

FACTORS AFFECTING EARNING MANAGEMENT: EVIDENCE FROM BANKING SECTOR OF PAKISTAN

By

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A thesis presented to Bahria University, Islamabad in partial fulfillment of the requirements for the degree of Master in Finance.

February 2017

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ACKNOWLEDGEMENTS

First of all, I praise the Almighty Allah who enabled me to precede my work successfully. Behind my work, there are several people's effort for which I would like to express my profound gratitude.

Foremost, I express my heartiest appreciation to my thesis advisor Dr. Samreen Babar for her continuous and patient assistance, motivation and beneficial critique. I'm particularly grateful to my cooperative teachers Dr. Nadia Tahir for giving me constructive instructions during my research work.

Besides, my companions are really admissible for their company and assistance in collecting my data. Finally, I would like to profoundly appreciate and admire my parents and family for their continuous spiritual support.

ADEEL TARIQ

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ABSTRACT

The purpose of this study is to analyze the motivational factors behind the manipulation of the earnings. Earning management is defined as judgments of the managers while reporting the financial earnings. It is mostly used, to retain the financial position of the firm in their downfall. Firm size, profitability, financial leverage and effective tax rate are taken as the motivational factors behind earning manipulation. The study is done on the banking sector of Pakistan. It has used the convenient sample technique for the selection of 10 different banks. Impact of independent variables on the earning management is measured through regression and correlation analysis. The study found that whenever firm faces decline in their profit, the managers may utilize the future predicted earnings in the current year to retain its positive image. When the firm is financing its capital using debt, it will also lead the managers to misreport the bad figures. Firm size and tax rate found to be negative but insignificant in explaining the earning management.