ABSTRACT

This study aims to examine the deferred tax assets valuation allowance that is predicted to be used as an instruments of earnings management. Based on the Positif Accounting Theory, accounting decisions by management can be detected through the tightness of debt restrictions, political sensivity, management compensation agreements, the big bath approach, and the income smoothing. In particular, this study empirically tested managerial discretion in determining the deferred tax assets valuation allowance account refers to PSAK No. 46 which seems to be used for purposes of earnings management.

The population of this research is the non-financial firms listed on the Indonesia Stock Exchange in the year 2005-2009. There are 56 firms to be the sample in this research, but only 47 firms that can be analyzed by multiple regression. The sample selection was done by purposive sampling method.

The results showed that the independent variable (debt to equity ratio, firm size, big bath, and income smoothing) simultaneously affect the amount of deferred tax assets valuation allowance. Only firm size and big bath variables that has a significant correlation with the amount of deferred tax assets valuation allowance individually, and the others don't.

Keywords: earnings management, deferred tax assets valuation allowance, debt to equity ratio, firm size, big bath, income smoothing.