



Ain Shams University

Faculty of Commerce

Accounting and Auditing Department

## **The impact of Risk Premium on the relationship between Financial Reporting Quality and Cost of Debt**

"An Applied Study on listed Companies on Egyptian Stock Exchange"

A Thesis Submitted in Partial Fulfillment of the Requirements for the  
Degree of Master of Science in Accounting

**by**

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In The Name Of Allah, The  
Merciful, The Compassionate



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**Dedication**

*To My beloved  
Family*

## Abstract

This study aims to examine the impact of risk premium (RP) on the relationship between financial reporting quality (FRQ) and cost of debt (CD). This is achieved by developing four hypotheses. The first and the second hypotheses examine the association between FRQ (discretionary accruals, earnings smoothing) and CD directly, while, the third and forth hypotheses examine the relationship between FRQ (discretionary accruals, earnings smoothing) and CD by using RP as a moderate variable.

The study uses Modified Jones Model (discretionary accruals) and earnings smoothing as a proxy for FRQ, the proxy for CD is the quotation between the interest expense on debt to average total debt of the current and previous year. While, the RP is measured by the difference between the stock return of the firm and the risk free rate. The Panel data is used to measure the relation between FRQ and CD and the impact of RP on this relation. The sample consists of 70 firms with 350 observations listed on Egyptian Stock Exchange (i.e. EGX 100) for the period from 2012 to 2016.

The results of the study show that, regarding the first hypothesis there is a positive relation between FRQ (DACC) and CD, while, the second hypothesis shows that there is a negative relationship between FRQ (SMO) and CD. Moreover, the third hypothesis shows that there is no impact of the RP on the relationship between FRQ (DACC) and CD. Finally, regarding the forth hypothesis, there is a negative impact of RP on the relationship between FRQ (SMO) and CD. Therefore, the current study accept H2 and H4, and reject H1 and H3.

Consequently, the current study is of interest for users of financial statements such as regulators. Also, the results are necessary for managers as they have an economic benefit. This study contributes to the literature by showing the impact of RP on the relationship between FRQ (DACC, SMO) and CD, and by giving evidence from the Egyptian Market.

**Keywords:** Financial Reporting Quality, Discretionary accruals, earnings smoothing, Cost of Debt, and Risk Premium.

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