

## **ABSTRACT**

*The objective of this study is to examine the effect audit quality to earnings management and cost of equity capital. Audit quality measured with dummy variable, earnings management measured with modified Jones model, and cost of equity capital measured with Ohlson models which had been modified by random walk model.*

*This study used manufacturing firm for samples during 2010-2011 by using purposive sampling method. This study used multiple regression for data analysis. The results showed that audit quality has significant effect to earnings managements and cost of equity capital.*

*This study used size and leverage as control variable. Size and leverage has significant effect to earnings management, but not for cost of equity capital.*

*Keyword: audit quality, earnings management, and cost of equity capital.*