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Cost of Equity Capital and the Determinant: A Study in Industrial Firms in Indonesia

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Abstract

This research aims to analyse the effects of accounting information asymmetry, market risk, audit quality, and company size on cost of equity capital on industrial companies registered in Indonesia Stock Exchange from 2017 to 2021. Data analysis techniques consist of descriptive statistics, classical assumption testing, and hypothesis testing with multiple linear regression analysis method. The test results show that market risk and company size has positive and negative effect on the cost of equity capital respectively, while accounting information asymmetry and audit quality does not affect the cost of equity capital. The limitation in this study is that the measurement of audit quality variables is only obtained by the standard of public accounting firm, and there are still 62,7 percent of other factors outside the independent variable which can affect the value of the company's cost of equity capital.

Keywords: Asymmetric, Risk, Audit, Size, CEC

Introduction

Managers as company managers know more information related to the internal and prospects of the company in the future than investors as shareholders. Therefore, as an investor fund management agent, the manager is obliged to provide signals regarding the company's condition to investors. The signals given can be conveyed through the disclosure of accounting information such as financial reports. However, the information conveyed by managers to investors is sometimes not in accordance with the actual condition of the company. This condition is known as information asymmetry (Sasongko, Admadianto, Trisnawati, & Wiyadi, 2016). Agency theory or (agency theory) is the main focus in the discussion of this research because this theory implies the existence of information asymmetry between managers as agents and shareholders as principals (Komalasari & Baridwan, 2001). The agency problem is also a concern in this research considering the development of the Indonesian capital market which has been increasing in recent years. The capital market is a media liaison between investors and companies to obtain capital. When a company obtains funds from investors, there is a certain rate of return expected by investors which is referred to as the cost of equity capital for the company (Ifonie, 2012).

The high or low value of the cost of equity capital for each company is influenced by several factors. Several previous studies such as those conducted by Murwaningsari (2012), Purwanto (2012), He, Lepone, & Leung (2013), Cuadrado, Isabel, Garcia, & Ferrero (2016), and Sasongko, Admadianto, Trisnawati, & Wiyadi (2016)) shows that one of the factors affecting the cost of equity capital is information asymmetry. If related to agency theory and bid-ask spread theory, the existence of information asymmetry can reduce liquidity in the stock market for the company concerned.

The rate of return expected by investors in the form of the cost of equity capital for the company is then compared to the risks that must be faced. Return and risk are two things that are inseparable because the consideration of the investment decision itself is a trade-off of these

two factors (Hartono, 2016). This is in line with the results of research by Botosan (1997) which states that the cost of equity capital is influenced by risk as measured by beta. Antoniou, Doukas, & Subrahmanyam (2016), Wulandari, Malikah, & Mawardi (2017), Rika (2018), and Rohman & Ismanto (2020) in their research also revealed that high market risk will result in investors expecting a higher proportion of returns. high which means that the cost of equity capital will increase.

In relation to financial reporting, company management can carry out various practices such as earnings management to provide wrong information to shareholders regarding the company's economic performance because it has certain interests. The occurrence of various cases related to financial reporting has caused investors to really need the role of the auditor as an external party who can check the correctness of every information in the financial statements. This role causes audits to become a means of reducing information risk for users of financial statements (Fernando, Meguid, & Elder, 2010). This risk reduction can be adjusted by reducing the company's cost of equity capital as contained in Fernando's research, et al. (2010), Yuvita & Darmawati (2013), Suparno & Kiswara (2013), Setiawan & Daljono (2014), Desiliani & Meiranto (2015), Ningsih & Ariani (2016), and Vita, Titisari, & Wijayanti (2018). Audit quality can affect the cost of equity capital because the company being audited will provide more information so that investors are able to predict the risks that occur in the company.

With regard to company size, several studies have shown different results when testing the effect of company size on the cost of equity capital. Komalasari & Baridwan (2001) in their research found that there was a negative relationship between firm size and cost of equity capital and they found that the effect of information asymmetry on cost of equity capital was greater in large companies than small companies.

Based on the explanation that has been described previously, the authors intend to conduct research that can examine the effect of the variables previously described on the cost of equity capital with the title "Cost of Equity Capital and The Determinant".

Literature Study

An agency relationship is a relationship between a principal (principal) and an agent (agent) in which the agent acts on behalf of and for the benefit of the principal and for his actions (actions) the agent gets a certain reward. In the context of financial reporting, the relationship between investors and management can be characterized as an agency relationship, where shareholders act as principals and management as agents (Suwardjono, 2016). Scott (2000) states that companies have many contracts. If connected with agency theory, then the contract in question is a work contract between investors and company managers. Where between agents and principals want to maximize their respective profits with the information they have. Agents have more information than principals, giving rise to information asymmetry.

Related to agency theory, the party that has the discretion to determine profit, namely the management as an agent, is generally theorized to report profits to maximize themselves through earnings management. This can happen because management has the authority to choose accounting methods that benefit management in fulfilling contracts with investors (Suwardjono, 2016). In order for the process of supervising the company's financial management to run more effectively, an independent party from an external company such as an auditor is needed to ensure the correctness of the information presented in the financial statements. Based on these objectives, the auditor is required to carry out quality audit activities.

In making investment decisions, market risk as measured by beta is one of the factors to be considered by investors. Beta is a relative measure of the systematic risk of individual stocks

in relation to the market as a whole as measured by fluctuations in income or returns (Hartono, 2016). Each stock has a different sensitivity to market changes, so it has a different beta value. The beta coefficient of a stock measures the extent to which the stock's rate of return moves relative to the market. Theoretically, investors who diversify their shares well only need to take into account beta risk or market risk and managers only need to think about maximizing stock prices. These two factors will lead to the conclusion that market risk affects the value of the cost of equity capital (Wulandari, Malikah, & Mawardi, 2017).

Company size in general can be interpreted as a comparison of the size of a company. According to Sawir (2004) large companies have various advantages compared to small companies. Company size can determine the company's level of ease in obtaining funds from the capital market. Some of the results of previous research have become the rationale for forming the following conceptual framework:

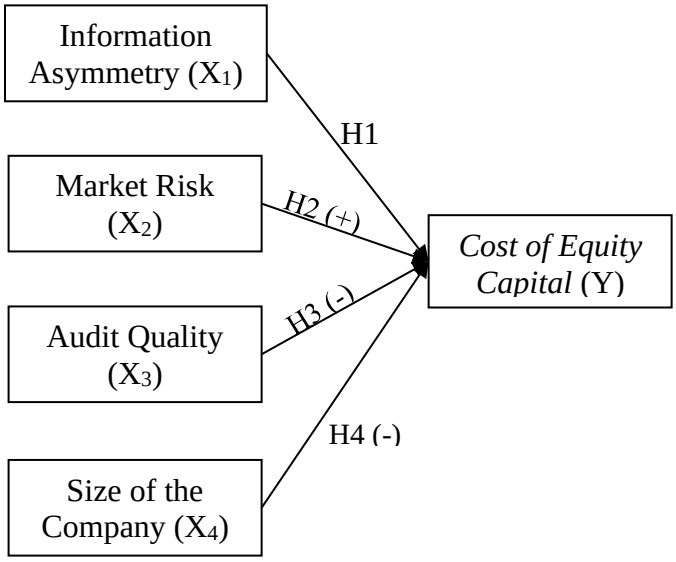

Figure 1. Research Model

The Effect of Information Asymmetry on the Cost of Equity Capital

Research conducted by Komalasari & Baridwan (2001), Murwaningsari (2012), Purwanto (2012), He, et al. (2013), Cuadrado, et al. (2016), and Sasongko, et al. (2016) showed that accounting information asymmetry has a positive effect on the Cost of Equity Capital. When information asymmetry arises, disclosure decisions made by managers can affect stock prices because information asymmetry between more informed and less informed investors creates transaction costs and reduces the expected liquidity in the market for the company's shares concerned. Research conducted by Lambert, et al. (2012) actually show that increasing information asymmetry between investors can reduce the cost of capital because information asymmetry affects the willingness of informed traders to increase liquidity in the capital market. Perwira & Darsono (2015), Ifonie (2012), and Ningsih & Ariani (2016) even stated that information asymmetry has no effect on the cost of equity capital. The results of their research show that investors cannot read positive signals from information related to the company so that the information does not affect the size of the return expected by investors. Based on the theoretical basis and empirical studies from previous studies, the following hypotheses were formed:

H1 = Information asymmetry has a positive effect on the cost of equity capital

The Effect of Market Risk on the Cost of Equity Capital

Research by Rohman & Ismanto (2020) states that market risk has a positive effect on the cost of equity capital. This is because companies pay attention to market risk in determining their equity policy strategy, as well as investors who make investment decisions by considering changes in market conditions. This statement is also in line with research by Antoniou, Doukas, & Subrahmanyam (2016), Wulandari, Malikah, & Mawardi (2017), and Rika (2018) which states that when market risk is high, investors expect a high rate of return on their investment as compensation for the risks involved. Vice versa, when the level of risk is low, investors will ask for profits that are not too high so that the cost of equity capital issued by the company is lower. However, the results of Pramita's research (2016) state that statistically market risk has a significant effect on the cost of equity capital, but has a negative effect. Ashidiqi (2013) and Rahayu, Hidayati, & Mawardi (2018) in their research revealed a different matter, namely market risk has no significant effect on the cost of equity capital. This research implies that even though risk is something that cannot be separated from an investment, most investors in Indonesia tend to make investments only looking at the results that will be obtained in the future without considering the risks faced. Based on the theoretical basis and empirical studies from previous studies, the following hypotheses were formed:

H2 = Market risk has a positive effect on the cost of equity capital

The Influence of Audit Quality on the Cost of Equity Capital

In Fernando's research, et al. (2010), Murwaningsari (2012), Yuvita & Darmawati (2013), Suparno & Kiswara (2013), Setiawan & Daljono (2014), Desiliani & Meiranto (2015), Ningsih & Ariani (2016), and Vita, et al. (2018), audit quality can have a negative effect on the cost of equity capital because the company being audited will provide more information so that investors are able to predict the risks that occur in the company. A different matter was conveyed by Herusetya (2012) and Andriana & Friska (2014) who in their research stated that audit quality has a positive effect on the company's cost of equity capital because investors still see the possibility of high information risk in the company even though the financial statements have been audited. Based on the theoretical basis and empirical studies from previous studies, the following hypotheses were formed:

H3 = Audit quality has a negative effect on the cost of equity capital

Effect of Company Size on Cost of Equity Capital

Several previous studies have also examined the relationship between company size and the Cost of Equity Capital. Komalasari & Baridwan (2001), Murwaningsari (2012), Kurnia & Arafat (2015), and Perwira & Darsono (2015) in their research found that there is a negative relationship between firm size and cost of equity capital. Komalasari & Baridwan (2001) even stated that there is a greater influence between information asymmetry and cost of equity capital in large companies compared to small companies. Several other studies have shown different results. Research Sasongko, et al. (2016) shows that the larger the size of the company, the higher the cost of equity capital issued by the company. Research by Setiawan & Daljono (2014) even shows that company size does not affect the cost of equity capital. Based on the theoretical basis and empirical studies from previous studies, the following hypotheses were formed:

H4 = Company size has a negative effect on the cost of equity capital

Methods

The form of research used in this study is associative or relationship research. This study wanted to find out the relationship between information asymmetry, market risk, audit quality, company size and cost of equity capital with the object of research on financial reports for industrial sector companies listed on the Indonesia Stock Exchange from the period 2017 to 2021. Data collection techniques were carried out the author in this study is through library research, namely through the collection of secondary data obtained from audited financial statements. The population in this study are all companies in the industrial sector that are listed on the Indonesia Stock Exchange from 2017 to 2021. Determination of the sample in this study used a purposive sampling method, in which a sample of 37 companies was obtained. Independent variables in this study include:

Information asymmetry

Information asymmetry is an imbalance of information between managers and shareholders, where managers know more about internal information and company prospects in the future than shareholders or other stakeholders (Ifonie, 2012). Information asymmetry is measured by the theory of the bid-ask spread, namely:

$$\textbf{SPREADi,t = (aski,t – bidi,t) /\{(aski,t + bidi,t) / 2\} X 100}$$

Information:

Aski,t = The highest *Ask* Price of the company's shares i that occurs on the t day (on the date of publication of the financial statements)

Bidi,t = The lowest *Bid* price of the company's shares i that occurred on the t day (on the date of publication of the financial statements)

Market Risk

Risk is an integral factor in investing. According to Botosan (1997), the amount of risk of a stock can be determined by beta, namely the relationship between a stock and its market. A beta value that is more than 1 indicates that the stock price moves faster than the market index, while a beta value that is less than 1 indicates that the stock price changes more slowly than the market index. In this study, beta measurements were used according to Hartono (2016), as follows:

$$\beta_i = \frac{\sum_{t=1}^{n} (R_{it} - \overline{R_{it}}) . (R_{Mt} - \overline{R_{Mt}})}{\sum_{t=1}^{n} (R_{Mt} - \overline{R_{Mt}})^2}$$

Information:

β_i = Beta market i-th
R_{it} = *Return* of i-th stock on t t-th year
$\overline{R_{it}}$ = Ra t a-ra t a *return* on the *i-th* stock on tt-th year
R_{Mt} = *Return market* on t t-th year
$\overline{R_{Mt}}$ = Ra t a-ra ta *stock return* on t t-th year

Audit Quality

Audit Quality as measured in this study uses one of the *Audit Quality Metric Score* (AQMS) measurements , namely the size of a public accounting firm (KAP) as used in the Setiawan &

Daljono research (2014), and the Ningsih & Ariani research (2016). Companies audited by KAP affiliated with Big4 such as Deloitte Touche Tohmatsu Limited, Pricewaterhouse Coopers, Ernst & Young, and Klynveld Peat Marwick Goerdeler have a higher audit quality so they will be scored 1, while companies audited by other KAP will be scored 0.

Company Size

The size of the company in this study is measured from the *value of market capitalization* which has also been applied in the research of Murwaningsari (2012), Fernando, *et al*. (2010), Herusetya (2012), and Utami (2005) are as follows:

MVE = Share Price x Number of Shares Outstanding

The dependent variable in this study is the *Cost of Equity Capital* which can be interpreted as the costs incurred to finance funding sources (*source finance*). The calculation of *Cost of Equity Capital* can use the *residual income* model or better known as *Edward Bell Ohlson valuation* (Ohlson, 1995), namely:

$$\mathbf{r = (B}\ t\ \mathbf{+ X_{t+1} –}P\ t\mathbf{)/P_t}$$

Information:

r= *Cost of Equity Capital*
B_t = Book value per share on the date of publication of the financial statements
$X\ t+_1$ = Earnings per share for period t+1
P t = Share price in period t

The type of research used in this research is quantitative, with data analysis methods which include descriptive statistics, classical assumption testing by carrying out normality tests, multicollinearity tests, autocorrelation tests and heteroscedasticity tests. The influence test in this research method uses multiple linear regression statistical tests, while hypothesis testing uses a determination test (R2), simultaneous test (F statistical test), and partial test (t statistical test).

Results and Discussion

The descriptive analysis carried out in this study showed statistical results which included the amount of data (sum), lowest value (minimum), highest value (maximum), average (mean), range, and standard deviation of the research data that had been calculated previously. In this study, data will be displayed regarding the results of calculating information asymmetry (SPREAD), market risk (RISK), audit quality (AUDIT), company size (SIZE), and cost of equity capital (CEC). The following are the results of descriptive statistical tests for the five variables:

Table 1. Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation
SPREAD	185	3.88	.00	3.88	1.4277	1.26249
RISK	185	4.93	-1.98	2.95	.4792	1.20740
AUDIT	185	1.00	.00	1.00	.3459	.47697
SIZE	185	77521100549 45	513760000 00	78034860549 45	178290997158 5.1	212687305569 9.6
CEC	185	4.87	-1.96	2.91	.3414	1.15748
Valid N (listwise)	185					

In Table 1, the average value of the cost of equity capital for all samples during the observation period is 0.3414. The average value is between the maximum and minimum values with a range of only 4.87 and a standard deviation value of 1.15748. The data presented in Table 1 also

contains data on the results of information asymmetry measurements for all 185 sample companies. Based on these data it is known that the maximum and minimum values of information asymmetry are respectively 3.88 and 0 with a range of 3.88. The average value of information asymmetry for all sample companies is 1.4277 with a standard deviation of 1.26249. The average market risk value of all samples is 0.4792 with a standard deviation of 1.20740 which indicates that most of the sample companies in this study have a beta value that is not much different from the average value. The audit quality variable contained in Table 1 is a dummy variable consisting of only 2 numbers. Therefore the maximum value of the audit quality data is 1 and the minimum value is 0 with a range of 1 and the average and standard deviation respectively 0. 3459 and 0.47697. The last variable whose data is contained in Table 1 is company size which has an average value of 1,782,909,971,585.1 with a fairly large range of 2,126,873,055,699.6.

In this study, t and F tests will be carried out which assume that the residual values are normally distributed, therefore the regression model in this study must fulfill these assumptions so that the test results show valid numbers.

Table 2. Data Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		185
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.11149418
Most Extreme Differences	Absolute	.060
	Positive	.060
	Negative	-.060
Test Statistic		.060
Asymp. Sig. (2-tailed)		.098[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Based on the data obtained from Table 2, it can be seen that all data are normally distributed because the significance level of the Kolmogorov-Smirnov test results shows a number of 0.098 higher than 0.05, thus it can be concluded that there is no difference between the empirical distribution of the data used in the study this with an ideal normal distribution so that it can be concluded that the data distribution of all variables is normal.

To detect the existence of multicollinearity in a regression model, it can be done by testing the strength of the correlation between the independent variables by looking at the Tolerance and Variance Inflation Factor (VIF) values. These two measurements indicate which of each independent variable is explained by the other independent variables. The following are the results of multicollinearity testing:

Table 3. Multicolinearity test

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.225	.185		1.218	.225		
	SPREAD	-.001	.018	-.003	-.035	.972	.970	1.031
	RISK	.030	.019	.116	1.568	.019	.991	1.009
	AUDIT	.035	.028	.103	1.267	.207	.817	1.225
	SIZE	-.002	.007	-.020	-.242	.009	.798	1.252
a. Dependent Variable: CEC								

Table 3 shows that there is no independent variable that has a tolerance value of less than 0.10, which means there is no correlation between the independent variables. The results of

calculating the Variance Inflation Factor values also show the same results, namely that there are no independent variables that have a VIF value of more than 10. Based on these two indicators, it can be concluded that there is no multicollinearity between the independent variables in the regression model in this study.

Autocorrelation problems are found in time series data, so to obtain a good regression model it must be free from autocorrelation. Autocorrelation testing can be done in several ways, one of which is by using the Durbin Watson test. Following are the results of autocorrelation testing using Durbin Watson:

Table 4. Test Autocorrelation

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.622[a]	.387	.373	.11273	2.175
a. Predictors: (Constant), SIZE, RISK, SPREAD, AUDIT					
b. Dependent Variable: CEC					

The results of the autocorrelation test above show a Durbin Watson value of 2.175 which is greater than 1.8037 which is the dU value and also less than 2.1963 which is the value of 4-dU. Thus it can be seen that the data used in the regression modeling in this study do not have autocorrelation problems because they meet the requirements dU<d<4-dU.

A good regression model is one that does not have heteroscedasticity. One way to detect heteroscedasticity is to do the Glejser test. Following are the results of the heteroscedasticity test with the Glejser test:

Table 5. H testetheroskedasticity

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.306	.108		2.831	.095
	SPREAD	-.012	.010	-.079	-1.145	.254
	RISK	-.033	.011	-.185	-1.614	.084
	AUDIT	-.005	.016	-.023	-.311	.756
	SIZE	-.005	.004	-.098	-1.276	.204
a. Dependent Variable: Abs_RES						

Based on the test results, the results are as shown in Table 5 where the significance probability value is above the 5 percent confidence level, so that it can provide an explanation that there are no statistically significant independent variables affecting the dependent variable the residual absolute value or it can be said that the regression model does not contain there is heteroscedasticity.

Hypothesis testing aims to prove the truth of a temporary conclusion from a study. Hypothesis testing in this study includes a determination test (R2), simultaneous test (F statistical test), and partial test (t statistical test). The coefficient of determination basically measures how far the ability of a regression model to explain the variation of the dependent variable. The following are the results of the determination test in this study:

Table 6. Determination Test

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.622[a]	.387	.373	.11273
a. Predictors: (Constant), SIZE, RISK, SPREAD, AUDIT				
b. Dependent Variable: CEC				

From Table 6 it is known that the adjusted R2 is 0.373. This means that 37.3 percent of the variation in the value of the cost of equity capital can be explained by variations in the four independent variables, namely information asymmetry, market risk, audit quality, and company size. While the remaining 62.7 percent is explained by other causes outside the research model.

The simultaneous effect test is used to determine whether the independent variables jointly or simultaneously affect the dependent variable. The following is the result of a simultaneous test of the regression model in the study:

Table 7. Simultaneous Test

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.058	4	.015	1.151	.034[b]
	Residual	2.287	180	.013		
	Total	2.346	184			
a. Dependent Variable: CEC						
b. Predictors: (Constant), SIZE, RISK, SPREAD, AUDIT						

Table 7 contains data from the results of the ANOVA or F test so that the calculated F value is 1.151 with a probability of 0.034. The probability value is less than 0.05, therefore it can be concluded that the regression model can be used to predict the value of the dependent variable, namely the cost of equity capital. This probability value can also indicate that information asymmetry, market risk, audit quality, and company size all have an effect on the cost of equity capital.

Partial test is used to determine the effect of each independent variable on the dependent variable. The following is the result of a partial test of the regression model in the study:

Table 8. Partial Test

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.225	.185		1.218	.225
	SPREAD	-.001	.018	-.003	-.035	.972
	RISK	.030	.019	.116	1.568	.019
	AUDIT	.035	.028	.103	1.267	.207
	SIZE	-.002	.007	-.020	-.242	.009
a. Dependent Variable: CEC						

Based on the data contained in Table 8, it can be seen that of the four independent variables included in the regression model, only market risk and firm size have a significant effect on the value of the cost of equity capital. While the other variables, namely information asymmetry and audit quality, do not affect the value of the cost of equity capital. The mathematical equation related to the regression model is as follows:

$$CEC = 0{,}225 - 0{,}001SPREAD + 0{,}030RISK + 0{,}035AUDIT - 0{,}002SIZE$$

Based on the equation above, the result is that the information asymmetry measured using the bid-ask spread theory does not affect the value of the cost of equity capital because the probability value (sig.) in Table 8 is 0.972 higher than 0.05, so it can be concluded that the hypothesis first rejected. The results of this test are in line with those stated by Perwira & Darsono (2015), Ifonie (2012), and Ningsih & Ariani (2016) in their research which states that information asymmetry has no effect on the cost of equity capital because investors cannot read positive signals from information related to the company so that this information does not affect the size of the return expected by investors. In addition to dividends, investors can also obtain

returns through capital gains obtained from the difference between buying and selling prices through trading activities in the capital market. Investors are not only fixated on fundamental analysis in making investment decisions, but also use other analyzes such as technical analysis so that they do not really consider the level of information asymmetry that exists within a company. In addition, starting from the 2020 period which is part of the period used in this study, the impact of the Covid-19 pandemic has also affected transactions on the Indonesian capital market, including the industrial sector which is the object of research, so that other factors become more priority considerations for investors than the level of information asymmetry which is also proven by the data from the previous determination test results.

Table 8 shows the results of testing the market risk variable which has a probability value (sig.) of 0.019 which is less than 0.05. The test results show that market risk affects the cost of equity capital significantly and shows a positive influence, so it can be said that the second hypothesis is accepted and is in accordance with the results of previous research conducted by Rohman & Ismanto (2020), Antoniou, Doukas, & Subrahmanyam (2016), Wulandari, Malikah, & Mawardi (2017), and Rika (2018). Market risk affects the level of expected return expected by investors as compensation for the risk in investing. Return and risk have a positive relationship, where the greater the risk that must be borne, the greater the return that must be compensated (Hartono, 2016). Antoniou, Doukas, & Subrahmanyam (2016) in their research stated that when the market beta is high, investors significantly expect a high expected return so that they can compensate for the risks they face.

Table 8 contains the test results for the audit quality variable which shows that the probability value (sig.) of 0.207 is greater than 0.05. The test results indicate that audit quality has no effect on the value of the cost of equity capital or the third hypothesis is rejected. Andriana & Friska (2014) stated that investors still see the possibility of high information risk in the company even though the financial statements have been audited by auditors from public accounting firms affiliated with the Big 4. Herusetya (2012) in his research stated that audit quality has no effect to the value of the cost of equity capital because there is a possibility that auditors or public accounting firms specifically affiliated with the Big 4 have not been viewed as having high audit quality by investors, so that the financial reporting of public companies still contains information risk.

Table 8 shows the probability value (sig.) for the company size variable, which is 0.009 which is less than 0.05 and the coefficient value from the test results shows a negative number. These two values indicate that firm size has a negative effect on the value of the cost of equity capital so that the fourth hypothesis is accepted. If the size of the company is getting bigger, then the value of the cost of equity capital that must be issued by the company is getting smaller and vice versa applies. This is consistent with previous research conducted by Komalasari & Baridwan (2001), Murwaningsari (2012), Kurnia & Arafat (2015), and Perwira & Darsono (2015). According to Sawir (2004), large companies have various advantages compared to small companies, for example in terms of obtaining funds from the capital market. In an effort to attract investors, large companies do not need to incur high costs of equity capital because they have more stable financial performance and easily gain investor trust than small companies which tend to have lower resources and reputation, so they have to work harder to gain investor trust. One of them is by increasing the cost of equity capital

Conclusion

The conclusion from the results of this study is that information asymmetry and audit quality do not affect the value of the cost of equity capital, while market risk and firm size significantly affect the value of the cost of equity capital, where market risk has a positive effect while company size has a negative effect. Future researchers are advised to use other independent

variables such as the effectiveness of corporate governance, company performance, or the existence of an audit committee. Researchers also suggest testing the value of the cost of equity capital and audit quality using other measurement models that are more in line with research models such as the use of the CAPM model, tenure audits and auditor industry specialization, and are advised to carry out tests in different sectors other than the industrial sector, because each sector Each has its own characteristics which can also affect the results of the study. The limitation in this study is that the measurement of audit quality is only obtained by using the size of a public accounting firm. The selection of research variables consisting of accounting information asymmetry, market risk, audit quality, and company size is only 37.3 percent which affects the dependent variable, so there are still 62.7 percent of other factors outside of these independent variables that can affect the value of the cost of equity company capital.

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