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THE IMPACT OF ACCOUNTING RESTATEMENTS ON THE COST OF EQUITY CAPITAL IN EMERGING MARKETS: EVIDENCE FROM KINGDOM OF SAUDI ARABIA

Saad Raad Faysal, Al Muthanna University; Samawah, Iraq[1]
Ali Saad Mohammed, Al Muthanna University, Samawah, Iraq [2]
Tamanna Dalwai, Muscat College, Ruwi, Oman [3]
Correspondence Author: saad_faysal@mu.edu.iq

Abstract

This study examines the role of accounting re-statement in increasing the cost of equity capital in emerging markets in the Kingdom of Saudi Arabia (KSA). This study is located from 2009 to 2019 with 116 firms and 1276 firm-year observations in the Saudi Stock Exchange. The authors used a least-squares regression model to verify the study variables; according to the panel data tests, the Fixed effects (Robust FE) had preferred in our model. The findings show that the re-statement has a positive significance on the cost of equity capital; these results indicate that an increase in the frequency of the re-statement increases the cost of equity capital and vice versa. Moreover, our results indicate a significant relationship between financial leverage and the cost of equity capital; this means the investors demand significant returns in companies that have frequently practiced re-statement, and this is consistent with the arguments that an increase in re-statement increases the cost of equity capital in the Saudi Stock Exchange. The results can benefit The Saudi Arabia Accounting Standards Committee (KSASC) and KSA Vision 2030. These results are significant to investors and financial policymakers in the KSA. So, it is essential to improve the economy and avoid a financial crisis in the future. Although the contribution is limited, it will provide a helpful guide for seriously considering new procedures that include narrow limitations in re-statement to reduce the opportunistic behavior of managers.

Keywords: Accounting Restatement, KSA Vision 2030, The Saudi Stock Exchange.

INTRODUCTION

Gleason et al. (2008) suggest that financial restatement needs more research because it can lead to the loss of shareholders, a change in share prices, and consequently increase the cost of equity capital (Faysal et al., 2020a). There is widespread debate about the role of restatement, where the U.S. Government Accountability Office (2002) reported that restatement increased significantly each year from 1997 through the first half of 2002. The demand for restatement is likely to increase due to the involvement of large companies in shady operations (Anderson & Yohn, 2002; Thompson & Larson, 2004; Mun, 2021; Mohammad Rezaei et al., 2021). This demand can lead to the dispersion of analyst expectations, uncertainty, and an increase in the cost of equity capital (Anderson & Yohn, 2002; Hribar & Jenkins, 2004; Park & Wu, 2009). The gaps in international accounting standards may be due to the need to recognize restatements. The international accounting standard requires informing the users of financial statements and any changes in the approved accounting policies (Tulsian, 2012; Mohammed et al., 2020; MohammadRezaei et al., 2021). Where generally accepted accounting principles have allowed managers to change accounting policies when necessary, it has believed that these reforms might enhance the company's value (Thompson & Larson, 2004; Gertsen et al., 2006; Mohammed et al., 2020). Although the International Accounting Standard adopts restatement, Zipser (1989) sees the process of the restatement of the financial statements as a managerial attempt to cover the decline in income through "cooking the books," which means that corporate managers falsify some aspects of their financial statements deliberately to give investors a false impression of the company's financial condition (Mun, 2021; MohammadRezaei et al., 2021; Chi & Pan, 2022), Anderson & Yohn (2002). Gertsen et al. (2006) assert that the restatement of financial statements is a negative indicator and a source of concern and adverse reactions among users of financial statements.

The lack of transparency in financial reporting, followed by a restatement, revealed billions of dollars in omitted liabilities and losses that led to Enron's demise (Thompson & Larson, 2004; Chi & Pan, 2022; Mun, 2021). Callen et al. (2006) believe that restatement is very close to the behavior of opportunistic managers. Managers take advantage of the freedom of accounting standards to carry out suspicious actions by misleading investors and

owners with financial statements that promise false returns (Mohammed et al., 2020; Chi & Pan, 2021). In the same context, the evidence of Callen et al. (2006) reveals that investors generally viewed the restatement of financial statements during the period 1986-2001 as a negative sign. The financial restatement with an illegal motive may have contributed to the financial crisis (Callen et al., 2006; Mohammed et al., 2020; Chi & Pan, 2021; MohammadRezaei et al., 2021). It also negatively impacted business activity in the long run (Chin et al., 2017).

The cost of capital is one of the challenges that reduce the opportunity of the life cycle of companies. The cost of capital affects and is affected by all essential aspects of the company's performance, and the low cost of capital supports the opportunity to obtain the financing necessary to maintain the principle of continuity (Rad, 2014; Khan, 2016; Faisal et al., 2020a). Hribar and Jenkins (2004) argue that restatements increase uncertainty and lower a company's market value by directly reducing expected future cash flows. The market value declines have been attributed to uncertainty and managers' integrity. These reasons may cause investors to question other aspects of the company's financials. Therefore, investors will demand a higher rate of return. The restatements of future cash flows often disclose misleading information about companies, which creates uncertainty about the reliability of financial statements and leads to significant losses in market value and an increase in the cost of capital (Park & Wu, 2009; Ye, 2018; Papik & Papikova, 2020). The loss of confidence and credibility in financial statements has several dimensions (Thompson & Larson, 2004; Ye, 2018; Papik & Papikova, 2020). For example, Gleason et al. (2008) confirm that investors impose a more significant penalty on corporate stock prices when the firm used restatement. The cost of capital is one of the essential dimensions related to user satisfaction to engage in profitable investments (Hribar & Jenkins, 2004). Investors who view the restatement of the financial statements as a negative sign may demand a higher cost in the event of the restatement. Thus, this study explores if financial restatements increase the cost of capital for the Kingdom of Saudi Arabia (KSA).

Saudi Arabia is the largest emerging market in the Middle East and West Asia and is considered a regional market attractive to foreign investors. Thus, the study contributes to the literature in several ways. For example, first, the results of this study are essential to investors and financial policymakers in the KSA as they can contribute to improving the economy and capital markets and avoiding a financial crisis in the future. Second, the study would hold importance to the governing authority of the Saudi accounting standards setters as they can address the gaps related to the restatements and improve investor confidence in the Saudi capital markets. Third, the findings will be a helpful guide for seriously considering new procedures that address narrow limitations in restatement and reduce the opportunistic behaviour of managers. The remainder of this paper is structured as follows: Section 2 discusses literature review and hypothesis development, section 3 presents the research method, and section 4 Results and Discussion. Finally, section 5 presents the conclusion.

LITERATURE REVIEW & HYPOTHESES DEVELOPMENT

Saudi Arabia constitutes a large investment oasis in the region, and more recently, serious work has been done to develop the investment reality within a promising and comprehensive plan that extends to KSA Vision 2030. This vision includes large and essential sectors in the KSA market, and increasing growth is expected in the capital markets, according to what the government announced regarding essential developments in the Saudi domestic market. To the best of the researcher’s knowledge, this study is considered one of the first studies in the context of Asia and West Asia, and it is unique in comparison with other studies in general. The current study contributes to bridging the knowledge gap in the literature on the role of restatement and the cost of equity in emerging markets and the Gulf Cooperation Council countries. A lot of the extant literature has documented the decline in stock prices as a result of accounting restatements. Schrand & Zechman (2012) reported those companies that restate the financial information is found to have weak management oversight. These companies have the characteristics of being small, highly leveraged, less profitable (Agrawal & Chadha, 2005; Lennox & Li, 2014). Evidence suggests restatements are associated with reduced credibility (Wilson, 2008), increase in the cost of external financing (Chen et al. 2013; Kraver & Shevlin, 2009) and information asymmetry (Bhattacharya et al. 2013).

One of the reasons for restatements is the demand that the Securities and Exchange Commission (SEC) imposes on companies to correct misleading information or inaccurate data in the financial statements (Gleason et al., 2008; Papik & Papikova, 2020; Chi & Pan, 2021). This corrected information is sent to investors, financial analysts, and creditors (Parthasarathy & Newberry, 2007; Gleason et al., 2008; Mohammed et al., 2020; Mun, 2021). In general, the investor making decisions regarding the competition between alternatives is not only affected

by the financial reports of the firm but by the restatements of these financial reports in particular (Durnev & Mangen, 2009) thus leading to uncertainty (Nourayi, 1994; Thompson & Larson, 2004; Callen et al., 2006; Mohammed et al., 2020; Mun, 2021; Mohammad Rezaei et al., 2021(. According to Hribar & Jenkins (2004) and Durnev & Mangen (2009) in the event of uncertainty, misleading information that reflects the company's financial position may disappoint investors and creditors in making their investment decisions (Efendi et al., 2007; Park & Wu, 2009).

Xu et al. (2006) argue that accounting information in the restatements corporate industry is of lower quality than previously thought and the restatement reflects the failure of the firm's financial reporting process (He, 2020). Accordingly, the restatement of financial statements has different reasons and motives (Graham et al., 2008). One of these reasons may be management's motive for changing the previously followed accounting policies is a desire to manipulate profits (Wilson, 2008; MohammadRezaei et al., 2021), Healy & Palepu (1989) argue that the change in accounting methods and policies is one of the ways to earning management. Efendi et al. (2007) confirm that the process of restatement of the financial statements is one of the means of earning management to achieve the opportunistic goals of managers (Huang et al., 2018), and restatement often accelerates turnover of managers (Desai et al. 2006). It may lead to a negative reaction among the users of the financial statements (Anderson & Yohn, 2002). There is multiple evidence that managers' restatement of financial statements leads to lower investor confidence in financial reporting (Agrawal & Chdha, 2005; Gertsen et al., 2006; Wilson, 2008; Chin et al., 2017), and the survival of a contagion firm within the industrial sector (Xu et al., 2006). The results of Hribar & Jenkins (2004), and Huang et al. (2018) indicate a relationship between financial statement restatements and lower earnings quality. He (2020) finds a solution that contracting firms with the federal government are associated with less likelihood of restatement, and less incentive to manipulate earnings. Botosan (1997) and Botosan & Plumlee (2002) find evidence of a higher cost of equity capital related to low financial disclosure quality. The low-profit quality makes it difficult for investors to make investment decisions (Efendi et al., 2007; Mohammed et al., 2020).

A more natural outcome is the performance that represents a cornerstone in improving the company's rating (Desai et al. 2006) and in abnormal situations it may be influenced as a result of manipulation or erroneous estimates or restatement. Gleason et al. (2008) suggest that performance can result from both natural and abnormal situations through restatement. First, the decline in share price leads to a loss for the shareholders. Second, the share price increase leads to a favourable return on the cost of capital for investors (Faysal et al., 2020a). Nourayi (1994) find that restatements due to error, accounting irregularity, and fraud produce stock price declines. Anderson & Yohn (2002) and Palmrose et al. (2004) confirm that the restatement was the cause of stock depreciation and this supports a prior study Park & Wu, 2009) which concludes, that restatement reaches the subprime market (equity) very quickly and thus this information also flows quickly into the stock market thereby leading to lower stock prices. Hribar & Jenkins (2004) argue that restatement in expected future earnings and increases in the cost of capital both contribute to a significant loss in market value. In the same context, evidence by Ye (2018) reveals that the processes of restatement of financial statements lead to a decline in stock prices (Papik & Papikova, 2020). One of the reasons for the low return on investments may be the higher audit fees, Guo et al. (2017) indicate that the increase in audit fees for companies that announce the restatement of financial statements constitutes greater negative feedback in the market. Xiao (2017) argues that the restatement of the financial statements leads to disabling conditions in obtaining financing at a lower cost.

Parthasarathy & Newberry (2007) reveal that higher margins for treasury securities after restatement are sufficient reasons that the latter increases the cost of debt. These results are consistent with the study of Graham et al. (2008) that suggests the number of conditions with lenders after the restatement of financial statements was much higher compared to companies that did not practice the restatement. Hribar & Jenkins (2004) indicate that restatement leads to an increase in the cost of capital. So, the result of Gleason et al (2008) confirms an increase in information risk factor loadings leads to an increase in the estimated cost of capital. Kasznik (2004) criticizes the work by Hribar & Jenkins (2004), specifically related to the use of analysts' forecasts in calculating the implied cost of capital. Analysts' forecasts can be biased in calculating the cost of implicit capital. This method is unable to control the changes in other risk factors. Therefore, this study implements the capital asset pricing model (CAPM) to fill the gap in examining the relationship between the restatements and the cost of equity, this study is considered one of the very complex studies due to the lack of studies that address the problem of restatements and the cost of capital. In line with the studies of Heribar & Jenkins (2004) and Gleason et al. (2008), this research predicts that restatement increases the cost of equity capital in the KSA capital market. Thus, the following hypothesis can be formulated:

H: The accounting restatement increases the cost of equity capital.

RESEARCH METHOD

Data collection: The population includes companies listed on the Saudi Stock Exchange. Financial companies were excluded from the research sample because of their financial characteristics, and the difference in regulations and information. Regarding to non-financial companies, these companies were sorted based on fully available information on the required financial statements. Because of the nature of calculating the cost of capital (Faysal et al., 2020a), the companies listed on the Saudi Stock Exchange must continue to trade throughout the study period (Faysal et al., 2020b). In this study, CAPM was used in calculating the cost of capital. Therefore, companies must be traded on the stock exchange throughout the study period. Based on this condition, the companies included in the sample must be trading during the period 2009 to 2019. Finally, 116 companies were obtained from 2009 to 2019 with 1276 (company-years) that were in circulation throughout the study period. This data is characterized by its large sample size compared to similar studies. The details of the sector sample are given in Table 1.

Table 1. List of Sample

Sector	Number of firms	%
Energy	5	4%
Materials	27	23%
Capital Goods	12	10%
Commercial & Professional Svc	7	6%
Transportation	5	4%
Consumer Durables & Apparel	5	4%
Consumer Services	6	5%
Media and Entertainment	2	2%
Retailing	6	5%
Food & Stapless Retailing	4	3%
Food & Beverages	12	10%
Health Care Equipment & Svc	5	4%
Pharma & Life Science	5	4%
Telecommunication Services	4	3%
Utilities	2	2%
Real Estate Mgmt & Dev	9	8%
Total	116	100 %

Research model and study variables: The following research model in line with the hypothesized relationship is investigated using regression analysis:

$$COE_{it+1} = \beta_0 + \beta_1 . RES_{it} + \beta_2 . LEV_{it} + \beta_3 . SIZE_{it} + \varepsilon_{it}$$

The cost of equity (COE) as a dependent variable is measured using the Capital Asset Pricing Model (CAPM). Sharpe (1964) and Lintner (1965) were the first to introduce the capital asset pricing model (Faysal et al., 2020a). Teti et al. (2016) argue that the asset pricing model is appropriate because it reflects the firm performance. In contrast, Nosheen & Sajjad (2018) and Faysal et al. (2020b) argue that the asset pricing model is appropriate for post-event research. According to Khan (2016), the capital asset pricing model is widespread and represents an accurate picture of the firm. Prior studies suggest that an essential characteristic of the asset pricing model is that it does not fall within the opportunistic behaviour of managers (Ross, 2021; Rad, 2014). Khan (2016) has yet to reach a consensus on the best way to calculate the cost of capital. However, Faysal et al. (2020a) suggest that the capital asset pricing model is the most widely used. The above model shows that many variables were not included to improve the regression test's quality. The above model attempts to determine the direct effect of restatement as an

independent variable (RES). For this reason, the model is not saturated with many variables (Hribar & Jenkins, 2004; Park & Wu, 2009; Durnev & Mangen, 2009; Mohammed & Saei; 2020; He, 2020; MohammadRezaei et al., 2021; Chi & Pan, 2021). The control variables were included because of their importance in supporting the results. Financial leverage and firm size are the most critical indicators that have been proposed with the cost of equity capital (Khan, 2016; Nosheen & Sajjad, 2018; Faysal et al., 2020a, 2020b; Chi & Pan, 2021; MohammadRezaei et al., 2021). Therefore, the financial leverage is denoted by (LEV), and firm size is denoted by (SIZE) in this model.

Dependent Variable: The capital asset pricing model (CAPM) calculates the cost of equity (COE). The model is the most widely used by analysts and agents to calculate cost equity (Fama & French, 2007; Perold, 2004). This model is characterized by its strength and simplicity in supporting helpful information about the investor's risk perception.

Independent variable: Accounting restatements (RES) are the independent variable for this study. The data for accounting restatements is collected from annual reports of listed firms. If the restatement occurs for a firm in a particular year, it is coded as "1"; otherwise, it is coded as "0" (Luo & Song, 2022). Table 2 presents the specification of the variables and measurements by previous studies.

Table 2. Variables specification

Variable	Measurement	Authors
Dependent variable		
Cost of equity (COE)	$K_e = R_f + \beta(R_m - R_f)$ Beta (β)= Covar (Company; Market) / Varp (Market). To calculate the coefficient for Beta Estimate (see: Pratt & Grabowski, 2008, p193; Ross, 2021,p113).	(Pratt & Grabowski, 2008; Bozec, Laurin & Meier, 2014; (Khan, 2016; Faysal et al., 2020a; Faysal et al., 2020b)
Independent variable		
Restatement (RES)	Denoted as indicator “1” if the financial statement is restated in firm-year; and “0” otherwise.	(Hribar & Jenkins, 2004; Park & Wu, 2009; Durnev & Mangen, 2009; Mohammed & Saei; 2020; He, 2020; MohammadRezaei et al., 2021; Chi & Pan, 2021)
	Control variables	
Financial leverage (LEV)	Financial leverage calculated as total debt divided by total assets.	(Nosheen & Sajjad, 2018; Faysal et al., 2020a; Faysal et al., 2020b; Chi & Pan, 2021; MohammadRezaei et al., 2021)
Firm Size (SIZE)	Firm size measured as the natural logarithm of total asset of the firms.	(Faysal et al., 2020a; Faysal et al., 2020b)

RESULTS AND DISCUSSION

Results

Descriptive statistics

Table 3. Descriptive Statistics

VAR	Obs.	Mean	Median	Max	Min	Std. Dev.
COE	1276	0.3026	0.3512	0.5880	-0.0823	0.2319
RES	1276	0.2304	0.000	1	0	0.4966
LEV	1276	0.5741	0.5842	0.8105	0.1356	0.2130

SIZE	1276	12.6159	12	17	6	1.9268

Table 3 represents the descriptive statistics of the dependent, independent, and control variables. This table shows the mean, median, min, max, and standard deviation of the observed values for 2009-2019, i.e., 1276 firm-year. The mean cost of equity (COE) is (0.3026), ranging from negative (-0.0823) to positive (0.59) by a standard deviation of (0.2319). The mean restatement (RES) is (0.2304) ranging from 1-0 with a standard deviation of (0.4966); the mean restatement (RES) has great importance in KSA firms, with a large percentage sometimes reaching zero. The leverage ratio (LEV) is (0.574) ranging from (0.81) to (0.135), with a standard deviation of (0.21) the mean firm size (SIZE) is (12.62) ranging from (17-6) with a standard deviation of (1.93). The results in Table 2 indicate that the standard deviation of the value was not far, so most of the variables were close to the median. In this case, the data can be expected from the normal distribution (Faysal et al., 2020a, 2020b).

Diagnostic & Robustness test: Multicollinearity is one of the challenges facing the data selected for the study. Therefore, the absence of multicollinearity between the independent variables is one of the most important statistical tests for multiple regressions. The variable inflation factors have been proposed to reveal the multicollinearity between the variables. Our results in Table 4-A indicate no multicollinearity where the mean VIF value is less than 10 (Belsley, 1991; Gujarati, 2003). So, Correlation matrix in Table 4-B, The correlation coefficient did not exceed the 80% threshold; this means no multicollinearity exists between variables in the time series (Khan, 2016; Faysal et al., 2020a, 2020b).

Table 4. VIF & Correlation matrix

Panel A- VIF				
Variables			VIF	1/VIF (TOL)
RES			1.57	0.6382
LEV			1.44	0.6966
SIZE			1.99	0.8337
Mean VIF			1.4	
Panel B- Correlation matrix.				
VAR.	COE	RES	LEV	SIZE
COE	1			
RES	0.4958	1		
LEV	0.3695	0.5456	1	
SIZE	-0.3280	-0.3993	-0.2871	1

In an appropriate econometric model, when appropriate regression analysis is applied, it must be examined; Firstly, the assembled OLS model or panel effect. Therefore, the F-Limer test (Chow) suggested the null hypothesis: the data is an OLS model, and the alternative hypothesis is a panel effect (Salehi, 2018; Faysal et al., 2020a, 2020b).

Table 5. Tests F-Limer & Hausman

F-Limer test			
Null hypothesis	F-Statistic	*P*-value	Alternative hypothesis
Preferred OLS	16.94	0.0000	The panel effect is Accepted
Hausman test			
Null hypothesis	$\chi^2(3)$	*P*-value	Alternative hypothesis
Preferred random effects model	89.36	0.000	Fixed effects model is Accepted

The results of Table 5 show the probability value of (p>0.05). Therefore, the null hypothesis: the data is an OLS model is rejected, and the panel affects data method is accepted (Salehi et al., 2018; Faysal et al., 2020a,

2020b). The second test checks if a fixed effect or a random effect model is to be applied. The Hausman test (1978) was used for this question to determine which model to use. The null hypothesis is preferred to use random effects, whereas the alternative hypothesis is for fixed effects. The result in Table 5 shows that (p>0.05) value of the alternative hypothesis a fixed effects model is accepted and the random-effects model rejected. For the robustness test, we applied the robust fixed effect regression model (robust FE) to expel two autocorrelation and heteroskedasticity problems (Yao et al., 2019; Dutschkus & Lukas, 2022; Sohel et al., 2023).

Regression results: In the diagnostic test section, we have disclosed all robustness tests to document our results. Table 6 indicates that all robustness tests are consistent regarding the significance and explanatory values. Lastly, we applied the Robust FE to stun these two issues (autocorrelation and heteroskedasticity).

Table 6 Regression results of RES. on COE.

Independent variables	Pooled (OLS) Coef.(t)	RE Coef.(z)	FE Coef.(t)	Robust FE Coef.(t)
Constant	0.0584	0.30386	0.392	0.392
	(1.27)	(4.72)***	(5.32)***	(3.11)***
RES.	0.1724	0.1089	0.0976	0.0976
	(12.4)***	(9.66)***	(8.636)***	(4.30)***
LEV.	0.1379	0.0535	0.0415	0.0415
	(4.43)***	(2.23)**	(1.72)*	(1.33)
SIZE	-0.0173	-0.0308	-0.0368	-0.0368
	-(5.53)***	-(6.73)***	-(6.83)***	-(3.93)***
Observations	1276	1276	1276	1267
firms-year	116	116-9	116-9	116-9
Panel Data (accepted)			fixed effects	fixed effects
F-statistic	162.57***		122.93***	37.18***
Wald chi^2		404.63***		
R^2	27%			
R^2 Adjusted	26%			
R-sq (within)		24%	24%	24%
R-sq (between)		26%	22%	22%
R-sq (overall)		25%	23%	23%

Notes: *** p < 0.01; ** p < 0.05; * p < 0.1

The results of Table 6 show the statistical values of the regression model used for investigating the objective of this study. The F-statistical value is (37.18) and significant (p < 0.01), which signifies the correctness of the proposed research model. The R-squared overall value is (23%), indicating the substantial predictive value of the research model. About the results of the primary hypothesis test, we find that the restatement positively affects the cost of capital. Where the value of the restatement coefficient indicates (0.097), which is a significant result (p < 0.01); in other words, an increase in restatement leads to an increase in the cost of equity capital, and conversely, a decrease in restatement leads to a decrease in the cost of equity capital. Excessive restatement has a negative role in the cost of capital. These results are consistent with prior studies (Hribar & Jenkins, 2004; Gleason et al., 2008). The results remain despite the time difference between this paper and previous studies. The topic did not receive wide attention from those interested in this field. Our results also indicate that control variables such as the level of debt increase the cost of capital, and this finding is consistent with extant literature (Rad, 2014; Khan, 2016; Faysal et al., 2020a, 2020b). These results confirm that the restatement leads to an increase in the interest rate of investors' loans in light of the restatement, and they are consistent with our trends. Our results indicate that firm size has a significant negative correlation with the cost of equity capital and agrees with the results of (Rad, 2014; Khan, 2016; Faysal et al., 2020a, 2020b).

CONCLUSION

The restatement still creates a dialectical hypothesis between the pros and cons of companies' performance. The current study seeks to cover the role of the restatement on the cost of equity capital in KSA, an emerging market in West Asia and the Middle East, which has the most significant potential for investment and growth in this region. Due to its potential attractiveness and Vision 2030, KSA was chosen for the study. According to the results, we find that the restatement has a positive and significant on the cost of equity capital; these results indicate that an increase in the frequency of the restatement increases the cost of equity capital and vice versa (Hribar & Jenkins, 2004). Moreover, with respect to creditors, where our results indicate a significant relationship between the financial leverage and the cost of equity capital (Hribar & Jenkins, 2004; Khan, 2016; Faysal et al., a2020, b2020), investors demand significant returns in companies that have frequently practiced restatement, and this is consistent with the arguments that an increase in restatement increases the cost of capital (Hribar & Jenkins, 2004; Gleason et al., 2008). Therefore, our results indicate that avoiding the restatement will reduce the cost of equity capital, such to Hribar & Jenkins (2004). Given the KSA's 2030 plan, the study's implications can be used to develop Saudi Arabia Accounting Standards Committee and reduce the chances of restatement due to the manager's opportunistic nature. We expect our results to be more critical than ever in line with the success of the ambitious Vision 2030 and to increase public confidence (Hribar & Jenkins, 2004; Thompson & Larson, 2004; Park & Wu, 2009; Mohammed et al., 2020). The study can contribute to improving disclosure and earnings quality. He (2020) finds that contracting firms with the federal government are associated with a higher financial reporting quality, less likelihood of restatement, and less incentive to manipulate earnings than non-government contractors.

The research findings have implications for emerging markets like GCC and Asia. Emerging markets have unique social, political, and economic environments characterized by different formal rules, laws, and regulations. The business that operates in such environments has to adapt decisions making on capital structure based on financial restatements. Some of the business practices are universal and are likely to affect their operations. Managers in emerging markets need to avoid financial restatements as they can have severe implications for the cost of equity. When managers can prepare appropriate financials, they can improve the marketability of firms' equities, thus impacting their growth opportunities. This study suffers from certain limitations. The CAPM has been used in calculating the cost of capital that requires companies to be listed on the stock exchange continuously throughout the study period. Thus, firms that could not meet the criteria were eliminated, and generalization of the results to a large-scale population became difficult. Future studies can use other models for the cost of equity calculation that do not place limitations on data collection. Our results indicate that restatement of the statement may significantly impact the Saudi economy, and more is needed to support the future of the Kingdom's ambitious vision (2030). To support the Saudi economy, we expect future studies to investigate the role of ownership structure (institutional, managerial, and manager ownership) in the restatement of the financial statement. The restatements can also be investigated for their impact on the performance of listed firms in KSA.

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