

# Report on Bachelor Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Andrey Britskiy
Advisor:	Jiří Novák, M.Sc., Ph.D.
Title of the thesis:	The Effect of Litigation Risk on Earnings Management in the Proximity to Debt Covenant Violation

## **OVERALL ASSESSMENT** (provided in English, Czech, or Slovak):

*Please provide your assessment of each of the following four categories, summary and suggested questions for the discussion. The minimum length of the report is 300 words.*

The thesis focuses on investigation of changes in earnings management, a behavior of managers to manipulate the earnings, when debt covenant violation is imminent and in the presence of litigation risk.

### **Contribution**

The author of the thesis performs a quantitative empirical analysis of the studied phenomena on a sample of companies. The main contribution is the author's work with the data set and drawing conclusions from results of a standard regression analysis. Unfortunately, the results do not conclusively show the support for the initial hypotheses posed in the thesis. The established results do seem not very interesting and in the current presentation of the text, it feels like the author was disappointed as well. This surely should not be the case during the defense.

**Looking at tables 1-3, my immediate question would be: „with (adjusted) R-squared around 1 %, can you even draw relevant conclusions from the model?“**

### **Methods**

The most interesting part is the treatment of the data set which includes winsorization. I would like to know the motivation for it and to know **how would the results change if no winsorization was applied or if different cut off levels were used, e.g. 5th and 95th percentile. How does winsorization influence tests of significance of estimated parameters?** Also, the author makes no assumption about the distribution of data. **Can this analysis be performed without assumption on normality?**

The methods of regression analysis applied correspond to a standard knowledge of students on the bachelor level at IES FSV UK. Although, occasionally, I found some confusing comments, e.g. **on page 17 it says „if two independent variables have a sample correlation coefficient exceeding +/- 0.7, ...“ How can two independent variables have a correlation coefficient different from 0?**

### **Literature**

The literature used in the thesis seem adequate and show author's good command of the topic. The citation style is standard and I find no shortcomings there.

### **Manuscript form**

I have few objections regarding the form of the manuscript. E.g., new chapters should start on a new page for a better presentation of the text. Also, sections 1 and 2 overlap significantly, and it diminishes the effect of the literature overview as the second section repeats some parts of the introduction. The introduction part should have been shorter and more to the point to present clearly the topic and motivation. At the end of the section 2, however, I got a feeling that I am missing a broader perspective about the presented topic, being swamped in rather technical details which were not relevant for the following quantitative analysis. The most important missing element of the first part of

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the thesis is an explanation of the novelty of the presented material with respect to Hopkins 2017, a paper the thesis seem to draw a lot of inspiration from.

The presentation of the mathematical formulas could be improved as well, but I suppose that is in part the effect of writing thesis in MS Word.

Although I have no means of counting the number of characters in the text, but with pages 18, 20 and 22 being supplementary tables, pages 17 and 19 being mostly empty, and the text concluding on page 24 brings a question whether the thesis satisfies the minimum requirement of 30 standard pages of text.

## Summary and suggested questions for the discussion during the defense

Except for the fact that the manuscript seems rather too short, it fulfills the other requirement of the bachelor theses at IES FSV UK. As such I suggest grade E, cf. the table below for points awarded. The questions for the discussion during the defense are marked bold in the text above.

## SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	15
<i>Methods</i> (max. 30 points)	12
<i>Literature</i> (max. 20 points)	18
<i>Manuscript Form</i> (max. 20 points)	10
<b>TOTAL POINTS</b> (max. 100 points)	<b>55</b>
<b>GRADE</b> (A – B – C – D – E – F)	<b>E</b>

**NAME OF THE REFEREE:** RNDr. Michal Červinka, Ph.D.

**DATE OF EVALUATION:** August 10, 2018

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**Referee Signature**

**EXPLANATION OF CATEGORIES AND SCALE:**

**CONTRIBUTION:** *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

Strong	Average	Weak
30	15	0

**METHODS:** *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

Strong	Average	Weak
30	15	0

**LITERATURE REVIEW:** *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

Strong	Average	Weak
20	10	0

**MANUSCRIPT FORM:** *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Strong	Average	Weak
20	10	0

**Overall grading:**

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F