

The Engineering Economist >

A Journal Devoted to the Problems of Capital Investment

Volume 49, 2004 - [Issue 1](#)

329 | 5 | 0
Views | CrossRef citations to date | Altmetric

Original Articles

EVIDENCE OF EARNINGS MANAGEMENT FROM THE MEASUREMENT OF THE DEFERRED TAX ALLOWANCE ACCOUNT

Chia-Ling Chao, Richard L. Kelsey, Shwu-Min Horng & Chui-Yu Chiu

Pages 63-93 | Published online: 12 Aug 2010

 Cite this article  <https://doi.org/10.1080/00137910490432683>

Sample our
Economics, Finance,
Business & Industry Journals
>> [Sign in here](#) to start your access
to the latest two volumes for 14 days

 Full Article  Figures & data  References  Citations  Metrics

 Reprints & Permissions

Read this article

 Share

Abstract

Positive accounting literature has provided empirical evidence regarding firms' characteristics that cause their managers to make particular accounting decisions. The purpose of this study is to extend this line of research to the area of accounting for income taxes. The research is designed to identify accounting choice variables that influence managers' decisions to change the level of the deferred tax asset valuation allowance under SFAS No. 109. Specifically, the study presents an empirical examination of whether managerial discretion over the valuation allowance appears to be used for earnings management purposes. Evidence of earnings management motivations can provide insights into whether it is an appropriate accounting policy to

give management considerable discretion to choose the level of the valuation allowance.

[← Previous article](#)

[View issue table of contents](#)

[Next article >](#)

Notes

*Statistically significant at the 0.10 level, one-tailed test.

**Statistically significant at the 0.05 level, one-tailed test.

1. Given the nature of the leverage variable, any firm with a negative debt/equity ratio was given a debt/equity ratio of seven. In addition, the values of debt/equity ratios larger than seven were set to seven. The univariate and multivariate analyses were performed using a maximum of five, seven, and nine without a significant change in the estimated coefficients. The reported results use the maximum of seven.

2. The statistic value (z) for the skewness value is calculated as: If the calculated z value exceeds a critical value, then the assumption about the normality of the distribution is rejected. The critical value is from z distribution, based on the desired significance level [9].

Additional information

Notes on contributors

Chia-Ling Chao

Chia-Ling Chao, DBA is currently an Assistant Professor in the Department of Accounting at Tamkang University, Taiwan. Her professional associations include activities in the American Accounting Association. She is also a member of the Sigma Beta Delta International Honor Society for Business, Management, and Administration. Her research interests include financial accounting, taxation, and various areas of artificial intelligence. E-mail: chao2002@mail.tku.edu.tw.

Richard L. Kelsey

Richard L. Kelsey, PhD, CPA is a Professor Emeritus of Accounting at the H. Wayne Huizenga School of Business and Entrepreneurship at Nova Southeastern University. He has taught online and classroom-based graduate courses in accounting and information systems. His professional associations include activities in the American Institute of CPAs, the American Accounting Association and the Information Systems Audit and Control Association. He has published articles in *The Accounting Review*, *Managerial Planning* and other journals and has presented papers at several conferences. His current research interests include technology, delivery and other issues in distance and online education and various areas of financial reporting. E-mail: kelsey@huizenga.nova.edu.

Shwu-Min Horng

Shwu-Min Horng is currently an Assistant Professor in the Department of Industrial Engineering and Management at National Taipei University of Technology, Taiwan. He received his Ph.D. in Industrial Engineering from Arizona State University. He had previously served as a Supply Chain Consultant at Motorola and a Visiting Assistant Professor in the Department of Industrial Engineering at Arizona State University. His research interests include modeling and optimization, system simulation and analysis, and supply chain management. E-mail: shorng@ntut.edu.tw

Chui-Yu Chiu

Chui-Yu Chiu is an Associate Professor of Industrial Engineering and Management Department at National Taipei University of Technology, Taiwan. His area of teaching and research interests include economic decision analysis, artificial intelligence applications and production management. He received a B.S. degree from Tunghai University, both M.S. and Ph.D. degrees in Industrial and Systems Engineering from Auburn University. E-mail: cychiu@ntut.edu.tw.

Earnings Management: Reconciling the Views of Accounting Academics, Practitioners, and Regulators

Source: SSRN Electronic Journal

Discretionary Accounting Decisions and Income Normalization

Source: Journal of Accounting Research

Multivariate Data Analysis.

Source: Journal of the Royal Statistical Society Series A (General)

The Return to Straight-Line Depreciation: An Analysis of a Change in Accounting Method

Source: Journal of Accounting Research

An empirical examination of debt covenant restrictions and accounting-related debt proxies

Source: Journal of Accounting and Economics

The effect of bonus schemes on accounting decisions

Related research

People also read

Recommended articles

Cited by
5

Information for

[Authors](#)

[R&D professionals](#)

[Editors](#)

[Librarians](#)

[Societies](#)

Opportunities

[Reprints and e-prints](#)

[Advertising solutions](#)

[Accelerated publication](#)

[Corporate access solutions](#)

Open access

[Overview](#)

[Open journals](#)

[Open Select](#)

[Dove Medical Press](#)

[F1000Research](#)

Help and information

[Help and contact](#)

[Newsroom](#)

[All journals](#)

[Books](#)

Keep up to date

Register to receive personalised research and resources by email

 Sign me up



Copyright © 2026 Informa UK Limited [Privacy policy](#)

[Cookies](#) [Terms & conditions](#) [Accessibility](#)

Registered in England & Wales No. 01072954
5 Howick Place | London | SW1P 1WG

