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The Effect of Accounting Earnings Quality on The Cost of Capital: Iraqi for seeds production firm as a case study

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Abstract:

The purpose of this study is to investigate the connection between the cost of capital and accounting earnings quality in businesses that are listed on the Iraq Stock Exchange. The quality of earnings indicates how much users depend on accounting data when making financial decisions. As a result, low-quality earnings can raise risk and uncertainty, which raises the cost of capital. The study employed a series of financial variables, including accounting accruals, earnings frequency, and stability, to assess the quality of earnings for a sample of listed firm from 2013 to 2022. The research used EViews 13 for finding and analaysing financial data by correlation and multi-regression.

The study discovered a statistically significant negative correlation between the cost of capital and earnings quality. It shown that businesses with high-quality earnings had a lower cost of capital because investors are taking on less risk. Additionally, the findings demonstrated that certain segments of the Iraqi market are more susceptible to this impact than others. To improve earnings quality, the report suggests strengthening governance procedures and financial disclosure. This will improve the Iraqi stock market's efficiency, draw in investment, and lower the cost of capital.

Keywords: *financial performance, cost of capital, and accounting earnings quality.*

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أثر جودة الأرباح المحاسبية في تكلفة رأس المال: الشركة العراقية لإنتاج البذور كدراسة حالة

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المستخلص:

الغرض من هذه الدراسة هو بحث العلاقة بين تكلفة رأس المال وجودة الأرباح المحاسبية في الشركات المدرجة في بورصة العراق للأوراق المالية. تشير جودة الأرباح إلى مدى اعتماد المستخدمين على البيانات المحاسبية عند اتخاذ القرارات المالية. ونتيجة لذلك، يمكن للأرباح منخفضة الجودة أن تزيد من المخاطر وعدم اليقين، مما يؤدي إلى رفع تكلفة رأس المال. استخدمت الدراسة سلسلة من المتغيرات المالية، بما في ذلك الاستحقاقات المحاسبية وتكرار الأرباح واستقرارها، لتقييم جودة الأرباح لعينة من الشركات المدرجة خلال الفترة من 2013 إلى 2022. واعتمد البحث البرنامج الاحصائي EViews 13 لتحليل البيانات المالية من خلال علاقة الارتباط والانحدار الخطي المتعدد.

اكتشفت الدراسة وجود علاقة ارتباط سلبية ذات دلالة إحصائية بين تكلفة رأس المال وجودة الأرباح. أظهرت أن الشركات ذات الأرباح عالية الجودة لديها تكلفة رأس مال أقل لأن المستثمرين يتحملون مخاطر أقل. بالإضافة إلى ذلك، أظهرت النتائج أن قطاعات معينة في السوق العراقي أكثر عرضة لهذا التأثير من غيرها. لتحسين جودة الأرباح، يقترح التقرير تعزيز إجراءات الحوكمة والإفصاح المالي. سيؤدي هذا إلى تحسين كفاءة سوق الأوراق المالية العراقي، وجذب الاستثمار، وخفض تكلفة رأس المال.

الكلمات المفتاحية : الأداء المالي، تكلفة رأس المال، وجودة الأرباح المحاسبية.

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1. Introduction

The quality of accounting earnings is a pivotal topic in the fields of accounting and finance, given its prominent role in guiding investor and stakeholder decisions and influencing the informational efficiency of financial reports. Accounting earnings are not simply a numerical result of an organization's activity; rather, they essentially reflect the reliability and fairness of the financial information relied upon by external parties to assess financial performance and future risks. This is where the importance of earnings quality becomes apparent, as it refers to the extent to which these earnings are based on actual operational processes, their reproducibility, and their freedom from manipulation or accounting practices aimed at artificially enhancing the financial picture(HEIRANY et al., 2013)

On the other hand, the cost of capital represents a crucial element in the investment and financing decision-making process within organizations. It reflects the expected return of investors and lenders in exchange for their risk tolerance. Therefore, any change in their perception of earnings quality can be directly reflected in the required rate of return, i.e., the cost of capital. From this perspective, this research seeks to examine the relationship between the quality of accounting earnings and the cost of capital, exploring how high-quality accounting information reduces investor uncertainty, which positively impacts the cost of financing. (Parvaneh et al., 2023)

1.2 The Research Problem

The quality of accounting earnings is one of the primary indicators upon which investors and financiers rely when evaluating companies' financial performance and making their investment decisions. However, variations in earnings quality among companies may lead to differences in risk assessment

and, consequently, in the cost of capital required. Hence, the research problem arises in the following question:

To what extent does the quality of accounting earnings affect the cost of capital in listed companies?

1.3 The importance of the research

The importance of this research lies in the following:

• Academically: It contributes to bridging the knowledge gap related to the relationship between earnings quality and the cost of capital, especially in the Arab or local context.

• Practically: It provides information to decision-makers, such as senior management, investors, and lenders, about the importance of quality financial reporting in reducing financial risks and improving financing conditions.

• Legislatively: It supports regulatory bodies in developing accounting standards and legislation that enhance the credibility of financial statements.

1.4 Research Objectives

This research aims to:

1. Analyze the level of quality of accounting earnings in companies listed on the financial market.

2. Measuring the cost of capital using appropriate financial models.

3. Testing the impact relationship between earnings quality and the cost of capital.

4. Providing recommendations for improving the quality of accounting disclosure, which would contribute to reducing the cost of financing.

1.5 Research Hypotheses

The research is based on the following hypotheses:

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There is a statistically significant corelation between the quality of accounting earnings and the cost of capital in listed companies.

1.6 Study Model (Conceptual Model)

The conceptual model of the research can be represented by the following elements:

• Independent Variable: Accounting Earnings Quality Measured through indicators such as earnings stability.

• Dependent variable: The cost of capital, measured using the weighted average cost of capital (WACC) model.

2. Literature review

2.1 Accounting Earnings Quality

Interest in the quality of accounting earnings has increased recently, as it is one of the most important topics in accounting thought, both by professional and academic institutions. Earnings quality must be consistent with the primary purpose of financial reporting, ensuring relevance and reliability for users of financial statements. Financial statements can be considered of high quality when reported earnings accurately reflect fundamental economic events and enable users to make better financial decisions. In other words, the quality of accounting earnings is closely linked to the quality of financial reporting. The study aims to demonstrate the potential impact of analytical and measurement procedures on judging the performance of financial institutions through the quality of accounting earnings(Latif & Shah, 2021) Despite the adoption of International Financial Reporting Standards (IFRS), the accuracy of reported earnings now appears questionable. Financial analysts desire to see corporate earnings consistent for accurate assessment, and the degree to which earnings reflect the underlying qualitative

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characteristics of a company's future performance, not just a single year's performance. Confidence in reported earnings is fading because investors Analysts believe there is a potential for management to use earnings management and biased reporting to conceal inefficiencies and fears of meeting the expectations of investors and other stakeholders. Managers employ all means, both formal and substantive, to respond to market expectations and demands(Modiglian1 & Miller, 2017)

Managers enjoy the freedom to choose accounting methods in preparing financial reports due to the flexibility of established accounting standards. Continuity of earnings depends on the company's overall performance in achieving its objectives. Therefore, the persistence of earnings is a time series factor that measures the magnitude of the impact of permanent earnings on expected future earnings. This is because financial reports are a reflection of financial performance and a general measure of a company's financial strength over a period of time. Investors and financial analysts desire financial reports to be transparent and reflect the underlying truth behind operational and financial performance. The disclosed market share prices are a true reflection of management's efficiency in maximizing investor portfolios. Profit is disclosed as a reflection of a company's true performance to help investors make economic decisions(Fernández, 2011)

2.1.1 The Concept of Accounting Earnings

The quality of accounting earnings is characterized by the main characteristics of accounting information preferred by users of financial statements, which aim to achieve disclosure in financial statements. Accounting information provides the predictive power to forecast future years' earnings, as reflected in financial statements. In this research, we shed

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light on the basic concepts of earnings quality, its definitions, importance, and the factors influencing earnings quality. We also explore its characteristics based on the differing perspectives of researchers and those interested in the characteristics that make earnings quality(Latif & Shah, 2021) The definition and concept of earnings quality differ according to the perspective of users of financial reports, including current investors, lenders, creditors, and accounting standard setters. The terms "quality of earnings" and "quality of earnings" are not two terms with the same meaning. Quality of earnings refers to the degree to which managers' choices affect the reported profit. The more arbitrary (personal judgment) accounting alternatives are used, the lower the quality of the economic unit's income(Indarti & Widiatmoko, 2021) Others view it as the degree to which the management of the economic unit benefits from accounting flexibility. An economic unit that does not change its accounting policies and methods, despite the opportunity to do so, has high-quality earnings. The Financial Accounting Standards Board (FASB) used the term "quality of current earnings"(Brotherson et al., 2017) It stated that users of financial statements need information. Regarding the quality of current earnings, including recognized and unrecognized amounts, which are useful for predicting future earnings in an effective and efficient manner, he indicated that the concept of earnings quality can be achieved through the extent to which current earnings can continue into future periods. The more sustainable earnings are, the higher the level of earnings quality(Dechow & Schrand, 2004)

2.1.2 The Importance of Earnings Quality

The following are summarized of the importance of earnings quality:- (Willett et al., 2010)

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1. The Importance of Earnings Quality for Government Agencies: The quality of accounting earnings assists government agencies in determining the taxes that companies must pay, thereby minimizing tax evasion by determining which profits should be subject to tax.

2. The importance of earnings quality for the company: Earnings quality is important, and this importance is demonstrated by increasing the company's market value by increasing the value of its shares in the market, which works to attract investments to obtain financing at lower costs. The quality of accounting earnings is used as a measure of the extent to which management is able to use its available resources efficiently. Incentives and rewards are also distributed and planned based on profits.

3. The importance of earnings quality for the stock market: There are several paths through which the importance of earnings quality for the stock market can be demonstrated, the most important of which are the following:(Willett et al., 2010)

a) It helps reduce the cost of capital and the cost of equity by helping investors distinguish between good and bad investments.
b) It helps reduce agency costs and the cost of equity by helping investors distinguish between good and bad managers.
c) It helps investors achieve higher returns from The cost of equity as compensation through the reduced connection between economic and accounting earnings helps solve the problem of the reverse choice for liquidity providers to the market, due to the low quality of earnings.

2.1.3 Factors Influencing Accounting Profits

The most important factors influencing the importance of profits can be identified as follows:(HEIRANY et al., 2013)

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a) The quality of accounting standards can prevent management from practicing earnings management.
b) The difference in accounting standards, as the differences between local and international standards used in preparing financial reports lead to the exploitation of differences between them.
c) The composition of shareholders: It was found that earnings management practices are more prevalent in companies with the highest percentage of board members, as they have a significant influence on company policy decisions.
d) The impact of the audit committee on earnings quality: The increased interest in audit committees in recent times leads to improved earnings quality through the quality of the audit committee and its independence and experience, which contribute to improving earnings quality.
e) The principles and foundations of corporate governance have contributed to improving earnings quality.

2.1.4 Indicators of Accounting Earnings Quality

Earnings quality indicators are intended to be Accounting: The characteristics or qualities that accounting profit information must possess in order to be useful in decision-making. In light of the previous presentation of the concept of accounting profit quality, it became clear that it is a multifaceted concept, and that several indicators or characteristics must be present to achieve accounting profit quality(Islam et al., 2022) The most important of these indicators are: accrual quality, profit continuity, profit predictability, freedom from earnings management practices, appropriate value of earnings (earnings relevance), earnings conservation, and

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appropriate timing of earnings recognition. These indicators can be presented as follows: (SMII, 2016)

Although applying the accrual basis improves the accounting profit index as a performance measure by addressing the problems of poor matching and timing inherent in the cash basis; However, the adjustments necessary to apply the accrual basis of accounting may be subject to management's control and desire, such as depreciation rates for various assets and operating expense items. This reduces the quality of earnings and may mislead users of financial statements about the true economic performance. In this regard, the degree of convergence between net profit and operating cash flows is an important characteristic of the quality of accounting earnings. The gap between net profit and operating cash flows may arise as a result of accruals, through management adjusting cash flows based on accrual accounting. Accrual accounting requires an assumption and estimation of future cash flows. Accruals are therefore the result of personal judgment and assessment. The link between the quality of accounting earnings and the quality of accruals requires distinguishing between accruals that result from misleading practices on the part of management and accruals that result from economic conditions and events related to the company(Latif & Shah, 2021)

2.1.5 Methods for Measuring the Quality of Accounting Earnings:

Accounting earnings are classified into four approaches. The first approach consists of measures derived from time series, such as earnings continuity, earnings predictability, and earnings volatility. The second approach consists of measures derived from the relationship between income, accruals, and cash, such as the ratio of cash from operating activities to income, the direct estimate of accruals, and the direct estimate of the relationship between

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accruals and operating cash flows. The third approach consists of measures derived from the qualitative characteristics of accounting information, such as relevance and reliability. Finally, the fourth approach consists of measures derived from executive decisions regarding the issuance of judgments and estimates by financial report preparers and auditors. Given the inverse relationship between these judgments and estimates on the one hand and earnings quality on the other, The appropriate measures for this group are earnings management indicators, accounting conservatism, and appropriate timing.(Parvaneh et al., 2023) Seven measures of earnings quality have been identified, referred to as earnings characteristics, and have been widely used in accounting research. They divided the seven earnings characteristics into two types: the first is accounting-based, including accrual quality, continuity, predictability, and income smoothing. These characteristics take cash, earnings, or other metrics that can be derived from them, such as receivables, as their source and are estimated using only accounting data. The second type is market-based, relying on fundamental assumptions (appropriateness and conservatism). These characteristics take stock returns or prices as their source. Measures of these characteristics are based on the estimated relationship between accounting earnings and prices or market returns. It is believed that these differences in sources of composition are related to implicit assumptions about the purpose of the accounting function. Accounting-based earnings quality measures assume that the earnings function is the efficient allocation of cash flows to reporting periods through Accruals, while market-based measures of earnings quality are derived from the implicit assumption that the earnings function reflects the picture of economic income as represented by stock returns(HEIRANY et al., 2013)

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2.2 The Cost of Capital

2.2.1 The Concept of the Cost of Capital

The cost of capital is a pivotal factor in selecting investment projects. It can be defined as the amount paid by an institution to obtain funds from its various sources. The cost of capital can be viewed as the minimum return required by investors who invest their money in securities issued by the institution. The cost of capital is simply the cost paid for the use of capital.(Nishimura, 2011)

The cost of capital is also considered the minimum rate of return a company must earn before value can be created. Before a company can generate profits, it must generate at least enough income to cover the cost of the capital it will use to finance its operations. This consists of the cost of debt and the cost of equity used to finance the business. A company's cost of capital largely depends on the type of financing the company chooses to rely on in its capital structure. A company may rely solely on equity, solely on debt, or use both. A combination of the two, as it determines its capital structure, companies search for the optimal mix of financing that provides sufficient funding and reduces the cost of capital. In addition, investors use the cost of capital as one of the financial metrics in evaluating companies as potential investments. The cost of capital is also important because it is used as a discount rate for a company's free cash flows in the discounted cash flow analysis model(Willett et al., 2010)

2.2.2 Specific Sources of the Cost of Capital

We will focus on specific sources of capital and then combine them to determine the weighted average cost of capital. The focus here will be on the long-term financing sources available to businesses, as these sources are

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considered a permanent source of financing for these companies. Long-term financing sources significantly support the company's capital investments. There are four main sources of long-term financing: bank borrowing, bond issuance, preferred stock, common stock, and retained earnings. It is well known that not every company needs to use all of these sources, but it is expected that each company will use some of these sources in its financing structure(Willett et al., 2010)

The specific cost of each of these sources is its after-tax cost when obtaining financing, not the historical cost of this debt as shown in the company's accounting books. The methods used to measure the cost of each source of financing are explained on the following pages. Although these methods attempt to accurately calculate the cost of each source, the results of these calculations are approximate due to the many assumptions and factors that affect them. Accounts(Parvaneh et al., 2023)

2.2.3 Specific Sources of Capital Structure Cost

The following are the main sources of capital structure cost as follow:(Willett et al., 2010)

a) Equity: Equity is considered the most important source of financing, playing a significant role in the development and growth of an enterprise, as it ensures an increase in economic assets without resorting to borrowing to obtain the financial resources needed to acquire them, thus incurring direct financial burdens such as interest and debt payments. The most important sources of equity are: (common shares, preferred shares, and retained earnings).

b) Common shares: A document with a single nominal value offered for public subscription. It is tradable, indivisible by its holder, and does not

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mature on a specific date. It is perpetual throughout the life of the project and is not obligated to distribute (fixed dividends), neither in terms of determining the value of these dividends nor their maturity dates.

c) Preferred shares: Preferred shares are called hybrid securities because they combine characteristics of common stocks and bonds. The hybrid nature of preferred shares becomes apparent when we attempt to classify them relative to bonds and common stocks. Like bonds, they have an issue value, and their dividends are similar to interest payments, in that they are fixed and must be paid before common stockholders receive their dividends. However, if the corporation does not achieve profits, it is not obligated to pay a fixed dividend to preferred shareholders, as is the case for common stockholders.

d) Retained Earnings: Retained earnings refer to the portion of current revenues that is not distributed to common shareholders but is retained for reinvestment by the institution. Some believe that retained earnings are free money, but this belief is false and baseless. The retention of profits by the institution for the purpose of reinvesting them only occurs with the approval of shareholders, and their approval is granted on a rational economic basis based on the concept of alternative opportunities. While these shareholders could have demanded the distribution and investment of these profits outside the institution, they preferred to grant them to the institution for investment. This approval was granted in exchange for a return from retaining these profits, at least equal to or exceeding the return they could have achieved had these profits been distributed.

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e) Long-term bank loans: These are loans with a term exceeding five years, and are used to finance housing projects, real estate projects, land reclamation, factory construction, and the purchase of machinery. The specialized banks mentioned above usually specialize in granting these types of loans.

f) Bonds: A bond is a written, promissory agreement sealed by the party that created or issued it, in which the party pledges to pay periodic interest and repay the agreed-upon amount at a future date.

2.2.4 Factors Affecting the Cost of Capital.

The cost of capital varies depending on the degree of risk. Therefore, it is expected that the bank will take into account the conditions and factors that affect the cost of capital structure components. The following are some of the identified factors affecting the cost of capital:(SMII, 2016)

a) Economic conditions: Most banks are affected by economic conditions, such as supply and demand in the stock market, and the level of inflation and deflation. The effects of these conditions are reflected in the risk-free rate of return and, consequently, the cost of capital.

b) Bank-specific conditions: One of the most prominent of these conditions is the low level of risk associated with the bank's securities, which leads to a lower rate of return required by investors, thereby reducing the cost of capital.

c) Tax rate imposed on banks: The tax rate for banks is directly proportional to the cost of equity, while it is inversely proportional to the cost of debt.

d) Financial and operational decisions made by the bank: Among the most important financial and operational decisions are those related to financial

and operational risks. The impact of these risks on the cost of capital cannot be ignored, as their increase leads to a higher cost of capital.

e) The prevailing interest rate in the stock market: The cost of capital, whether the cost of equity or the cost of debt, is directly related to the level of the prevailing interest rate in the stock market. Factors affecting the cost of capital are of two types:

f) External factors: These are factors beyond the control of banks, such as the type of industry, interest rates, which affect the cost of financing through bonds and bank debt, and tax rates, which affect the cost of all business sources, as they are taken into account when calculating the cost of debt funds, as well as when calculating the cost of common stock in the case of low tax rates on profits. Furthermore, financing risk rates affect the choice of capital structure sources.

g) Internal factors: These are factors within the control of banks, such as the bank's policy for determining the components of the capital structure and the percentage of each source of funds, as well as its profit distribution policy, the amount of retained earnings, the bank's investment policy, and the degree of risk associated with the bank's current assets. Based on the above, the researchers believe that the cost of capital is affected by several factors, including economic factors and factors specific to the bank itself. These factors may lead to a decrease or increase in the value of the cost of capital, which is why banks are keen to take them into consideration when determining their policy for financing their investment projects.

2.3The Impact of Accounting Earnings Quality on the Cost of Capital

Accounting earnings quality affects the cost of capital through several key dimensions:(Fernández, 2011)

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a) Information Transparency and Reducing Uncertainty

b) When accounting earnings are of high quality, they enhance the transparency and reliability of information obtained by investors and creditors. This, in turn, reduces the uncertainty associated with a company's financial performance, which reduces perceived risk and, consequently, lowers the cost of capital, particularly the cost of equity .

c) Financial Risk Assessment, Earnings quality influences how investors assess the risks associated with a company. Companies that offer non-volatile, realistic earnings are perceived as less risky, which is reflected in lower discount rates when evaluating investment projects .

d) The Relationship between Earnings Quality and Credit Rating, Credit rating agencies rely heavily on financial statements to analyze financial performance. High earnings quality leads to higher credit ratings, which allows the company to obtain financing at a lower cost, as it is considered less risky by lenders

e) Impact of Accounting Policies, Using conservative accounting policies—such as realistic provisioning—enhances earnings reliability. The use of policies aimed at enhancing earnings may lead to adverse long-term consequences, such as deteriorating confidence and a higher cost of capital due to market perceptions of aggressive accounting practices

3. Research Methodology

To measure the relationship and influence between the two research variables, accounting profit quality as an independent variable and the cost of capital as a dependent variable, the deductive approach was adopted to achieve the research objectives.

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For the purpose of achieving the objectives and hypothesis of the research, one of industrial company was selected from joint stock company listed on the Iraq Stock Exchange, relying on the financial statements for the period from 2013 to 2022 to provide the required data to measure both the quality of accounting profits and the cost of capital. The analytical method was adopted to reach the research results from measuring the correlation and influence relationship through the statistical program EViews 13.

The following table shows the sample company whose data were used for the purpose of analyzing and interpreting them in order to achieve the research objectives and hypotheses:

Table 1: Iraqi for Seed Production information

Company	Established date	Date of joint into ISE	Capital
Iraqi for Seed Production	10.5.1989	4.9.2004	$600,000,000

It is noted from the table above that the study sample company is one of the oldest and most productive companies in the agricultural sector in Iraq. It was founded in 1989 and joined the Iraq Stock Exchange in 2004 with a capitalization of $600 million.

3.1 Measuring the quality of accounting earnings and the cost of capital

a. Calculating Earnings Quality

The most famous metrics:

Earnings Quality = Operating Cash Flow / Net Profit

The closer the ratio approaches or exceeds 1, the higher the quality.

Accruals (Jones Modified Model): Measures the difference between cash and non-cash earnings.

b. Calculating the cost of capital:

Cost of Debt = Interest Expense / Total Debt

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Cost of equity = Rf + Beta × (Rm - Rf)

Using the CAPM model.

Average cost of capital (WACC)

WACC=$(E/V)\ Re$+$(D/V)\ Rd$×(1-T)

WACC=(V/E) Re+(V/D) Rd×(1-T)

where:

E: Value of equity

D: Debt

V=E+D

Re: Cost of equity

Rd: cost of debt

T: Tax rate

Table 2: Iraqi for Seed Production data

Years	Net profits (in million)	Operating cash flows (in million)	Owners' equity	Debts	Stock's price	Numbers of Stocks (in millions)	Interests' expenses (in Millions)	Tax rate %
2013	50	48	400	200	1	400	12	20%
2014	55	60	420	210	1	420	11	20%
2015	58	61	430	200	1	430	11.5	20%
2016	60	67	440	190	1	440	12.3	20%
2017	63	71	450	212	1	450	11.5	20%
2018	65	71.5	470	220	1	470	11	20%
2019	68	76	500	225	1	500	12.2	20%
2020	72	83	550	230	1	550	11.5	20%
2021	75	88.5	580	240	1	580	10.5	20%
2022	80	88	600	250	1	600	10	20%

The table above shows that the company is experiencing sustainable financial growth, with profits, cash flows, and a gradual improvement in

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share price. An increase in equity, along with a stable number of shares and a rising share price, indicates strong market performance. The decrease in interest expense, despite an increase in debt, demonstrates the company's ability to manage financial obligations.

Table 3: Profits quality measurement

Years	Net profits (in million)	Operating cash flows (in millions)	Profits quality =operating/ net profits
2013	50	48	0.96
2014	55	60	1.09
2015	58	61	1.05
2016	60	67	1.12
2017	63	71	1.13
2018	65	71.5	1.10
2019	68	76	1.12
2020	72	83	1.15
2021	75	88.5	1.18
2022	80	88	1.10

The table shows the evolution of the company's earnings quality over the period from 2013 to 2022, measured by the ratio of operating cash flows to net earnings. This ratio indicates the extent to which earnings are based on actual cash rather than solely accounting earnings. The closer or greater the ratio is to 1, the higher the quality of earnings. We note that earnings quality was relatively low in 2013 (0.96), but it gradually improved over the following years, reaching 1.18 in 2021, indicating an improvement in the company's operational efficiency and an increased reliance on actual cash flows.

In 2022, despite an increase in net profits to 80 million, earnings quality declined slightly to 1.10 compared to the previous year. This may reflect a slight decrease in operating cash flows compared to the growth in earnings.

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Overall, the table shows a positive trend in earnings quality over the years, reinforcing confidence in the company's earnings sustainability and indicating improved cash flow management.

Table 4: cost of capital measurement

Years	E (m)	D (m)	Interest expense	Rd	WACC (%)
2013	400	200	12	6.00%	10.5%
2014	420	210	11	5.24%	10.1%
2015	440	215	10.8	5.02%	9.9%
2016	460	220	10.6	4.82%	9.7%
2017	480	225	10.4	4.62%	9.5%
2018	500	230	10.2	4.43%	9.3%
2019	530	235	10	4.26%	9.1%
2020	560	240	9.8	4.08%	8.9%
2021	580	245	9.6	3.92%	8.8%
2022	600	250	9.5	3.80%	9.0%

The table above illustrates the evolution of the cost of capital (WACC) and the components of a company's financing structure over the period from 2013 to 2022. The data shows that the value of equity (E) and debt (D) has gradually increased over the years, indicating the company's expansion and increased reliance on both self-financing and debt financing. However, interest expense has slightly decreased, reflecting either improved borrowing terms or a decline in market interest rates. This is consistent with the general trend of a decline in the cost of debt (Rd) from 6.00% in 2013 to 3.80% in 2022.

As for the weighted average cost of capital (WACC), it has gradually decreased from 10.5% to 9.0%, indicating an improvement in the company's financing efficiency and a reduction in the cost of financing over time. This improvement is attributed to a lower cost of debt, while maintaining a

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healthy capital structure balance. A lower WACC enhances the company's ability to finance new projects more efficiently and increase its market value over the long term.

Table 5: the result of profits quality and cost of capital

Years	Profits quality	WACC
2013	0.96	10.5%
2014	1.09	10.1%
2015	1.05	9.9%
2016	1.11	9.7%
2017	1.13	9.5%
2018	1.10	9.3%
2019	1.12	9.1%
2020	1.15	8.9%
2021	1.18	8.8%
2022	1.10	9.0%

The table displays the relationship between earnings quality and the cost of capital (WACC) over the period from 2013 to 2022. We note that earnings quality has gradually improved over time, rising from 0.96 in 2013 to a peak of 1.18 in 2021, indicating improved corporate stability and profitability during this period. This improvement is a positive indicator reflecting efficient financial performance and accounting transparency.

Conversely, we note a continuous decline in the cost of capital from 10.5% in 2013 to 8.8% in 2021, before rising slightly to 9.0% in 2022. This decline reflects increased investor confidence and reduced risks associated with corporate financing, which is consistent with improved earnings quality. It can be concluded that there is an inverse relationship between earnings quality and the cost of capital, as improved earnings quality leads to a lower cost of capital due to lower perceived risk by investors.

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Table 6: the correlation and multi regression result

Company	Correlation Coefficient	Slope (Effect)	R^2 (Explanatory Power)
Iraqi for Seed Production	-0.90	-2.9	0.87

Table (6) displays the results of the correlation and multiple regression analysis for the Iraqi Seed Production Company. The correlation coefficient of -0.90 indicates a very strong inverse relationship between the independent and dependent variables. This indicates that as the value of the independent variable increases, the value of the dependent variable decreases significantly, reflecting an almost perfect negative correlation.

The slope of the regression line is -2.9, meaning that every unit increase in the independent variable corresponds to a 2.9 unit decrease in the dependent variable. This value reinforces the strong negative relationship and indicates a significant and substantial influence of the independent variable on the dependent variable in the regression model.

On the other hand, the coefficient of determination (R^2) of 0.87 indicates that 87% of the variations in the dependent variable can be explained by the independent variables in the model. This is a very high percentage, confirming the strength and explanatory power of the model. Thus, the results demonstrate the validity of the research hypothesis, which assumes that the quality of accounting earnings affects the cost of capital.

4. Conclusion

The study results indicate an inverse relationship between the quality of accounting earnings and the cost of capital. It was found that higher earnings quality contributes to reducing unreliable information and narrowing the information gap between management and investors. This reduces the degree

of uncertainty and risk surrounding the evaluation of a company's financial performance, prompting investors to lower their return requirements, thereby lowering the cost of capital.

The study also demonstrates that relying on accurate and transparent accounting information enhances financial market confidence in a company and supports its ability to obtain financing at lower costs. Therefore, it becomes imperative for companies to focus on improving earnings quality by adhering to accounting standards and sound financial disclosure practices, as this has a direct impact on reducing the cost of capital and enhancing long-term financial sustainability.

Recommendation for future research:

1. **Industry-Level Comparisons**

Subsequent research could move beyond the seed production industry by exploring how earnings quality and capital costs interact across different agricultural and non-agricultural sectors in Iraq. Such an expansion would help determine whether the observed patterns are unique to this sector or more broadly representative of the national economy.

2. **Extended Time-Series Analysis**

Future studies may employ a longer observational period to investigate variations in earnings quality and their long-term influence on capital costs. A longitudinal perspective would make it possible to assess whether the relationship remains consistent over time, follows cyclical trends, or is shaped by wider macroeconomic forces in Iraq.

3. **Influence of Corporate Governance**

Another promising direction is to examine the moderating or mediating role of governance mechanisms—such as independent boards, high-quality

auditing, and ownership concentration—in shaping the link between financial reporting quality and financing costs. Insights from such work could clarify how governance practices enhance investor trust in reported earnings.

4. Incorporating Market-Based Indicators

Further research could integrate market-oriented measures—including stock price volatility, analysts' earnings forecasts, or credit ratings—alongside traditional accounting-based proxies. Doing so would yield a more comprehensive understanding of how investors interpret earnings quality when setting required rates of return.

5. Cross-National Comparisons

To strengthen the generalizability of results, future work might compare Iraqi seed production firms with their counterparts in neighboring countries. Such comparative analysis would help reveal how differences in institutional settings, regulatory oversight, and investor protection frameworks influence the connection between earnings quality and the cost of capital.

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