Does Transfer Pricing Moderate the Effect of Deferred Tax Assets and Deferred Tax Expenses on Accrual Earnings Management of Firms in Indonesia?

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ABSTRACT

The purpose of this study is to analyze (a) the effect of deferred tax assets on accrual earnings management; (b) the effect of deferred tax expenses on accrual earnings management; (c) the role of transfer pricing as a moderator variable to strengthen the effect of deferred tax assets on accrual earnings management; and (d) the role of transfer pricing as a moderator variable to strengthen the effect of deferred tax expenses on accrual earnings management. The samples consist of 160 manufacturing companies listed in Indonesia Stock Exchange (IDX). The study utilizes the financial statements from 2012 to 2018. This study presents that (a) deferred tax assets influence accrual earnings management; b) deferred tax expenses affect accrual earnings management; c) transfer pricing does not strengthen the effect of deferred tax assets on accrual earnings management; and d) transfer pricing does not strengthen the effect of deferred tax expenses on accrual earnings management. This study contributes to accounting studies, tax authorities and regulators, and accounting policy makers. Firstly, this research contributes to the development of accounting studies on the role of transfer pricing as a moderator of the effect of deferred tax assets and deferred tax liabilities on earnings management. Secondly, the results of this study can make a consideration for tax authorities and regulators in addressing company management actions to minimize the amount of tax paid by utilizing policies according to PSAK. It is worth considering how to sanction companies that deliberately reduce the amount of tax that should be paid. It is necessary to conduct tax investigation by the Directorate General of taxes on companies that are indicated to have practiced accrual earnings management with the aim of reducing the tax burden. Thirdly, accounting policy makers need to consider how management reduces the tax that should be paid through accounting policies that are allowed under PSAK and transfer pricing mechanism.

Keywords: Deferred Tax Assets, Deferred Tax Expenses, Accrual Earnings Management, Transfer Pricing.

I. INTRODUCTION

Companies in the manufacturing and non-manufacturing sectors face intense competition to survive in the global market. Companies are required to have various competitive advantages in order to compete with other companies, not only in terms of the quantity of bags and bags. The quality of the products offered also includes good financial management. Policies in financial management must be able to guarantee the continuity of the company's business. One of these factors is shown by the size of the profits that have been achieved by all companies. This bias situation only encourages managers to perform deviant behavior in presenting and exporting earnings information and deviant managerial behavior practices are identified as earnings management practices.

Earnings management is divided into two methods, i.e., accrual earnings management and real earnings management [29], [11], [14], and [2]. Accrual earnings management is carried out by changing the accounting or estimation method used when presenting transactions in the financial statements. On the other hand, real earnings management is carried out by changing reported earnings in a particular direction achieved by changing the timing or structure of operations, investments or financing that have suboptimal business consequences [29]. Real earnings management is a deviation from the company's normal operating practices which is motivated by the desire of management to give wrong understanding to stakeholders by ensuring that the objectives of financial reporting have been achieved in accordance with the company's normal operating activities [21].

Corporations in Indonesia prepare financial reports using the basis of Indonesian accounting standards known as the Statement of Financial Accounting Standards (hereinafter PSAK) and tax laws. Companies cannot calculate taxable income directly. This is due to the difference between taxable income according to tax laws and pre-tax income according to PSAK. This difference affects the financial statements, so it is necessary to adjust the balance between taxable income and pre-tax income through fiscal reconciliation. Taxation and accounting regulations have different purposes and bases.
for preparation. Commercial financial statements aim to present information and financial conditions that occurred during a certain period and to facilitate the decision-making process, whereas the fiscal financial statements aim to calculate the amount of tax payable, so that the differences in the basis for the preparation and purpose of the two financial statements result in differences in the calculation of an entity's profit (loss).

Taxation is one of the earning management motives by minimizing the amount of tax expense payments through reduced income [22]. Accountants improve their judgment ability in determining past and future income which can be used as an indicator of earnings management actions that are affected by the valuation of deferred tax assets and deferred tax expense. According to PSAK 46 [9], deferred tax assets is the amount of income taxes recoverable in future periods, as an effect of temporary taxable differences. Deferred tax assets is asset that arises from the impact or consequences of future income taxes but is affected by the time difference between accounting and tax treatment and tax losses that can still be doubled in the coming period [23]. Deferred tax assets occur when pre-tax income is less than the taxable income due to temporary differences, so that the companies defer the tax due in future periods. The impact of future income taxes should be recognized, calculated, presented, and disclosed in the financial statements, both in the statement of financial position and comprehensive income. A company may pay less tax now, but actually has the potential for a larger tax debt in the future, and conversely, it could be that the company pays more tax now, but actually has the potential for a smaller tax debt in the future.

Deferred tax expense is an expense arising from temporary differences between pre-tax income and taxable income. Temporary differences are differences caused by differences in the timing and methods of recognizing certain income and expenses based on PSAK and tax regulations [23]. So, this deferred tax expense arises from the fiscal correction process, where there is a negative correction, that is, the value of the income based on accounting is higher than the value of income based on tax, and the value of the cost based on accounting is less than the value of the cost based on tax. So, there are indications that management prioritizes increases in pre-tax income over increases in taxable income and decreases in accounting costs over fiscal costs. This is commonly done by management, considering that investors see the company's performance from the value of pretax income, not from the amount of taxable income.

Research on the effect of deferred tax assets and deferred tax expense on earnings management has been widely studied by several previous researchers, but the results of previous researchers have been inconsistent. [19], [4], and [5] state that deferred tax assets have a positive effect on earnings management. On the other hand, [25] and [1] state that deferred tax assets do not affect earnings management, while [26] found that deferred tax assets have a negative effect on earnings management. [27] and [5] prove that deferred tax expenses have a positive effect on earnings management, but [26], [1], and [19] proves that deferred tax expenses affect earnings management.

Deferred tax assets and deferred tax expense affect inconsistently on earnings management. It can be concluded that there are other factors, including transfer pricing, which affects deferred tax assets and deferred tax expenses on earnings management. Management can take advantage of transfer pricing as a mechanism for transferring income between companies in order to reduce taxes, increase management bonuses and transfer resources from one company to another that still has the same ownership [16]. Transfer pricing can be emphasized on the grounds of taxation or earnings management. The large tax burden presses multinational companies to divert their income to countries with low tax rates. From a management point of view, this is based on the desire to maximize shareholder returns.

According to my knowledge, there have been many studies on the effect of deferred tax assets and deferred tax expenses on earnings management in Indonesia, but the results are inconsistent. This study proposes and evaluates the role of transfer pricing as a variable that strengthens or weakens the effect of deferred tax assets and deferred tax expenses as metrics for detecting accrual earnings management. This study is also needed considering the manufacturing sector contributed 21.31% to Indonesia's Gross Domestic Product in 2019 compared to other sectors (data comes from the Ministry of Industry in 2019) and this contribution also has an impact on Indonesia's tax revenues. The ability to detect earnings management reliably is very important to assess the quality of reported earnings [13]. Companies take advantage of opportunities for accounting considerations to carry out accrual earnings management by reducing tax expenses [6]. In addition, from a tax compliance and planning perspective, transfer pricing has become one of the most risky areas for companies [16]. Transfer pricing could make an important contribution in explaining the impact of deferred tax assets and deferred tax expense on accrual earnings management.

The purpose of this study is to analyze (a) the effect of deferred tax assets on accrual earnings management; (b) the effect of deferred tax expenses on accrual earnings management; (c) the role of transfer pricing as a moderator variable to strengthen the effect of deferred tax assets on accrual earnings management; and (d) the role of transfer pricing as a moderator variable to strengthen the effect of deferred tax expenses on accrual earnings management. This study contributes to accounting studies, tax authorities and regulators, and accounting policy makers. Firstly, this research contributes to the development of accounting studies on the role of transfer pricing as a moderator of the effect of deferred tax assets and deferred tax liabilities on earnings management. This study presents that (a) deferred tax assets influence accrual earnings management; b) deferred tax expenses affect accrual earnings management; c) transfer pricing does not strengthen the effect of deferred tax assets on accrual earnings management; and d) transfer pricing does not strengthen the effect of deferred tax expenses on accrual earnings management. Secondly, the results of this study can make a consideration for tax authorities and regulators in addressing company management actions to minimize the amount of tax paid by utilizing policies according to PSAK. It is worth considering how to sanction companies that deliberately reduce the amount of tax that should be paid. Thirdly, accounting policy makers need to consider how management reduces the tax that should be paid through
accounting policies that are allowed under PSAK and transfer pricing mechanism.

The paper is organized as follows. Section 2 explains literature review and hypotheses. Section 3 presents sample, data, and research design. Section 4 includes empirical results. Section 5 concludes the research.

II. LITERATURE REVIEW AND HYPOTHESES

A. Literature Review

The agency relationship according to is a contract in which one or more owners use a manager to run the company [12]. In agency theory, the owner (principal) is the shareholder or owner who provides facilities and funds for the operational needs of the company. Managers (agents) are management who have the obligation to manage the company. In Agency Theory there are two ways to solve problems that arise in agency relationships [12]. First, agency problems arise when the wishes or goals of the owner and manager conflict and it is difficult for the owner to verify what the manager is really doing. Second, risk sharing problems arise when owners and managers have different attitudes toward risk. The reliability of the information generated by management is always questionable and the information submitted is usually not in accordance with the actual conditions of the company. This happens because there is information asymmetry, thus providing opportunities for managers to carry out earnings management. Managers can act opportunistically for personal gain. In terms of financial reporting, managers perform earnings management to mislead owners regarding the company's economic performance. The relationship between agent theory and this research is that the higher the information asymmetry, the higher the agency costs. So, there is a positive relationship between information asymmetry and earnings management.

Earnings management is a management's effort to manipulate accounting figures reported to outside parties for their own benefit by changing or ignoring established accounting standards, thereby presenting incorrect information. Earnings management is a management choice in determining policy or accounting actions that will affect reporting earnings and tends to have taxation motivation [22]. Management is motivated to practice earnings management to influence the amount of tax paid by reducing income. Earnings management also has a need to make the company’s financial statements look better. In practice, earnings management is somewhat negative because manager's activity is opportunistic and largely acts to enhance correct reporting (i.e., financial reporting aggressiveness) [18]. This is due to the tendency of investors to look at financial reports in assessing a company. In general, investors are more interested in the company's financial performance in the future and will use current income statements to review what might happen in the future.

Deferred tax assets are assets that arise from the consequences of future income tax because there is a time difference between accounting and tax treatment and tax losses that can still be doubled in future periods [28]. According to PSAK 46 [9], deferred tax assets are caused by the amount of income tax that can be recovered in the future as a result of deductible temporary differences and the remaining compensation for losses. The amount of deferred tax assets is recorded when it is possible to realize future tax benefits. Therefore, consideration is needed to estimate how likely it is that deferred tax assets can be realized.

Deferred tax expenses are expenses that arises from temporary differences between pre-tax income and taxable income. Temporary differences are deviations caused by distinction in the timing and methods of recognizing certain income and expenses based on accounting standards and tax regulations [23]. In other words, this deferred tax expenses arise from the fiscal correction process, where there is a negative correction, namely the pre-tax income is higher than taxable income. On the other hand, there is deferred tax expenses, which is the amount of income tax payable for the coming year due to taxable temporary differences. If the taxable income is lower than pre-tax income, the difference is recognized as deferred tax expenses [10].

Transfer prices can be explained from two senses. First, the neutral understanding assumes that the transfer price is purely a business strategy and tactic without reducing the tax burden. Second, the pejorative notion assumes that transfer prices are an attempt to save the tax burden by the tactic of shifting profits to countries with lower tax rates [23]. Transfer pricing is the price contained in each product or service including the use of a property of a tangible or an intangible nature from one division to another in the same company or between companies that have a special relationship [15]. Transfer pricing as prices that can be practiced in international operations between related parties and involve multinational companies operating globally and with tax-free centralized cash flows [24]. In accordance with the Regulation of the Director General of Taxes Number PER-32 / PJ/ 2011, Article 1 paragraph (8) defines transfer pricing as pricing in transactions between parties with a special relationship. Thus, it can be said that transfer pricing is a decision regarding price fixing for transactions of goods and services to companies that have a special relationship in accordance with the principle of fairness.

B. Research Hypothesis

The greater the difference between pre-tax income and taxable income shows a red flag for users of financial statements. Deferred tax assets occur when pre-tax income and taxable income due to temporary differences, resulting in a positive correction. If the pre-tax income is greater than taxable income, the company will defer the tax payable for a future period. According to previous researchers, among others [19], [4], and [5] state that deferred tax assets have a positive effect on earnings management. The greater the deferred tax asset, the greater the company performs accrual earnings management.

According to [20], the difference between corporate tax expense and current tax expense that arises through temporary tax discrepancy is deferred tax expense. Managers perform earnings management by reporting higher deferred tax expense through temporary differences caused by the accrual component and resulting in a tax effect in the form of deferred tax expense. [27] and [5] prove that deferred tax expenses have a positive effect on earnings management in order to avoid reporting losses.
Based on the explanation above, the hypothesis proposed is as follows:

**H1**: Deferred tax assets have a positive effect on accrual earnings management.

**H2**: Deferred tax expense has a positive effect on accrual earnings management.

Transfer pricing activity is a common practice by many companies because transactions are generally carried out in one group, however, transfer pricing activities that are not common are the arm's length principle and the presence of related parties or special relationships. Related party transactions can be motivated by objective factors, for example, the business group's overall business strategy, enhancing the group's position in the market, the economic conditions of the market where the transaction takes place, etc. [15].

Management can take advantage of transfer pricing as a mechanism to transfer income between companies with the aim of reducing taxes, increasing management bonuses, and transferring resources from one company to another that still has the same ownership. The price of intra-group transfers that are carried out at an unreasonable price may shift the income of other companies in the group [17]. In some cases, these transactions are motivated by efforts to minimize earnings, the tax liabilities of a group of related entities as a whole. From a tax perspective, intragroup transaction pricing is a way of allocating income between companies involved in related party transactions of an economic nature [18], [15] analyzes the potential relationship between controlled transactions and transfer pricing with tax avoidance and finds that related party transactions have a positive effect on accrual earnings management through tax deductions. [7] found that companies in Denmark are proven to carry out transfer pricing to pay lower taxes.

If management continuously uses transfer pricing activities to maximize company income, a difference will arise between pre-tax income and taxable income. Therefore, temporary differences arise, where a positive difference between pre-tax income and taxable income results in a positive correction resulting in deferred tax assets. If the pre-tax income is greater than the taxable income, the company will defer tax due for future periods.

The bigger tax burden triggers the company to carry out transfer pricing in the hope that it can reduce this burden. The magnitude of the decision to carry out transfer pricing practices resulted in lower tax payments. If management uses transfer pricing in the current period onwards to maximize corporate profits, deferred tax expense will arise due to temporary differences between pre-tax income and taxable income. Deferred tax expense arises because of negative corrections resulting from the fiscal correction process.

Based on this explanation, transfer pricing is considered to be able to moderate the effect of deferred tax assets and deferred tax expense on accrual earnings management. This study proposes the following hypotheses:

**H3**: Transfer pricing strengthens the positive effect of deferred tax assets on accrual earnings management.

**H4**: Transfer pricing strengthens the positive effect of deferred tax expense on accrual earnings management.

### III. DATA AND METHODS

#### A. Sample Selection

This study utilizes all manufacturing firms listed on the Indonesia Stock Exchange for the period 2011-2019. The sampling method used is purposive sampling with the selection criteria as follows: (a) All manufacturing firms listed on the Indonesia Stock Exchange (IDX) for the observation period (20012-2018), (b) The manufacturing companies had been listed on BEI in 2012, (c) The manufacturing companies that did not experience delisting and restating during the observation period, (d) The manufacturing companies that did not change sectors during the observation period, (e) The financial statements have been audited by independent auditors as of December 31, and (f) The financial statements have complete information related to all the variables studied.

This research data is obtained from the OSIRIS database, Indonesian Capital Market Directory, and IDX Website www.idx.co.id. The sample selection process yields 833 firm-year observations.

#### TABLE I: SUMMARIZED RESEARCH SAMPLES

| Criteria                                                                 | Number of Firms |
|--------------------------------------------------------------------------|-----------------|
| Number of manufacturing firms listed on the BEI in 2018                   | 160             |
| Manufacturing firms that were delisted and relisted during 2012-2018      | 7               |
| Manufacturing firms that switch sectors during the observation period     | 2               |
| Manufacturing firms registered after January 1, 2012                      | 32              |
| The residual amount of manufacturing firms as samples                     | 119             |
| Number of years of observation                                           | 7               |

Note: Data is processed.

#### B. Variables and Measurement

The dependent variable in this study is accrual earnings management as measured by the Modified Jones Model to detect earnings management [8]. Management performs the accrual earnings management to alter the timing or form structuring of operating, investing, or financing transactions to influence the accounting system output. The model estimation is as follows:

\[
\text{NDA}_i = \delta_1 \left( \frac{1}{\text{TA}_{i,y-1}} \right) + \delta_2 \left( \frac{\Delta \text{REV}_i}{\text{TA}_{i,y-1}} \right) + \delta_3 \left( \frac{\text{PPE}_{i,y}}{\text{TA}_{i,y-1}} \right)
\]

Notes:

- \(\text{NDA}_i\) – non-discretionary accrual of firm \(i\) in year \(y\);
- \(\Delta \text{REV}_i\) – revenue of firm \(i\) in year \(y\) minus revenue of firm \(i\) in year \(y-1\);
- \(\text{PPE}_{i,y}\) – property, plant, and equipment of firm \(i\) in year \(y\);
- \(\text{TA}_{i,y-1}\) – total asset of firm \(i\) in year \(y\);
- \(\delta_1, \delta_2, \delta_3\) – firm-specific parameters.

The independent variables in this study are deferred tax assets and deferred tax expenses. Deferred tax assets are due to the amount of recoverable income tax in future periods as...
a result of temporary differences that can be deducted from the remaining compensation for losses. In this study, deferred tax assets are calculated using the [28] as follows:

\[ \text{DTA}_{iy} = \Delta \text{DTA}_{iy} - 1 \]

Notes:
- \( \text{DTA}_{iy} \) – deferred tax assets of firm \( i \) in year \( y \);
- \( \Delta \) – deferred tax assets of firm \( i \) in year \( y \);
- \( \text{DTA}_{iy-1} \) – minus deferred tax assets of firm \( i \) in year \( y-1 \);

Deferred tax expense is an expense arising from temporary differences between pre-tax income and taxable income. In this study, deferred tax expense is calculated using the [28] as follows:

\[ \text{DTE}_{iy} = \frac{\Delta \text{DTA}_{iy}}{\text{TA}_{iy-1}} \]

Notes:
- \( \text{DTE}_{iy} \) – the amount of deferred tax expense of firm \( i \) in year \( y \);
- \( \text{DTE}_{iy} \) – deferred taxes of firm \( i \) in year \( y \);
- \( \text{TA}_{iy-1} \) – Total asset of firm \( i \) in year \( y-1 \);

The moderating variable in this study is transfer pricing. Transfer pricing is measured by the existence of related party transactions.

C. Data Analysis Method

This study used two stages of data analysis methods, i.e., multiple linear regression analysis and moderated regression analysis (MRA). Multiple linear regression analysis aims to test the first and second hypotheses, while moderated regression analysis is used to test the third and fourth hypotheses. The equation for multiple linear regression analysis is as follows:

\[ \text{AEM}_{iy} = \delta_0 + \delta_1 (\text{DTA}_{iy}) + \delta_2 (\text{DTE}_{iy}) + \delta_3 (\text{TP}_{iy}) + \epsilon \]

Notes:
- \( \text{AEM}_{iy} \) – accrual earnings management of firm \( i \) in year \( y \);
- \( \text{DTA}_{iy} \) – deferred tax assets of firm \( i \) in year \( y \);
- \( \text{DTE}_{iy} \) – the amount of deferred tax expenses of firm \( i \) in year \( y \);
- \( \text{TP}_{iy} \) – Transfer pricing of firm \( i \) in year \( y \);
- \( \delta_0, \delta_1, \delta_2, \delta_3 \) – firm-specific parameters;
- \( \epsilon \) – error term.

The equation for moderated regression analysis is as follows:

\[ \text{AEM}_{iy} = \delta_0 + \delta_1 (\text{DTA}_{iy}) + \delta_2 (\text{DTE}_{iy}) + \delta_3 (\text{TP}_{iy}) + \delta_4 (\text{DTA}_{iy} \times \text{TP}_{iy}) + \delta_5 (\text{DTE}_{iy} \times \text{TP}_{iy}) + \epsilon \]

Notes:
- \( \text{AEM}_{iy} \) – accrual earnings management of firm \( i \) in year \( y \);
- \( \text{DTA}_{iy} \) – deferred tax assets of firm \( i \) in year \( y \);
- \( \text{DTE}_{iy} \) – the amount of deferred tax expenses of firm \( i \) in year \( y \);
- \( \text{TP}_{iy} \) – Transfer pricing of firm \( i \) in year \( y \);

IV. RESULTS AND DISCUSSION

A. Descriptive Statistics Test Results

Descriptive statistical analysis can be seen in Table II below.

| TABLE II: DESCRIPTIVE STATISTICS |
|---------------------------------|
| N    | Minimum | Maximum | Mean   | Std. Deviation |
|------|---------|---------|-------|---------------|
| AEM  | 833     | -1.8476 | 7.0485| 0.269930      | 0.3945996  |
| DTA  | 833     | -1.0000 | 5.8293| 0.339767      | 1.1282536  |
| DTE  | 833     | -0.1515 | 0.2299| 0.001678      | 0.0159654  |
| TP   | 833     | 0.0000  | 1.0000| 0.647059      | 0.4781717  |

Source: Data is processed.
Notes: \( \text{AEM}_{iy} \) – accrual earnings management of firm \( i \) in year \( y \); \( \text{DTA}_{iy} \) – deferred tax assets of firm \( i \) in year \( y \); \( \text{DTE}_{iy} \) – the amount of deferred tax expenses of firm \( i \) in year \( y \); \( \text{TP}_{iy} \) – Transfer pricing of firm \( i \) in year \( y \).

The results of the descriptive statistics above show that the variable of deferred tax assets has an average value that is smaller than the standard deviation. This shows that the sample data on the variable of deferred tax assets has a large data distribution, so the data deviation is said to be bad. This also shows that the deferred tax assets of 119 companies tend to have a relatively large value due to the recognition of the realization of future tax benefits and sufficient to be compensated so that there is a positive correction in each period.

Table 2 shows that the deferred tax expense variable has a mean value that is smaller than standard deviation. This shows that the sample data used in the deferred tax expense variable has a fairly large data distribution because standard deviation is greater than mean, so the data deviation to be less good. This also indicates that the deferred tax expenses of 119 companies tend to have a relatively small value because of the difference in recognition between pre-tax income and taxable income led to positive corrections.

Accrual earnings management has a mean value smaller than the standard deviation. This shows that the sample data for the accrual earnings management variable has a large enough data distribution so that the data deviation is not too good. This also indicates that of the 119 sample companies, they relatively carry out earnings management to minimize the tax burden paid and maximize the bonuses received.

Transfer pricing has a mean greater than standard deviation. This shows that the transfer pricing variable sample data has a normal data distribution and does not cause bias. Most of the sample companies tend to carry out transfer pricing to divert profits to countries that have low taxes so that the tax burden paid is small.

B. Analysis of Research Results

Table III presents the result of the t-statistical test. The adjusted \( R^2 \) is 0.370, this means that only 37% of abnormal
discretionary expenses is clarified by DTA, DTE, and TP, while other factors outside the model explain the remaining 63%. It can be seen in Table III that deferred tax assets (DTA) has t-statistics 2.156 (positive direction) with a significance value of 0.032. It shows that deferred tax assets have a positive effect on accrual earning management. The first hypothesis (H1) is that deferred tax assets have a positive effect on accrual earnings management. Therefore, hypothesis 1a is accepted. This result is in line with the finding of [19], [4] and [5] that deferred tax assets have a positive effect on accrual earning management. There are two reasons for the management of manufacturing companies to use tax-deferred assets to do accrual earnings management. First, there is a close relationship between deferred tax assets and tax provisions. If managers use deferred tax assets in commercial financial statements to manage accrual income, this will have an impact on the fiscal financial statements so that managers must think that the amount of deferred tax assets is not detrimental to the company. Second, the recognition of deferred tax assets is temporary. If in the following year the difference becomes an income tax liability that must be paid, the deferred tax asset is recognized as income tax payable. This study finds evidence that the amount of deferred tax assets is a factor that can influence companies to carry out accrual earnings management.

Moreover, that deferred tax expenses (DTE) has t-statistics 1.754 (positive direction) with a significance value of 0.080. It shows that deferred tax expenses affect positively accrual earning management. The second hypothesis (H2) is that deferred tax expenses have a positive effect on accrual earnings management. Therefore, hypothesis 2 is accepted. This result is in line with the finding of [27], and [5]. That deferred tax expenses have a positive effect on earnings management. This shows that manufacturing companies listed on the Indonesia Stock Exchange are exploiting loopholes in accrual earnings management practices by using the amount of deferred tax expense in the financial statements in order to avoid reporting losses, so that taxable profit will be corrected. The tax regulations provide tighter limits in the calculation of taxes which only recognize the amount of income and expenses when these are received and issued as the basis for calculating the fiscal financial statements. This study proves that the amount of deferred tax expense is a factor to influence companies in accrual earnings management.

The third hypothesis (H3) is that transfer pricing strengthens the positive effect of deferred tax assets on accrual earnings management. This means H3 is rejected. Although the company carries out transfer pricing activities, it does not strengthen the effect of deferred tax assets on accrual earnings management. If management utilizes transfer pricing activities to maximize company profits, pre-tax income will arise that is different from taxable income. This results in temporary differences and positive differences that will lead to positive corrections resulting in the emergence of deferred tax assets.

Table III presents that transfer pricing has t-statistics 0.981 (positive direction) with a significance value of 0.327. It proves that transfer pricing variable does not moderate the effect of deferred tax expenses on accrual earnings management. The fourth hypothesis (H4) is that transfer pricing strengthens the positive effect of deferred tax expenses on accrual earnings management. This means H4 is rejected. Although the company carries out transfer pricing activities, it does not strengthen the effect of deferred tax expenses on accrual earnings management. According to [7], transfer pricing is proven to be carried out by companies with the aim of reducing tax payments. Based on this, transfer pricing cannot be used as a variable to measure how much it affects the company's accrual earnings management. This study proves that transfer pricing does not moderate the effect of deferred tax expenses on accrual earnings management.

V. CONCLUSION

The purpose of this study is to analyze (a) the effect of deferred tax assets on accrual earnings management; (b) the effect of deferred tax expenses on accrual earnings management; (c) the role of transfer pricing as a moderator variable to strengthen the effect of deferred tax assets on accrual earnings management; and (d) the role of transfer pricing as a moderator variable to strengthen the effect of deferred tax expenses on accrual earnings management. This study finds that (a) deferred tax assets influence accrual earnings management; b) deferred tax expenses affect accrual earnings management; c) transfer pricing cannot be used as a variable to measure how much it affects the company's accrual earnings management; and d) transfer pricing does not strengthen the effect of deferred tax assets on accrual earnings management; and d) transfer pricing does not strengthen the effect of deferred tax expenses on accrual earnings management.

The implication for tax authorities and regulators in addressing company management actions to minimize the amount of tax paid by utilizing policies through accounting policies that are allowed under PSAK and transfer pricing mechanism. It is necessary to conduct tax investigation by the Directorate General of taxes on companies that are indicated to have practiced accrual earnings management with the aim of reducing the tax burden. This study has a limitation in term of utilizing transfer pricing as a dummy variable. It is subjective by the researcher and can provide interpretative errors. The future research needs to consider the the actual measurement of transfer pricing.

### TABLE III: THE T-STATISTICAL TEST

|                  | Predicted | Coefficient | Std. Error | t-Statistic | Sign |
|------------------|-----------|-------------|------------|-------------|------|
| (Constant)       | 0.302     | 0.036       | 8.505      | 0.000       |      |
| DTA              | 0.089     | 0.041       | 2.156      | 0.032       |      |
| DTE              | 0.761     | 0.434       | 1.754      | 0.080       |      |
| DTA*TP +         | 0.023     | 0.025       | 0.936      | 0.339       |      |
| DTE*TP +         | 1.912     | 1.912       | 0.981      | 0.327       |      |
| Adjusted R²      | 0.370     |             |            |             |      |

Source: Data is processed.

Notes: AEM – accrual earnings management of firm i in year y; DTA – deferred tax assets of firm i in year y; DTE – the amount of deferred tax expenses of firm i in year y; TP – Transfer pricing of firm i in year y.

Table III shows that transfer pricing has t-statistics 0.956 (positive direction) with a significance value of 0.339. It shows that transfer pricing variable does not moderate the effect of deferred tax assets on accrual earnings management.
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