

## **ABSTRACT**

*This study examines the moderating effect of litigation risk on the influence of earning quality on investment efficiency. Litigation risk mitigates agency problems and promote greater earning quality. Higher litigation risk would strengthen the influence of earning quality on investment efficiency. Manager avoid litigation because it raises costs. That's why income statement will be approached with the actual state of the company so that it can be used as a proper basis for making investment decisions.*

*The sample used is secondary data from the Indonesia Stock Exchange (BEI) is a manufacturing company's annual report base in 2011-2012. Accruals quality is used as proxy of earning quality. Variabel corporate investment efficiency, earning quality and litigation risk are analyze using Ordinary Least Aquare (OLS) regression method.*

*The result indicates litigation risk had significant negative to the influence of earning quality on Investment efficiency. This negative effect states that the higher litigation risk would reduce accrual quality on investment efficiency. In other words, earning quality will further improve corporate investment efficiency. Litigation risk has a role to influence managers to disclose earning.*

*Keywords: litigation risk, accruals quality, earning quality, investment efficiency*