Capital Structure of Listed Manufacturing Firms in Nigeria and Its Impact on Earning Management

***I. K. Muhammed[1], G. Abdulyakeen[2], K. O. Oyaleke[3] & K. T. Ajide[4]**
[1,2,3,4]Department of Accountancy, Federal Polytechnic Offa Kwara State

*Corresponding Email Address: idriskayodemuhammed@gmail.com

Abstract
An organization's decision about how to finance its operations is one of its most crucial decisions. Consequently, management tries to design the company's capital structure in a way that satisfies stakeholder expectations. Determining if capital structure (CS) of Nigerian listed manufacturing companies has an impact on earnings management (EM) was the primary objective of the research. Purposive sampling was used to choose a sample of forty publicly traded manufacturing firms at the Nigerian Exchange Group (NGX). Thirteen years of data collection from the sample's participating firms took place between 2010 and the end of 2022. The findings indicated that the accrual earning management (AEM) using the EM proxy was adversely affected by the CS (short-term debt ratio, debt/equity ratio, and equity ratio). Also, it was revealed that the EM of Nigerian-listed manufacturing companies are benefited by the long-term debt ratio. It was therefore suggested that company management should avoid EM practices so that firms can have a favorable standing in the minds of current and prospective investors. In addition, the Nigerian Exchange Group should strengthen oversight of the accounting records presented by companies to minimize earnings management practices.

Keywords: Capital Structure, Earnings Management, Accrual Earning Management.

1.0 Introduction

Making a decision about how to finance the operation of the company is one of the most crucial decisions for every organization. Both internal and external finance sources are available to businesses. The achievement or failure of a firm is determined by the proportion of its internal to outside funds resources. Brigham and Gapenski (1996) assert that this decision is important and could affect the business's ability to stay relevant in the market place. Capital structure (CS), according to Adesina *et al*. (2015), is an important decision for management that influences the danger as well as return to investors by potentially affecting the share's market value. An enterprise may struggle to expand and seize potential markets if it relies solely on equity funding and its assets. As a result, companies may take out loans to expand and increase their revenue potential. Making a choice on the CS to adopt is the dilemma enterprises must deal with. The choice must optimize returns and will have an impact on how well the business can compete in its market (Githire & Muturi, 2015). Companies often have challenges when deciding how to structure their capital, making this a crucial topic of study for accountants and financiers. A company that doesn't plan its CS may struggle to raise money in the future, to fund its activities and might not be capable of effectively use its resources. The consensus among scholars is that each company should organize its CS in a way that will maximize its use of cash and allow it to be flexible enough to respond to changing circumstances. As a result, the finance management should design the best CS for the business to increase its market value. The agency problem, which arises when both managers and the company owners have conflicting interests in maximizing the worth of the business in question, is a common occurrence. Supervisors who prioritize their interests are to blame for it. The private objectives of managers, however, are disliked by owners.

According to Jensen and Meckling (1976), this may lead to higher costs for the business, which would lower earnings and have a negative impact on the price of stocks. Managers are superior when it comes to information control, nonetheless, due to the information gap that exists between them and Principals (stakeholders). Managers can use EM since there are gaps in information between the two groups (Richardson, 2000).

EM is a useful stand-in for the level of accuracy of information disclosed by insiders to users (Ng, 2011). One of the main reasons that the significance of high-quality information has increased is the worldwide businesses and financial sectors, as well as the increased rivalry within them (Al-Fayoumi *et al* 2010). Rusmin (2010) points out those EM activities erode investors' confidence in the accuracy of financial disclosure. As a result, business stakeholders now place a high value on EM. For the stock market to operate properly, financial reporting must be transparent. For investors and the general public to understand a company's genuine worth and condition, information is necessary. The absence of company-particular information to external parties, known as "transparency of earnings" (Bushee, 2012), confers significant benefits to experienced investors and poses a persistent risk to the image of an organization on a national and global scale. Additionally, it may result in substantial monetary losses by raising the cost of equity or decreasing stock market trade (Bhattacharya *et al*., 2003). Fortunately because of the substantial expense of oversight and the competing interests of both management and shareholders, guaranteeing the accuracy of accounting information is a difficult undertaking (Carneiro, *et al* 2017). Because of this, the stated profits of the company could occasionally match its actual profits. One of the circumstances under which management gets involved in the preparation of financial accounts for outsiders in order to manipulate earnings in different ways is called EM. When a corporation uses EM correctly and in compliance with current standards, it can be effective in increasing the formativeness of earnings when sharing private information. EM may be aggressive if conducted incorrectly, which indicates that it declares its accomplishments to optimize its benefits (Bushee, 2012).

Considering the crucial role played by manufacturing, listed firms directly employ millions of people in the production, marketing, distribution, and sale of their goods. This provides incomes that drive further consumption and economic growth. They also create indirect employment via their supply chains and via the economic multiplier effect of their employees spending their wages. Manufacturing firms invest heavily in research and development to constantly innovate and improve their product offerings. This innovation raises product quality, performance and value over time - fueling consumer demand. It also often has spillover benefits for other industries that utilize new materials, processes or technologies developed by the companies. Manufacturing firms play a central role in improving national living standards and a key contributor to Nigeria's Gross Domestic Product growth. Thus, full disclosure by this industry is therefore very essential than any other sector of the economy as information about their activities need to be disclosed so as for the investors and publics to take rational decision at every point in time.

Today, all forms of businesses are under constant pressure to develop and exposed to threat from the market. One of the major issues faced by most financial managers is how to effectively and efficiently manage limited resources in order to maximize their profits. To do this, organizations need to develop and implement sound financial strategies that would help them manage their proportion of capital, so as to determine the level of debt to obtain; likewise the internal fund to use for organization operation and

effectively utilized the resources which eradicate mismanagement of report and elevated the value of quality information. However, there is an absence of in-depth data from empirical studies in the scenario of manufacturing enterprises, even though corporate capital structure policies have been the subject of considerable study in the academic literature recently. Few studies examined the effects of capital structure on Nigerian manufacturing enterprises using panel data spanning thirteen years, while most studies on CS in Nigeria concentrated on its determinants.

Additionally, studies on CS and EM have occurred in developing as well as industrialized nations. Li and Liu (2014) claim that disparities in countries constitute a significant gap in the existing research. Aminu (2015) asserts that carrying out a comparable study in turbulent conditions, as is happening in Nigeria, is likewise a significant addition to the body of knowledge. Hence, this study examines the effects of CS on the EM of listed manufacturing firms in Nigeria. Short term debt to total assets, long term debt to total assets, equity ratio and debt/equity ratio were proxies to measure CS, while EM is measured with accrual earnings management.

Research Objectives

The specific objectives are to;

i. examine the effect of short term debt ratio on the earnings management of listed manufacturing firms in Nigeria;
ii. determine the effect of long term debt ratio on the earnings management of listed manufacturing firms in Nigeria;
iii. ascertain the impact of debt/equity ratio on the earnings management of listed manufacturing firms in Nigeria; and
iv. determine how equity Ratio affect the earnings management of listed manufacturing firms in Nigeria.

2.0 Literature Review

2.1 Conceptual Review

Capital Structure (CS)

The concept of "CS" in accounting signifies that a corporation is funded via a mixture of short-term obligations, like trade debts and overdrafts at the bank, and long-term debts, with the value of ordinary shares and reserve funds, preference stocks, debt instruments, financing from banks, convertible loaned stock, and so forth. A crucial management choice involves the finance or CS choice because this decision affects risk as well as return on equity. The CS ruling has an impact on the market share as well (Harris & Raviv, 1991). When an organization is first being promoted, it needs to prepare its CS. Consequently, a CS determination has to be made regarding why the money will need to be secured. A fresh CS is created by an urgent request for funding, and this CS requires serious examination (Birru, 2016). Likewise, argues by Brigham and Ehrhardt (2011) that choosing an appropriate CS constitutes a crucial financial management decision since it directly affects the worth of the business. The enterprise's substantial finance is mainly provided by long-term equity and debt. The primary objective for CS, as stated by Brigham and Ehrhardt (2011), is to incorporate the ideal ratio of debt to capital. The desired arrangement of capital, average amount of debt maturity, and precise options for financing that a company chooses to employ at any given

moment are all components of its CS strategy. Management ought to arrive at CS judgments to maximize the goal of maximizing the fundamental worth of the company, just like they would with operations choices.

Debt Financing

Financing is believed to serve as a vital component of all enterprises, as without it, operations are unable to go forward to meet goals. A certain kind of funding that businesses can use to sustain and grow their firm is borrowing money. Debt funding, or the percentage of borrowing in the structure of capital, is an application of outside funding to support a business's activities to enhance competitiveness (Racheal, *et al*. 2017). According to Gomis and Khatiwada (2016), outside borrowing is crucial for boosting prospective business efficiency and, more significantly, for future economic expansion. Financing via debt, as described by Onyenwe & Glory, (2017), represents a way to finance an enterprise without trading up possession via borrowing funds. Whenever utilized wisely, borrowing money gives a business the potential to prosper via development without jeopardizing the ownership of the company. Businesses that is reluctant to issue new stock in order to erode their ownership stake in the company will like this.

Equity Financing

Abraham and Harrington (2011) identify equity funding as the procedure by which a company raises money by selling its stock instead of issuing more debt via an initial public offerings (IPO) and seasoned equity offering (SEO). There are two possible methods for making a request for ordinary shares: cash or options. As such, it represents the sum that the company's ownership has invested and typically consists of reserve funds; profits retained, common share capital, and preferred capital. In addition to receiving dividends for the enterprise's earnings; equity suppliers receive payback on what they invested as holders of debt. In contrast to initial public offerings (IPOs), which entail issuing securities on an established exchange for the initial time, SEOs are initiated by companies that have advanced past the IPO stage while maintaining an outstanding record of operating successfully as well as regularly engaging in stock trading in the capital markets (Floegel, *et al* 2005). A number of the causes that drive companies to raise stock include a requirement for funds for investments in ventures like massive equipment acquisitions, financing access, advancement, the company's present cash position, and available potential for investment (Pandey 2010).

Shareholder opinion of an organization's basic success is influenced by financial data available in financial systems that are plagued by information opacity. Because of this, companies that issue additional shares are probably going to control the reported revenues; get more favorable financing conditions, and raise more money (Gao *et al*., 2017; Zhang, *et al*. 2020). Similarly, companies that issue loans will control their profits to lower interest rates. According to Trueman and Titman (1988), companies that issue debt smooth out their earnings. Insiders are also encouraged to participate in EM via agreements involving borrowers and corporations. It's widely recognized that business enterprises include commitments to debt in their securities offerings to reduce the agency costs associated with borrowing (Jensen and Meckling, 1976; Myers, 1977). Financial metrics are frequently used to construct debt agreements, and companies that break them face penalties (such as quick payback). Those who issue bonds are encouraged to control overall stated profitability because of the aforementioned reason (Rhodes, 2016).

Earnings Management (EM)

Even though EM has gained a lot of attention during the financial crisis as well as scandals affecting businesses of the late 20th century, the word could continue to be confusing to some individuals. Schipper (1998) defines EM as "a deliberate attempt to intervene some personal benefit in the outside disclosure procedure." Additionally, Levitt (1998) defines EM as "a situation whereby administrators are taking shortcuts, reporting practices are distorted, and earnings announcements portray the interests of management as opposed to the fundamental financial condition of the business." Other authors define EM as "a reasonable and legal management decision making and reporting intended to achieve stable and predictable financial results" (Rahman, *et al* 2012). In accordance with Sultan Obeidat (2016), EM additionally qualifies as involvement in the procedure of setting up financial records for outsiders to the extent that the results can flatten, rise, or reduce earnings disclosure. Managers may take advantage of this liberty to make discretionary decisions about how to use accounting approaches and boost or postpone expenses and sales, resulting in fewer or larger-than-expected gains for the business itself. Kieso (2011) defines EM as the process of scheduling income, costs, gains, and deficits smooth out variations in profits. Healy and Wahlen (1998), provide a complete and clear definition of the term EM when they define it as "EM occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accounting numbers". Falsifying the records is another well-known technique used in EM procedures like route manning and trade stacking. There are other ways to manage profits, like capitalizing expenses even though they ought to have been paid for in this period. The tools accessible to implement EM include nonrecurring expenditures, retirement accounts, off-the-books items, fictitious leases, and cookie jar savings. Real and accruals EM are the two primary types of EM that have been discussed in the literature.

Accruals EM primarily show corporate operations that influence subsequent cash flows despite the fact that no money has changed hands at the moment. As a result, it shows how income and expenditures are allocated throughout the year with immediate consequences on the statement of profits or losses. A combined method, which involves determining the whole quantity of accruals as the distinction between cash flow and profits, has been utilized by accruals EM research on the non-financial business. Managers can manipulate reporting far beyond statutory bounds to inflate profit or hide losses (or both) and produce advantageous financial outcomes.

Numerous studies have been conducted in the research literature since Jones' (1991) groundbreaking work on recognizing the existence of the term "EM" employing data from financial statements. According to Jones (1991), one way to gauge the degree of accounting records is by looking at the degree of uncertainty of accruals with discretion. Discretionary accruals have been identified as accrual amounts where the corporation's accounting might reasonably be expected to result. The fundamental Jones model uses revenues, fixed assets, and total assets as its explanatory variables. Additional research has expanded the model to incorporate the effects of alterations in accounts receivable (Filip & Raffournier, 2014) and fluctuations in operating cash flows (Kasznik, 1999).

As previously mentioned, the dependent variable (EM) was measured using the discretionary accrual model (DACC), with the following formula;

$$TACC_{it} = \Delta CA - \Delta CL - \Delta Cash + \Delta STDEBT - DEP \quad (1)$$

Next, the expected accruals are estimated using a particular model: In literature, the model appears to have been applied frequently (Fera & Salzillo, 2021).

$$\frac{TACC_{it}}{TA_{it}-1} = \beta_0\left(\frac{1}{TA_{it}-1}\right) + \beta_1\left(\frac{\Delta REV_{it}-\Delta AR_{it}}{TA_{it}-1}\right) + \beta_2\left(\frac{PPE}{TA_{it}-1}\right) + \beta_3\left(\frac{ROA_{it}}{TA_{it}-1}\right) + \varepsilon_{it} \quad (2)$$

3.0 Research Method

Since historical information were obtained via publications pertaining to the listed manufacturing enterprises that were chosen for the purpose of the study, the ex post facto method was used for the investigation. This design was chosen due to how it makes it simple to gather secondary data free from external factors. Hence, this study used secondary data that was already available in the annual reports for the period ranging from 2010 to 2022. The base year was selected because it was the year that Security Exchange Commission (SEC) underwent restructuring due to crash of price of stock in Nigeria whereas 2022 is the year that new regulations where introduced by SEC. The population of the study covers four sectors of manufacturing companies in Nigeria, namely the conglomerate sector (6), consumer goods sector (21), agriculture sector (5), and industrial goods sector (13). Thus, the total population of the study consists of forty five (45) listed firms. Purposive sampling approach was used to gather data from thirty seven (37) manufacturing firms after applying two filters as criterion to arrive at the sample size. Any manufacturing companies delisted within the period covered by the study were excluded and company must have available required data for the study. The data collected were analyzed using both descriptive and inferential statistical approaches such as correlation and regression analysis. Nevertheless, the multi-colinearity test and Hausman test were run on the data first.

3.1 Measurement of Variables

Table 1 Measurement of Variables

Variable(S)	Symbols	Variable Description	Source
Dependent Variables			
Earnings Management	Accrual Earnings Management (AEM)	Modified Jones model	Dechow *et al.*, (1995)Fera and Salzillo

			(2021);
Independent Variables			
Capital Structure	Short term debt ratio (STDR)	STDR= Short term debt over total asset	Jones & Edwin (2019)
	Long term debt ratio (LTDR)	LTDR= Long term debt over total asset	Jones & Edwin (2019)
	Debt/Equity ratio (DER)	DER= Total Debt over Shareholders Fund	Ahmad & Alrabba (2017)
	Equity Ratio (ER)	ER= Shareholders Fund over Total Assets	Ahmad & Alrabba (2017); Achim *et al*. (2021).
Control Variable			
	Firm Size (FS)	FS = Log of total assets	Ahmad & Alrabba (2017); Thu *et al* (2018); Arumona *et al* (2023)
	Liquidity (LIQ)	LIQ= current Asset over Current Liabilities	Achim *et al*. (2021).; Emudainohwo and Okolo (2022)
	Profitability (PROF)	PROF = net income divided by equity	Emudainohwo and Okolo (2022)

Source: Author's Compilation (2024)

3.2 Model Specification

To understand how CS affects the EM of listed manufacturing firms in Nigeria, the study adapted the model by Jones and Edwin (2019) and Ahmad and Alrabba (2017)

$$ROA = \beta_0 + \beta_1 LTDR_{it} + \beta_2 STDR_{it} + \beta_3 TDR_{it} + \beta_4 FS_{it} + \mu_{it}$$ (Jones & Edwin 2019)

$$EQ = \beta_0 + \beta_1 DER_{it} + \beta_2 ER_{it} + \beta_3 FS_{it} + \beta_4 ROA_{it} + \beta_5 CR_{it} + \beta_6 ROE_{it} + \beta_7 GRT_{it} + \mu_{it}$$

(Ahmad & Alrabba 2017)

The model is therefore specified as

$$AEM = \beta_0 + \beta_1 STDR_{it} + \beta_2 LTDR_{it} + \beta_3 DER_{it} + \beta_4 ER_{it} + \beta_5 FS_{it} + \beta_6 LIQ_{it} + \beta_7 PROF_{it} + \mu_{it}$$

3.1

4.0 Data Analysis and Result

4.1 Descriptive Statistics

Table 2: Descriptive Analysis

	Mean	Maximum	Minimum	Std. Dev.	Obs.
AEM	-0.2592	5.3978	-12.102	0.9021	481
STDR	0.6480	11.956	0.0005	1.0345	481
LTDR	0.2427	2.9289	0.0005	0.2740	481
DER	3.0658	131.08	-30.006	12.052	481
ER	0.5858	9.0027	-4.0056	0.6478	481
FS	7.1894	9.3255	5.3513	0.7659	481
LIQ	9.2577	2392.3	0.0064	107.46	481
PROF	0.1904	3.1915	-0.8645	0.3235	481

Source: Author's Computation (2024)

Both the dependent variable (earnings management) and the independent variable (capital structure) are statistically described in Table 2. EM is being measured with the help of AEM which show negative mean values of 0.2592. Oktasari (2020) affirmed that negative EM suggests that the business uses EM by lowering profits, if the EM value is negative, it means that firm conducts EM by raising earnings, and if the EM value is zero or there is 1 (one) number behind the dot of zero, meaning there is no indication of earnings manipulation. Therefore from the analysis above, it indicate that most of companies selected do not engage in EM. From the analysis it shows that short term debt is more use as source of finance than other source, since its mean value is 65 percent while the mean value of LTDR and ER are 24% and 59% respectively. Finally, the analysis also reveals the debt is more used as sources of finance than equity since the proportion of debt to equity is 307%. The result from this analysis did not support pecking order theory, which claims that corporations prefer internal financing to borrowing from outside sources.

4.2 Correlation Analysis

This section presents the results of multicollinearity test.

Table 3: Correlation Analysis

	AEM	STDR	LTDR	DER	ER	FS	LIQ	PROF

AEM	1							
STDR	0.0309	1						
LTDR	0.0577	0.0838	1					
DER	0.0132	-0.0077	0.2187	1				
ER	0.0077	0.0705	0.1259	-0.1162	1			
FS	0.0648	-0.1678	-0.0841	-0.0315	0.0553	1		
LIQ	0.0117	-0.0241	-0.0264	-0.0143	0.0143	-0.0124	1	
PROF	0.0405	0.1566	0.0632	0.0205	0.0922	0.0202	-0.0388	1

Source: Author's Computation (2024)

It is seen in Table 3 how the variables are related. Multicollinearity could only be a concern if the correlation coefficient between regressors is higher than 0.80, according to Gujarati (2004). Since none of the coefficients exceeds 0.80, there is no multi-collinearity issue among the variables under study, as seen in the table above.

4.3 Regression Result

This section shows the fixed effect regression results for the model since it is more appropriate than random effects after hausman test was conducted.

Table 4: Regression Result

Variable	Coefficient	t-statistic	Prob.
STDR	-0.0120	-2.2150	0.0469
LTDR	0.3157	8.6371	0.0000

DER	-0.0442	-2.5651	0.0248
ER	-0.0591	-3.4031	0.0052
FS	0.0032	2.8846	0.0137
LIQ	0.0002	6.7028	0.0000
PROF	-0.0042	-0.5252	0.6090
C	0.2811	2.2028	0.0479
R-squared			0.4110
Adjusted R-squared			0.3537
F-statistic			7.1753
Prob.(F-statistic)			0.0000
Hausman Test			114.714 (0.0001)
Brauch pagan Test			175.19 (0.0000)

Source: Author's Compilation (2024)

The results presented in Table 4 show the regression results for the study model. The results indicate that the R^2 value is 0.4110 with an adjusted R^2 of 35%. This means that approximately 41 percent of the total variation in AEM could be attributed to or explained by variation in all of the independent variables. As a result, the F-statistic stood at 7.1753, with a p-value of 0.0000, which was less than 0.05 significant levels. This means that there is a significant relationship between independent variables and dependent variable.

4.4 Discussion of Findings

Short Term Debt Ratio (STDR) and Accrual Earnings Management (AEM)

The regression results presented in table 4 show that STDR has a substantial and unfavorable link with AEM. There is a correlation between STDR and AEM with a coefficient of -0.0120 (t-statistic = -2.2150; $p<0.05$). This implies that a unit change in the STDR while holding other factors constant would decrease AEM by a factor of 1.2%. It also implies that for businesses to consistently produce enough cash flows to satisfy borrower necessities, STDR that have low rates of interest have to rise, as do other stakeholders, which doesn't necessitate managers manipulating earnings. The result support free cash flow theory that posit that a significant portion of a company's free cash flow is channeled to debt servicing whereas managers have little money to spare to effectively manage. The outcome coincides with the findings of Trung *et al*. (2020), who discovered a detrimental connection between EM and STDR.

Long Term Debt Ratio (LTDR) and Accrual Earnings Management (AEM)

The regression results presented in table 4 show that LTDR has a positive and significant relationship with AEM. There is a correlation between LTDR and AEM with a coefficient of 0.3157 (t-statistic = 8.6371; $p<0.01$). This implies that a unit change in the LTDR while holding other factors constant would enhance earnings management by a factor of 31.6%. The result suggests that the increase in LTDR contributions might encourage managers to present unreliable information or manipulate earnings. The result is in line with the result in Sinambela, *et al*. (2022) and Kadek *et al*. (2019), who described how firms usually use EM whenever their predicament is about to breach the terms of the loan. However, it is not the same as the studies of Dewi and Wirawati (2019), claiming that CS is unfavorable to EM.

Debt/Equity Ratio (DER) and Accrual Earnings Management (AEM)

Table 4 also shows that DER has a negative and significant relationship with AEM. It has been determined that DER and AEM have a coefficient of -0.0442 (t-statistic = -2.5651; $p<0.05$). This implies that a unit change in DER while holding other factors constant would decrease earnings by a factor of 4.4%, through the implementation of earnings management. The result suggests that a highly leveraged firm might possibly encourage the firms' managers to decrease their earnings through the manipulation of the financial report. Managers might engage in this action due to so many reasons (eg: extending the present interest of debt to another accounting period; preventing the company from paying tax for that period etc.). The result of this study is in line with the study of Cuong and Thanh Ha (2018) who find a negative impact between financial leverage and EM but is contrary to the study of Ahmad and Alrabba (2017).

Equity Ratio (ER) and Accrual Earnings Management (AEM)

The regression results presented in table 4 show that ER has a negative and significant relationship with AEM. There is a correlation between ER and AEM with a coefficient of -0.0591 (t-statistic = -3.4031; $p<0.05$). This implies that a unit change in the equity ratio while holding other factors constant would decrease AEM by a factor of 6%. The results suggest that the increase in shareholder contributions might discourage managers to present unreliable information or manipulate earnings. The result support agency and stakeholder theory that posits that the agents will act responsibly and make choices for the greatest benefit of the principal or the stakeholder. Ahmad and Alrabba (2017) and Oktasari (2020) also concluded that ER positively impacts EM.

5.0 Conclusion and Recommendations

The study examined the effects of capital structure (CS) on listed manufacturing firms' earnings management (EM). It is established from the findings that CS significantly and negatively affects earnings management. In commercial organizations, CS comes from two different places: debt and equity. Furthermore, the results reveal that the equity ratio has a negative and significant relationship on AEM. It also reveals that STDR and DER have a negative and significant relationship with AEM. It is suggested that company management should avoid EM practices to maintain the enterprise's good standing with current and future financiers. Alternatively, it could draw prospective capital from entrepreneurs who are interested in the long-term viability of the business. The enterprise will gain legitimacy by this procedure, giving it an edge over competitors in corresponding sectors. Lastly, the Nigerian Exchange Group ought to strengthen its oversight of financial disclosures submitted by businesses that are listed there. To reduce EM

habits, the financial health assessment process—particularly the CS audit—must be rigorously adhered to properly.

References

Abraham, R. & Harrington, C. (2011). Seasoned equity offerings: Characteristics of firms. *International Journal of Business, Humanities and Technology, 1 (3), 26-33.* www.ijbhtnet.com

Achim, M. V., Safta, L. S., Văidean, L. V., Mureșan, G. M., & Borlea, S. N. (2021). The impact of covid-19 on financial management: evidence from Romania: *Economic Research-Ekonomska Istraživanja* https://doi.org/10.1080/1331677X.2021.1922090

Adesina, J. B. Nwidobie, B. M. & Adesina, O. O. (2015). Capital Structure and Financial Performance in Nigeria, *International Journal of Business and Social Research, 5(2).* http://www.thejournalofbusiness.org/index.php/site

Ahmad, M. A. & Alrabba, H. M. (2017). Examining the Impact of Capital Structure on Earnings Quality in Food and Beverage Companies Listed on the Jordanian Stock Exchange. *International Journal of Economic Research, 14(15)*

Akintoye, I. R. (2009) Sensitivity of Performance to Capital Structure, Banking and Finance Letters, *European Journal of Social Sciences 7(1), 23-31*

Al-Fayoumi, N., Abuzayed, B., & Alexander, D. (2010). Ownership structure and earnings management in emerging markets: The case of Jordan. *International Research Journal of Finance and Economics, 38(1)*

Aminu, M. I. (2015). Relationships between organizational memory, intellectual capital, entrepreneurial orientation, dynamic capabilities and firm performance in Nigeria. *Doctoral Thesis, Universiti Utara, Malaysia.*

Bhattacharya, U., Daouk, H. & Welker, M., (2003). The world price of earnings opacity. Account. Rev. *78 (3),* https://doi.org/10.2308/accr.2003.78.3.641

Birru, M. W. (2016). The Impact of Capital Structure on Financial Performance of Commercial Banks in Ethiopia, *Global Journal of Management and Business Research: C Finance, 16(8).*

Brigham, E. F., & Gapenski, L. C. (1996). Intermediate finance management. *J. Harbour Drive, The Dryden Press.*

Brigham, E.F. and Ehrhardt, M.C. (2011), Financial Management: Theory and Practice, (13thed). Mason: *South-Western Cengage Learning.*

Bushee, B. J. (2012). Discussion of Financial reporting opacity and informed trading by international institutional investor. *J. Account. Econ. 54(2).* https://dx.doi.org/10.2139/ssrn.2128607

Carneiro, J., Lima Rodrigues, L. & Craig, R., (2017). Assessing international accounting harmonization in Latin America. *Account. Forum 41 (3), 172–184. https://doi. org/10.1016/j.accfor.2017.06.001.*

Cuong, N. T. & Thanh Ha, N. T. (2018). Influence of Financial Ratios on Earnings Management: Evidence from Vietnam Stock Exchange Market, *Journal of Insurance and Financial Management, 4(1).*

Dewi, N. L. P. A., Endiana, I. D. M., & Arizona, I. P. E. (2019). Pengaruh rasio likuiditas, rasio leverage dan rasio profitabilitas terhadap financial distress pada perusahaan manufaktur. *Journal of Chemical Information and Modeling, 53,*

Emudainohwo, O. B & Okolo N. M. (2022). Earnings Management and Cost of Debt: Nigeria Non-Financial Firms Experience. 16.

Fera, P., & Salzillo, G. (2021). Earnings quality and the cost of debt for SMEs under severe information asymmetry. *Journal of Governance & Regulation, 10(3), 128–139. https://doi.org/10.22495/jgrv10i3art11*

Fera, P., & Salzillo, G. (2021). Earnings quality and the cost of debt for SMEs under severe information asymmetry. *Journal of Governance & Regulation, 10(3), 128–139. https://doi.org/10.22495/jgrv10i3art11*

Filip, A., Raffournier, B., 2014. Financial crisis and earnings management: the European evidence. *Int. J. Account. 49 (4), 455–478. https://doi.org/10.1016/j.intacc.2014.10.004.*

Floegel, V. Johanning, L. & Gebken, T. (2005). The Dynamics within Merger Waves - Evidence from Industry Merger Waves of the 1990s. *SSRN Electronic Journal. https://doi.org/10.2139/ssrn.669525.*

Gao, S., Meng, Q., Chan, K.C., Wu, W., 2017. Earnings management before IPOs: are institutional investors misled? *J. Empir. Financ. 42, 90–108.*

Githire, C. & Muturi, W. (2015). Effects of capital structure on financial performance of firms in Kenya: Evidence from firms listed at the Nairobi securities exchange. *International Journal of Economics, Commerce and Management, 3(4). http://ijecm.co.uk/*

Gomis, R.M. & Khatiwada, S. (2016). Debt and Productivity: *Evidence from Rm-Level Data. https://ideas.repec.org/p/gii/giihei/heidwp04-2017.html.*

Gujarati, D. N. (2004), "Basic Econometrics", 4th Edition, The McGraw-Hill Companies.

Harris, M. & Raviv, A. (1990). Capital Structure and the informational role of debt, *Journal of Finance 45*

Healy, P. M., & Wahlen, J. M. (1998). A Review of the Earnings Management Literature and its Implication for Standard Setting, *homepages.rpi.edu./home/17/wuq2/public…/healy%201999.pdf*

Jensen MC (1986). Agency Costs of Free Cash-Flow, Corporate Finance, and Takeovers. *The American Economic Review 76(2):323- 329.*

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics.11, https://doi.org/10.1016/0304-405X(76)90026-X*

Jones, A., S. & Edwin, O., A. (2019). Effect of Debt Financing on the Corporate Performance: A Study of Listed Consumer Goods firms in Nigeria, *International Journal of Academic Accounting, Finance & Management Research. 3(5). http://www.ijeais.org/ijaafmr*

Jones, J.J., 1991. Earnings management during import relief investigations. *J. Account. Res. 29 (2), 193–228. https://doi.org/10.2307/2491047.*

Kadek, M., Sutrisno,T. and Endang, M. (2019), Impact of Leverage and Firm Size on Earnings Management *in International Journal of Multicultural and Multireligious Indonesia in Understanding 6(1): http://dx.doi.org/10.18415/ijmmu.v6i1.473*

Kasznik, R., 1999. On the association between voluntary disclosure and earnings management. *J. Account. Res. 37 (1), 57–81. https://doi.org/10.2307/2491396.*

Kieso, D. E. (2011). Intermediate Accounting. United States of America : Wiley

Levitt, A. (1998) The Numbers Game, Unpublished Remarks, *http://www.SEC.gov/news/speech/spch220.txt.*

Li, D., & Liu, J. (2014). Dynamic capabilities, environmental dynamism and competitive advantage: Evidence from China. *Journal of Business Research, 67(1), 2793–2799. http://dx.doi.org/10.1016/j.jbusres.2012.08.007*

Merz, M., Yashiv, E. (2007) Labor and the Market Value of the Firm, *American Economic Review, 97(4),*

Myers, S. (1977). Determinants of corporate borrowing. *Journal of Financial Economics, 5, 146-175.*

Ng, J. (2011). The effect of information quality on liquidity risk. *Journal of Accounting and Economics, 52*

Oktasari, D. P. (2020). Effects of capital structure, profitability and firm size towards earning management in manufacturing companies. *EPRA International Journal of Research and Development, 5(5). https://doi.org/10.36713/epra4334*

Onyenwe, A.C. & Glory, I. J. (2017). Effect of Financial Leverage on Firm's Performance: A Study of Nigerian Banks. *International Journal of Recent Scientific Research, 8(7), 23-30.*

Orazalin, N. & Akhmetzhanov, R. (2019). Earnings management, audit quality, and cost of debt: evidence from a Central Asian economy, *Managerial Auditing Journal, 34(6). https://doi.org/10.1108/MAJ-12-2017-1730*

Pandey, I.M (2010). Financial Management, Tenth Edition, *Vikas Publishing Home PVT Ltd, New Delhi*

Paramasivan. C, & Subramanian, T. (2009), Financial Management. *New Age International Limited, Publishers. New Delhi. 2009.*

Racheal, J. A.C., Chelichi, I. F. & Raymond, E. A. (2017). Leverage and Financial Performance: Evidence form Nigerian Food Production Firms. *European Journal of Research and Reflection in Management Sciences, 5(4), 1-11.*

Rahman, M. M, Moniruzzaman, M., & Sharif, M. J. (2012). Techniques, Motives, and Controls of Earnings Management. *International Journal of Information Technology and Business Management, 11(1), 22-34.*

Rhodes, A., 2016. The relation between earnings-based measures in firm debt contracts and CEO pay sensitivity to earnings. *J. Account. Econ. 61 (1), 1–22.*

Richardson, V. J. (2000). Information asymmetry and earnings management: *Some evidence. Review of Quantitative Finance and Accounting. https://doi.org/10.1023/A:1012098407706*

Rusmin, R. (2010). Auditor quality and earnings management: Singaporean Evidence. *Managerial Auditing Journal, 25(7), https://doi.org/10.1108/02686901011061324*

Schipper, K. (1989). Commentary on Earnings Management. *Accounting Horizons, 3(4), 91-102.*

Sinambela, L., Pakpahan, E. & Teng, S., H. (2022). The Leverage, Company Size, and Capital Structure on Financial Performance through Earning Management in Property and Real Estate Companies Listed on the Indonesia Stock Exchange 2016-2020, *International Journal of Social Science Research and Review, 5(12). http://dx.doi.org/10.47814/ijssrr.v5i12.683*

Situmeang, C. Maksum, A. Erlina. & Supriana, T. (2017). Effect of Earnings Management on Cost of Debt Before and After International Standard Financial Reporting Implementation, *Advances in Economics, Business and Management Research (AEBMR), 46(1).*

Sultan Obeidat, M. I. (2016). Capital Structure Effect on the Practices of Earnings Management Phenomenon? The Evidence of Listed Firms in Abu Dhabi Securities Exchange. *Asian Journal of Finance & Accounting, 8(2). : http://dx.doi.org/10.5296/ajfa.v8i2.10198*

Thu, P. A. Khanh, T. H. T Ha, N. T. T. & Khuong, N. V. (2018). Perceived Audit Quality, Earnings Management and Cost of Debt Capital: Evidence from the Energy Listed Firms on Vietnam's Stock Market, *International Journal of Energy Economics and Policy, 2018, 8(6), 120-127. https://doi.org/10.32479/ijeep.6992*

Trueman, B., Titman, S., 1988. An explanation for accounting income smoothing. *J. Account. Res. 26, 127–139.*

Trung, T. Q. Liem, N., T. & Thuy, C., T., M. (2020). The impact of short-term debt on accruals-based earnings management – evidence from Vietnam, *Cogent Economics & Finance, 8. https://doi.org/10.1080/23322039.2020.1767851*

Watkins, T. (2002). Leverage and the Risks to Shareholders and Bondholders, San Jose State University, Economics Department.

Zhang, Y., Uchidab, K. & Dong, L. (2020). External financing and earnings management: Evidence from international data, *International Business and Finance, https://doi.org/10.1016/j.ribaf.2020.101275*

APPENDIX

LIST OF LISTED MANUFACTURING COMPANIES SELECTED

CONSUMER GOODS SECTOR		**INDUSTRIAL GOODS SECTOR**		**AGRICULTURE SECTOR**	**CONGLOMERATE SECTOR**
P Z CUSSONS NIGERIA PLC.	FLOUR MILLS NIG. PLC.	CAP PLC	PREMIA PAINTS PLC	OKOMU OIL PALM PLC.	S C O A NIG. PLC.
NIGERIAN BREW. PLC.	DANGOTE SUGAR REFINERY PLC	BETA GLASS PLC.	LAFARGE AFRICA PLC.	PRESCO PLC	JOHN HOLT PLC.
NESTLE NIGERIA PLC.	VITAFOAM NIG PLC.	DANGOTE CEMENT PLC	GREIF NIGERIA PLC	LIVESTOCK FEEDS PLC.	TRANSNATIONAL CORPORATION PLC
NASCON ALLIED INDUSTRIES PLC	INTERNATIONAL BREWERIES PLC.	BERGER PAINTS PLC	AUSTIN LAZ & COMPANY PLC	FTN COCOA PROCESSORS PLC	U A C N PLC.
GUINNESS NIG PLC	NIGERIAN ENAMELWARE PLC.	MEYER PLC.		ELLAH LAKES PLC.	
HONEYWELL FLOUR	N NIG. FLOUR MILLS PLC.	CUTIX PLC			

MILL PLC					
CHAMPION BREW. PLC.	MCNICHOLS PLC				
MULTI-TREX INTEGRATED FOODS PLC	GOLDEN GUINEA BREW. PLC.				
UNION DICON SALT PLC.	UNILEVER NIGERIA PLC.				