

The impact of the predictive ability of accounting earnings on the cost of capital

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Abstract:

The research aims to study the impact of the predictive ability of accounting profits on the cost of capital in companies listed on the Qatar Stock Exchange. To achieve The research aims to study the impact of the predictive ability of accounting profits othis goal, the researcher used the descriptive approach to analyze the published financial data of companies listed on the Qatar Stock Exchange, which number 37 companies during the period from 2019 to 2023. They were selected based on the availability of the necessary financial data. The researcher also used multiple statistical analysis methods, including multiple regression, to evaluate the relationship between the independent variable (predictive ability of profits) and the dependent variable (cost of capital). The study found a weakness in the level of predictive ability of profits in the companies under study. It also found an inverse significant relationship between the predictive ability of accounting profits and the cost of capital. The results showed that companies with high predictive ability have lower capital costs, which reflects investor confidence and reduces the degree of risk.

Keywords: predictive ability of accounting earnings, cost of capital, quality of accounting earnings.

1- introduction:

The financial information included in the financial statements, which constitute inputs for decision makers, is one of the most important factors that investors rely on in making their investment decisions, as it provides investors with a comprehensive set of financial data that helps them evaluate the current and future performance of companies. One of the most important of these data is the predictive ability of profits, which expresses the extent to which the profits achieved in the current period can predict the expected profits in future periods. Therefore, the predictive ability of profits is one of the elements of profit quality. If the current profits accurately reflect the expected future performance of the company, this indicates that the profits have a high predictive ability. This indicates the efficiency of the company's financial performance and its ability to adapt to surrounding variables. Therefore, investors view these companies that have a high ability to predict as more attractive for investment and less risky.

Predictive ability can affect the cost of capital, which is an important indicator in determining the extent to which a company is able to obtain the necessary financing to finance its activities and projects. When a company has a high predictive ability that enables it to accurately determine its future profits,

this will increase investors' confidence in the company and reduce their degree of uncertainty, which will prompt them to accept lower returns due to their lower degree of risk. Consequently, the institution can borrow money from investors at a lower cost.

2- Previous studies:

First: Studies in Arabic:

1- Rafaei et al., (2024) "The Impact of Profit Continuity on the Cost of Capital" An Experimental Study on Egyptian Joint Stock Companies

This study aimed to identify the impact of earnings continuity on the cost of capital in Egyptian joint stock companies. To achieve this goal, the weighted average cost of capital model was used to measure the cost of capital, and the Francis and colleagues (2004) model was used to measure earnings continuity. This study was applied to a sample of 46 non-financial companies listed on the Egyptian Stock Exchange for the period (2014-2019) with a total of (274) observations, in addition to data for the year (2013) to calculate some variables. The study concluded that there is an inverse impact of earnings continuity on the cost of owned capital, meaning that when the level of earnings continuity increases, the cost of capital decreases.

2- Metwally's study, (2023) A study of the predictive ability of accounting net profit and comprehensive income on the sustainability of profits: An experimental study on Egyptian joint-stock companies.

This study aims to know the relationship between net profit and the sustainability of accounting profits in the following periods, as well as the relationship between the value of comprehensive income and the sustainability of accounting profits. The research also deals with testing the relationship between the components of comprehensive income and their ability to predict the sustainability of accounting profits for subsequent periods. The study relied on the multiple regression model to analyze these relationships, and it was applied to a sample of 35 joint-stock companies registered on the Egyptian Stock Exchange, during the period from 2017 to 2021. The results of the study found a positive significant relationship between accounting net profit and the sustainability of accounting profits in the following periods, in addition to a similar positive relationship between the value of comprehensive income and the sustainability of accounting profits. The study also showed a positive significant relationship between the gains or losses resulting from translating financial statements (which is one of the components of comprehensive income) and the sustainability of accounting profits in the following periods.

3- Awad et al., (2022) "The Impact of Earnings Quality on the Cost of Capital: An Applied Study on a Sample of Companies Listed in the Iraq Stock Exchange",

this study aimed to know the impact of earnings quality on the cost of capital, as it seeks to show the relationship between the quality of accounting earnings and the cost of capital and its impact on users, and an applied study was conducted on a sample of 15 companies listed in the Iraq Stock Exchange, which included two sectors: the banking sector (11 banks) and the industrial sector (4 companies) during the period from 2009 to 2018. The results of the study showed a negative impact of earnings quality on the cost of capital.

4- Study of Suleiman, Ahmed, (2021) A proposed framework for improving the quality of earnings and its impact on the cost of capital using the graphical equation modeling methodology.

The researcher aims through this study to analyze the relationship between the quality of accounting earnings and the cost of capital in the presence of the mediating role of information asymmetry risks. The researcher used the structural equation modeling methodology, and based on the results of the confirmatory factor analysis for each of the two latent variables of the study (independent and

mediating), the researcher finds the significance of three basic measures of earnings quality, which are: the quality of accruals, the timing of recognition of profits and losses, and extraordinary discretionary expenses. He also finds the significance of only one measure of information asymmetry, which is the Bid Ask Spread.

5- Study of Sulim, Atwa (2021) "Measuring the impact of the joint audit approach on the relationship between earnings quality and the cost of capital",

this research aims to study the organizing role played by the joint audit approach in the relationship between earnings quality and the cost of capital. The study was applied to a sample of non-financial companies listed in the Egyptian market during the period from 2010 to 2017, where the sample included 95 companies with a total of 760 observations. The results of the study showed a negative significant impact of earnings quality on the cost of capital, and the evidence extracted proved that there is no impact of the joint audit approach on the relationship between accounting earnings quality and the cost of capital.

6- Abu Samak, (2018) "The Impact of Earnings Continuity and Its Components on the Predictive Ability of Earnings: Evidence from an Emerging Market",

This study examines the relationship between earnings continuity and its components and their ability to predict earnings in emerging markets after the implementation of international financial reporting standards during the period from 2008 to 2015. The study was applied to a sample of 143 non-financial companies listed on the Egyptian Stock Exchange. The study found that there was continuity in the earnings of the companies within the sample, and the accrual basis element showed greater continuity compared to cash flows.

7- Study (Juma, 2017) "The impact of the quality of accounting earnings on the cost of capital: an applied study on companies listed on the Egyptian Stock Exchange.

"The study aimed to reveal the impact of the quality of accounting earnings on the cost of capital. The study included 47 companies listed on the Egyptian Stock Exchange during 2014. The study concluded that the asymmetry of information resulting from the low quality of accounting earnings is considered a systematic information risk that cannot be diversified, because the informed investor has an information advantage when forming his investment portfolio. Then, uninformed investors will demand compensation in the form of higher expected returns to hold and buy shares of the company with asymmetric information. Therefore, the lower the quality of accounting earnings, the higher the cost of capital.

8- Study by Ali, Rabie, 2017 "The role of predictive ability of earnings in reducing information asymmetry: A field study in the Damascus Stock Exchange",

this research aimed to study the role of predictive ability of earnings in reducing information asymmetry in the Damascus Stock Exchange. This study was applied to a sample of joint stock companies listed in the Damascus Stock Exchange consisting of /24/ companies in addition to a sample of auditors, where /150/ questionnaires were distributed, /105/ questionnaires were retrieved. One of the most important results reached by the study is that the accounting profits disclosed in the financial reports play an important role in enhancing investors' expectations, and that maintaining the principle of timing of recognition of cash flows related to profits would increase investors' confidence in the disclosed financial reports. In addition, the evaluation of management performance and the level of information symmetry between it and other relevant parties is done through the information disclosed in the profits, especially the cash recognition directly related to the returns.

9- Al-Bastanji, 2014 "The sustainability of current profits and their ability to predict future profits and operating cash flows in light of the phenomenon of earnings management.

"The study aimed to investigate the continuity of current profits and their ability to predict profits and operating cash flows in light of the phenomenon of earnings management. To achieve the research objectives, the study was applied to a sample of 103 companies listed on the Amman Stock Exchange during the period between 2011 and 2016. One of the most important results reached by the study is the existence of important indicators with statistical significance on the practice of earnings management by Jordanian public shareholding industrial and service companies in almost equal proportions. The study also found a negative correlation between earnings management and both the ability of current profits to predict future profits for public shareholding service companies and the ability of current profits to predict future operating cash flows for public shareholding industrial and service companies listed on the Amman Stock Exchange.

10- The study (Abu Ali et al., 2011) "The impact of accounting earnings quality on the cost of borrowing according to international financial reporting standards",

the study aimed to identify the impact of accounting earnings quality on the cost of borrowing for industrial and service companies listed on the Amman Stock Exchange. The study was applied to the financial statements of a sample of (78) companies, including (51) industrial companies and (27) service companies, during the period from 1993 to 2007. The qualitative characteristics of accounting information and international financial reporting standards were used to measure the quality of accounting earnings and its impact on the cost of borrowing. The study concluded that there is an impact of accounting earnings quality on the cost of borrowing, in addition to the impact of accounting earnings characteristics individually on the cost of borrowing with the exception of accounting earnings smoothing. The impact of the dimension of accounting earnings reliability was higher than the impact of the dimension of accounting earnings suitability on the cost of borrowing, and accounting conservatism had a weak impact on the cost of borrowing.

Second: Studies in English:

1- Chih-Yi,et.al. (2021). A Study on the Relationship between Earnings Quality and Capital Cost-Takes the China Listed Companies as a Sample.

The aim of the study was to study the relationship between earnings quality and the cost of capital. To achieve the study objectives, data were collected from companies listed on the Chinese stock market from 2015 to 2019. The researchers used complementary quantile regression using the ordinary least square method to explore the relationship between earnings quality and the cost of capital. One of the most important results of the study is that high earnings management increases the cost of capital.

2- Aysha,et.al. (2021). The Impact of Quality of Accounting Information on Cost of Capital: Insight from an Emerging Economy. Asian Economic and Financial

This study aimed to know the impact of the quality of accounting information on the cost of capital in companies. Listed on the Pakistan Stock Exchange, to achieve the research objectives, the researcher used the financial data of the companies under study between 2001 and 2019. Among the most important results reached by the researcher: The characteristics of accounting information (predictive value, neutrality, completeness and freedom from error) affect the cost of capital. The study also concluded the importance of investors taking these characteristics into account when making their investment decisions.

3- Zuzana,et.al. (2020). Capital cost quantification model in business activity planning: the evidence of the middle europe countrie

The paper aimed to build a model to calculate the cost of capital in European countries. The study included a sample of 3583 companies in Central European countries. Based on linear regression

analysis on the research samples, the study concluded that there is an impact of the predictive power of profits on the cost of capital, which affects investment decisions and capital structure. The study presented a model to calculate the cost of capital in Central European countries.

4- Kordlouie et al (2019) Investigating The Relationship Between Earnings Quality, Audit Quality and Capital Cost Despite Iran's Economic Sanctions in Tehran Stock Exchange

The study aimed to know the relationship between earnings quality, audit quality and cost of capital. The study was applied to Iranian companies listed on the Tehran Stock Exchange during the period (2009-2015). The study concluded that there is an inverse relationship between earnings quality and cost of capital, and an inverse relationship between audit quality and cost of capital.

What distinguishes this study from previous studies: This study agrees with most previous studies in its reliance on analyzing the financial data of the companies under study for a specific period of time, and it also agrees with some of them in the methods of measuring the study variables. The most important thing that distinguishes this study from previous studies is the study of the impact of the predictive ability of profits on the cost of capital. The researcher did not find, through his survey of previous studies, any study that addressed the impact of the predictive ability of profits on the cost of capital in emerging markets such as the Qatar Stock Exchange. Previous studies addressed the quality of profits in general without specifying a specific characteristic of the quality of profits. This study was also distinguished by the modernity of the financial data of the study sample, which included the years from 2019 to 2023.

3- Research problem: Companies face a major challenge in attracting investors and financing their activities. The cost of capital plays an important role in determining the company's ability to grow and profit. One of the most important factors affecting the cost of capital is the predictive ability of profits, which indicates the extent to which the company can accurately predict its future profits. Hence, the study problem can be defined in the following two questions:

- 1- Do the disclosed profits of companies listed on the Qatar Stock Exchange have predictive power?
- 2- Is there a significant effect of the predictive power of accounting earnings on the cost of capital?

4- Objectives:

1. To identify the extent to which the accounting profits disclosed in the companies listed on the Qatar Stock Exchange have the predictive ability
2. Analysis of the relationship between the predictive power of earnings and the cost of capital.
3. Providing important information to investors about the importance of earnings predictive power in making their investment decisions.
4. Providing recommendations to companies on how to improve their earnings forecasting ability and reduce the cost of capital.

5- Importance of the study:

The importance of the research lies in providing a new vision on the relationship between the predictive ability of profits and the cost of capital in one of the most important emerging markets, which is the Qatar Stock Exchange. In addition, the importance of the study can be determined as follows:

1. The researcher uses up-to-date financial data and advanced analyses, which adds new scientific value to previous research that may have used old data.
2. There is a paucity of research on the relationship between earnings predictive power and the cost of capital in emerging markets.
3. Providing important information to investors to help them make accurate investment decisions.

6- Hypotheses:

After reviewing previous studies and in line with the study objectives and problem, the following two

hypotheses were formulated:

- 1- The accounting profits disclosed in the companies listed on the Qatar Stock Exchange do not have predictive power.
- 2- There is no significant effect of the predictive power of accounting earnings on the cost of capital.

7- Study method:

The theoretical aspect of the research will be covered by reviewing references, magazines and periodicals, analyzing previous studies and research that address the subject of the study, as well as publications of scientific and professional organizations of standards, guidelines and others that are related to the subject of the study.

As for the practical aspect, the researcher will use the descriptive approach by studying and analyzing the published financial data of the companies listed on the Qatar Stock Exchange during the period from 2019 to 2023. The Qatar Stock Exchange was chosen due to the lack of studies that addressed accounting conservatism in this market.

Theoretical framework of the research

1- Predictive power of earnings:

Earnings predictability refers to the extent to which a company's future earnings can be predicted. Investors and creditors rely on forecasts of the entity's ability to generate cash flows and the timing of these flows in most of their financial decisions. Previous studies on the predictability of accounting earnings have indicated the importance of the timing of disclosure of current earnings, which is the basis for predicting future earnings.

The reason for the interest in forecasting profits is due to the recent increase in demand by investors, creditors and banks for the expected profits in the coming year, the share of the stock thereof and the ability of the establishment to achieve profits on an ongoing basis, which prompted professional bodies in the United States of America to issue recommendations on the necessity of disclosing the earnings per share in the financial statements in order to predict the earnings per share in the coming periods (Salman, 2017, p. 123).

The US Accounting Standards Board (FASB) has confirmed that the predictive ability of accounting profits is one of the characteristics of the quality of accounting profits, as analysts are interested in the availability of this characteristic in accounting profits because this facilitates their work and reduces the risks of predicting the future value of the establishment, and the predictive ability of profits provides evidence of the extent of the stability of the establishment in the future (Zirq, 2021, 386).

It is worth noting that management may resort to manipulating earnings in order to increase the predictive ability of earnings. Hence, predictive ability is considered one of the most important characteristics of the quality of accounting earnings, provided that it is ensured that they are free of earnings management practices.

- **1-2- Factors affecting the prediction of earnings sustainability** There are a number of factors that affect the predictive ability of profits, the most important of which are (Metwally, 2023, p. 288):
- **Company size** Some studies (Li, 2019) have indicated that large-sized establishments have the material and human capabilities and potential that qualify them to maintain sustainable profits, which means that the larger the establishment's size, the greater the predictive ability to sustain its accounting profits in the future. (Metwally, 2023, p. 288).

- **Leverage** Financial leverage is one of the factors affecting the sustainability of profits. The study (2015, Malaji) showed a negative significant relationship between financial leverage and the sustainability of accounting profits, which means that the higher the debt ratios, the lower the sustainability of profits. Conversely, the study (2019, Malau) showed a positive significant relationship between financial leverage and the sustainability of profits, due to the expected control by creditors that aims to improve the quality and sustainability of profits. (Metwally, 2023, p. 288).
- **Distributions** Profits Dividend distributions are considered one of the basic determinants for predicting the sustainability of accounting profits in the future, as they express the ability of the entity to pay distributions to shareholders, which is evidence of the sustainability of profits in the future. A study has shown that (2019, Karim and Sarkar) There is a positive moral relationship between dividend distributions and their sustainability.
- **Company age** The age of the company refers to the number of years it has spent in the stock market since its establishment. The study (Hogan and Evans, 2015) found a significant relationship between the age of the company and the prediction of the sustainability of future profits, as the older the company, the more likely it is to be able to maintain the sustainability of its profits, which reflects the importance of the company's efficiency in managing its funds and improving the quality of profits. Finally, we can say that the predictive ability of accounting profits is one of the basic aspects that reflect the quality of accounting profits provided by companies, as accurate profit forecasting can enhance the confidence of investors and creditors in the company's financial performance. With the increasing interest in the importance of disclosing earnings per share, transparency in financial reports has become not just a legal obligation, but an important strategy that contributes to improving the company's financial performance and enhancing its stability.

Cost of capital:

The cost of capital has received a wide range of attention from writers and researchers in various accounting, economic and other fields. The cost of capital is one of the main elements for the success and continuity of establishments in the market in light of the intense competition and rapid developments in the business environment. The cost of capital is one of the most important determinants that the establishment must take into account when making its investment decisions, as it indicates the extent of the establishment's ability to invest its money, as well as evaluate its decisions related to providing the necessary financing for the establishment (Al-Hanawi, 2018, p. 17).

The cost of capital is also one of the necessary information that investors need to evaluate the investment alternatives available to them, and choose the most appropriate alternative that will achieve the desired return.

Determining the cost of capital is one of the most complex financial matters and requires great accuracy due to the multiple objectives of cost calculation, from measuring the return on investment projects to making the appropriate investment decision and other objectives (Saini, Shahan, 2016, p. 6).

2-1- The concept of the cost of capital:

The concept of capital is based on the idea that shareholders or creditors expect a minimum return that they will not accept less than. If the return is less than the cost of capital, this will push investors to withdraw or reduce their investments. The minimum expected by shareholders is called the cost of equity, while the minimum expected by creditors is called the cost of debt (Karima, 2011, p. 207).

Many researchers have addressed the concept of the cost of capital with explanation and analysis. The study (Hindi and Alaa, 2019) defined it as the rate of return that the investor wants to obtain when investing his money in a facility, and this rate depends on the degree of risk that the investor bears when investing his money. The greater the degree of risk, the higher the cost of capital (Hindi, Alaa,

2019, p. 6).

Gaud et al. (2005) defined the cost of capital as the rate of return that the entity must determine on the company's securities to maintain their market value, and the cost of capital is measured on the basis of the weighted average of the financing sources available to the entity (Al-Hanawi, 2018, p. 17).

(Apergis et al., 2012) defined the cost of capital as the rate that must be achieved from the assets of the establishment financed by owners and creditors. In a related context, (Saleh et al., 2012) defined the cost of capital as the minimum possible level achieved from investing in the assets of the establishment to preserve its value from declining. The researcher (Brealey et al., 2014) added an economic dimension to the cost of capital when he confirmed that it is the cost of the alternative opportunity lost due to investing in the assets of the establishment (Saad El-Din, 2014, p. 316).

The study (Juma, 2017) also clarified the necessity of distinguishing between the cost of capital from the investors' point of view and the cost of capital from the establishment's point of view. From the investors' point of view, it is the minimum rate of return that they can obtain in exchange for investing their money in the establishment. As for the establishment's point of view, it sees that the cost of capital is linked to the size of the financial flows resulting from investing the establishment's assets financed by others. Therefore, if these flows are less than the return that the establishment must pay to investors, then in this case this investment is considered a loss, and vice versa (Juma, 2017, p. 315).

Finally, with the multiplicity of definitions that dealt with the cost of capital, the researcher believes that the concept of the cost of capital is a vital concept in the business environment, as it represents the minimum that the establishment must achieve to attract investors and maintain its market value, and it also reflects the balance between expected returns and potential risks that investors can bear. Hence, a correct understanding of the cost of capital is important for making sound investment decisions at the establishment level, and at the level of investors as well.

2-2- The importance of the cost of capital:

The cost of capital is an important concept in the field of financial management. It refers to the cost of obtaining the funds needed to finance the activities of the establishment. It is an important factor in making sound financial decisions, and has a direct impact on the value of the establishment and its performance in the long term. Therefore, understanding the importance of the cost of capital helps financial management in the following points:

- **Choosing the most appropriate funding sources:** By knowing the cost of each source of financing (such as loans, stocks, and retained earnings), financial management can choose the optimal financing mix that minimizes the total cost of capital (Hamza, Issa 2019, p. 159).
- **Investment Opportunity Evaluation:** The cost of capital is used as a measure to compare the various available investment alternatives, where projects that achieve a return that exceeds the cost of capital are selected, while projects that do not achieve this are rejected (Elias, 2014, p. 4).
- **Maximizing market value:** Reducing the cost of capital to a minimum enables establishments to maximize their market value. The lower the cost of capital, the higher the establishment's profits, and thus its market value increases (Abdullah, 2021, p. 52).
- **Determine the optimal capital structure:** Knowing the cost of each source of financing helps determine the optimal financial structure for the facility, which achieves a balance between risks and returns (Madani, 2022, p. 43).

- **Making pricing decisions:** The cost of capital plays an important role in determining the prices of products and services provided by the facility. The higher the cost of capital, the higher the cost of production, and consequently the higher the prices of products and services (Elias, 2014, p. 4).
- **Linking the value of the enterprise to its financial structure:** The cost of capital is the link between the financial structure of the company and its market value. Companies with strong financial structures (low debt ratio) have a low cost of capital, and therefore their market value is higher.

Based on the above, we can say that the cost of capital is not just a number, but rather an important administrative tool that contributes to making the financial decisions of the establishment. The management that understands the cost of capital and has the ability to control it well has the ability to achieve its goals and enhance its competitive position in the market. Therefore, relying on the cost of capital as a main input in the decision-making process is one of the most important steps to achieve growth and continuity.

Practical section:

The researcher discussed the theoretical framework for both the predictive ability of accounting profits and the cost of capital. In this section, the researcher will complete his research with an applied study to achieve the objectives and reach the results.

1- Research variables and methods of measuring them:

First: The independent variable: Predictive ability: The ability of current earnings to predict future earnings is measured using the square root of the variance of the estimation error of the earnings continuity equation according to the following model: (Khader, 2018):

$$Pred_{j,t} = \sqrt{\sigma^2(v_{j,t})}$$

Whereas:

Pred_{j,t}: The predictive ability of company (j)'s earnings during period (t).

$\sqrt{\sigma^2(v_{j,t})}$: Variance of the estimation error of the earnings continuity equation for company (j) during period (t).

The larger the square root of the variance of the estimation error, the lower the predictive ability of earnings, and hence the lower the quality of accounting earnings.

Second: Dependent variable: Cost of capital: The cost of capital is measured by measuring the weighted average cost of capital (WACC) (Saad El-Din, 2010):

$$WACC = \left(\frac{E}{V} \times Re \right) + \left(\frac{D}{V} \times Rd \times (1 - tc) \right)$$

E = market value of the company's shares

D = Market value of the company's debt

V = Total market capitalization of the company i.e. (E + D)

Re = cost of equity

Rd = cost of debt

Tc = tax rate

2- Study community and sample:

The study population includes companies listed on the Qatar Stock Exchange, while the research

sample included 37 companies listed on the Qatar Stock Exchange, over a time series extending from 2019 to 2023.

3- Descriptive statistics for study variables: The following table represents the descriptive statistics for the study variables:

Table (1) Descriptive statistics for basic variables

V a r i a b l e s	A v e r a g e	T h e m e d i a t o r	h i g h e s t v a l u e	L e s s v a l u e	S t a n d a r d d e v i a t i o n	t w i s t	F l a t t e n i n g	N u m b e r o f n o t e s
p r e d i c t i v e p o w e r	0 . 4 9 4	0 . 4 4 6	1 . 4 4 1	0 . 0 0 0	0 . 3 0 5	0 . 9 8 8	3 . 8 1 4	1 8 5
c o s t o f c a p i t a l	0 . 0 8 3	0 . 0 7 4	0 . 1 4 1	0 . 0 3 9	0 . 0 2 4	0 . 7 5 3	2 . 7 9 8	1 8 5

Table (4.1) shows that Predictive ability, which the researcher expressed through the value of the square root of the variance of the estimation error of the profit continuity equation (the larger the value of the square root of the variance of the estimation error, the lower the predictive ability of profits), from the

table we notice that the value of the arithmetic mean of the predictive ability reached (0.494) with a value slightly higher than the median value of (0.446), and therefore it can be said that most of the companies under study have a slight decrease in the level of predictive ability for profits, as the standard deviation of (0.305). There is a clear variation between companies in terms of predictive ability, indicating that some have higher levels of predictive ability than others.

The average cost of capital for the companies included in the study was (0.083), indicating that companies bear moderate costs to obtain financing. This value is considered average, meaning that most companies share relatively similar financing costs. In addition, the standard deviation of (0.024) reflects that the variation in the cost of capital between companies is relatively small, indicating relative homogeneity in terms of financial costs..

As is clear from Table (1), there is a clear variation between companies in the basic variables used in the study, as skewness and kurtosis show that the distribution of data is not completely homogeneous, indicating that some companies have a high ability to predict profits, while other companies have a less predictable ability.

4- Preliminary Diagnostic Tests

Several preliminary tests are used to examine the stability of the model and the quality of the relationships between the variables. These tests aim to analyze whether the data are stable and free from autocorrelation or heteroscedasticity. These tests include: stationarity test, autocorrelation test, and heteroscedasticity test.

5-1- Stability test: The stability test aims to verify the stability of a statistical model over time. In this study, the Chow test was used to analyze the stability of the model over the time periods studied, these results were supported using the CUSUM test. Which shows the cumulative changes in the model over time. As shown in Figure (1), where the blue line shows the cumulative changes (CUSUM) in the model over time. As long as the blue line remains within the dashed boundaries, the model is considered stable and does not suffer from major changes that affect the accuracy of the analysis. In some time periods, slight fluctuations can be observed, but these changes do not go beyond the permissible limits. Based on this test, it can be concluded that the model used in this study is stable and does not suffer from major problems that affect the results.

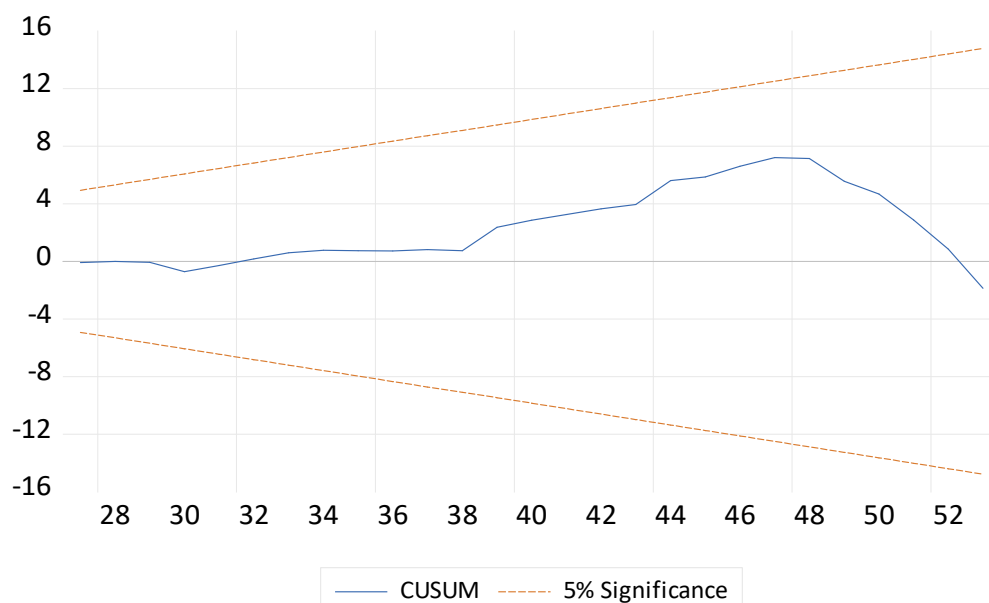


Figure (1) CUSUM stability test

5-2- Autocorrelation test: Autocorrelation test is an important tool used to analyze whether there is a relationship between the current values of variables and their past values. The presence of autocorrelation indicates that the past values affect the current values, which may lead to inaccurate estimates in the statistical model used. The Breusch-Pagan LM test was used to analyze autocorrelation in the two models used in this study. The first model is based on the cost of capital, while the second model is based on the predictive ability of earnings. Table (2) shows the results of the autocorrelation test for each of the two models. In the first model, the F-Statistic value was equal to 1.042 with a significant probability of 0.2460, indicating that there is no autocorrelation affecting the model. Similarly, in the second model, the F-Statistic value was 1.031, with a significant probability of 0.2130, which means that the second model also does not suffer from the problem of autocorrelation.

Table (2) Autocorrelation test

Test	f - S t a t i s t i c	Degrees of Freedom	P r o b a b i l i t y
Model 1: Cost of Capital			
Breusch-Pagan LM	1 . 0 4 2	666	0. 2 4 6 0
Model 2: Predictive Ability of Profits			
Breusch-Pagan LM	1 . 0 3 1	666	0. 2 1 3 0

5-3- Heteroskedasticity test

The LR test was used to examine the homogeneity of variance between observations in the data used in the study. Heterogeneous variance indicates that the variance of errors is not constant, which may lead to inaccurate results in the analysis. Table (3) shows that the results of the heterogeneous variance test are positive for both models, as the Chi-Square probability for the first model reached (0.736), and for the second model (0.691), which is higher than (0.05), which means that the variance in the data is homogeneous and the model is stable in terms of variance.

Table (3): Heteroskedasticity test

Test	Prob. Chi-Square	Degrees of Freedom	Probability
Model 1: Cost of Capital			
Heteroskedasticity LR Test	0.852	666	0.736
Model 2: Predictive Power of Earnings			
Heteroskedasticity LR Test	0.816	666	0.691

6- Correlation study: The correlation or correlation coefficient shows the strength of the relationship and the direction of the relationship between the variables, as it enables us to know whether the change in one or a group of them is related to the change in the other. The following table from the outputs of the E-view program shows the correlation matrix between the study variables:

Table No. (5) Correlation matrix between study variables

Variables		predictive power
p r e d i c t i v e p o w e r	Link	1
	Moral e	-----

Variables		predictive power
cost of capital	Link	-0.318
	Morale	0.0000

From Table No. (5), we notice the presence of a weak and inverse correlation with the variable (weighted average cost of capital) with a correlation coefficient value of 0.318 - and the probability value (0.000) is smaller than the significance level of 5%, and thus there is a relationship between the two variables, and the relationship between the two variables is weak, inverse and significant.

7- Testing research hypotheses:

The first hypothesis: The profits announced in the financial reports issued by the companies listed on the Qatar Stock Exchange do not have a good level of predictive ability. The following table represents the predictive power of accounting profits in companies listed on the Qatar Stock Exchange.

Table (6) Level of profit quality characteristics in reports and financial statements

Features	predictive power
Average	0.494
The middle	0.446
Highest value	1.441
Minimum value	0.066
Standard deviation	0.305
twist	0.988
Flattening	3.814
Number of notes	185.000

Table (6) shows the predictive ability of accounting profits, which includes the arithmetic mean, median, highest and lowest values, and dispersion measures such as standard deviation, skewness, and kurtosis.

The mean predictive ability was (0.494) while the median was (0.446) with a slight difference indicating that most companies have a slight decrease in the ability to predict their future earnings. The large difference between the highest value, (1.441), and the lowest value (0.066) shows that some companies have high predictive ability while others have weak predictive ability. The standard deviation of (0.305) also reflects the presence of moderate variation in predictive ability among companies.

As a result of the above, we can say that the profits of companies listed on the Qatar Stock Exchange

do not enjoy a good level of predictive ability. Accordingly, we accept the null hypothesis that states: The profits announced in the financial reports issued by companies listed on the Qatar Stock Exchange do not enjoy a good level of predictive ability.

Hypothesis 2: There is no significant effect of the predictive ability of accounting profits on the cost of capital.To test this hypothesis we have three main statistical models: pooled effect, fixed effect, and random effect. The table shows the analysis coefficients and significance values for the predictive ability of earnings.

Table (7):Measuring the impact of accounting earnings quality on capital

Variables	Pooled effect		Fixed effect		Random effect	
Variable	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
predictive power	-0.1793	0.000	-0.2612	0.000	-0.0000	0.576
constant factor	0.087972	0.000	0.0835	0.000	0.008357	0.000
R-squared Adjusted R-square	0.24151		0.699574		0.9995	

In the pooled effect model, predictive power showed a statistically significant negative effect on the cost of capital (coefficient0.1793-,Significance 0.000), which means that the higher the predictive power of earnings, the lower the cost of capital.The value of the coefficient of determination was 0.24151, which means that this model explains 24% of the changes in the cost of capital,Thus, 76% of

the changes in the cost of capital are due to other variables that are not explained by the predictive power of earnings. .

In the fixed effect model, predictive power showed a statistically significant negative effect on the cost of capital (coefficient-0.26812, morale 0.000)And the value of the coefficient of determination0.699That is, approximately 70% of the changes in the cost of capital can be explained by predictive power.,Thus, 30% of the changes in the weighted average cost of capital are due to other variables that are not explained by the predictive power..

In the random effect model, predictive power showed a negative but not statistically significant effect on the cost of capital (coefficient0.00027-,Morale0.5576)And the value of the coefficient of determination0.9995That is, 99% of the changes in the cost of capital can be explained by predictive power.,Therefore, 1% of the changes in the weighted average cost of capital are due to other variables that are not explained by the predictive power..

To determine whether it is better to use a pooled, random, or fixed-effect model, a test was used. Likelihood.

Table (8) Likelihood Ratio

Effects Test	Statistics	df	Prob.
Cross-section F	9499.892	3	0
		6	.
		,	0
		1	0
		4	0
Cross-section Chi-square	1434.222	7	0
			0
		3	.
		6	0
			0

Given that the probability value of the test is less than 5%, the null hypothesis that the pooled regression model is the most appropriate model for the study is rejected, and the alternative hypothesis that the fixed or random effects model is the most appropriate is accepted after comparing between them.

To determine whether it is better to use a random effect model or a fixed effect model, the Hausman test was used.

Table (9) Hausman Test

P r o b	Ch i- Sq. df	Chi- Sq. Statisti c	Test Summary
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.			
0	1	16.038	Cross-section random
.		223	
0			
0			
0			

Given that the p-value of the test is less than 5%, the null hypothesis that the random effects model is the most appropriate model for the study is rejected, and the alternative hypothesis that the fixed effects model is the most appropriate model for the study is accepted.

Hypothesis result:

The fixed effects model is the best model to study the effect of predictive ability on the weighted average cost of capital, which confirmed the inverse relationship between the predictive ability of earnings and the cost of capital. Accordingly, we reject the null hypothesis and accept the hypothesis that there is a significant effect of predictive ability on the cost of capital.

8- Results:

1- The study showed that companies listed on the Qatar Stock Exchange do not generally have a good level of predictive ability for profits, and this is due, according to the researcher, to several reasons:

- Companies listed on the Qatar Stock Exchange may suffer from a lack of accuracy in the disclosed financial information, which negatively affects the predictive ability of profits. If the financial statements contain errors or incorrect information, this will lead to inaccurate forecasts.
- If earnings are unstable or fluctuate significantly, this reduces predictive power. Companies that experience significant fluctuations in financial performance may find it difficult to make accurate forecasts of their future earnings, and this was evident from statistical analysis that showed a clear variation between companies in the degree of predictability of accounting earnings.
- Failure to provide sufficient or transparent information about financial performance and future prospects can lead to weak investor confidence, increasing uncertainty about the company's ability to generate sustained profits.
- Using earnings management tools to improve a company's financial position can lead to incorrect and misleading results. If companies are only concerned with improving short-term results rather than focusing on long-term sustainability, this can reduce the predictive power of earnings.

2- There is an inverse relationship between predictive ability and the cost of capital, which means that companies with higher earnings quality represented by predictive ability tend to pay a lower cost of capital. The more predictable the financial information is, the more confident investors and lenders are, and thus the cost of capital decreases. Thus, this study agrees with most previous studies that addressed the relationship between the quality of accounting earnings with its various characteristics and the cost of capital. These studies confirmed the negative relationship between the two variables.

9- Recommendations

- Companies should focus on improving the quality of financial information and disclosing earnings in a way that enhances their predictive power, which will help attract investors and reduce financing costs.
- Companies should implement more effective strategies to improve the quality of accounting information, enhance transparency and financial disclosure to ensure continued profits and improve investor confidence.

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