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The Head,
Department of Accounting and Finance,
Federal University Gusau, Zamfara State.
elfarouk105@gmail.com
+2348069393824

FOR MORE INFORMATION, CONTACT
The Editor-in-Chief on +2348067766435
The Associate Editor on +2348036057525
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IMPACT OF CAPITAL STRUCTURE ON FINANCIAL PERFORMANCE OF LISTED AGRICULTURAL COMPANIES IN NIGERIA

Ahmad Muhammad Ahmad
Department of Accounting,
Nigerian Army University Biu.
+2348060305681, shaktarmakarfimail@gmail.com

Shehu Usman Hassan Ph.D.
Professor of Accounting and Finance
Department of Accounting,
Federal University of Kashere, Gombe State.
+2348067766435 shehuhassanusman@gmail.com

Abubakar Abubakar
Department of Accounting,
Federal University of Kashere, Gombe State.
+2347030072314 abubakarabubakar2020@gmail.com

Abstract
A company is usually faced with the challenge of financing investments; the management is to decide on the optimal mix of capital structure decision. This study sets to investigate the influence that capital structure of a firm has on financial performance of listed manufacturing firms in Nigeria for period spanning from 2017-2021. The dependent variable of the study is financial performance proxy by return on asset (ROA) while the independent variable of the study is capital structure proxy by long-term debt, short term debt, total debt ratio and total equity ratio. The population of the study consist of all the 5 listed manufacturing firms in Nigeria and the sampling technique was the census arriving at a 25 firm year observations. The multiple regressions was employed for the data analysis and the study revealed that long-term debt ratio has a negative insignificant relationship with return on asset while short-term debt, total debt ratio and total equity ratio have positive significant influence on return on asset. The study recommends that the management of listed manufacturing firms in Nigeria should pay attention in curtailing long-term debt and improving on short term debts in order to improve financial performance.

***Keywords**: long-term debt, short term debt, total debt ratio, total equity ratio and return on asset*

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1. Introduction

Capital structure of a firm is the mix between debt and equity. Capital structure of a firm is the way in which the assets of the firm are financed. The firm may finance operations either by equity only or may decide to finance by both equity and debt

financing. Capital structure is concerned with the mix of the sources of funds available to the firm to fund business operations and fund capital investments. If a business is to survive and grow the firm must take strategies to effectively structure its capital to determine optimal capital mix because it will be difficult to compete in the industry and gain market strength without a good structure of capital. One of the important decisions taken by management of a firm in finances is capital mix. Sources of capital are internal and external; the internal sources consist of retained profits and or reserves which are sourced by owners while external sources contains short term which are loans and long term external source is debt. An important Germane to existence, growth and sustainability of a firm is its capital structure. In capital structure mix firms should ensure that proportion of debt to be higher than that of equity (Hung and Duc, 2020).The forms of mix of the debt-equity can be in various forms; unlevered firm (100% equity and 0% debt), levered firm (0% equity and 100% debt) and a percentage of debt which can be referred to as capital mix. The majority of the capital structure of a firm can be the component of debt, or the equity to be the majority or an even mix of equity financing and debt financing. Each of the two finances has its own merits and demerits. The fundamental approach of capital structure is of net operating income approach, value of high leveraged firm is the same with low leveraged firm.

The relationship between capital structure and financial performance continues to be attracted in finance literature. Financial performance explains the ability of management of a company to use assets/capital to generate revenue which will be able to satisfy the running expenses to declare profits which is to be distributed to shareholders. Since the main objective of every firm is earning profits to the providers of capital for which management has invest and sacrifices certain portion of capital of the business provided by shareholders (Swain & Das, 2017). Erasmus (2008) contended that a valuable tool that aids stakeholders to evaluate the financial position of firm is financial performance. Financial performance explains the financial strengths of firm, financial weakness, opportunities as well as financial threats to the firm (Dogarawa & Harun, 2016). The performance of a firm is reflected in how effectively the resources of the company are managed by the firm. Vatavu (2015) contended that liquidity, fixed assets, business risk, annual ratio of inflation and taxation were discovered by scholars to be among the factors that are influential for finance decisions in firm. According to Julius, Barine and Oluwatosin (2015), in order to improve earnings management of company's make

use of equity and debt consistently to finance business operations. An important issue in economic entities is financial performance as such firms must pay attention to financial performance to get the best out of it. Financial performance is affected by the factors which may be internal to the firm or external. Hung and Duc (2020) argue that financial performance is widely believed as the mobilising effect of managing and using capital in a firm. They further opined that performance of business enterprise is an indicator of aggregate economic reflection of the extent of usage of process of factors of production. The extent to which financial objectives are achieved is referred to financial performance and it is the means to measure result of policies, strategies and operations of firm in monetary terms (Eshna, 2020). The primary motive of every firm is to make profit and maximize wealth of providers of capital. The inability of management to make profit to firm means the business cannot survive. Profit is a measure of management performance and as such there are many ratios adopted to measure performance; Return on asset (ROA), Return on equity (ROE), Net profit margin (NPM), Return on investment (ROI), Dividend per share (DPS), Earnings per share (EPS) among others. In this study return on asset will be adopted as measure of performance which is the dependent variable because it is believed by several scholars such as Chowdhury (2020) to be the most suitable measure of performance of a firm by management in terms of level of asset employed.

The capital mix of firm and the way in which it impacts on the activities of the company has been a subject of debate among literatures of finance for long. Due to the development of capital structure literature many variables that affect financial performance and financing decisions were found. It has been found that several studies have been undertaken in order to assess how financial performance of firm is impacted by capital structure such as the studies of Julius, Barine and Oluwatosin (2015); Hung and Duc (2020); Swain and Das (2017); Osuji and Odita (2012); Muhammad (2019); Sanusi, Stephen and Vivi (2020); Sorana (2015). Some of these studies have been done in different sectors leaving many areas untouched oneof this area is the agricultural sector which will allow this work to have specific finding in order to proffer a suitable recommendation to the sector alone considering the peculiarity in the international financial reporting standards in agriculture. Again looking at the important role of how adequate capital mix playsto prevent firm's failures in different occasions especially during the covid 19 pandemic and the aftermath of Covid 19 negative impact on financial performance which many companies have not fully recovered from the consequences. Furthermore, the scope of many among the previous studies in the agricultural sector were from 2019 and below, and to the best of the researcher's knowledge this study will be among the first studies to use the current scope of 2021. These

reasons gave the opportunity to fill the time gap in order to update the literature to address how a firm's financial performance is impacted by capital structure among listed agricultural companies in Nigeria. Therefore, the main objective of this research is to examine the impact of capital structure on financial performance of listed agricultural companies in Nigeria in order to fill the vacuum.

2. Literature Review

This section reviewed empirical studies that looked into capital structure (long-term debt, short term debt, total debt ratio, total equity ratio) and how they react to financial performance.

2.1 Review of Related Empirical Literatures

Dahiru, Dogarawa and Haruna (2016) made an attempt to examined the effect of capital structure on financial performance of manufacturing firms listed on the NSE for a period of six years spanning from 2009-2014, capital structure was proxy Total debt to total asset, total debt to total equity, short term debt to total asset andlong term debt to total asset while financial performance was proxy by return on asset. The panel data was analysed using the generalised least square regression. Results revealed that three variables (total debt, short term debt and long term debt)have positive significant impact while only debt to equity was not significant withreturn on asset. The study recommends that management should increase the components of short term debt of capital structure.

Goyal (2013) investigated the influence of capital structure on performance of public sector banks in India for five years spanning from 2008-2012. Long term debt, short term debt and total debt were proxy for independent variable whereas the dependent variable was proxy by return on asset, return on equity and earnings per share. Results showed that a positive relationship between short term debt and all financial performance measures while long term debt showed negative relationship with performance measures. Lin, Khai, Anh, Linh, Ha and Nga (2022) made an attempt to examined the impact of capital structure of performance of firm in listed processing and manufacturing industries in Vietnam for a period of 6 years spanning from 2015-2020. Tobin's Q and return on asset were proxy for the dependent variable whereas the independent variable was proxy by short term debt and long term debt. The FGLS model was used to analyse the secondary data. The results revealed that short term debt and long term debt have negative effect on return on asset while with regards to Tobin's Q short term debt had no significant effect on performance while long term debt had a negative effect with performance.

Swain and Das (2017) examined the impact of capital structure on financial performance and its determinants for a ten-year period, capital structure was proxy by current ration, long term debt to asset, total debt to asset and debt equity ratio

while the financial performance was proxy by return on asset, return on equity, return on capital employed and earnings per share. Top 50 manufacturing listed firms were selected to represent the population, the multiple regression technique was employed for the analysis and results revealed capital structure has a significant impact on financial performance. Olayemi and Fakayode (2021) examined the effect of capital structure on financial performance of quoted manufacturing companies in Nigeria for a period of seven years spanning from 2013-2019, capital structure was proxy by short term debt to total asset, long term debt to total asset, total debt to total equity and total debt to total asset ratio while financial performance was proxy by return on equity and return on asset. Panel regression analysis was employed and results revealed total debt to total equity has no significant impact on return on asset, total debt to total asset ratio has negative significant impact on return on asset and return on equity. Osuji and Odita (2012) examined the impact of capital structure on financial performance of Nigerian firms for 6 six years from 2004-2010, 30 listed non-financial companies were selected for the study, the dependent variable was proxy by return on asset and return on equity while independent variable was proxy by debt ratio, asset turnover and asset tangibility. Ordinary least square regression was employed for the data and results revealed that debt ratio had significant negative impact on return on asset and return on equity.

Dinh and Pham (2020) attempted to investigate the impact of capital structure on financial performance of Vietnamese listing pharmaceutical enterprises from 2015-2019 (5 years), all the 30 listed companies were selected for the study, dependent variable was proxy by return on equity while independent variable (capital structure) was proxy by long-term asset ratio, financial leverage ratio and debt to asset ratio. The ordinary least square was adopted for the analysis and results revealed all the independent variables have positive impact on return on equity.
Muhammad (2019) examined the impact of capital structure on financial performance of consumer goods industry in Nigeria for 5 years (2012-2016), only 6 six companies were selected to represent the population of the study, return on asset was financial performance proxy while short term debt, long term debt and shareholders' fund were independent variables proxy. Multiple regression analysis was employed and results revealed that only shareholders' fund has significant positive impact on financial performance. Lewis (2016) examined the effects of capital structure on the financial performance of firms listed at Nairobi securities exchange for 5 years (2011-2015), 47 companies listed non-financial firms were selected for the study, return was proxy for dependent variable while debt ratio, quick ratio and fixed assets to total asset were proxy for capital structure. Multiple regression technique was employed for the analysis and results revealed negative

significant relationship between capital structure proxy and financial performance proxy.

Sanusi, Stephen and Vivi (2020) examined the impact of capital structure on financial performance of deposit money banks in Nigeria for a period of 10 years (2009-2018), only 5 banks were selected for the study from the population, long term loan to asset, short term loan to asset and total debt to asset were proxy for capital structure while return on asset was proxy for financial performance, the multiple regression was employed for analysing the extracted data. Findings revealed short term debt to asset and total debt to asset to have significant positive impact on return on asset. Sorana (2015) examined capital structure impact on financial performance in Romanian listed companies for a period of 8 years (2003-2010), cross-sectional regression analysis was carried on the data, total debt, long term debt, total equity and short term debt were indicators of capital structure whereas return on equity and return on asset indicated financial performance. Findings revealed that total equity have significant positive impact on financial performance.

3. Methodology

The study used correlational and ex-post facto research designs. The population is made up of entirely five listed manufacturing companies in Nigeria whose shares are traded in the Nigerian Stock Exchange (NSE). The census sampling techniques were used to arrive at sampled. Data were extracted from the annual reports and accounts of listed manufacturing companies in Nigeria for the period of two (2) years 2017 to 2018. Statistical tools such as descriptive, correlation and regressions were employed to analyse the results of the study.

3.1 Variable and their Measurements

Variables	**Proxies**	**Variables Measurement**	**Source**
Dependent	Financial Performance	Proportion of Profit After tax to total assets..	Abubakar, Sulaiman and Haruna (2018).
	Long-term Debt to Total Asset (LTDA)	Long term debt/total Asset.	Sanusi, Stephen and Vivi (2020)
	Short-term Debt to Total Asset (STDA)	Short term debt/total asset.	Sorana (2015).

Independent	Total debt to Total Asset.(TDTA)	Total debt/Total asset	Muhammad (2019)
	Total Debt to Total Equity.	Total debt/ Total equity	Sorana (2015).
	Firm Size (FSZ)	Natural Logarithm of total assets.	Abubakar, Sulaiman and Haruna (2018).

Source: Author 2023

Model Specification:

The model below is specified for the study

$ROA_{it} = \beta 0_{it} + \beta 1LTDA_{it} + \beta 2STDA_{it} + \beta 3TDTA_{it} + \beta 4TDTE_{it} + \beta 5SIZE_{it} + \varepsilon$

Where: ROA = Return on Asset

LTDA = Long-term Debt to Total Asset

STDA = Short-term Debt to Total Asset

TDTA = Total debt to Total Asset

TDTE = Total Debt to Total Equity

SIZE = Size of the firm

4. Result and Discussion

This section of the study is concerned with empirical result, data will be described and summarised.

Table 2: Descriptive statistics

Data was entered into STATA software for the descriptive statistics and it is presented for analysis as follows:

Table 2: Descriptive Statistics

Variable	Mean	Std. Dev	Min	Max	Skewness	Kurtosis
ROA	.162388	.191761	-.077723	.607413	1.267298	3.984202
LTDA	.201259	.118316	.027958	.399508	.456295	3.087036
STDA	.332747	.220003	.019973	.650036	.077840	1.758310
TDTA	.462372	.201620	.07568	.700758	-.649877	2.44070
TDTE	.371252	.183906	.04564	.650076	-.126280	2.260321

Source: STATA OUTPUT version 13

From the 2 above, the average ROA of the companies of the statistics of the variable is 0**.**162388, the highest is 0.607413 and the lowest is -0.077723 with a standard deviation of 0.191761, the skewness value 1.267298 and the Skewness is 3.984202.

The result suggests a moderate dispersion of the data from the mean. LTDA shows an average of 0.201259, with the highest of 0.399508 and the lowest of 0.027958 with a standard deviation of 0.118316, the skewness is 0.456295 and the Skewness is 3.087036**.** The skewness value suggests a wide dispersion from the mean of the data.

Furthermore, table 2 shows STDA of listed manufacturing companies in Nigeria has a maximum value of 0.650036 and a minimum value of 0.019973 with an average value of 0.332747, the peak of the data is indicated by the kurtosis with a value of 1.758310 suggesting that most of the values are higher than the mean, the coefficient of skewness of 0.077840 implies that the data is positively skewed, thus, the data meet the symmetric distribution. TDTA has a mean value of 0.462372 with standard deviation of 0.201620, and a maximum of 0.700758 and minimum of 0.7568 respectively. This suggests that the dispersion of the data from the mean is not wide because the standard deviation ids close to the mean.

Moreover, table 2 indicate a maximum TDTE value of 0.650076 with minimum of 0.07568 and mean value of 0.371252 respectively. This suggests moderate dispersion of data from the mean. The Skewness of the data as indicated by the kurtosis value of 2.260321 suggesting that most of the values are higher than the mean, the co-efficient skewness of -1.26280 implying that the data is negatively skewed.

Table 3: Correlation Matrix

The Pearson correlation coefficient is present in this section of the study variables, the individual relationships between the explanatory variables and the dependent variable, on the other hand, the relationship between the independent variables themselves is described also.

Table 3: Correlation Matrix

Variable	ROA	LTDA	STDA	TDTA	TDTE	FSZ
ROA	1.0000					
LTDA	-0.2580	1.0000				
STDA	-0.0548	-0.2627	1.0000			
TDTA	-0.0078	0.2603	0.4272	1.0000		
TDTE	0.3288	0.1613	0.2579	0.279	1.0000	
FSZ	0.3473	0.0172	0.2023	0.3391	0.2836	1.0000

Source: STATA OUTPUT, Version 13

Table 3 shows that the relationship between ROA and LTDA is negative with about 26%, this implies that the relationship between ROA and LTDA is not a direct relationship. STDA and ROA have a negative relationship with about 5%, this implies that the relationship between is not a direct relationship. TDTA is found to have a negative correlation of about 0.7% with ROA implying a non-directional relationship between the variables. TDTE recorded a positive relationship with ROA at a magnitude of 32%, this implies that the relationship between TDTE and ROA is direct.

For the association between the explanatory variables themselves, LTDA and STDA recorded a negative value of about 26% implying non-directional relationship between the independent variables. For the relationship between LTDA and TDTA shows a positive value of about 26% implying a direct relationship between the variables. LTDA show a positive relationship of about 16% with TDTE implying that the relationship is direct. The Table 3 also show that the correlation between STDA and TDTA is positive at about 43% implying that the relationship is direct. STDA is found to have a positive correlation with TDTE at about 26%, this implies a moderate direct relationship. Between TDTA and TDTE there is a positive correlation of about 62%, implying a direct relationship between the subsisting variables.

Summary of regression result

The regression result of the parsimonious model is presented in this section of the study. The interpretation, analysis and discussion will follow. The formulated hypothesis earlier will be tested, policy implications of findings to management and investors will end the section.

Table 4.3: Summary of Regression Result

Variable	Coefficient	T-value	P-value
LTDA	-0.064413	-1.21	0.242
STDA	0.120043	2.99	0.009
TDTA	0.270664	3.69	0.002
TDTE	0.303615	7.97	0.000
Adjusted R-sq.	**0.7662**		
Mean VIF	**2.67**		
F-Statistics	**32.72**		
F-Significant	**0.0000**		

Source: STATA OUTPUT, Version 13.

From the Table 5, the co-efficient value for LTDA is -0.064413 with an insignificant p-value of 0.242. This signifies that LTDA has an insignificant negative effect on ROA of listed manufacturing firms in Nigeria. This implies that for every increase in LTDA, the ROA of listed manufacturing firms in Nigeria will decrease insignificantly by the co-efficient value. The result is in-line with Goyal (2013); Lin et al. (2022); Muhammad (2019) and contrary to Dahiru et al. (2016); Sanusi et al. (2020). The result does not support the revised M&M theory which is of the opinion that capital structure affects the performance of the firm however the result is in line with the traditional M&M theory which is of the opinion that the performance of the firm has no relation with capital structure.

The regression result for STDA has a co-efficient value of 0.120043 with a t-value of 2.99 from the table 5, which is significant at 0.009 level of confidence. This signifies that STDA of listed manufacturing firms in Nigeria is positively and significantly affecting ROA of listed manufacturing firms in Nigeria. This implies that for every increase in STDA, ROA of listed manufacturing firms in Nigeria will increase by the co-efficient value. This result is in line with Dahiru et al. (2016); Goyal (2013); Sanusi et al. (2020) and contrary with Lin et al. (2022); Muhammad (2019). The result is in support of the revised M&M theory that posits capital structure of the firm affects the financial performance of the firm.

The Table 5 recorded a co-efficient value of 0.270664 and a t-value of 3.69 which is significant at 0.002 for TDTA of listed manufacturing firms in Nigeria. This shows that TDTA is positive and significantly influencing ROA of listed manufacturing firms in Nigeria, this implies that for every increase in TDTA, ROA of listed manufacturing firms will increase by the co-efficient value. This result is in line with Dahiru et al. (2016); Swain and Das (2017); Dinh and Pham (2020) and contrary with Olayemi and Fakayode (2021).

As shown in Table 5 TDTE has a co-efficient value of 0.303615 and a t-value of 7.97 with a significant p-value of 0.000. This signifies that TDTE has a positive and significant impact on ROA of listed manufacturing firms in Nigeria. This implies that for every increase in TDTE, ROA of listed manufacturing firms in Nigeria will increase by the co-efficient value. The result is in line with Swain and Das (2017) and contrary to Dahiru et al. (2016); Olayemi and Fakayode (2021). The result also supports pecking order theory and validates the revised M&M theory arguing that the more the firm raises capital through debt the high possibility of profit to increase and that financial performance of the firm is affected by the decision taken by management on capital structure because of the effect of tax on profits.

For the overall model of the study, R^2 showed 0.7662 values implying that ROA of listed manufacturing firms in Nigeria is explained by LTDA, STDA, TDTA and TDTE to tune of about 77%. The F-statistics value of 32.72 with significant level of 99% indicates that the model is fit and the variables selected were properly selected.

5. Conclusion and Recommendation

The main aim of conducting this study is to investigate the relation of capital structure on financial performance of listed manufacturing firms in Nigeria; this is because of the mix in findings of several scholars in the area of capital structure of the firm. Hypotheses have been formulated to be tested in order to achieve the stated objectives, the study focused on capital structure and financial performance of the firm for a period of 5years and finally the study is set to be important to a diverse group of individuals ranging from management, investors, academicians and students. Various literatures have been reviewed for empirical evidence. The post-positivism is the paradigm of this study, all the 5 listed manufacturing firms consisted of the population of the study and census sampling technique wasadopted, the multiple regression technique is adopted for the regression of the secondary data.

In conclusion, the regression result of this study concludes that; LTDA has no significant influence on financial performance of listed manufacturing firms in Nigeria. STDA has a significantly positive influence on the financial performance of listed manufacturing firms in Nigeria. TDTA has a significantly positive influence on financial performance of listed manufacturing firms in Nigeria. Finally, TDTE also has a positive and significant influence on the financial performance of listed manufacturing firms in Nigeria.

Therefore, it is recommended that Management of listed manufacturing firms in Nigeria should try to reduce the amount of long-term debt because to the firm because the more capital is raised through long term debt, the more the equity shareholders will also demand increase in their returns and this will have a negative impact on profits.

Management should pay attention on short debts because of its ability to settle them when due and also because of the positive influence they have on profits of the firm. Shareholders are advice to encourage management to increase the amount of short term debts.

The management is advice to implore more efforts as to the ability of assets employed to increase profits. Shareholders should encourage the amount of debt taken by management of listed manufacturing firms up to the optimal level of both long term debt and short term debt because of the positive influence on financial performance.

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