

## **ABSTRACT**

*The purpose of this research is to examine the impact of audit quality on the investor's ability to predict future earnings and to examine investor's ability to predict future earnings for profitable firms and unprofitable firms.*

*This research is a replication of the study by Hussainey (2009). The population of this research are 414 manufacture companies which is listed in Indonesia Stock Exchange period 2008-2010. Samples were selected by purposive sampling method and finally obtained 180 manufacture companies that fulfill the criterias. Data were analyzed using Collins et al. (1994) return-future earnings regression model. Earning predictability is measured by regress between stock return period  $t$  as dependent variabel with some independent variables, earnings growth period  $t$ , earnings growth period  $t+1$ , earnings growth period  $t+2$ , stock return period  $t+1$ , stock return period  $t+2$ , earning price to ratio, and total asset growth for period  $t$ . Audit quality which moderate variable in this resarch interact with all independent variables, and the dummy variable in one when financial statements are audited by one of the big four accounting firms and zero when financial statements are audited by non-big four accounting firms.*

*The result shows that audit quality doesn't impact on investor's ability to predict future earnings and it also shows that investor's ability to predict future earnings between profitable firms and unprofitable firms are not different.*

*Keywords: audit quality, earning predictability, stock return, earnings per share*