# Forensic Accounting and Financial Statements Fraud in Nigeria

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## ABSTRACT

This study examined the effect of capital structure on the financial performance of deposit money banks in Nigeria (a study of Wema Bank Plc). The study adopted ex-post facto research design. The data to be used is secondary data, which was derived from the audited financial statements of WEMA bank Plc for ten years, spanning from 2013 to 2022. Data collected was analyzed using descriptive and inferential statistics. This study used descriptive statistics of mean, standard deviation, minimum and maximum values to describe the variables used in the study. This was followed by Pearson correlation and Ordinary Least Square regression analysis method. The results revealed that total debt to total asset (TDTA) and long term debt to total asset (LDTA) have negative effect on return on assets with their respective coefficient values of -0.0002138 and -0.0244311. However, the negative effect was only significant for TDTA with the probability value of 0.036 as against the insignificant effect of LDTA with probability value of 0.235. Also, total debt to total equity (TDTE) has a positive insignificant effect on financial performance of deposit money banks with the coefficient and probability values of 0.0235538 and 0.266 respectively. Based on the findings made, it can be established that there is a statistical significant effect of capital structure on firms' performance in Deposit Money Banks (DMBs) in Nigeria. Based on the findings, it was recommended that logically, firms should use more of equity than debt in financing their business activities because in as much as the value of a business can be enhanced using debt capital, it might get to a point that it becomes detrimental to the value of the business. Hence, firms should establish the point at which the weighted average cost of capital is minimal and maintain that gearing ratio so that the company's value will not be eroded, as the firm's capital structure is optimal at this point ceteris paribus. This is because the highly geared firms are more prone to lower firm performance as a result of an additional leverage incurred.

**Keywords:** Forensic Accounting, Financial Statements, Fraud, Nigeria

## 1. INTRODUCTION

In today's business environment, the importance of the banking sector has been greatly recognized because it transfers money from the surplus side of the economy to the deficit side of the economy, places interest on entities' savings, helps in foreign exchange and acts as a middleman between the government and the masses.

In agreement, Sunday and Samson (2019) stated that a stable and solid banking sector is crucial for a successful and developing economy. In essence, the banking sector in any country carries out financial activities which ultimately improves the growth and development of any economy. Due to the significance of the banking sector, its financial performance is usually evaluated to determine its weaknesses and seek out new ways to improve the sector. Investors, customers, the governments, shareholders and other relevant external bodies like the Central Bank and the Stock Exchange Market are some of the entities who are interested in the financial position and performance of banks. To this, Uremadu and Onyekachi (2019) stated that the financial performance of banks refers to their ability to fulfill commitments with the available limited resources. A lot of factors like monetary policy, fiscal policy, capital structure, interest rates deregulation, among others, can influence the financial performance of banks. However, this study delimits these factors to capital structure.

Capital structure describes the integration of a bank's equity and debt used in performing its operations (Ahmed, Ningi & Dalhat, 2018). That is, capital structure is the balance between the debt and equity of a bank which makes up its capital. Equity in this context refers to ownership of shares as well as their contribution to the business, while debt refers to the indebtedness of the bank to third parties which could include customers, government, investors and so on. It becomes a question of what the ratio of debt to equity in a bank is. As higher debt and lower equity means that the bank has a lot of financial obligations to its creditors and if care is not taken, they might become bankrupt. When a certain bank has more equity than debt, it usually means the bank has reduced financial commitments to creditors and investors, but it could also make the managers become complacent as they have less targets to meet. At times, it could become crucial for a bank to seek debt as a means of increasing its performance. In such cases, they would incur debt and later seek for means to repay. Debt in the context of this study can be segregated into short term debt and long term debt (Muhammed & Fateh, 2016). Short term debt is a financial obligation that should be settled within a year, while long term debt is a financial obligation whose settlement might exceed a year.

It is believed that when a bank knows the best measure of debt and equity to use at a particular time, it would greatly improve their financial performance because they would be able to properly meet any financial obligation to creditors and investors which boosts their reputation, and they would have solid financial backing since their equity shareholders would be willing to give finance when needed. However, from the financial performance of some banks in the country, it seems there has not been proper enlightenment on the significance of the capital structure a bank utilizes to the financial performance they wish to attain. It is against this background that this study was undertaken to clarify the misconceptions about the effect of capital structure on the financial performance of deposit money banks (DMBs) in Nigeria (A study of Wema Banks Plc).

## 1.1 Statement of Problem

There have been fluctuations in the performance of banks over time in Nigeria. Some banks have been liquidated or merged with other banks to ensure their survival. Usually, the tell-tale signs of poor performance in banks are seen in the financial performance indicators of banks like return on assets (ROA), return on equity (ROE), return on capital employed (ROCE), earnings per share (EPS), dividends per share (DPS) and return on investment (ROI), among others (Akingunola, Olawale & Olaniyan, 2017).

In the last decade, this inconsistent financial performance could be attributed to the series of economic recession, inflation, change in government policies due to presidential elections and even the global pandemic that crippled the world's economy among others. The inconsistent and appalling financial performance of banks can be traced to their capital structure, which seems to be given little concentration. Unfortunately, deposit money banks have not yet come to the realization that the ratio of debt to equity existent at a particular time influences their performance greatly (Bilafif & Ibrahim, 2019). As a formal institution, banks keep track of their transactions, so it is not easy for them to deny records which have already entered into their system. Moreover, the ever-watchful eyes of the apex bank on their transactions makes it hard for them to deny transactions which have been undertaken. Thus, whatever transaction relating to the level of debt or equity cannot be mixed up, or used to manipulate their performance.

When examining the ideal blend of debt and equity to be used, banks need to seek the advice of competent experts to help them out. However, it seems that the experts' opinion coupled with their own experience has not been enough to give them steady and consistent financial performance, which is further attributed to the unpredictable weather of the economy. Capital structure as a predictor of the financial performance of firms have been carried out both within and outside Nigeria by different authors like Muhammed and Fateh (2016), Nwachukwu, and Akpeghughu (2016), Abdul and Fasirah (2017), Abbadi and Abu-Rub (2017), Eniola, Adewunmi and Akinselure, 2017; Oyedokun, Olatunji and Sanyaolu, 2018; Ahmed, Ningi and Dalhat, 2018; Ajibola, Wisdom and Qudus (2018); Uremadu and Onyekachi, 2019, Sunday and Samson, 2019; Adeniyi, Marsidi and Babatunji, 2020.

However, a critical examination of these studies show that they presented mixed findings which might be attributed to geographical location, variables used, method of data analysis, period covered and even sectors. These mixed findings imply that studies concerning the effect of capital structure on the financial performance of banks are inconclusive which creates a need for this current study to be undertaken. Also, none of the reviewed studies covered Wema Bank Plc. Thus, this study is undertaken to add to existing literature on the effect of capital structure and financial performance of Wema bank plc in Nigeria, as well as fill any vacuum which previous studies have not covered.

## 1.2 Objectives of the Study
The broad objective of this study was to examine the effect of capital structure on the financial performance of deposit money banks in Nigeria (a study of Wema Bank Plc). Specifically, the study is to:
  i.   Evaluated the effect of total debt to total assets on the financial performance of Wema Bank Plc;
  ii.  Assessed the effect of total debt to total equity on the financial performance of Wema Bank Plc;
  iii. Examined the effect of long-term debt to total assets on the financial performance of Wema Bank Plc.

## 1.3 Research Questions

The following questions were raised to guide this study:
  i. What is the effect of total debt to total assets on the financial performance of Wema Bank Plc?
  ii. What is the effect of total debt to total equity on the financial performance of Wema Bank Plc?
  iii. What is the effect of long term debt to total assets on the financial performance of Wema Bank Plc?

## 1,4 Hypotheses of the Study

The hypotheses of this study have been formulated in their null form to guide its direction:

$Ho_1$: There is no significant effect of total debt to total assets on the financial performance of Wema Bank Plc;

$Ho_2$: There is no significant effect of total debt to total equity on the financial performance of Wema Bank Plc;

$Ho_3$: There is no significant effect of long term debt to total assets on the financial performance of Wema Bank Plc.

## 2. EMPIRICAL REVIEW

Cole, Yan and Hemley (2015) examined the relationship between capital structure and firm profitability in the industrial, health and energy sectors in the United State of America (USA) with panel regression. The study covered 2004-2013 and they found an adverse relationship between capital structure and firms' profitability across all three sectors. Ahmad (2015) examined the effects of capital structure on the financial performance of listed companies in the United Kingdom. Panel regression analysis was the preferred method of data analysis. The results indicated that capital structure, represented by total liability to total assets, had a significantly positive impact on the performance of the firm represented by ROE.

Muhammed and Fateh (2016) conducted a study on the impact of capital structure on the profitability of firm's evidence from automobile sector of Pakistan. Data were extracted from the publications of the relevant companies and website of stat bank of Pakistan from 2006-2012. Regression analysis and correlation test was used with the help of statistical package SPSS in order to predict the result. Study revealed that capital structure (Debt/Equity) was negatively associated with the profitability. Nwachukwu, and Akpeghughu (2016) examined the relationship between capital structure and firm's performance within banking industries in Nigeria (2000-2014). Using regression analysis method, the study revealed that there existed a positive and significant relationship between equity capital and return on investment. Also, findings showed that there was a negative and significant relationship between debt capital and return on investment.

Akingunola, Olawale and Olaniyan, (2017) evaluated the link between the decision on capital structure and organization's financial performance in Nigeria between 2011 and 2015. Regression analysis method was the chosen method of data analysis in the study. It was revealed that short- and long-term debt had positive significant effect on ROE and ROA for the period under review. Eniola, Adewunmi and Akinselure (2017) investigated capital structure and profitability of selected quoted banks in Nigeria. The study was based on secondary data obtained from annual report of the selected financial firms found on the internet covering a period of 2004 -2015.

The study adopted an ex-post facto research design, and it considered variables such as capital structure and profitability which were proxy by shareholders equity, loan advanced and bank performance, which was represented by profit after tax. The data obtained were analyzed using descriptive statistics (mean and standard deviation) and inferential statistic (Pearson correlation coefficient). The results of the analysis revealed that there was a significant relationship between capital structure and profitability.

Abbadi and Abu-Rub (2017) established a model for measuring the effect of capital structure on bank efficiency in Palestinian financial institutions measured by ROE, ROA, total deposit to assets, total loans to total assets and loans to deposits used to measure the structure of capital (2001-2015). By using regression analysis method, the study found that leverage had a negative effect on bank profits, an increase in each ROA and total deposit in assets increases the efficiency of the bank. The study also tested the effect of the aforementioned variables on the value of the banking market as measured by the Tobin Q and the findings revealed that leverage had a negative effect on the market value of the bank, a positive and strong relationship between market value and ROA and bank deposits in total deposits.

Abdul and Fasirah (2017) identified the impact of capital structure on firm performance of Malaysia listed industrial product companies (2011 – 2015). Descriptive statistics and multiple regression were used to analysed the data. The study found that industrial product company were heavily rely on equity finance in their capital structure. Besides that, the regression results found debt to equity had a negative impact on ROA, total debt ratio and total equity ratio had insignificant impact on ROA. Debt to equity had a negative impact on ROE, total debt had a positive impact on ROE and total equity had insignificant impact on ROE. Finally, debt to equity had a negative significant impact on EPS, total debt ratio had a positive significant impact on EPS and total debt had insignificant impact on EPS.

Abata, Migiro, Akande and Layton (2017) examined the effect of capital structure on firm performance of listed firms in South Africa between January 2000 and December 2014 via the application of generalized method of moment analysis. The study measured the relationship among Tobin Q, long term debt to total assets, total debt to total assets, total debt to total equity, return on equity and return on asset. The results revealed that total debt to total equity and total debt to total assets were inversely related to both Tobin Q and return on asset, while long term debt to total assets were related positively to return on asset and Tobin Q respectively.

Kirmi, (2018) studied the link between capital Structure and profitability of listed petroleum and energy firms in Kenya with descriptive and regression analysis method in measuring the impact of short and long-term debt on return on asset from 2012 to 2016. The findings from the study established a high positive association between short term debt and return on asset and an average negative association between long term debts and return on asset and a weak positive association between total debt and return on asset.

Ajibola, Wisdom and Qudus (2018) examined the impact of capital structure on financial performance of quoted manufacturing firms in Nigeria over the period 2005-2014. Panel methodology was applied to analyze the impact of capital structure on financial performance of quoted manufacturing firms in Nigeria. The findings of the panel ordinary least square showed that a positive statistically significant

relationship existed between long term debt ratio (LTD), total debt ratio (TD) and return on equity (ROE) while a positive statistically insignificant relationship existed between ROE (return on equity) and STD (Short term debt ratio). There was also a negative insignificant relationship between all the proxies of capital structure (LTD, STD and TD) and ROA which made ROE a better measure of performance.

Ahmed, Ningi and Dalhat (2018) assessed the impact of capital structure on the financial performance of Bank in Nigeria with specific reference to how debt ratio and equity ratio affect return on equity and net interest margin of banks in Nigeria. The population of the study was the entire 21 licensed DMBs in Nigeria. The sample size of 12 banks was determined using convenience sampling technique for the period 2007- 2016. The study utilized panel model to analyse the data based on random effect estimation. The study found a positive relationship with financial performance measured by Net Interest Margin (NIM).

Oyedokun, Olatunji and Sanyaolu (2018) examined the effect of capital structure on the financial performance of firms in Nigerian manufacturing sector. The study used balanced panel data of 100 observations from the 10 listed companies for the periods ranging from 2007 - 2016. Descriptive statistics and regression were used as tools of analysis. The study revealed that there were statistically significant and non- significant effects of capital structure on performance variables.

Aziz and Abbas (2019) ascertained the association of different debt financing on firm's performance in fourteen economic sectors of Pakistan from 2006 to 2014 with the use of regression method. The results of the study indicated that debt financing had a negative but also significant impact on firm performance in Pakistan.

Ahmed and Amina (2019) investigated the impact of capital structure decisions on the performance of the firm. The investigation was performed using a data of 62 listed non-financial Egyptian firms over a period of fourteen years from 2003-2016. The results of the OLS regression model, showed that when using ROA as a measure of performance, a significant negative impact of capital structure (TD, STD, and LTD) existed; while in case of using ROE as a measure of performance, there was a significant negative impact of capital structure only when using STD, otherwise a positive significant impact of capital structure existed.

Bilafif and Ibrahim (2019) examined the effect of capital structure decisions on firm value of listed manufacturing firms in Mombasa County. The study relied on both primary and secondary data where primary data was collected using structured questionnaires while the secondary data was gathered from the financial report of manufacturing firms in Mombasa. Data was analyzed using the Statistical Package for Social Scientists (SPSS) version 23 where descriptive and inferential analysis was conducted to show the relationship between the study variables. Findings showed that unit increase in leverage would lead to a positive increase in firm value. Further a unit increase in equity financing would lead to a positive increase in firm value and a unit increase in liquidity would lead to a positive increase in firm value. Finally, a unit increase in retained earnings would lead to an increase in firm value of listed manufacturing firms.

Uremadu and Onyekachi (2019) studied the effect of capital structure on corporate performance in Nigeria. The study employed return on asset, long term debt to asset ratio, total debt to equity ratio with special focus on consumer goods industrial sector of the economy with multiple regression analysis. The results from the research found a positive but insignificant impact of capital structure on corporate performance of the consumer goods firm sector of Nigeria.

Sunday and Samson (2019) examined the effect of capital structure on the performance of some selected manufacturing firms in Nigeria. A cross sectional time series secondary data covering the period of seven years (2012-2018) was extracted from the audited financial statement of ten (10) banks listed on the floor of stock exchange. The descriptive statistics, Pearson moment correlation and multiple linear regressions were used. The correlation results showed that capital structure was negatively correlated with financial performance (ROA and ROE). Result from panel regression revealed that debt to equity though significant, impacted negatively on return on assets and return on equity, asset tangibility significantly impacted return on asset but insignificantly impacted return on shareholder's equity and, also, age had a significant impact on return on asset and insignificant effect on return on equity.

Adeniyi, Marsidi and Babatunji (2020) examined capital structure and commercial banks performance in Nigeria using profit after tax and earnings per share as a measure of performance and employing panel regression technique to analyze data collected from a sample of fourteen quoted commercial banks between 2009 and 2016. The results showed a significant relationship between debt and profitability of commercial banks in Nigeria. The study concluded that debt can be significantly influenced by liquidity and shareholders' wealth.

## 3. METHODOLOGY

The study adopted expo-facto research design. The study used secondary data, which was derived from the audited financial statements of WEMA bank Plc for ten years, spanning from 2013 to 2022. The study adapted the model used by Sunday and Samson (2019) to examine the effect of capital structure on the financial performance of listed banks in Nigeria where return on asset is made a full function of Debt to equity ratio, age of the bank and Assets tangibility. Mathematically, the model is specified below:

*ROA = f(DETERA, AGE, ASTANG)................................................................. 1*

Where:
ROA is Return on assets of selected quoted banks
DETERA is Debt to equity ratio of selected quoted bank
AGE =Age of the Banks
ASTANG = Assets tangibility
*f* = Functional Relation

This study modifies this model by specifying Return on Assets (ROA) as a function of total debt ratio, debt equity ratio and long term debt to total assets. The modification is necessary in order to achieve the stated objectives of the study. Mathematically, the model is given below:

*ROA = f(TDTA TDTE LDTA)...........................................* 2

Where:
ROA: Return on Assets
TDTA: Total debt to total asset
TDTE: Total debt to total equity
LDTA: Long term to total assets
The equation of the model given in 3.2 is given below:
$ROA_{it} = \beta_0 + \beta_1 TDTA + \beta_2 TDTE + \beta_3 LDTA + U$ .... ........................3

Where:
$\beta_0$=Intercept
$U_{it}$ = error term.

### 3.1 Method of Data Analysis
This study used descriptive statistics of mean, standard deviation, minimum and maximum values to describe the variables used in the study. This was followed by Pearson correlation and Ordinary Least Square regression analysis method.

### 4. RESULTS

### 4.1 Descriptive Statistics
Mean, standard deviation, minimum and maximum were used to describe all the variables covered by this study.

Table 1: Descriptive Statistics

|           | ROA   | TDTA  | TDTE  | LDTA  |
|-----------|-------|-------|-------|-------|
| Mean      | 0.022 | 7.311 | 0.987 | 0.699 |
| Std. Dev. | 0.028 | 53.84 | 5.684 | 3.993 |
| Minimum   | -0.04 | -0.74 | 0.000 | 0.000 |
| Maximum   | 0.227 | 614.7 | 49.46 | 33.33 |
| Obs       | 10    | 10    | 10    | 10    |

Source: Author's Computation (2024).  Where: ROA is Return on Asset, DER is Debt Equity Ratio, TDTA is Total debt to total asset, TDTE is Total debt to total equity, LDTA is Long term to total assets

The results in table 1 were drawn from an analysis from 2013-2022, a period of 10 years. From table 1, the descriptive statistics depicts that the average value for ROA is at 0.022, with a minimum and maximum values of -0.04 and 0.227 respectively and a standard deviation of 0.028 which shows that the risk is higher, as it is relatively closer to its mean figure.

Also, TDTA has an average value of 7.311, with a minimum and maximum values of -0.74 and 614.7 respectively. Its standard deviation which is 53.84 depicts that the risk is high, because the value is relatively closer to its mean value. For TDTE, the mean value stood at 0.987, with a minimum and maximum values of 0.000 and 49.46 respectively. The standard deviation (5.684) shows that its risk is relatively high, because its standard deviation value is close to its mean.

Also, the mean value of LDTA is at 0.699 with a minimum and maximum values of 0.000 and 33.33. The standard deviation (3.993) shows that its risk is higher, as it is relatively close to its mean value. Furthermore, for SDR, its mean value stands at 0.304, with a minimum and maximum values of 0.000 and 16.12 respectively. Its standard deviation (1.739) shows a relatively high risk, as it is closer to its mean.

### 4.2 Correlation Analysis
Table 2: Correlation Matrix

| Var. | ROA | TDTA | TDTE | LDTA |
|------|------|------|------|------|
| ROA | 1 | | | |
| TDTA | -0.05 | 1 | | |
| TDTE | -0.05 | 0.33 | 1 | |
| LDTA | -0.05 | 0.436 | 0.296 | 1 |

Source: Author's Computation (2024). Where: ROA is Return on Asset, DER is Debt Equity Ratio, TDTA is Total debt to total asset, TDTE is Total debt to total equity, LDTA is Long term to total assets

From the result presented in table 2, there is a negative relationship between ROA and the other predictor variables were negative. This indicates that an increase in the predictors results to a decrease in the outcome variable. Thus, the variables moved in different direction for the period covered. Contrarily, TDTA has a positive relationship with all the predictors indicating the variables moved in similar directions across the period covered. For TDTE, its relationship with all the predictor variables were positive. It was shown that the relationship between LDTA and other predictor variables were positive.

### 4.3 Regression Analysis
This section presented the analysis of the effect of capital structure on financial performance of Deposit Money Banks in Nigeria (a study of Wema Bank Plc). In this section, results of analyses done using Ordinary Least Square OLS estimation were presented after which evaluation for consistency and efficiency was done using post estimation test including restricted F-test. Emphasis is being placed on the most consistent and efficient estimator for discussion and inference.

Table 3: OLS Estimation Result - *Series: ROA TDTA, TDTE, LDTA*

| Variable | Coefficient | Std Error | T-Test | Probability |
|----------|-------------|-----------|--------|-------------|
| C | 0.1213462 | 0.000329 | 5.41 | 0.001 |
| TDTA | -0.0002138 | 0.0000019 | 3.34 | 0.235 |
| TDTE | 0.0400245 | 0.0321174 | 0.11 | 0.266 |
| LDTA | -0.0244311 | 0.0005595 | 3.19 | 0.036 |

Source: Author's Computation (2024).
R-square=0.5705, Adjusted R-square=0.3255, F-statistics=22.48, Prob(F-stat) =0.00001
(*) connotes significance at 5% level of significance

Total debt to total asset (TDTA) and long term debt to total asset (LDTA) have a negative effect on return on assets with their respective coefficient values of -0.0002138 and -0.0244311. However, the negative effect was only significant for TDTA with the probability value of 0.036 as against the insignificant effect of LDTA with probability value of 0.235.

Also, total debt to total equity (TDTE) has a positive insignificant effect on financial performance of deposit money banks with the coefficient and probability values of 0.0235538 and 0.266 respectively R-square statistics reported in table 3 showed that about 33% of the systematic variation in return on asset can be jointly explained by TDTA, TDTE and LDTA while the remaining 67% could be accounted for by other variables not covered by this study. The F-statistics of 22.48 along the probability value of 0.00307 revealed that the model is fit.

Table 4: Pesaran Test of Cross-sectional Dependence

| Hull Hypothesis | Chi-square stat | Probability |
|-----------------|-----------------|-------------|
| No cross-sectional dependence | 0.596 | 0.4419 |

*Source: Author's Computation (2024)*

Table 4 revealed that there is no enough evidence to reject that there is no cross-sectional dependence in Wema Bank Plc for this study. Hence, it can be established that there is no cross-sectional dependence for the estimated OLS model.

Table 5: Modified Wald Test for Groupwise Heteroskedasticity

| Hull Hypothesis | Chi-square stat | Probability |
|-----------------|-----------------|-------------|
| Static panel homoscedasticity | 0.82 | 0.3381 |

*Source: Author's Computation (2024)*

Table 5 revealed that there is no enough evidence to reject the assumptions of an equal variance of residual terms in sampled DMBs for this study, reflecting that the variance around the regression line is the same for the values of the predictor.

## 5. DISCUSSION OF FINDINGS

This study examined the effect of capital structure (Total debt to total asset, Total debt to total equity and Long term to total assets) on the financial performance of DMBs in Nigeria (a study of Wema Bank Plc). It was a quantitative study and it covered 10 years, spanning from 2013 to 2022. The most consistent and efficient estimation is given by the OLS estimation in relation to the time specific estimation result. The results reveal that total debt to total asset (TDTA) and long term debt to total asset (LDTA) have a negative effect on return on assets with their respective coefficient values of -0.0002138 and -0.0244311. However, the negative effect was only significant for TDTA with the probability value of 0.036 as against the insignificant effect of LDTA with probability value of 0.235.

This outcome negated the outcome of Akingunola, Olawale and Olaniyan, (2017) that short- and long-term debt had positive significant effect on ROE and ROA. Also, this discovery supports the finding of Abdul and Fasirah (2017) who found that debt to equity had a negative impact on ROA, total debt ratio and total equity ratio had insignificant impact on ROA. Debt to equity had a negative impact on ROE, total debt had a positive impact on ROE and total equity had insignificant impact on ROE. The implications of these results are that with just a 1% increase in TDTA and LDTA, the profitability of banks in terms of return on assets will reduce by 0.0002138 and 0.0244311 respectively. This is a confirmation of the a-priori expectation that a negative relationship exists between debt financing and firms' profitability.

The negative effect might be due to the fact that interest is paid on the debt and this tends to reduce firm performance. Also, debt financing reduces firm performance because of the compounding nature of interest rates on debt. This outcome can be defensible with the tenets of the pecking order theory. Pecking order theory assumes a negative correlation (relationship) between firm value and the debt level in the capital structure. The study supports Abata, Migiro, Akande and Layton (2017) who revealed that total debt to total equity and total debt to total assets were inversely related to both Tobin Q and return on asset, while long term debt to total assets were related positively to return on asset and Tobin Q respectively.

Also, total debt to total equity (TDTE) has a positive insignificant effect on financial performance of deposit money banks with the coefficient and probability values of 0.0235538 and 0.266 respectively, reflecting that a 1% increase in total debt to total asset will cause 0.0235538 increase in return on assets. The insignificantly positive regression coefficient for total debt to total equity implies that an increase in the debt position is associated with an increase in profitability: thus, the higher the equity, the higher the profitability. Again, this suggests that profitable firms depend more on debt as their main financing option. This outcome is contrary to the findings of Ahmed and Amina (2020) that there exist a negative and significant effect of long term debt on firms' performance.

## 6. CONCLUSION

The effect of capital structure on financial performance of Deposit Money Banks has generated several studies across the globe with mixed findings. While some reported a positive effect of capital structure on financial performance, many other studies reported a negative relationship. The mixed findings render the study inconclusive and give the impetus for the current study. Consequently, available studies in this context show that only a few studies captured capital structure with total debt to total asset, total debt to total equity, long term debt to total asset. In reality, the best way to unravel the effect of capital structure on financial performance of firms is to capture capital structure with debt (total debt ratio, long-term debt ratio and short-term ratio) and equity financing. This creates a vacuum in literature and therefore gives the motivation for this current study. Based on the findings made, it can be established that there is a statistical significant effect of capital structure on firms' performance in Deposit Money Banks (DMBs) in Nigeria.

### 6.1 Recommendations
Based on the findings, the following recommendations were made:
i.      Logically, firms should use more of equity than debt in financing their business activities because in as much as the value of a business can be enhanced using debt capital, it might get to a point that it becomes detrimental to the value of the business. Hence, firms should establish the point at which the weighted average cost of capital is minimal and maintain that gearing ratio so that the company's value will not be eroded, as the firm's capital structure is optimal at this point ceteris paribus. This is because the highly geared firms are more prone to lower firm performance as a result of an additional leverage incurred.
ii.     Firms should rely less on short term debt, which formed the major part of their leverage and focus more on developing internal strategies that can help improve the performance level. Capital structure of a company ought to be adequately planned to safeguard the interest of the equity holders, shareholders and financial requirements of the firm.
iii.    The findings show that quoted companies in Nigeria do not use much of long term debt in their respective capital structure choices. This may be due to the general poor participation of both public and private sectors in the bond market. The Nigerian Stock Exchange should therefore strive to remove any rigid policies which could hinder the effective participation of the companies. Economic policies that could help further develop the capital market in such a way that it can absorb increase in demand for funds should be formulated.

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