

**UNIVERSITI TEKNOLOGI MARA**

**THE USE OF DEFERRED TAX AND ACCRUALS  
TO MANAGE EARNINGS**

**NOOR HASIMAH BINTI M YACOB**

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## ABSTRACT

This paper addresses the question of whether Malaysian public listed companies use deferred tax and discretionary accruals to manage earnings in order to meet earnings targets: 1) to avoid an earning decline; and 2) to avoid reporting a loss. This study is a replication of Philips et al. (2003)'s study, where they found evidence that the firms use deferred tax expense in managing their earnings. The sample chosen in this study focuses on the financial statements prepared from year 2003 to 2005, in which Malaysian Accounting Standard Board (MASB) 25 Accounting for Income Taxes was still took place. To measure earnings management, this study uses Burgstahler and Dichev (1997)'s approach in classifying the earnings management firms and non-earnings management firms. Healy's (1985) and Modified Jones (Dechow et al., 1995) models are also used to identify and separate discretionary accruals. This study provides limited evidence that deferred tax has been used by the firms as a tool to manage earnings in the period studied. It implies that Malaysian firms do not use deferred tax account for earnings management purposes. The implementation of the MASB 25 (now known as Financial Reporting Standard (FRS) 112) may also decelerate the use of deferred tax by firms in managing their earnings. The result from this study is useful for researchers in studying earnings management behavior and for the standard setters in setting a standard.

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