International Journal of Spectrum Research in Social and Management Sciences (IJSRSMS)
1(3), July-September, 2025, Pages 75-87

ISSN: 3092-9547

https://doi.org/10.5281/zenodo.16750576

Cost of Capital and Earnings Quality of Money Deposit Banks in Nigeria

Victor Odu PhD [1] & Alexander Olawumi Dabor[2]

[1]West African Examination Council Lagos- Nigeria victorudu@yahoo.cpm
[2]Department of Accounting, Faculty of Arts, Management and Social Sciences, Edo State University Uzairue- Edo State, Nigeria.
dabor.ola4real@yahoo.com

ABSTRACT

The broad objective of the study is to examine the relationship between cost of capital and earnings quality. The scope of this study is to examine the relationship between earnings quality and cost of quality. We will restrict this study to the Nigerian banking sub sector. The study will cover a period of ten years that is 2004 -2023. Multiple regression analysis was considered as the major technique for data analysis in this study. Multiple regression analysis is most advantageous to the study because it is employed to determine the impact of independent variable on the dependent variable. The outcome divulged that eearnings conservatism positively influences cost capital of DMBs in Nigeria. The outcome of this study further divulged that earnings persistence positively influence cost of capital of listed DMBs in Nigeria. Additionally the outcome revealed that earnings predictability positively influence cost of capital of DMBs in Nigeria. Finally, the outcome of the study divulged that earnings smoothness has no emblematic influence on cost of capital of DBMs in Nigeria. The study recommends that regulators enhance the efficiency of the Nigerian stock market to improve the integration of earnings information into share prices.

Keyword: *Earnings quality, Cost of Capital, Cost of Debt, Cost of Equity*

INTRODUCTION

The commercial world has experienced series of business scandals (e.g., Enron, WorldCom and Tyco) that had traumatized investors' conviction on capital markets. Conventional governance configuration has not been able to safeguard shareholders who usually are at the receiving end of this catastrophe. In respect of this, experts and supervisory bodies in specialized markets had to restore the confidence of investors in capital markets by issuing bye law on how business entities should be run. For instance, USA promulgated Sarbanes Oxley Act in 2002 with the aim to tightening integrity, answerability, and responsibility in the management of business entities. Likewise, CG regulations have extended to many nation across the globe and more business entities are prompted to practice good CG standards. The financial catastrophe that took place in Asia in 1997 was an embryonic landscape for Asian lawmakers and businesses. A number of institutional and policy weaknesses were revealed. This catastrophe resulted to several economic restructuring in the region. Set of laws and policy have been legislated in specialized with the collaboration of international organizations like the World Bank and OECD (OECD, 1999). Financing decision is a imperative dynamic that enhance the advancement, profitability and going concern status of business entities. It helps to ascertain the best likely combinations of debt and equity in the financial configuration to in order to maximize shareholders' funds (Lucky, 2017). Additionally, it is argued that COC has two components namely external and internal. . The foremost component is the exterior component that is which is connected to the firm's shareholders - Cost of Equity Capital (COE), and the debt investors, whose main focus is the cost of Debt Capital (COD), in ascertaining the possible enlargement of the business entity. The second is the internal component, which is centered on those saddled with the responsibility of overseeing the daily activities of business and who also need COC for computing the discount factor in project venture choices (Swanson & Habibi, 2016). COCs has assumed a notable role in the choices with regard execution of project hence researchers and experts have attempted to study the subject intensively because the role it play the operation of the firm (Rad, 2014, Murtala et al., 2018)

Ivascu and Barbuta-Misu (2017) argue that the profitability of a business entity is calculated by the excellent outcomes accomplishment of a business entity virtue of the events that occur. It is irrefutable that generating income, upholding a feasible market and upsurge of the business resources both in actual and stock outlay are outstanding are wonder barometers for ascertaining the wellbeing of the firm. Incessant performance has to be the aim of all corporations since it is only through ascertainment of the financial wellbeing that a firm is availed the opportunity to add value to fund providers' wealth. Additionally, Ibrahim and Hamid (2019) argued that financial performance reflects the firm's returns on investment, productivity, and expansion as proved by the upswing in stock price and the accomplishment of financial goals. In view of the fact that COC variation is contingent upon the sources of funding, the level of risk connected to them, financial managers make effort to select a capital configuration that minimises COC and maximises the proceeds of the firm (Rahman et al., 2019).

The investment of a firm is seen to be important only when the anticipated return on capital is more than the COC. This is because a firm ought to earn as much profit as it can in order to persuade its shareholders that their investment is maximized (Nadya, Semuel & Devie, 2019). Consequently, it is imperative to identify COC as a significant variable that influence performance of firm (Alrjoub & Ahmad, 2017). The evaluation of the Nigerian capital market, which is a mean by which funds are raise to finance long-term project, is not developed when put side by side with their contemporaries in advanced nations (Luckey & Akani, 2018).

The most important role of proficiently building up capital or drum up funds from the surplus sub-sections of the economy and productively channeling areas where they are highly needed. For example, the Nigerian capital market is extremely illiquid which connotes the existence a small number of listed firms with low dimensions of dealings and low market capitalization, resulting to enhanced COC (Luckey & Akani, 2018). In spite of the evolving studies on the subject matter the integration regional differences constitute a gap that this study intend to bridge as majority existing works centred on specialized markets (Shahzad & Al-Swidi, 213; Ivascu & Barbutu-Misu, 2017; Lucky, 2017; Sumaryati & Tristiarini, 2017; Omwanza, 2018; Nadya et al., 2019). However, few indigenous studies (Ibrahim & Ibrahim, 2015; Lucky, 2017; Lucky & Akani, 2018; Akintoyee, Adegbie, Askhia & Akintola, 2019; Sam, 2019) on the study matter got mixed results. The objective of this study is ascertain the relationship between earnings quality and COC of Nigeria quoted firms.

LITERATURE REVIEW

Cost of Capital

As a substitute to the conservative technique for calculating expected returns explained in the prior literature, the oblique cost of capital (ICC) technique was introduced. Instead paying attention on the hazard attributes of the firm or the chronological attained returns of its stock, ICC is equivalent the company's projected cash flows to its present stock price. The essential method for calculating the implied cost of capital is the broadly -employed discounted cash flow evaluation. Lee et al., (2019) reported that implied cost of capital can be written in the subsequent discounted cash flow formula: ∞ Pt = $\sum E(FCFt{+}k)$ k=1 (1 +re)

Here Pt is the current price of an equity, ($FCFt{+}k$) is the probable value of the prospect cash flows and re is the expected return. The two most generally used method for estimating the implied cost of capital are the discounted dividend growth model and residual income model. Compared to other measures of expected return the main benefit of ICC is that, it is a forward looking measure employing forecasts or estimation of corporate prospective fundamentals. Compared to the widely-used *ex post* standard realized return, in this respect implied cost of capital is a better measure of expected returns

Concept of Earnings Quality

Francis, LaFond, Olsson and Schipper (2004) argued that earnings quality is a complicated term. The choice of earnings quality quantification is contingent upon on the aim of study and the availability of data and evaluation model. Some research hypotheses demand that the measurement of earnings quality is linked to financiers' opinions of earnings. For example, research that look into the worth significance of earnings presumes earnings are valuable to a specific class of market players (namely investors) whose entire decisions and choices are condensed by share prices and returns. Some authors contend that, other research hypothesis that focuses on unwavering measurement of earnings quality created employing accounting data only. Nevertheless another dimension that is momentous for selected research objectives is the idiosyncrasy amongst total, intrinsic and discretionary earnings quality. Earnings quality is perceived as the aptitude of the present earnings to forecast forth coming earnings (Penman 2007). Earnings are of high-quality if no returns overturns are foretold. With assessment in mind, investors are apprehensive about forthcoming earnings, that is, they purchase forthcoming earnings employing the present ones. Moreover, earning is perceived to have low quality if the present reported earnings are not good pointers of forthcoming ones. Schipper and Vincent (2003) asserted that earnings are the instantaneous pointer of the economic and established forces functioning on the monetary reporting procedure.

Okolie (2006) opines that is a fundamental attribute of assessing firm's financial wellbeing, even though, financiers and other users of financial regularly pay no consideration to it. Earnings quality is known as the capacity to report profit to that revealed the corporation's real profit as well as the implication of the documented profit to forecast prospect profits. Dechow and Schrand (2004) gave two definitions, nevertheless the two predispose to be similar. First, a high-quality earnings profits number is one that exclusively mirrors the firm's current execution profits, is a good pointer of forthcoming realization profit, and is a dear impetuous measurement for computing worth of a firm. Second, profit quality implies a situation where the earnings number correctly annuitizes the inherent value of the corporation. These definitions of Dechow and Schrand, emphasized the absence of augmentation of profit figure.

Accrual Quality

Francis, et al., (2003) asserted that returns which move more carefully into cash flows are extremely appropriate. Dechow and Dichev (2002) reported that earnings quality can be computed by adjusting of accruals into preceding, current and consequent phase cash flows. Richardson, et al, (2005) argued that earnings' cash constituent gives both germane and unswerving information. Thus, they linked earnings quality to cash essential of earnings expressing resolution. Barragato and Markelevich (2003) document that earnings are seen to be of high quality when the "closeness-to-cash items upswing and also argued that an earnings influx that has ability to forecast forthcoming operating cash flows.

Earnings Persistence

Earnings that divulged that an unwavering thread of growth is said to essential (Wild, Subramanyam, Halsey, 2004). Thus, in financial account evaluation uncommon, non-operating on-recurring items reported on the financial report need more concern than others with regards to quality of earnings as these objects have negative influence the retention of profits. The term "persistence" is widely employed interchangeably with maintainable earnings in the previous studies.

Penman (2003) opines that the nucleus operating income is gotten from the nucleus operating income of sales and additional operating income cores. The center operating income of sales is gotten from sales before tax which is derived from the main gross margin deducted from the operating outlays. In the interim, the hub gross margin is gotten from the core sales income deducted from the cost of sales. The earnings persistence in this work is contingent upon the term of center operating income (COI) or a statement of income, particularly for the profit or loss gotten from the normal activities of the firm. In other words, earnings persistence is calculated by the net revenue before extraordinary items (NIBE).

Predictability, Forecasting Ability and Smoother Earnings

Lipe (1990) sees predictability as “the aptitude of past earnings to predict future earnings”. According to Christian (2004), any variation on earnings outlay makes prediction of future earnings demanding as a result of flaw in the quality of earnings. Schipper and Vincent (2003) see “predictive ability as an effort to the whole financial reporting package, encompassing earnings constituents and other disaggregation’s of the précis earnings number, for humanizing users’ aptitude to predict items of interest.”

From FASB’s point of view, quality of earnings is perceived to be the worth in predicting earnings for prospect duration in both effectual and efficient way (SFAS No.132, par. 26, FASB, 1998.)

Chan, et al., (2004) see earnings quality as “the degree to which earnings quality mirrors operating fundamentals.” Contextually of share prices, the authors condemn market fascination on reported earnings while not regarding the earnings quality. They contended that as there may be temporary variations of prices away from their accurate worth, the measurement of earnings quality ought to give attention to extrapolative authority for prospect stock price movements. Similarly, Cornel and Landsman (2003) see earnings to be of good quality if it is “a measurement for calculating the associations between past performance and the value of future growth options” in terms of inevitability.

Theoretical Framework

Agency Theory

The agency theory is established on the principal-agent foundation. The taking apart of proprietorship from director in modern-day establishments generates the structure for the functionality of the agency theory. In modern eras the owners of businesses are sketchily distinct and are do not participate in the daily running of the firm but alternatively put it in the care of the directors. Managers are hired to supervise daily deeds of the corporations. The separation of proprietors from daily running of business origins scuffle amid director and proprietors. To settle this scuffle and bring into line the interests of agents with proprietors the firm incurs extra cost.

Agency theory is an assortment of arrangements employed in handling a modern-day corporation which is archetypal exclusive by mammoth number of stockholders who permit directors to supervise and accomplish their joint wealth for imminent earnings. The director, archetypal, may not uninterruptedly own stocks but can grip suitable proficient skills and competence in managing the corporation. The theory advocates copious valuable means of examining the association among proprietors and agents, approve how the crucial goal of making the most of the resources commended to them by proprietors. Agency theory identifies that functionality of the regulation as apparatus of corporate governance that lessens agency expenditures and the skirmishes between the agent and the principal. It is palpable that the owner-manager theory is frequently seen as the initial point for all conversations on the subject of corporate governance.

Agency theory is an outshot in economic theory that was exposited by Alchian and Demsetz (1972) and additionally recognized by Jensen and Meckling (1976). Jensen and Meckling (1976) define agency connotation as an arrangement in which the proprietors hire another person or the director to perform certain actions on their behalf. These deeds may comprise allotting certain decision making authority to the agent. The principal can decrease conflict of interest by generating appropriate inducements for manage and by disbursing in a method that inclines to minimalize the information asymmetrical between agent and the principal. Control of agency glitches in the decision making is dynamic when the decision managers who inductee and impose vigorous verdict are not the main remaining applicants and therefore do not have a foremost voting rights. Without good checks and balances devices, such choicecreators are likely to make choice that depart from the mutual interests of non-controlling interest. Discrete decision manager can indulged in the making assured decisions. Separation of ownership suggests that an cluster persons does not wield exclusive power in all decision making procedures (Fama & Jensen, 1983).

In Agency theory the director go all-out to achieve his separate objectives at the detriment of the owners. Agents are frequently persuaded by their own individual interests and gains, and labor to enhance their own separate gain instead putting shareholders' interests first. To reduce agency scuffle there must be good overseeing and supervisory apparatus that help to make sure that agents perform the interests of stockholders rather than their individual interests. Agency glitch can be seen from two perspectives namely, adverse selection and moral hazard.

Adverse selection can occurs if the director pervert his fitness to carry out the functions allocated to him by owners. Moral hazard occurs when the certain managers dodges the responsibilities or flounders due to nonexistence of suitable assurance to the allotted responsibilities. Such abysmal performance of manager, even when his deed will be beneficial, owners are seen hazardous because of residual expenditures that will come with the deed. This expenditures shoot out from sub-optimum performance of directors and are known as agency costs (Bathula, 2008). The believed corporate governance hypothesizes a vital straining amid shareholders and business executives (Jensen & Meckling, 1976).The goal of a corporation's shareholders is get high dividends but directors are likely to have conflicting aims, such as the authority and repute of making a great firms, and other benefits accrued to their positions. Executives' outstanding entree to classified info and the reasonably influential position of the numerous and distinctsh areholders, suggests that agent are plausible to have the greater control (Fama & Jensen, 1983).

Subsequently, bondholders oversee and direct the activities of agents via their representatives such as board of directors. Non-executive directors are perceived as a vivacious apparatusfor safeguarding bondholders from manipulating directors and also assist to meritoriously restrict managers' excesses with respects to fund management. Fama and Jensen (1983) opine that in order to curtail agency skirmish that shoots from the separation of proprietorship and monitoring of the corporation in way that generates a system that permits it discrete the power of decision maker from decision regulator.

The agency theory conveys a foundation for the predominance of organizations via several innermost and outer apparatus. Corporate governance devices are created to validate the concern of owners and directors, decrease the unscrupulous deeds of directors and safeguard shareholder trepidations, by and large to settling agency glitch (Habbash, 2010). Corporate governance is an device by which stockholders are assured that directors' deed will be to their own advantage. Agency theory suggests that there are several devices that can be hired to reduce conflict between agent and owners.

Empirical Review

Utami (2006) examined the association of earnings quality with cost of equity of listed firms in Nigeria. The study employed OLS econometric methodology to ascertain the link of explanation variable to the independent variables. The results divulged that there is a positive association of COC with earnings quality of the firms understudied. Francis et al., (2008) look at the link earnings quality to cost of capital. The study used a sample of 677 quoted companies in UK. GLS econometric methodology was adopted for analyzing data extracted from secondary source. The outcome of the study revealed that earnings quality has an adverse effect of cost of capital. Purwanto (2008) investigated the connection of earnings quality to cost of debt of selected firms in the UK. A sample of eighteen firms was used for the study. The study employed GLS econometric methodology to analyze data gotten from secondary source. The findings of the study revealed earnings quality has a negative relationship with COC. Li et al., (2009) look at the connection earnings quality to cost of equity capital. The study employed entirety of accruals as a measurement of earnings quality. The study used OLS econometric methodology to analyze data gotten from secondary source. The outcome of the study revealed that cost of equity capital has no significant relationship with earnings quality.

Francis et al., (2003) scrutinize the connection of COC to seven characteristics of earnings: quality, persistence, predictability, smoothness, value relevance, timeliness and conservatism. The work reports four dynamics of earnings quality as accounting-based since these measurement are characteristically contingent upon on accounting information only. It describes the last three characteristics as market-based because the measurement for these dynamics are classically contingent upon on association of market data with accounting data.. Across both sets of tests, the result revealed that companies with positive values of each characteristic independently, enjoy considerably lower costs of capital than firms with the least positive values.

Ghosh and Moon (2010) examine the relationship between earnings quality using large international datasets a non-monotonic, curvilinear association **at** low to reasonable debt levels**.** The outcomes the study divulged that firms with higher earnings quality pay lower borrowing costs; but an extremely exorbitant cost of debt**.** The association flips, with quality-eroding efforts to abide by covenants opposing the benefits. Nikoomaram (2011) look at the connection cost of debt to six proxies of earning quality. The study used GLS to analyze the data extracted from secondary source for ten years. The study used a sample of 567 firms. The outcome of the study revealed that cost of debt is negatively related to earnings quality.

Hsu and Yu (2015) look at the connection of costs of equity to earnings quality of selected listed firms in Taiwan for the duration of eleven years using a sample of 943. The study employed OLS methodology to analyze data extracted from a secondary source. The outcome of the study revealed that cost of equity is positively influenced accruals quality. Persakis (2015) look at the connection of cost of capital to quality of earnings. The study employed OLS methodology to analyze data extracted from eighteen nations which are classified into three cluster as per echelon financiers safeguard contingent upon on country classification of Leuz classification. The findings of the work revealed that cost of capital does not significantly affect earnings quality.

Eliwa, et al., (2016) carried a study research to ascertain the connection of earnings quality to cost of equity of selected listed firm in UK. The study used a parametric statistical technique to analyze the data drawn from secondary source. The study covered the duration of two years. The outcomes of the study revealed that earnings quality is inversely proportionate to cost of equity of selected firms.

Carmo, et al., (2016) carry out a research to ascertain the connection of cost to debt and earnings quality using selected sample of Portuguese. The study employed OLS to analyze data gathered from secondary source. The outcome of the study revealed that earnings quality is inversely proportionate to cost of debt. The outcome of the study further divulged earning quality adversely influence cost of capital.

Orazalin and Akhmetzhanov (2019**)** carried out a research to ascertain the connection of earnings quality to cost of debt on selected firms quoted focus on Kazakhstan stock market for duration of six years, (2011–2016). The findings of the research divulged that cost of debt is inversely proportionate to earnings quality of selected Kazakhstan.

Indarti et al., (2019) investigate the link of earnings quality to cost of equity capital using OLS. The population of the work comprises listed manufacturing firms in for the duration of three, 2014-2016. .Chosing research a sample of one hundred and eight firms was used for the study. The outcome the study revealed that earnings quality has a negative influence on the cost of equity capital. Kim, at al., (2020) performed a research to ascertain the earnings quality to cost of debt of selected 14,654 firms from eighteen randomly selected developing nations. The outcomes of the study divulged that earnings quality is directly proportionate to cost of debt for the selected sample. The research implies that when earnings quality increases cost of debt will reduce.

Ahmed et al. (2021) carried a study to find the connection of cost to debt and earnings quality of selected common law countries. The research adopted a sample of 948 firms drawn from selected nations. The study used GLS methodology to analyze data gathered from a secondary source. The outcome divulged cost of equity t is inversely proportionate to earnings quality in common-law nations (U.S./UK),

Van Vu et al. (2022) carried out a study to ascertain the association between earnings quality and cost of capital of selected quoted Vietnamese companies for a period of ten years, (2010–2019). The study used GLS econometric methodology to analyze data extracted from a secondary source. The result revealed that earnings quality is inversely proportionate with cost of capital of quoted companies used for the study.

Liu (2022) look at the connection of earnings quality to cost debt of selected listed Chinese financial institutions. The research employed a general least regression methodology to run data collected from the field. The findings of the study divulged that reduction in provisions upswing reported earnings leads low interest expenditure. The findings of the research further divulged that earnings quality is directly proportionate to cost of debt. González-Sánchez (2023) carried out a research to ascertain the relationship between earnings quality and cost of debt. The study used selected developing European employing OLS econometric methodology. The study covers a period of 10 years. The result revealed that earnings quality leads to reduction in cost of debt for sample understudied. Frank (2023) carried a study to find the association between costs of debt with earnings quality of selected firms in Ghana. The study used OLS econometric methodology to analyze data collected from secondary source. The study covered the duration of fifteen years. The outcome of the study revealed that low earnings quality lead to upswing in cost of debt of quoted Ghanaian companies used for the study.

RESEARCH METHOD

Population of the Study

The population of the study constitutes all the fifteen quoted deposit money bank in the Nigerian as at 31st December, 2023.

Sample of the Study

The study employs some criteria in filtering the population. Out of the fifteen firms listed in stock exchange group, thirteen of them were selected using census sampling technique.

Sources of Data

The data is extracted from secondary source only. It was extracted from the audited financial report of the selected companies used for the study covering a duration of ten years (10) years (2014-2023).

Model Specification

The data collected from the financial statements and market value (share prices) of the sampled firms is used to compute earnings quality.

$CoC = \beta o + \beta_1 ECONSER + \beta_2 EPEST + \beta_3\ ESMITH + EPED + \varepsilon it$

Where Sp= share price

βo= intercept

EACONSER = Earnings conservatism

EPREST = Earnings persistence

ESMITH= Earnings Smoothen

Model Definition

Acronym	Variable	Measurement	Status	Apriori sign

ECONVER	Earnings conservatism	The difference between actual EPS and forecast EPS.	Atiase et al (2010)	+
EPREST	Earnings persistence	The slope of coefficient by regressing current earnings on preceding earnings of a firm.	Aguguom and Salawu (2018); Al-Shar and Dongfang (2017)	+
EPRED	Earnings predictability	It is measured as the residual of the model for earning persistence	Aguguom and Salawu (2018); Al-Shar and Dongfang (2017)	+
ESMITH	Earnings smoothness	It is measured as the residual of seasonally decomposed EPS	Francis et al(2004); Lyimo(2014)	+

Source: Researcher's computation (2025)

Techniques of Data Analysis

Multiple regression analysis was considered as the major technique for data analysis in this study. Multiple regression analysis is most advantageous to the study because it is employed to determine the impact of independent variable on the dependent variable. This technique is used because of its ability to predict the relationship between share price and earnings quality of quoted consumer good firms in Nigeria.

RESULTS AND DISCUSSION

Diagnostic Test

Test of regression Assumptions

Table 4.3 Regression Assumptions Test

Multicollinearity test		
Variable	Coefficient Variance	Centred VIF
ECONSE	8.0302	1.12
EPEST	9.0305	1.09
ESMOTH	5.4212	1.21
EPRED	5.7004	3.07
Heteroskedasticity Test: ARCH		
F-statistic = 0.64	Prob. F(1,769)	0.72
Breusch-Godfrey Serial Correlation LM Test:		
F-statistic = 388.8	Prob. F(2,768)	0.09
Ramsey model test		
F-statistic = 67.45	Prob. F(1,769)	0.30

Source: Researcher's Computation (2025)

To additionally reinforce the findings of the nonexistence multicollinearity, we performed a residual diagnostic test of variance inflation factor. From table 4.3, it is revealed that the variance inflation factor (VIF) which a measurement the echelon of collinearity between the dynamics divulge how much of the variance of a variable, mainly possible the coefficient estimate of a regressor has been misreported due to collinearity with the other dynamics or expected regressors. They can be computed by merely dividing variation of a coefficient predictable by the discrepancy of that coefficient had other regressors not been included in the equation. The VIFs are negatively associated to the acceptance with higher values demonstrating the participation of more stern associations. Fundamentally, VIFs above 10 are perceived as a cause of alarm (Landau & Everit, 2003). In conclusion, the VIFs of the entire dynamics are less than 10 demonstrating the improbability of multicollinearity amongst the dynamics and hence the dynamics satisfy a extremely significant condition the multivariate regression analysis.

The ARCH test for heteroskedasticity was carried on the residuals as a safety measure. The outcomes divulged likelihood in excess of 0.05 which led us to the rejection the existence of heteroskedasticity in the residuals. The Lagrange Multiplier (LM) examine for greater order autocorrelation divulges that the hypotheses of zero autocorrelation in the residuals were accepted. This was because the likelihood (Prob. F, Prob. Chi-Square) were moe than 0.05. The LM test did not, consequently, divulged serial correlation glitches for the model. The performance of the Ramsey RESET test revealed high likelihood values that were more than 0.05, denoting that there was no momentous proof of miss-specification.

Table 3 Regress result

Variables	Aprori sign	Fixed effect
C		7.3956 (63.707) {0.000}
ECONSE	**+**	0.52602 (3.85797) { 0.0060}
EPEST	+	0.00627 (2.3965) **{**0.0025}
EPRED	+	0.01262 (2.90626) {0.0012}
ESMITH	+	1.60000 (0.908739) **{ 0.0800}**
R^2		0.71
R^2Adjusted		0.645
F-statistic (p value)		21.87 0.00
DW-sta		1.61
Hausman		

Source: Researcher's compilation (2025) ** sig @ 5%,* For model using fixed effect least square; divulged that earnings conservatism (ECONSE) positively influence cost of capital as depicted t=3.8579 and p= 006. This influence is emblematic at 5% (p=0.006<005). The outcome additionally divulged that earnings persistence positively influence on cost of capital. This effect is significant at 5% since (p=0.00<0.05). Additionally, the result reveals earnings predictability (EPRED) positively influence cost of capital as depicted by t= .90626 and p=0.0012. This influence is emblematic at 5% since p= 0.0.0012< 0.05.

Additionally, the result reveals earnings predictability positively influence cost of capital as portrayed by t= 2.90626 and p=0.0012. This influence is emblematic at 5% since p= 0.0.0012< 0.05. Finally, the outcome divulged that earnings smoothing (ESMTH) has a positive effect on share price as depicted by t=0.9087 and p= 0.080

The model bounds are as follows; coefficient of determination (R^2) = .64% ADJ R^2 = 0.567808. These values confers that the mock-up elucidates about 64% of methodical deviations in cost of capital. The F-stat=18, P (f-stat) = 0.00 and D.W=1.5. The F-value of 21.87 corroborate that the hypothesis of an emblematic association between the variables (dependent and independent) is accepted at 5% level while the D.W statistic infers that a serial correlation existence in the residuals is unlikely.

Discussion of Findings

The robust estimation outcomes for the fixed effects estimation reveal earnings conservatism positively influence cost of capital This outcome is at variance with Ioannidis (2019) which show earnings surprise has a negative effect cost of capital and also Kotharis et al (2006) which revealed that there is no significant association between earnings conservatism and cost of capital. However, the result is in line extant positive gotten by Zou and Chen (2017) result is at variance with Junxiong (2004) which shows that earnings conservatism has no noteworthy influence on cost of capital.

The robust estimation outcomes for the fixed effects estimation further revealed that earnings persistence has a positive influence on cost of capital. This outcome is at variance Kpeli (2013) which reveals that earnings persistence has no emblematic influence on cost of capital. This outcome is in line with Aguguom and Rafia (2018) which revealed that earnings persistence has positive effect on cost of capital. Additionally, the outcome revealed earnings predictability positively influence on cost of capital. This outcome is Jing (2007) which revealed the earnings predictability has a positive effect on cost of capital. This result is however at variance with Aguaguom and Salawu (2018) which revealed that earnings surprise has a negative effect on cost of capital.

Finally, the robust regression outcome using the fixed effects estimation revealed that the earnings smoothness has no significant effect on cost of capital. This result corroborates with Hossein and Sanaz (2012) which shows that earnings smoothen has no emblematic influence on cost of capital. However this result is at variance with Ajekwe and Ibiamke (2017) which revealed that earnings smoothness has a negative influence on cost of capital.

Test of Hypotheses

Hypothesis One

Ho.*Earnings conservatism has no significant effect on cost of debt of consumer goods sector in Nigeria*

The outcome divulged that earning surprise positively influence on cost of capital as portrayed by t=3.8579 and p= 006.. Since pcal 0.006 <0.05 we reject null hypothesis and suggest that
Earnings surprise has positive effect on cost of capital of DMBs in Nigeria

Hypothesis Two

Ho: Earnings persistence has no significant effect on cost of capital of DMBs in Nigeria

The outcome revealed that Earnings persistence positively influence cost of capital portrayed by p= 0.0149. Since pcal < 0.05 we don't accept null hypothesis which suggest earnings persistence positively influence cost of capital of DMBs in Nigeria.

Hypothesis Three

Ho : Earnings predictability has no significant effect on cost capital of DMBs in Nigeria;

The outcome divulged that earnings predictability positively influence cost of capital as portrayed by t= .90626 and p=0.0012. Given that pcal 0.001<pcri we reject null hypothesis which suggest that earnings predictability positively influence cost of capital of DMBs in Nigeria

Hypothesis Four

Ho: Earnings smoothness has no significant effect on cost of capital of consumer goods sector in Nigeria. The result revealed that earnings smoothness positively influence cost of capital as portrayed by t=0.9087 and p= 0.080. Since pcal = 0.08> 0.05 we do not reject the null hypothesis which suggest that: earnings smoothness has no significant effect on cost of capital of consumer goods sector in Nigeria.

RECOMMENDATIONS

From the findings of the study, the recommendations for improving audit quality include:

1. Regulators should improve the level of market efficiency of the stock market. For this will improve the rate at which earnings news will be impounded into share price
2. SEC should carry out random stress test firms in order to ascertain their compliance level.

REFERENCES

Abdelghany K (2005) Measuring the quality of earnings. *Management Audit Journal*, 20(9):1001–1015

Adelegan O.Y. (2003) An empirical analysis of the relationship between cash flows and dividend changes. A Paper presented at the 23rd Annual congress of the European Accounting Association, Munich Germany.

Al-Shar OZ, Dongfang Q (2017) Evaluations on the earning quality of listed firms in Jordan. International Journal of Academic *Research in Accounting, Finance and Management Science,* 7(4):21–324.

Alduais F (2020). An empirical study of the earnings –returns association: an evidence from China's A-share market. *Future Business Journal*, 6(1):1–125.

Anjum S (2020) Impact of market anomalies on stock exchange: a comparative study of KSE and PSX. *Future Business Journal,* 6(1):1–11

Atiase R, Li H, & Supattarakul S, Tse S (2005) Market reaction to multiple contemporaneous earnings signals: Earnings announcements and future earnings guidance. *Rev Accounting Study* 10(4):497–525.

Bulsiewicz J.G. (2020) Forecastability of earnings surprises. *International Journal of Accounting and Finance Rep* 10(4):30-37

Casey K.M, &Anderson D.C. (1999) Examining the impact of the tax reform act on corporate dividend policy: a new methodology. *Journal of Finance Rev,* 34(3):17–289.

DuCharme LL., Liu. Y,& Malatesta, P.H. (2004) Earnings management and earnings surprises: Stock price reactions to earnings components [Paper presentation]. Seattle University, USA

Ehrhardt MC, Brighan EF (2016) Corporate finance, 4th ed. CengageLearning.

Ejuvbekpokpo .A.S, & Edesiri G.O. (2014) Determinants of stock price movement in Nigeria: evidence from the Nigerian stock exchange. *Journal of Economics Sustainability Development* 5(3):1–7

Ekpe MT, Obasi R., Abdullahi S.R., Mustapha. U.A., & Rashid, N. (2020) Earnings surprises and stock price reactions of quoted companies in Nigeria. *International Journal of Finance Research*, 11(4):306–324

Erlein M (2011) Earnings announcements and stock returns–A study of efficiency in the Norwegian Capital Market [Master's thesis, Universitetet Stavanger]14.

Fonou-Dombelu, N.C., Mbonigaba J., Olarewaju,O.M.,& Nomlala B.C. (2022) Earnings quality measures and stock return volatility in South Africa. *Future Business Journal*, 8(4):1–15 15.

Heni A, Rizki AM (2022).Effect of earnings surprise and earnings per share on stock return. *Business Finance Journal*, 6(2):75–8116.

Huang J (2016) The impact of earnings announcement surprise on stockprices [Degree thesis, Trinity College.17.

Hwang HB, Liu B., & Lou, D. (2014) Consistent earnings surprises. www.bhwang. com/ a.../ z.../ consi stent% 20ear nings% 20sur prises. Pdf.

Ibrahim, M. (2016) Effect of earnings quality properties on share price of listed manufacturing firms in Nigeria [Doctoral thesis, Ahmadu Bello University.

Ioannidis A (2019) Earnings surprise and the effect on stock return: Evidence on learning theory [Master's thesis, Erasmus University]

Kothari SP, Lewellen J, Warner, J.B. (2006) Stock returns, aggregate earnings surprises and behavioral finance. *Journal of Finance Economic*s, 7(9):537–568.

Lee C, Alan J, Marcus, Z.R., & Hassan, T. (2011) Earnings guidance, earnings management and share prices [Paper presentation]. Boston College, USA.

Lim, S. (2009) Assessing the effects of earnings surprise on returns and volatility with high frequency data [Paper presentation]. Duke University

Lyimo G.D. (2014). Earnings surprise and earnings smoothness and stock price informativeness in India. International Journal of Academic Research in Accounting, Finance and Management Science, 4(2):384–395

Lyimo GD, Jain G (2014) Predictability, persistence of earnings and stock price synchronicity: evidence from Indian Stock Market. *International Journal of Economics, Commerce and Management*, 2(6):1–16 25.

Nichols C, Wahlen JM (2004) How do earnings numbers relate to stock returns? A review of classic accounting research with updated evidence.Account Horiz 18(4):263–286

Ogbaisi, S. A. (2021). Earnings quality and share price of firms in Nigeria: Is there a missing link? SAU Edited Conference Proceedings, April, 158-166

Ogbaisi, S.A., Dabor., E.L., & Omokhudu.O.O. (2022). Earnings surprise and share price of firms in Nigeria. Future Business Journal 8:35.https://doi.org/10.1186/s43093-022-0.0143

Ohlson, J.A. (1995) Earnings, book values, and dividends in equity valuation. *Contemporary Accounting Research,* 11(2):23–45

Okoro, E. C., & Ofor, T.N. (2019). Determinants of accounting earnings surprises in an emerging economy. International Journal of Innovative. *Finance and Economics Research,* 7(4), 29-44.

Omokhudu O.O, Ibadin, P.O. (2015) The value relevance of accounting information: evidence from Nigeria. Accounting Journal of Financial Research, 4(3):20–30

Papavassiliou, V. G., & Kinateder, H. (2021). Information shares and market quality before and during the European sovereign debt crisis. Journal of International Financial Markets, Institutions and Money, 72.31.

Shehu U.H, Abubakar A. (2012). Corporate governance, earnings management and financial performance: a case of Nigerian manufacturing firms. American International Journal of Contemporary Research, 2(7):214–226

Simo-Kengne B, Bittencourt M, Gupta R (2012) House prices and economic growth in South Africa: evidence from provincial level data. J Real. Estate Lit 20(1):97–117.

Skinner DJ, Sloan RG (2000) Earnings surprises, growth expectations and stock returns [Paper presentation]. University of Michigan Business School.

Yodbutr A (2017) Corporate governance and earnings quality: The case of Thai financial institutions. International Journal of Management Applied Science, 3(3):97–102.
Zou L, Chen R (2017) Earnings surprises, investor sentiments and contrarian strategies. International Journal of Economics of Financial Issues 7(1):133–143Publisher's Note Springer Nature remains neutral with regard to jurisdictional claims in published maps and institutional affiliations