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Earning Management, Level of Voluntary Disclosure and Cost of Equity Capital: Empirical Study on LQ-45 Index Manufacturing Companies Listed in Indonesia

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Abstract— **This research aims to analyzing the effect of earning management and level of voluntary disclosure on cost of equity capital in a financial report. Since earning management and level of voluntary disclosure are the main problems in management policy, a manager will put them into consideration when making a policy. The population is manufacturing companies listed in Indonesia Stock Exchange (ISE) and in LQ-45 Index in the year of 2009-2010. The samples (22 companies) were selected by purposive sampling method. The secondary data used in this research and obtained from IDX and used of multiple linear regressions to test the hypothesis development. The results showed that independent variable name earning management influenced cost of equity capital significantly negative and was in line with the first hypothesis. The second hypothesis was rejected because level of disclosure was proven having no significant influenced on cost of equity. Control variable showed that stock beta influenced cost of equity significantly positive whereas the company size was proven having no significant influenced.**

Keywords— Earning Management, Disclosure Level, Cost of Equity, Beta, and Company Size

I. INTRODUCTION

Background

Agency theory is the main theory underlying the company's business practices in the world, including in Indonesia. Juanda (2007) in Nugroho (2012) stated that there were differences in the interests of the working relationship between shareholders (principals) to the management company (agency) in the form of contract called a nexus of contracts ie contracts meeting place between the two parties, namely the principals with management potential conflict of interest. Potential conflicts of interest that may affect the quality of information the company reported earnings. Information about the condition of the company is necessary for investors and creditors as a basis for making investment decisions. The information to support making decisions shareholders or creditors are financial statements. Managers have an obligation to maximize the welfare of the shareholders and debt holders, but the other managers also have an interest in maximizing the welfare of the company. The manager has a lot of information about the company and its shareholders have little information. So the manager has an opportunity to maximize their own interests by performing actions that could harm shareholders as manipulate the company's financial statements. Chaneera (2011) in Healy and Palepu (1993) there are three conditions that cause communication through the financial statements are not perfect and not transparent, namely: (i) the manager has more information about the strategy and business operations than the investor, (ii) the manager and investors have different interests, (iii) imperfections of accounting and auditing rules. This has caused the agency problem. One of the agency problems that often occur in Indonesia is the level of earnings management and disclosure. This is done by the manager so that financial information can make the investors or lenders interested in investing in the company, then the manager of the company take some action of earnings management and the level of disclosure that the company's financial statements look good.

The practice of earnings management that occurred in the Indonesian capital market is now a common phenomenon. Earnings management is often done because managers assume that other companies are also doing the same thing by Bagnoli and Watts (2000) in Utami (2006). Performance of competitors can also be a trigger manager's do earnings management as investors and creditors will do a comparison to determine which company has the best value. Earnings management can influence relevance of The emerging of capital markets development in Indonesia to make the managers is encouraged to raise as much as possible to engage in activities that are detrimental to shareholders. To protect

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shareholders Indonesian government set up a Capital Market Supervisory Agency (Bapepam) to perform day-to-day supervision of the capital markets in the event of violations in the securities exchange. Based on Bapepam report, there are 25 cases of violation of capital markets that occurred during the year 2002 up to March 2003. Of these offenses, there were 13 cases relating to conflicts of interest and disclosure. These violations indicate that the financial statements of the information given the troubled company. Furthermore the financial reporting system and the level of disclosure is also an important issue, which is in the state by the U.S. Security Exchange Commission (SEC) as quoted by Stanko (2001:21) in Business and Economic Review (BER) in Juniarti *et. al* (2003) found that the level of disclosure and financial reporting functions for communicating information to support management in making business decisions including investment decisions by investors. Therefore, the data that will be attached information must be relevant, timely and valuable; it is also easy to understand. Stanko (2001) in Juniarti et.al (2003) also said that the primary mission of the SEC regulation on fair disclosure is to protect investors and maintain the integrity of the securities market. According Juniarti (2003) financial report is the information that is used to communicate important information owned by the company's management estimates instance management (Frankel *et al* 1995:149) and profitability (Kanodia and Lee 1998:49). The financial statements are the level of inadequate disclosure would be viewed as risky financial statements by investors.

Effect of earnings management and the level of disclosure on the cost of equity has previously been studied, among others by Dechow et al. (1996) who said the company's cost of equity is exposed to SEC sanctions for alleged earnings management is significantly higher than the control sample. Utami (2006) says that earnings management positive and significant impact on the cost of equity. Financial Reporting of the American Institute of Certified Public Accountants (Jenkin Committee), as quoted by Botosan (1997:324) in Juniarti (2003) which states that disclosure is important advantage is the low cost of equity. Gulo (2000) in Purwanto (2012) also said that the extent of voluntary disclosure, as well as the beta value of equity shares of the company together with the ability to explain the absence of a relationship with the rising cost of equity. This means it can be said there is a relationship between the levels of voluntary disclosure of the company's cost of equity so that the authors assume that the disclosure of financial statements can also affect the cost of equity. Other than the level of earnings management and disclosure, firm size also affects the capital structure. Size larger companies have a greater probability of winning pesaingan or survive in the industry. Many empirical studies relating to the disclosure of financial statements is often associated with firm size is statistically significant. In addition to firm size, stock beta risk also affects the stock return that shareholders desired. Measurement of beta risk is intended to help investors determine the risk of their investment parameters.

This study examines whether investors in the Indonesia Stock Exchange had anticipated the risk of earnings management and the level of disclosure that is seen by carefully considering the amount of accruals that served the company in determining the rate of return on stocks. If the investor has taken into account in determining the amount of the accrual rate of return on the stock so he can anticipate earnings management practices undertaken by the company. This study uses earnings management and the level of disclosure as an independent variable that is expected to have an influence on the cost of equity. It is described in the concept that the higher the earnings management undertaken by the company led to the cost of equity that arise also high. While the level of disclosure is a disclosure that exceeds the disclosure should be done then there will be more expenses in preparing the financial statements, the more extensive the higher the level of disclosure of equity costs. In this paper the author tries to reexamine the effect of earnings management practices on the cost of equity that has been studied previously by Utami (2006) but this study differs from previous studies because assessing earnings management relationship and the level of disclosure on the cost of equity. Reason for adding the variable rate disclosure is because disclosure level is also a factor that affects the cost of equity than earnings management. Formulation of the problem to be addressed in this study were (1) How does the cost of equity earnings management, (2 How does the level of disclosure on the cost of equity, and (3) Are there significant differences in the effect of earnings management and the level of disclosure on the cost of equity between the companies included LQ-45 index

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

The theory used in this study is the agency theory or agency theory. The agency theory is the basis for understanding the earnings management. Agency theory has assumed that each individual is solely motivated by self-interest, giving rise to a conflict of interest between principal and agency. Shareholders as the principals entered into a contract to maximize the welfare of him with an ever-increasing profitability. Managers as agents are motivated to maximize the economic and psychological needs, among others, in terms of obtaining an investment, loan, contract or compensation. Agency problems arise because of the opportunistic behavior of agents, namely the behavior of management to maximize their own welfare as opposed to the interests of the principal. Managers have incentives to select and apply accounting method that can show a good performance for the purpose of getting a bonus from the principal.

Hypothesis Development

a. Earning Management has relationship on Equity Cost

One purpose of this study was to determine the extent of the impact on the cost of equity earnings manipulation. Motive to manipulate earnings management is to obtain external financing at low cost. Proxies are used to measure the cost of equity is the share price, the bid-ask spread, and the number of analyst following. Stolowy and Breton (2000) in Utami (2006) explainned that the manipulation of accounts made solely based on the management's desire to influence investors' perceptions of risk on the company. The risk can be broken down into two components, namely: (1) risks associated with variations in yield, as measured by earnings per share (earnings per share), and (2) risks associated with the company's financial structure, as measured by debt equity ratio.

Thus the goal itself earnings management is to improve both the size of the risk. The higher levels of earnings management showed the higher risk of stock returns and consequently investors will raise the cost of equity. Earnings management will increase the risk that the actions taken to cover the ugliness of the performance of the company manager. Francis et.al (2004) and Utami (2005) in Tarjo (2008) said that the quality of accruals that is a proxy for earnings management affects the cost of equity and the associated positive. Earnings management caused a lot of information that must be disclosed by the managers manipulate earnings to provide information to the public. This leads to increased costs that need to be issued by the company to cover fraud committed by managers. Effect of earnings management in a financial report for company management is not good in the long run. Dechow et.al (1996) in Utami (2006) found that in the United States capital markets firms suspected of earnings management practices appeared to have a higher cost of equity than those who did not receive sanctions from the SEC. As it turns out the market reacts negatively, earnings management is considered bad by capital market participants resulting in lower liquidity and stock prices, which in turn increased the cost of equity. Earnings management is considered as a fraud in the financial statements even though there are no set standards, with earnings management will be a lot of information that will be disclosed by the manager. Based on these descriptions, the first hypothesis is earnings management affects the cost of equity

b. Level of Finanacial Disclosure has relationship on Equity Cost

The role of the financial statements and the disclosure is to communicate information to support business decisions such as investment decisions. Relationship with the level of disclosure is based on assessment of the cost of equity investors assess whether the financial reports have had an adequate level of disclosure is inadequate because if the financial statements would be considered risky financial statements with the effect of the cost of equity to be issued by the company to be increased. So that the level of disclosure is important to be associated with the cost of equity, because if an adequate level of disclosure of equity to be low cost. Botosan (1997:346) in Juniarti (2003) supports the existence of a negative relationship between the levels of disclosure on the cost of equity. Although it is the influence of the level of disclosure on the cost of equity companies felt significantly less in the company at the center of attention of a large analysis of financial. There is a high level of disclosure that will lower the cost of debt. The opposite can occur, for example, when a company has a lot of problems then with a high level of disclosure that the more information that is known to be risky by investors so that investors will require higher returns impact the level of the higher cost of equity. Although debate continues whether disclosure would lower the high cost of equity or otherwise, all agreed that there are significant levels of disclosure significantly to the cost of equity. Botosan (1997) examined the relationship between the levels of disclosure to the cost of equity. Cost of equity (measured by market beta), firm size and disclosure level (measured by the scoring method). The results show that the greater the level of accounting disclosure by the company, the lower the cost of equity to be issued by the company. Gulo (2000) suggested that the theoretical research that supports the negative relationship between the level of disclosure and the cost of equity capital means the disclosure can improve market liquidity, thereby reducing the cost of equity shares, could decrease transaction costs by increasing demand securities or shares. Discosure level influence in a company's financial statements for management is to increase the number of investors. With a good level of disclosure and investors will be adequate to estimate a low risk to the company's stock because there is nothing hidden from the financial statements. So with that stock returns demanded by investors was also low thus reducing the cost of capital (Coles *et al*, 1995: 362); (Clarkson *et. al*, 1996: 69, 79) in Juniarti (2003). Researches conducted by Frankel et.al (1995) and Healy (1999) in Juniarti (2003) also have shown that the level of disclosure has an influence on the cost of equity. The higher the level of disclosure in the annual financial statements will lower the cost of equity. Based on the above description then, the second hypothesis is Level of Disclosure affects the cost of equity.

c. Earnings Management and Disclosure Levels have relationship on equity cost in companies LQ-45 Index

Motive company management put through earnings management and disclosure is to disclose the level of good information about the company. Companies that do a lot of earnings management to disclose the information would benefit in the short term but a growing number of investors when earnings management is done continuously, it will arouse suspicion shareholders whose consequences can include increased stock returns requested the shareholders. Companies with an adequate level of disclosure will reduce the perceived risk of the desired stock returns investors. Conversely low levels of disclosure are likely to make investors high risk estimation. For this reason almost all companies perform earnings management and disclosure, including the level of public companies in Indonesia Stock Exchange listed specifically in the LQ-45 index which is the company with the most liquid stocks and the best interests of the shareholders. Based on this, the third hypothesis in this research is earnings management and the level of disclosure affect on the cost of equity.

III. RESEARCH METHODOLOGY

a. Population and Sample

Population is the whole of the object of research. Characteristics and limitations of the population to be studied in this research is a listed company on the Indonesian Stock Exchange and are included in the LQ-45 index. Target population is manufacturing company. Considerations for selecting manufacturing company is based on the results of previous empirical studies show that earnings management and disclosure levels have a variety of variations for every type of industry. Total manufacturing company that made the population is 45 companies. The sample is part of the number and characteristics possessed by the population. Samples taken from the population must be truly representative. Researchers used purposive sampling techniques in sampling, in which existing criteria set by the researchers. Certain criteria defined in the study to obtain the target population to be taken. Based on these criteria then, sampling procedure in this study is the purposive sampling method. Purposive sampling is a sampling method that is not at random (random) but pre-determined according to the needs of research. Sample firms are then collected into the combined cross-sectional and time series or better known as panel data. Where the cross section of his company consists of 22 objects and time series consists of a 2-year study period.

b. Variables and Measurement of Variables

Measurement approaches used in measuring earnings management in this research is to model the aggregate accrual Modified Jones modified by Dechow et al (1995). This model uses regression residual total accrual of sales and changes in property, plant and equipment which controls the portion of total accruals related to the cost of depreciation of non-discretionary. In this model the adjusted income receivable changes that occurred in the period to control changes in economic conditions companies can. Considerations for using this approach because this model shows the greatest ability in detecting earnings management between accrual models are suggested and considered to be easier and more appropriate for this study. With the formula:

a. Total Accrual

$$TACC_{it} = EBXT_{it} - OCF_{it}$$

Description:

TACCit = Total accruals in year t

EBXTit = Net profit before tax in the year t

OCFit = Cash flow from operating activities:

Non Discretionary Akrual

$$NDACC_{it} = \alpha_1 \left(\frac{1}{TA_{it-1}}\right) + \alpha_2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{TA_{it-1}}\right) + \alpha_3 \left(\frac{PPE_{it}}{TA_{it-1}}\right)$$

Description:

NDACCit = *Non Discretionary* Accrual in year t

TAit-1 = Total asset i year t-1

ΔREVit = *Revenue changes from year* t-1 to year t

ΔRECit = *Net receiveable changes from year* t-1 to year t

PPEit= *Gross property, plant and equipment* in year t

b. Discretionary Accrual

$$DACC_{it} = \left(\frac{TACC_{it}}{TA_{it-1}}\right) - NDACC_{it}$$

Dription:

DACCit = *discretionary* Accrual in year t

TACCit = Total accrual in year t

NDACCit = *Non Discretionary* Accrual in year t

TAit-1 = Total asset in end of year t-1

The level of disclosure measured by the scoring method. Disclosure level is calculated by using the method of scoring on the list of criteria for the level of voluntary disclosure. Voluntary disclosure criteria include the general criteria and selected disclosed by the company.

The model used to measure the cost of equity is the CAPM model that has been used in prior research and Baridwan Komalasari (2001). Measurement scale dependent variable is the ratio scale. CAPM model is influenced by three factors:

(i) The amount of the risk-free interest BETA (risk free rate)

(ii) Systematic risk indicated by the BETA coefficient.

(iii) The market risk premium is indicated by the difference between the return of the stock market return (Rm-Ri)

Model CAPM formula is:

$$R_i = R_f + (R_m - R_i)bI$$

Description:

Ri = Expected stock *return*

Rf = Free Risk return

Rm = Expected portfolio *return*

Bi = coeffisien stock beta

Control variables are variables that are held constant so that the relationship of independent variables on the dependent variable that is not influenced by external factors not examined. This variable is often used by researchers in a comparative study, through experimental research. Control variables used in this study is the beta risk of the stock and the size of the company. Beta risk of the stock and the size of the company are used as a control variable because previous studies showed that beta risk, the market value of equity and firm size has a significant effect on the cost of equity (Botosan 1997) in Utami (2006). Beta is a measure of systematic risk on the volatility of a security or the size of the systematic risk of the company. Thus, the systematic risk of the stock variable (beta risk) and firm size are used as control variables. Risk (BETA) measured by beta is calculated daily by the method of Fowler and Rorke (1983) which calculates the value based on the slope of the stock price of stock returns with the market return on the sample firm. Firm size (SIZE) is a measure of the availability of information or the size of the company. In this study, to measure the size of the companies used proxy market value, ie the number of shares outstanding during the month of the announcement of financial statements closing share price multiplied by the respective months.

c. Data Analysis Techniques

Analysis technique that will be used in this study is multiple regression analysis. Multiple regression analysis used in this study to determine the effect of earnings management on the cost of equity. Form of the model used in this study, namely

$$r = \alpha + \alpha_1 ML + \alpha_2 DSCORE + \alpha_3 Beta + \alpha_4 Size + \mathcal{E}$$

Description:

r = equity cost

ML = earning management

DSCORE = Level of Voluntary Disclosure

Beta = Beta risk

Size = mar Kapket capitalization

IV. FINDING AND DISCUSSION

To examine the effect of earnings management and voluntary disclosure level on the cost of equity is done with multiple regression analysis aimed to determine the effect of the independent variables (earnings management and voluntary disclosure level) on the dependent variable (cost of equity). Regression test results as follows:

r=0.121-4.198EM-0.176DSCORE+0.583Beta+3.55SIZE+e

Constant value 0.121 means that the cost of equity will be positive (there) although the independent variable (the level of earnings management and voluntary disclosure) does not exist. Regression coefficient for earnings management at -4198 showed that the effect of earnings management on the cost of equity is negative which means that if the management earnings increased by 1 unit, the cost of equity will be decreased by -4198. Regression coefficient for the variable level of voluntary disclosure of -0176 indicates that the effect of the level of voluntary disconsure the cost of equity is negative which means that if the level of voluntary disclosure increased by 1 unit, the cost of equity will be decreased by -0176. Regression coefficient of control variables in this study are positive, ie stocks with beta coefficient value of 0583 which means that if the beta stocks increased by 1 unit of the company's cost of equity will increase by 0583. Regression coefficient is equal to the size of the company this means that if the size of the 3,551 companies rose 1 point, the cost of equity will increase by 3,551. Based on the results the coefficient of determination is 0.882. These results suggest that variation in changes in the cost of equity is affected by variations in earnings management variable changes, the level of disclosure, beta and firm size. of 88.2 percent.

a. Effect of Cost Management Return on Equity

Higher earnings management would result in the higher cost of equity to be issued by the company. Management companies that perform earnings management in the long run will harm the company. Tetapi the management will keep doing because interest earnings management company to obtain additional capital, which is in line with agency theory managers who want a firm (the principal) corporate welfare on the one hand and also lead to the prosperity of the shareholders. Of it can be explored the possibility of a form of agency problem, namely earnings management. Managers perform earnings management objectives are to obtain additional capital that is by increasing the amount of funds invested by the investor in order to obtain additional funds Integration to run the company. Based of basic concept which states that the higher the income, the higher management cost of equity to be issued by the company. if the company made profit management beyond the ekutas costs to be incurred by companies is increasing. Cost of equity is a dynamic concept that is influenced by several economic factors. Capital cost structure is based on several assumptions related to risk and taxes. The basic assumption used in the estimation of the cost of equity is the business risk and financial risk is still (relatively stable). Measurement of the cost of common stock capital (cost of equity capital), influenced by corporate valuation models are used. The model used in this study to memproksi cost of equity is the CAPM model or the Capital Asset Pricing Model. Based on the CAPM model, the cost of common stock capital is the rate of return expected by investors as compensation for the risk that can not be measured with a beta risk. Based on the research of data between the independent variable (the level of earnings management and voluntary disclosure) and control variables (beta stocks and firm size) on the dependent variable shows that the cost of equity earnings management independent variable has a value of 81.322 F significance with significance 0.000. The test results support the theory that used the agency theory which states that the old management agency problem which can cause the problem will lead to increased costs in the long-term equity firm. Earnings management is considering of profit rising attracting investors to increase the value of the company. Increase knowledge in analyzing the financial statements as a way to overcome this agency problem in accordance with previous studies conducted by Utami (2006). Furthermore, management that does not exceed the limit will improve the welfare of the company, as the company reduced the level of fraud that would reduce corporate welfare. Research conducted by Utami (2006) stated that the results of the study provide empirical evidence that earnings management and significant positive effect on the cost of equity capital. It means that the higher accrual rate, the higher the cost of equity capital. This shows that the level of earnings management in Indonesia is relatively high as revealed by Leuz et al. (2003) in Utami (200) has been carefully anticipated by investors at the Jakarta Stock Exchange. Earnings management is proxied by the ratio of working capital accruals to sales (Utami models) proved to be the greatest contribution in explaining the variation in the cost of equity capital. This finding is in line with the opinion of McNichols (2000) and Dechow and Skinner (2000) which states that better earnings management proxy with specific accrual and use a simple model (not complicated). The results Purwanto (2012) is not in line with the statement of the results of this study which states that earnings management has a positive effect on the cost of equity capital. Results of the regression analysis showed positive earnings management coefficient of 0.333 with a significance level of 0.702. This result was not statistically significant due to far above the level of significance set at 0.05 and concluded that there was no significant relationship between earnings management on cost of equity capital. These results indicate that the cost of equity capital will not be greater with increasing earnings management. With so research indicates acceptance of the first hypothesis is the existence of a relationship that earnings management has a significant influence on the cost of equity. It can be concluded that there is a significant relationship between earnings management towards the cost of equity. These results indicate that the cost of equity will be greater with increasing earnings management.

b. Effect of Voluntary Disclosure on Equity Cost

Test results between the independent variable levels of voluntary disclosure on the dependent variable cost of equity showed no significant effect between voluntary disclosure level independent variables on the dependent variable cost of equity. Level of voluntary disclosure has significant value well above 0:05 is equal to 0.525 and the negative value of t which is equal to -0641, by the second hypothesis is rejected because it is. The result means that the size of the company's voluntary disclosure level of the study sample was not able to affect the company's cost of equity. The results support the research conducted by Purwanto (2010) showed the value of the voluntary expression of a negative index coefficient of -0.538 with a significance level of 0.624 and concluded that there was no significant effect between voluntary broad expression in the annual report of the company's cost of equity capital. The results are also in accordance with or research conducted by Murwaningsari (2009) which states in the second equation has a disclosure in accordance with the direction Botosan study (1997) that the greater the level of disclosure, the lower the cost of capital. Or conversely annual reports that have lower disclosure index will impact the higher its cost of capital. It means that the company is still not complying with any provisions in the Financial Accounting Standards and regulations of Bapepam. But the relationship between two variables is not significant. The same thing also happened on the research conducted by Astutik (2009) which examines the relationship of earnings management and the level of disclosure of the company's cost of equity, research results stating that the voluntary disclosure level has no effect on the cost of equity capital. However this is not consistent with studies Gulo (2000) which states that voluntary disclosure may impact positively or negatively on the cost of equity capital. Positively influence can be demonstrated by the higher level of voluntary disclosure (voluntary disclosure) made by the company, the higher cost of capital. This study is also inconsistent with research Botosan (1997: 346) which states that voluntary disclosure of negative affect as indicated by the higher level of voluntary disclosure made by the company will also lower the company's cost of equity. The results are also not in line with the research conducted by Mardiyah (2002), who conducted a study on the effects of information asymmetry and the level of disclosure on cost of capital. Mardiyah stated that there was no significant relationship between the levels of disclosure on cost of capital. Results of the same study also stated by Juniarti and Yunita (2003) in her study the influence of the level of disclosure on the cost of equity states that the results showed no significant effect will influence the level of disclosure on the cost of equity.The same study was also conducted by Pure (2004) which again shows that voluntary disclosure has an influence on company's cost of capital. In the voluntary disclosure research shows a positive correlation with the cost of capital of the company. Based on these results can be explained that things may have happened is because the level of disclosure does not have a significant effect on investor decisions in investing. Results of this study reject the second hypothesis which states that the level of disclosure has an influence on the cost of equity. It can be concluded that there is no significant relationship between the levels of voluntary disclosure in the annual report the company to the company's cost of equity.

c. Effect of earnings management and the level of disclosure on the cost of equity between the companies included LQ-45 index.

From research done by taking the annual financial statement data of manufacturing firms in Indonesia Stock Exchange are included in the LQ-45 index seen that among manufacturing firms including LQ-45 index has no significant difference will influence the level of earnings management and voluntary disclosure to the company's cost of equity. Results of this study indicate that the level of earnings management and voluntary disclosure by companies belonging to the LQ 45 is still relatively low and is unable memepresentasikan entire population. This suggests that investors are not overly concerned about the presence or absence of earnings management and the level of disclosure or whether a voluntary disclosure made by the company for consideration in investing. The differences of earnings management is a lower value of corporate profits and there are increments profit but this does not affect the effect of earnings management among firms LQ-45. So, the different of level disclosure by companies LQ-45, there are companies fully disclose to be good company because they required information to user. It can be proven at the highest value of the firm's equity cost of 4.61 or 46.1 percent of the study sample, namely PT. Energi Mega Persada. The lowest value of the cost of equity in 2009 amounted to 2.3 or 23 per cent owned by the company PT. XL Axiata Tbk. On company PT. Energi Mega Persada, the value of -11 earnings management in 2009 and -0.02 in 2010 to the level of voluntary disclosure in 2009 and 2010 respectively by 0.85 and 0.82. While on company PT. XL Axiata Tbk, the value of earnings management in the year 2009 amounted to -0.03 or -3% and amounted to -0.02 or -2% in 2010. The value of the voluntary disclosure level of 0.97 or 97% in 2009 and amounted to 0.91 or 91% in 2010. Both companies have the same value of earnings management that is both negative and high disclosure level is above 0.82 or 82%. But it does not affect the cost of equity perusahaan.Hal this means an increase or decrease in the level of voluntary disclosure does not greatly affect the cost of equity. The results indicate rejection of the third hypothesis is that there is significant differences influence earnings management and the level of disclosure on the cost of equity. It can be concluded that there was no significant difference influence earnings management and voluntary disclosure level on the cost of equity the companies included LQ-45 index.

d. Effect of Beta Stocks and Firm Size on Equity Cost

In this study, the authors use the stock beta and firm size as a control variable. Several previous studies showed that beta stocks and firm size has a significant effect on the cost of equity capital. Shares used in calculating beta proxy slope value of the stock price of stock returns with the market return on the sample firm. In calculating the size of the company used proxy market value, ie the number of shares outstanding multiplied by the closing share price during the event window. Resuls of analysis of variable stock beta (Beta) suggests that there is a positive and significant effect on the cost of equity beta stock with a significance of 0.000. This indicates that the company's cost of equity is greater with increasing beta stocks and conversely that the smaller beta equity shares of the company's costs are also getting smaller. Meanwhile, firm size as a control variable does not affect the cost of equity capital to the significance of 0746. Results of this study showed that the cost of equity is not necessarily getting smaller with the increasing size of the company and vice versa. These results are consistent with the results of Gulo (2000) which states that the company's cost of equity capital is not affected by the size of the firm's equity market value, but not inconsistent with the results of previous studies by Botosan (1997), Pure (2004) and Utami (2006).

V. CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Based on the analysis and discussion in Chapter V, in accordance with the problems and objectives and supported by theory, it can be concluded as follows:

1. Earnings management has a significant effect on the cost of equity companies included LQ-45. The resulting influence is negative, which means if the earnings management decreases the cost of equity will also decrease.
2. Level of disclosure does not have a significant effect on the cost of equity companies included LQ-45. The resulting influence is negative, which means if the level of disclosure decreases the cost of equity is not necessarily decreased.
3. There were no significant differences in the effect of earnings management and the level of disclosure on the cost of equity between the companies included LQ-45. This means that earnings management and the existing level of disclosure in the annual financial statements of the company have the same impact on the cost of equity.
4. Beta stocks as a control variable in this study had a significant impact on the cost of equity, while the control variables firm size has no significant effect on the company's cost of equity.

Suggestions

Based on theory, analysis and discussion, it can be suggested:

1. Continued research is changing the calculations used to compute earnings management with other methods of sample firms. It aims to get more significant results.
2. Further research needs to be done by combining the company's book value of equity and positive and also negative for the non-manufacturing sector.

Implications

Magnitude of discretionary accruals can be used by investor to detect the possibility of earnings management practices undertaken by the company can thus anticipate well, and the level of disclosure would affect the cost of equity that the company had to increase the awareness of financial statement disclosures.

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