quality is the

variable that is independent. In order to shed light on the relationship between the cost of capital and the quality of accounting information, a moderator parameter for audit quality was added. Earnings quality is a proxy for the quality of accounting information. The cost of debt after taxes and the cost of equity are employed to calculate cost of capital. A binary variable with the values "1" if the firm is audited by BIG4 and "0" if it is not is used to assess the audit's quality. Ernst and Young, KPMG, Delloite, as well as PriceWaterCoopers (PwC) constituted the BIG4 auditing firms that were employed in the study.

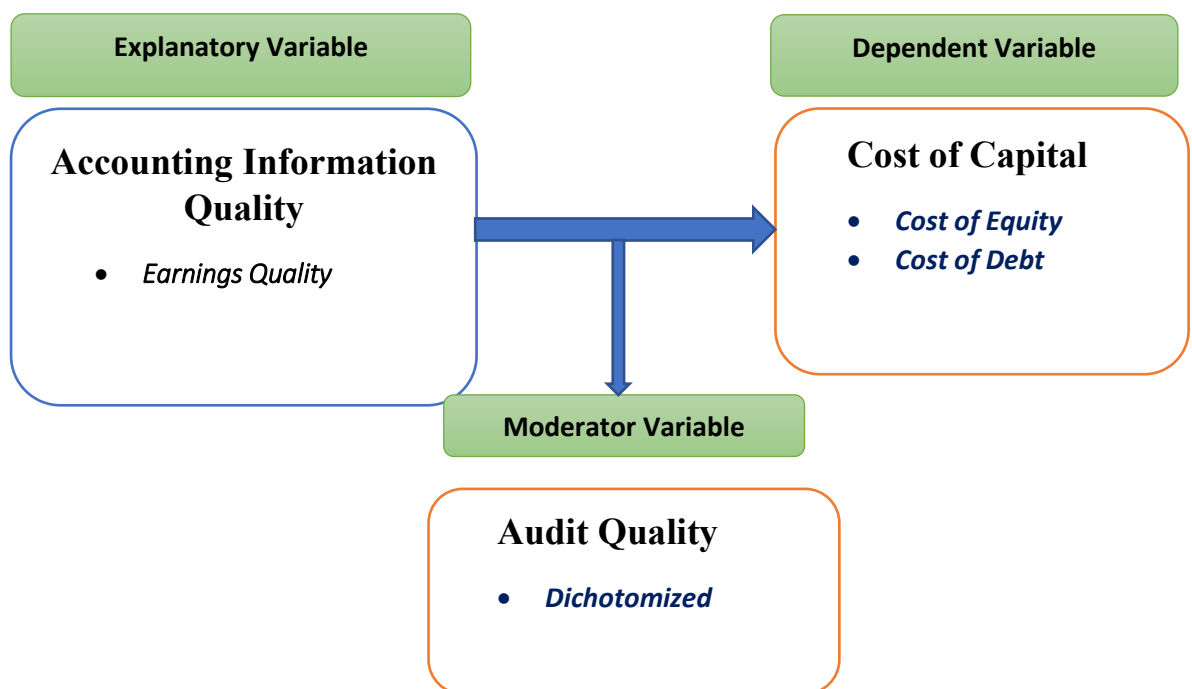


Figure 2.1: Conceptual Model

Source: Researchers' Own Construction, 2023

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This is the section where the researcher provides detailed information about the study's research design, goal, target population, sampling, data and data analysis, estimation techniques, model specification variables explanation and assessment, and the chapter's conclusion.

3.1 Research Design

There are three types of research designs: mixed, qualitative, and quantitative. This study has a quantitative design. Using data, statistical techniques, and other instruments to explain an occurrence is the focus of quantitative research design (Creswell, 2009). Hopkins (2008) claims that the quantitative study approach uses numerical indicators and allows for the quantification of the kind of relationship that exists between elements. For the purposes of this study, it will help determine what kind of relationship there is among the expenditure of funding, the caliber of the auditing, and the caliber of financial data. Inferential as well as descriptive statistics are employed to communicate the strength of a connection or influence. For this investigation, the investigator used an after-the-fact method of inquiry.

Sarantakos (2005) states that this type of research aids in establishing connections, causes, effects, or explanations for the differences in corporate or organizational behavior that currently exist. The researcher's inability to exercise any control over the independent variables due to their already-occurring manifestations is the primary reason for choosing an ex-post facto study design. By providing a practical means of

investigating the ways in which Dependent parameters are impacted by independent factors and by simplifying the process through identifying independent factors following an occurrence of taken place, the ex-post facto design enhances the scholar's proficiency. (2012, Raji).

3.2 Research Purpose

The purpose of a research project may be exploratory, explanatory, or descriptive. According to Nassaji (2015), descriptive research aims to precisely and methodically describe a population or phenomenon. A study type known as explanatory research focuses on shedding light on particular areas of your study and elucidating the correlation between variables. Starting from an idea, the researcher uses research as a technique to identify areas that will be addressed soon (Fisher, 2004). Exploratory research is a means of delving into a subject that hasn't been fully examined or explored earlier (Swedberg, 2020). The explanatory and descriptive research purposes were both met by this research. whereas descriptive analysis was employed to describe each of the factors employed during the analysis, explanatory research was used to clarify the important connections among the research's chosen parameters.

3.3 Population and Sampling

Umair (2018) defines a population as the total set of focus that the investigator wishes to analyze. According to Umair (2018), it alludes to clearly specified elements, services, people, things, or homes that are the subject of the research. The research's intended audience included every company that was listed in Ghana. According to the yearly statement of the Ghanaian stock market for the fiscal year that concluded in 2022, there are two corporate bonds, forty-two listed equities, and 37 listed companies.

The listed companies are divided into the following sectors: banking, manufacturing, mining, trading, brewing, and pharmaceuticals. Utilizing a deliberate sample strategy, the listed companies were selected for the investigation. This type of sampling strategy is referred to as intentional or subjective sampling, according to Sharma (2017). Singh and Masuku (2014) state that this kind of sampling technique enables the researcher to essentially choose the sample based on the study's intended objectives and the topic's scope. This kind of sampling strategy, according to Sharma (2017), is necessary anytime respondents are picked or judged to possess particular attributes or to be information-rich in relation to the research problem or study objectives. As a result, ten publicly traded companies were selected for the study's sample size based on when they were traded on the stock marketplace, as well as the accessibility of monetary information for the 2011–2022 time frame. Table 3.1 displays the selected publicly traded businesses, their announced funding, and the time of detailing on the stock exchange.

Table 3.1: Choosing Public Companies for the Research

Companies	Listed Dates	Stated Capital
Anglogold Ashanti Ltd. Ghana	27 Apr. 2004	ZAR 4,899,021,716.98
Ecobank Limited Ghana	11 Jul. 2006	GHS226,640,000
Total Petroleum Ghana Limited	19 Jul. 1991	GHS51,222,715.01
Benso Oil Palm Plantation Limited	16 Apr. 2004	N/A
Unilever Ghana Plc Limited	23 Aug. 1991	GHS62,500,000
Aluworks Ghana Limited	29 Nov. 1996	N/A
Camelot Ghana Ltd.	17 Sep. 1999	GHS217,467
Fan Milk Ghana Limited	18 Oct. 1991	N/A
Guinness Ghana Breweries Plc	23 Aug. 1991	GHS272,879,113.44
Ghana Oil Company Ltd	16 Nov. 2007	N/A
Produce Buying Company Ltd Ghana	17 May 2000	GHS4,914,377
Cocoa Processing Company Ltd Ghana	14 Feb. 2003	N/A
Enterprise Group Plc Ghana	21 Feb. 1992	GHS258,886,100
CAL Bank Plc Ghana	05 Nov. 2004	N/A

Source: Website of the Ghana stock market (2023)

3.4 Sources of Data

Current study incorporated raw fact from primary and secondary sources. Publicly traded companies' annual financial reports served as the main source of data. The researchers were able to obtain firsthand knowledge, viewpoints, and insights from people who were intimately engaged in the day-to-day activities and formulation of decisions of the publicly traded businesses thanks to this primary data collection process.

The study used third-party sources to collect data about the cost of funding, the credibility of audits, and the level of accuracy of fiscal data from papers, news accounts, and dissertations. Business pamphlets, released and unreleased materials, and current publications were additionally read through in order to gather additional information. These secondary sources informed the research and provided a basis for understanding the topic. The study benefited from a thorough and well-rounded data collection approach by using both primary and secondary sources. This approach combined existing knowledge and theories with the particular context of accounting information quality, cost of capital, and audit quality.

3.5 Data Analysis Instruments

Utilizing a blending statistical inferential as well as qualitative approaches, the data were analyzed with the use of the software packages STATA, EVIEWS, and The Social Sciences Package for Statistics (SPSS). The raw facts was assembled and clarified via descriptive numerical such as averages, standard deviations, frequency and percentages of the total. Furthermore, to investigate relationships and generate predictions, inferential statistics were performed, including paneled regression analysis and Pearson's correlation.

The results of the analysis were given in tabular form, giving a vivid summary of the numerical findings. The multi-regression approach was one of the analytical instruments used, allowing the combined impacts of several independent elements on the dependent element to be looked at.

3.6 Estimation Technique

To investigate, panel data-based regression analysis was employed in examining the connection among cost of capital, audit quality, and high-quality accounting data model was utilized. Controlling eliminated variable bias caused by the omission of unmeasured variables is possible with panel data regressions. Expanded observations also offer additional details and thus accuracy, enabling for the examination of fiscal topics that cross-sectional data cannot address (Hsiao, 2003).

The question of the best technique to use when analyzing a panel data set arises because there are different estimation strategies available. The fixed effect model (FEM) and the random effect model (REM) are two panel data regression approaches. Hausman (1978) employed the Chi-square specification test to find which was the most successful. In this case, the inquiry concerns if the coefficients of regression and the identification of specific random effects of unseen units are numerically highly correlated. If the results indicate that there is no connection, REM is recommended.

On the other hand, if the results show that FEM is better. Larger data sets, improved variability, reduced collinearity between measures, and increased measure efficiency are the reasons behind the selection of the panel data regression model. The moderation analysis was created once more using the hierarchical regression model proposed by Cohen (1983).

3.8 Diagnostic Tests

An engaging method is often involved in empirical evidence. The process begins with defining the connection that has to be projected. When selecting a requirement, one should take into account the parameters that need to be covered, the functional arrangement linking these elements, and, if the data are collected over time, the changing nature of the correlation among the parameters. Diagnostic tests are performed to evaluate the accuracy of the specification in multiple facets prior to estimating the formula. These diagnostic procedures are used in accordance with the study's goals.

3.8.1 Stationarity Test

The merging sequence of the parameters is assessed by the stationarity test. For instance, if the factors in question possess a greater degree of integration, the F-statistics cannot technically make sense, resulting in an erroneous regression analysis (Pesaran et al., 2001), where the statistical data indicates a correlation between the parameters but not a cause-and-effect connection. To find out if the pattern is stationary, the Levin, Lin, and Chu Panel Stationarity tests are run.

3.8.2 Hausman Specification Test

Making the choice among RE and FE is essential in panel data analysis. The Fixed Effect (FE) and the Random Effect (RE) Models were compared employing the Hausman Specification Test. If variation among individuals is uncorrelated to the error term, it is better to use the Random Effect (RE) rather than the Fixed Effect (FE). The FE model should be chosen over the RE model in the event each variation is connected to the error term (Hahn, et al 2011).

3.8.3 Multicollinearity Test

Multicollinearity is the term employed to describe the happening of important relationships among several distinct variables in a model with multiple regression. In a combination of multiple regression research, multiple linearity can adversely impact the projected coefficients, biasing or deceiving the results (Öztürk & Akdeniz, 2000). The Pearson Correlation Matrix was used by the investigator to remove multiple linearity from the numerous group data regression model. To prevent erroneous outcomes in cases where two distinct elements exhibit a high degree of correlation, the extremely important factor is removed from the regression model.

3.8.4 Wooldridge Serial Correlation Test

Panel data regression is constrained by issues with serial correlation since it employs periodic and longitudinal parameters. When the remainders from successive measurements in a time series study are not distinct from each other, serial correlation occurs (Kirchner, 2001). Because practically all statistical techniques presume that any unplanned outcomes are autonomous, serial correlation is a serious issue (Drukker, 2001). False findings and an exaggerated kindness of fit may arise from serial correlation if it is present and not taken into consideration (Durbin and Watson, 1992). To find autocorrelation in the information collected series, the Wooldridge (2002) Serial Correlation test in data collected via panel was particularly used. The following are the alternative and null hypotheses for the Wooldridge autocorrelation test:

The null hypothesis (H₀) states that the error term has no autocorrelation (p-value > 5%). Alternative Hypothesis (H₁): The error term exhibits autocorrelation (p-value < 5%).

3.9 Variable Description and Measurement

This study looks into the relationship among cost of funding, audit quality, and accounting information excellence. Cost of funding, which includes cost of debt and cost of equity capital, is the primary dependent factor. Earnings quality, the primary explanatory factor, and audit quality, the moderator factor (indicated by a dummy factor), are used. The framework incorporates control factors such as what the stature of banks, inflation, and the rate of economic growth of the nation. A broad summary and evaluation of the factors involved can be found in Table 3.2.

Table 3.2: Operationalization of Variables

Variables	Abbreviation	Variable Measurement
<i>Dependent Element</i>		
Cost of Debt	COD	<u>Interest Expense</u> (1-T) Interest-bearing Debt
Cost of Equity	COE	<u>DPS (1 +g)</u> + g MPS
<i>Independent Element</i>		
Accounting Information Quality	AIQ	Earnings Quality calculated Using the Modified Jones Model
<i>Moderator</i>		
Audit Quality	AQ	A dummy variable: "1", if audited by BIG 4, and 0 otherwise
<i>Control Elements</i>		
Firm Size	FSIZE	Natural log of firm Assets
Leverage	LEV	<u>Total Debts</u> Total Equity
Inflation	INF	Annual Consumer Price Index
Monetary Policy Rate	MPR	Annual Monetary Policy Rate
GDP Growth	GDPG	Annual Real GDP Growth

Note: MPS stands for market price per share, DPS for dividend per share, g for growth rate, and T for tax rate.

Source : Researcher's Own Construction (2023)

3.10 Chapter Summary

The present section differs from the other ones, in that it meticulously lay out an extensive overview of the philosophy and research design based on the goals of the study. Research, population and sampling, data sources, estimating techniques, methodology model construction, diagnostic tests, and variable description and measurement were among the other sections that it painstakingly documented.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.0 Introduction

In this particular workout, the findings and analysis of this study are discussed. First, the investigation results are given, and then there is a discussion.

4.1 Industry Representation

A maximum of ten publicly listed businesses were selected for the study's sample based on when they went public on the stock trade and whether or not they had financial reports readily accessible the 2011–2022 study period. The chosen listed businesses and the sectors they belong to are shown in Table 4.1.

Table 4.1: Industry Representation

Industry	Company	Frequency	Percentage (%)
Mining	Anglogold Ashanti Ltd	1	10
	Ghana		
Banking	CAL Bank Plc Ghana		
	Ecobank Ghana Ltd	3	30
	Access Bank Plc Ghana		
Manufacturing/Production & Distribution	Fan Milk Ltd Ghana		
	Guinness Ghana Breweries	3	30
	Plc		
Insurance	Benso Oil Palm Plantation		
	Ltd Ghana		
Oil & Gas	Enterprise Group Plc Ghana	1	10
	Total Petroleum Ltd Ghana	1	10
Telecommunication	MTN Ghana Limited	1	10
Total		10	100

Source: From panel data gleaned from the yearly reports of the companies.

The industries that had been most represented, with a percentage rate of 30% each, were banking and manufacturing/production & distribution (see table 4.1 above). The remaining sectors, which included telecommunication, mining, insurance, and oil and gas, all shared a 10% share.

4.2 Descriptive Statistics

An overview of the data analysis in relation to the goals of the study is given in this section of the chapter. The data's mean and standard deviation were examined in order to achieve the study's primary objectives.

4.2.1 Audit Quality

If the corporation is audited by one of the Big Four auditing firms, such as KPMG, Price Waterhouse Coopers, Ernst & Young, or Deloitte, an imaginary variable of "1" is allocated to measure audit quality. If the company is not audited by the Big 4, an imaginary value of "0" is allocated. The statistics on this are provided in Table 4.2 below.

Table 4.2: Audit Quality

Audit Firm	Frequency	Percentage (%)
Audited by BIG four	9	90
Not Audited by BIG four	1	10
Total	10	100

Source: From panel data gleaned from the yearly reports of the companies

The Big 4 auditing firms audit nearly all (90%) of the chosen firms. With an exemption of Fan Milk Ghana Limited, which was audited by one of the Big Four auditing firms before switching to Mazar Ghana, an auditing firm that is not affiliated with the "Big Four"

4.2.2 Accounting Information Quality

This research uses earnings per share and market price per share as its primary indicators of the quality of accounting information, as it has already been mentioned in the literature review. The businesses whose earnings per share and market price per share for the 2021–2022 update time frame are listed in Table 4.3 below.

Table 4.3: Accounting Information Quality

	Earnings per share N=10	Market price per share N=10	Total
	%	%	%
Yes	80	100	90
No	20	-	10
Total	100	100	100

Source: Panel data from the company's yearly reports served as the source of the information.

According to table 4.3, 80% of the publicly traded businesses disclosed their earnings per share for the years 2021 and 2022, while 20% were unable to provide any information at all for that time. Once more, all of the listed business's market price per share information was easily accessible. Measuring the degree of earnings per share and market price per share, the entire accounting information quality metrics were 90%.

4.2.3 Descriptive Statistics on Major Variables

The mean and standard deviations are highlighted more specifically when presenting descriptive statistics on the dependent and controlled factors.

Table 4.4: Descriptive statistics on Major Variables

Variables	Minimum	Maximum	Mean	Std. deviation
Cost of Debt	2.16	9.57	5.92	5.31
Cost of Equity	2.23	10.09	6.16	5.56
Firm Size	5.46	13.27	9.37	5.52
Leverage	0.00	0.76	0.38	0.54
Inflation	9.98	31.27	20.63	15.05
Monetary Policy Rate	14.5	27.00	20.75	8.84
GDP Growth	3.33	5.4	4.37	1.46

Source: From panel data gleaned from the yearly reports of the companies

Table 4.4 shows that inflation and monetary policy had the greatest means, at 20.63 and 20.75, accordingly, and that inflation had the greatest standard deviation, at 15.5.

4.3 Inferential Findings and Interpretation

This portion presents the findings regarding the relationships among accounting information quality and the expenditure of capital, accounting information excellence and audit quality, and audit quality and cost of capital. Discussions and meanings are also present. Results of an orderly regression-based moderation analysis are also provided.

Table 4.5: Correlation Coefficients

		Accounting Information Quality	Audit Quality	Cost of Capital
Pearson Correlation	Accounting Information Quality	1.000	0.482	0.721
	Audit Quality	0.482	1.000	0.857
	Cost of Capital	0.721	0.857	1.000
Sig. (2-tailed)	Accounting Information Quality	-	.006	0.022
	Audit Quality	0.000	-	0.007
	Cost of Capital	0.002	0.007	-
N	Accounting Information Quality	10	10	10
	Audit Quality	10	10	10
	Cost of Capital	10	10	10

4.3.1 The Relationship between Accounting Information Quality and Cost of Capital

This study examined the relationship among cost of capital and the quality of accounting information. The essential results are shown in Table 4.5. The study found a solid statistically positive correlation between cost of capital and accounting information quality ($r = 0.721$; $p = 0.006$). The results indicate that the quality of accounting information may have an impact on capital costs.

4.3.2 The Relationship between Audit Quality and Accounting Information Quality

This study looked at the connection between accounting information quality and cost of capital. Table 4.5 presents the main findings. The cost of capital and the quality of accounting information were found to have a strong statistically positive correlation ($r = 0.721$; $p = 0.006$). The findings suggest that capital costs could be influenced by the caliber of accounting data.

4.3.3 The Relationship between Audit Quality and Cost of Capital

In response to the second research question, the impact of audit quality on listed companies' cost of capital was investigated. The pertinent results are compiled in Table 4.5. There was a significant and direct relationship among audit quality and cost of capital at the 0.01 level of significance ($r = 0.857$; $p < 0.05$). Thus, there was a nearly perfect direct relationship between audit quality and cost of capital. Given this, it stands to reason that businesses with a quality audit mechanism at place will be more likely to draw in additional funding.

4.3.4 Audit Quality as a Moderator of the relationship of Accounting Information Quality and Cost of Capital

The third question in the study aimed to ascertain the extent to which audit quality influenced the relationship between the cost of capital and the quality of accounting information. Modified hierarchical regression analysis was used to look at the relationship between the cost of capital and the quality of accounting information, as well as the possible moderating effect of audit quality. In step 1, enter the industry representation that needs to be under control. The interaction factor, which is the predictor multiplied by the moderator, is therefore entered separately in step 4. Z-scores were assigned to interaction factors and the Aiken and West centering technique (1991) was utilized. According to Cohen and Cohen (1983), the regression coefficients for the control impact got in step 1, the predictor impacts are got in step 2, the moderating impacts are got in step 3, and the interaction effects are obtained in step 4. Consequently, there is a significant connection term among the mediator and predictor variables, indicating that audit quality alters the connection between cost of capital and accounting information excellence.

Table 4.6: Hierarchical Regression Analysis for Moderator Effects of Audit Quality on Accounting Information Quality towards Cost of Capital

Variables	Step 1	Step 2	Step 3	Step 4
Control				
Industry Representation	0.073	0.079	0.082	0.084
Predictor				
Accounting Information Quality (AIQ)		0.721	0.680	0.565
Moderator				
Audit Quality			0.985	0.721
Interactions				
AIQ × Audit Quality				1.38
ΔR^2	0.208	0.318	0.513	0.64
Total R^2	0.208	0.526	1.039	1.679
Adjusted R^2	-0.003	0.002	0.012	0.22
F Statistic	0.750	1.118	1.657	4.054

T AIQ and cost of capital have a strong correlation, as seen in able 4.6 ($r = 0.721$, $p < 0.05$). A significant interaction was found among the listed companies audit quality and cost of capital ($\beta = 1.38$, $p < 0.01$), which accounted for an extra 64% of the variance ($p < 0.05$). As one might expect, there was a statistically significant correlation among AIQ and audit quality and cost of capital.

4.4 Discussion of Key Findings

The present section shows a vital findings in the same format as the study's questions.

4.4.1 Accounting Information Quality has a positive significant impact on Cost of Capital

This finding reveals a strong positive correlation among the cost of capital for listed companies in Ghana and the quality of accounting data. Put another way, businesses that maintain high standards for accounting information quality experience a significant decrease in capital costs as they raise money for expansion and ongoing operations.

Numerous previous studies have examined the relationship among the cost of capital and the quality of accounting information, both globally and in particular settings. While some of these research efforts have yielded different results, others have confirmed the positive influence found in this study. Dechow et al. (1996) revealed that companies with higher-quality financial reporting—that is, those that provide accurate and transparent accounting information—saw lower costs associated with debt financing. Feldman et al. (2012) conducted a thorough analysis of bond markets and discovered that companies with higher-quality accounting information had lower debt financing costs due to lower yield distributions. Francis et al. (2005) carried out a multi-country study that demonstrated that improved accounting quality had a favorable effect on the valuation of companies and, as a result, reduced the cost of capital.

Bens et al. (2018), on the other hand, hypothesized that while higher accounting quality may lower capital costs, there may be a more complex relationship between the two. They discovered that certain aspects of accounting discretion may have an impact on how individual accruals are valued. According to Bae et al. (2008), the impact of accounting quality on the cost of capital may vary depending on whether debt covenants are in place, suggesting that understandings between parties may limit this relationship.

4.4.2 Audit Quality has a Positive Significant Effect on Cost of Capital

This disclosure highlights a significant and positive relationship among the cost of capital for Ghanaian publicly traded businesses and the quality of their audits. Put another way, when companies conduct excellent audits, they noticeably lower their cost of capital—that is, the costs associated with obtaining capital for business activities and growth. Several previous studies have looked into the relationship between audit quality

and capital costs, both globally and in particular situations. While some of these studies have revealed different results, others have confirmed the positive impact discovered in this research. In 1998, Becker et al. carried out a study in North America and found that companies that benefited from high audit quality also had lower equity capital costs. In a 2003 study, Balsam et al. looked at determining the worth of disclosures included in financial statement notes and found that higher audit quality improved investor opinions, which in turn reduced the cost of capital. Lennox (1999) asserts that lower information threat in audits lowers capital costs for the organization. DeFond et al. (2005) did, however, note that other factors, such as the pricing of individual accruals, could complicate the connection even though they acknowledged the potential direct impact of audit quality on the cost of capital. According to Aobdia et al.'s 2009 investigation, the impact of auditor quality on financing decisions may differ based on the particular financing choices being made.

4.4.5 Audit Quality moderates the impact of Accounting Information Quality on Cost of Capital

This finding emphasizes the crucial moderating role that audit quality plays in the relationships between the cost of capital for Ghanaian publicly traded businesses and the quality of accounting information. Put more simply, the degree of audit quality has a major shaping and moderating effect on the efficacy of accounting information quality as it impacts the cost of capital. The moderating role of audit quality in different financial relationships has been studied in previous studies. While some studies provide contradictory insights, others endorse the moderating effect that your research found. In a study on earnings management conducted in 1996, Dechow et al. found that auditor quality affected the relationship between financial success and earnings management

strategies. The significance of audit quality moderation was highlighted by Knechel et al.'s 2005 investigation into the function of audit committees in moderating the relationship between audit firm tenure and management of earnings. On the other hand, Krishnan (2005) stressed the importance of corporate governance mechanisms in forming the connection with earnings management, even as he acknowledged the potential moderating impact of audit quality. Abbott et al. (2004) looked into the combined effects of audit quality and the auditor's tenure. They came to the conclusion that although these two factors may have a moderating effect, additional elements like non-audit services also matter.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

An overview of the research's findings, conclusions, and suggestions is given in this chapter.

5.1 Summary of Findings

The investigator provides a summary of the study's major conclusions in this last chapter on "Accounting Information Quality and Costs of Capital of Listed Firms in Ghana: The Moderating Role of Audit Quality." The quality of accounting data and capital costs for Ghanaian publicly traded companies were found to be significantly correlated by the study. The need for accurate, dependable, and open fiscal reporting techniques is made obvious by the fact that organizations with superior data from accounting have lower capital costs. Therefore, businesses in Ghana actually pay less to obtain the funds they require when they maintain impeccable financial records. It's about actual deposits, rather than mere figures.

The researcher also found that audit quality plays a significant role in determining the cost of capital. Investing in superior audits has a direct positive impact on a business's cost of capital. This emphasizes how important trustworthy auditing is in the financial sector. It was also discovered that a crucial element moderating the relationship among the cost of capital and accounting information quality is audit quality. Excellent audits (those conducted by the BIG4) reduce information asymmetry and further reduce capital costs while enhancing the trustworthiness of financial reports.

5.2 Theoretical Implications

In considering the results of this investigation, the two key fields are the development of accounting theory and the function of information imbalance. By illuminating the complex interactions among capital costs, audit quality, and accounting quality, this research advances the theoretical structure. It presents audit quality as a key moderator and validates current theories that point to a positive correlation among lower capital costs and excellent accounting information. The results emphasize how crucial it is to lessen the information imbalance in the financial sector theoretically. Companies can close the disparity with investors and save capital costs by enhancing the reliability of accounting information and depending on reliable audits.

5.3 Practical Implications

The report provides useful advice for businesses that participate in Ghana's capital market. To enhance the credibility and accuracy of their financial statements, it advises businesses to concentrate on enhancing their financial reporting procedures, making investments in open internal controls, and hiring reliable audit firms.

The study highlights the necessity of giving audit quality foremost concern within the regulatory framework for Ghanaian lawmakers and regulatory bodies. Establishing stricter requirements for auditors can help create a more trustworthy financial environment, which is advantageous to businesses and investors alike.

This turns into practical guidance that is useful for businesses in Ghana, not just theoretical understanding. If you are in charge of a Ghanaian business, you should make sure that your financial records are truthful, open and accurate. It's similar to keeping up a tidy house, but that's not all; you also need to select an auditor who can act as your financial protector. The study emphasizes the importance of closely monitoring the

auditing process for those in charge of establishing the financial environment. It is an appeal to maintain the highest level of professionalism and objectivity for auditors. We can make the financial environment safer and more reliable for all parties involved by doing this.

5.4 Recommendations

The investigator has put forth recommendations aimed at improving the quality of accounting information and fostering audit quality. Businesses are encouraged to invest in ongoing training for accounting staff members to advance their expertise in the area of accounting information quality. In order to guarantee the integrity and openness of financial data, it is also necessary to encourage the development of strong internal control systems. Businesses are also urged to implement open communication policies in order to give investors thorough information.

In the area of enhancing audit quality, regulatory agencies ought to closely monitor audit companies to guarantee adherence to superior auditing criteria. In order to preserve objectivity and reliability, the autonomy of auditors must also be strictly complied to. Additionally, in order to assist businesses in choosing reliable auditors, audit education and publicity campaigns should be promoted.

5.5 Limitations

It is imperative to recognize the constraints of this research. Specifically, the study was restricted to a particular group of Ghanaian listed companies, which could potentially restrict the applicability of the findings to other sectors or nations. Moreover, the data in the study only encompassed a limited period of time, so any modifications in laws

or economic circumstances after this point might not have been taken into account. Ultimately, the relationship between capital costs, audit quality, and the quality of accounting information is complicated and could be impacted by a number of other variables not covered in this research.

5.6 Suggestions for Future Research

The research study's conclusions suggest a number of potential directions for future investigation to deepen our understanding of the issue. It is possible to carry out long-term research to investigate how the connections found in this research change over the ages. In order to find similarities as well as distinctions among the results and other markets in development, more research is necessary. It is imperative to look into alternative moderators. Additional research on potential moderators that may impact the relationship among capital costs and accounting information quality can be highly beneficial.

5.7 Conclusions

In summary, this research makes a substantial contribution to our knowledge of the ways in which the quality of audits and accounting information collaborate to impact the capital costs of Ghanaian listed companies. It emphasizes how crucial thorough audits and accurate financial reporting are to reducing information imbalances and, eventually, capital costs. The useful implications and suggestions can help both companies and lawmakers create a more reliable financial atmosphere, which will be advantageous to Ghana's investors as well as the country's business society. This study contributes to our understanding of financial markets in developing countries by presenting intriguing new directions for investigation.

The study's conclusions provide useful data, highlighting the importance of good financial practices and open reporting in building a strong and long-lasting financial environment in Ghana. In summary, this study sheds light on Ghana's financial environment by demonstrating how reliable audits and careful bookkeeping can result in real cost savings. These suggestions are based on more than just statistics; they also take credibility, trust, and practical advantages into account.

This study's advice isn't just for big business owners; it applies to everyone with an interest in Ghana's financial future. We can create a financial ecosystem that is sound, trustworthy, and beneficial for everyone if we follow these suggestions. This research aims to improve the lives of individuals and businesses in Ghana, supported by a strong, trustworthy financial structures; it is not merely a theoretical workouts.

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