

Abstract

This thesis investigates relationships between deferred taxes and possible earnings management in publicly traded companies on London Stock Exchange in FTSE 350 in the last several years. It also discusses other possibilities of earnings management, mostly by accruals. It builds on a model introduced by (Phillips 2004), which is a “probit” econometric maximum-likelihood estimation model and I supplemented it by simple OLS pooled cross-sectional regression. The results suggest there might be no relation of net deferred tax liabilities on earnings management to avoid a decline in earnings, and possibly some relation, although inconclusive, of deferred tax expense on earnings management.