Report on Bachelor / Master Thesis

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

Student:	**Matěj Mišoň**
Advisor:	Jiří Novák M.Sc., Ph.D.
Title of the thesis:	Deferred tax as an indicator of earnings management

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

Short summary and Contribution
The bachelor thesis of Matěj Mišoň investigates relationships between deferred taxes and possible earnings management of publicly traded companies on London Stock Exchange in FTSE 350 index.

Investigating such an issue has been relevant ever since equites have been traded in the stock market. Companies are entering the market to raise (additional) capital and hence are subject to public scrutiny, or more precisely investor´s scrutiny. Investors rely on a wide range of financial and nonfinancial data. However, in the end the final figure – Net Income - is one of the key parameters. No wonder some companies may undertake some adjustment operations (or manipulations?), still within the legal accounting framework IFRS (usually via provisions (banks) and depreciation/amortization (companies)) to achieve certain goals – decrease volatility of income (i.e. „income smoothing") or „dilute" loss by absorbing it by profits in adjacent years.
In 2022 I reviewed myself two thesis (one diploma and one doctoral) that dealt with this issue. I perceive this topic highly relevant and practical for companies, investors regulators/supervisors and accounting firms. The data included for the analysis are from 2016 to 2019, so the thesis loses some of its up-to-dateness, but does not mean that the topic loses the relevance.
I highly appreciate the choise of „black zero"[1] parameter (EM) to support the hypothesis of companies inclined to earnings management and of „red zero" to support the idea of „no adjustments". Not only researches, but consultants and supervisors are contantly on their way to identify different sorts of parameters which help them to reveal existence of adjustments/manipulations.

Methods
Matěj uses a simple probit model. Matěj refers to the model applied by Phillips, Pincus & Rego (2003), but more detailed description of the model used would be appreciated.

Literature
The review of literature is extensive, there was a significant upgrade of literature overview from the previous version of the thesis.

Manuscript form
Manuscript of the thesis could be improved. Also, some expressions and terms do not belong to a reaserch text and for any further possible extensions of the thesis must be reformulated.

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[1] „Black zero", resp. „red zero" is meant a „small profit", resp. small loss (compared to assets/size of the company).

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However, the text was substantially upgraded and amended compared to the version of the thesis submitted in July 2021 (where the text resembled to a semester essay rather than to bachelor thesis).

I understad that Matěj is stong in analytical work, but lacks some softer skills in organizing text and explaining details that he perceives obvious, and presenting. This overall impression is supported by the list of his „Results of enrolled duties" (in SIS), which prove his excellent exam track record (apart from the bachelor´s thesis defence). Moreover I was informed that he was entiteled to receive scholarship for excellent results for his first two academic years.

Overall evaluation and suggested questions for the discussion during the defense

In my view, the thesis fulfills the requirements for a bachelor thesis at IES, Faculty of Social Sciences, Charles University, I recommend it for the defense and suggest a grade **C.**

The results of the Urkund/Turnitin analysis do not indicate significant text similarity with other available sources (except for his previous version of this bachelor thesis).

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

CATEGORY		POINTS
Contribution	*(max. 30 points)*	23
Methods	*(max. 30 points)*	23
Literature	*(max. 20 points)*	16
Manuscript Form	*(max. 20 points)*	10
TOTAL POINTS	*(max. 100 points)*	**72**
GRADE	**(A – B – C – D – E – F)**	**C**

NAME OF THE REFEREE: Mgr. Magda Pečená, Ph.D.

DATE OF EVALUATION: **15. 1. 2023**

Digitally signed (15. 1. 2023)

Magda Pečená

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Referee Signature