ABSTRACT

Corporate sources of funding are derived not only from internal, but also from external parties such as investors and creditors. They need reliable information from the company to help them making their decision, predicting the risk level of their investment, and the return they will get. Some factors that might influence their decision and their demanded return are the possibility of earnings management by the company and the voluntary disclosure disclosed by the company.

This research examined the companies listed in Indonesia Stock Exchange in 2011. 105 companies were chosen from 404 companies using purposive sampling method. Using multiple linear regression and 5% level of significance, this research were conducted to prove if the earnings management and the voluntary disclosure affecting the company's cost of capital. The methods used to measure the earnings management was the Modified Jones Model while the Botosan disclosure elements were used as guidance to score the company's disclosure level.

From the examination, this research could not prove any significant impact between the earnings management and the disclosure level toward the cost of capital, together and partially. One possible reason for this result is the investors have not been able to respond with accurate information provided by the company. This reason is supported by Sukamulya (2011) from BAPEPAM research that investors tend to be irrational on making the decision because they lack of knowledge.

Keyword: earnings management, disclosure level, agency theory, cost of capital