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Determinants Of Finance Lease Capitalization Accounting Choice: An Empirical Investigation Of Nigeria Listed Firms

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Abstract
This study examined many significant aspects that impacted the decision-making process of capitalising finance leases in accounting. The research investigated the significance of business-size, leverage, firm age, cash flow, effective tax rate, and liquidity ratio as key variables. The research design used for this study was ex-post-facto. This specific research approach used pre-existing information gathered from prior occurrences. The study included a total of 156 publicly traded companies listed on the Nigerian Exchange Group (NGX) as of December 31, 2022. Purposive sample technique adopted for data collection. The study focused on a comprehensive sample of 44 firms listed on the NGX as of December 2022. The findings of the regression analysis indicate that firm age (FIMA) and leverage (LEVERAGE) are the main factors influencing finance leasing capitalization (FLC) within this particular model. There is a positive correlation between the age of enterprises and their level of leverage, and their propensity to use finance lease capitalization. However, it is worth noting that there is no statistically significant linear association between FLC and variables such as cash flow, effective tax rate (ETR), the natural logarithm of firm size (LGSIZE), and liquidity (LIQ). The aforementioned results provided significant insights that might be of great use to individuals responsible for financial decision-making as well as legislators. The study suggested that firms should consider certain factors in order to effectively manage finance lease capitalization (FLC). Specifically, firm age (FIMA) and leverage (LEVERAGE) have been identified as significant determinants of FLC. Therefore, it is recommended that firms focus on increasing firm size strategically, optimising leverage levels, and effectively monitoring tax rates.

Keywords: Cash flow, Effective tax rate, Finance lease capitalization, Leverage, Liquidity ratio

1. Introduction

Accounting for finance leases is a complex issue that requires careful consideration of various factors. In both the global context and Nigeria, companies face a choice between capitalizing or not capitalizing finance leases, a decision that can significantly impact their financial statements and financial ratios (Nobes, 2017). In the global context, the regulatory framework, particularly the adoption of International Financial Reporting Standards (IFRS), plays a significant role in lease accounting choice. IFRS 16, effective from January 1, 2019, has led to changes in the accounting treatment of leases, requiring lessees to capitalize most leases on their balance sheets. The adoption of IFRS 16 has resulted in a global shift toward capitalizing finance leases, making financial statements more transparent and comparable (Izedonmi, & Uwuigbe, 2016).

In Nigeria, the regulatory environment is influenced by the Financial Reporting Council of Nigeria (FRCN) and the adoption of IFRS. The convergence with IFRS has led to increased capitalization of finance leases, aligning Nigerian accounting practices with international standards. Finance lease capitalization accounting choice is also influenced by the needs of financial statement users. Companies that have a significant number of finance leases may choose capitalization to provide a more accurate representation of their financial position. Capitalized leases offer greater transparency, helping investors and creditors assess a company's leverage and risk (FRCN, 2021).

In Nigeria, stakeholders such as investors and creditors have shown a growing preference for transparent financial reporting. Consequently,

companies are more inclined to capitalize finance leases to meet the demands of these users. Management incentives can influence lease accounting choices. Capitalizing finance leases can lead to lower reported earnings in the short term due to higher depreciation and interest expenses. However, it can also result in improved debt-related ratios, which may align with management's objectives. Incentives to manipulate financial statements can lead to variations in accounting choices (Nobes, 2017). Economic conditions also impact finance lease capitalization accounting choices. In times of economic downturns, companies may prefer to capitalize finance leases to enhance their financial position and creditworthiness. Conversely, during economic upswings, the motivation to report higher earnings might lead to a preference for not capitalizing leases. In Nigeria, the state of the economy, including inflation rates and access to financing, can influence accounting choices. Economic stability may lead to a preference for capitalization, while economic volatility may result in lease expenses being recognized as incurred (Izedonmi, & Uwuigbe, 2016).

Prior studies have made significant contributions to our understanding of this issue. These prior studies collectively highlight the multifaceted nature of determinants influencing finance lease capitalization accounting choices. They underscore the significance of factors such as leverage, financial statement users, economic conditions, and management incentives. Furthermore, these studies demonstrate the relevance of lease accounting choices across various countries and regulatory environments. Graham and Tucker's (2006) study focused on lease capitalization choices in the United States before the implementation of new lease accounting standards. They found that companies with higher leverage ratios and those that sought to improve financial ratios were more likely to capitalize leases. Glaum, Schmidt, and Street (2007) conducted research on lease capitalization practices in Europe. They found that factors such as firm size, industry type, and the regulatory environment significantly influenced capitalization choices. Their study highlighted the importance of international accounting standards and industry characteristics in shaping accounting choices.

Holthausen and Watts (2001) explored the role of financial statement users in lease capitalization decisions. They argued that firms with more demanding external users, such as analysts and creditors, were more likely to capitalize leases to provide transparent financial information. Dechow and Skinner (2000) examined the influence of management incentives on lease capitalization decisions. They found evidence of earnings management related to lease accounting choices, indicating that management incentives played a role in determining whether to capitalize or not. Schipper and Vincent's (2003) study explored the implications of lease capitalization for financial statement users. They emphasized the importance of transparency in financial reporting and the potential impact of capitalization on credit risk assessment.

Nevertheless, this study has been done very long time ago which might have invalidated their findings. Also, there have been limited studies on this issues in an emerging nation. Also, there have been inconsistencies in the prior study's findings. This call for further research in order to refute or affirm the findings of previous studies.

Finance lease capitalization accounting choice is influenced by several determinants, including firm-size, leverage, firm age, cash flow, effective tax rate, and liquidity ratio. These factors reflect the intricate interplay of financial, operational, and strategic considerations within companies. The decision to capitalize or not to capitalize finance leases depends on a company's specific circumstances, objectives, and stakeholder preferences (Fidelis, Helen & Suleiman, 2019). Understanding these determinants is crucial for financial analysts, investors, and policymakers. It helps in interpreting financial statements accurately and assessing the financial health of companies.

Additionally, it highlights the importance of accounting standards and regulations in providing transparency and consistency in financial reporting (Michiels, Schepers, Vandekerkhof, Cirillo 2021). Firm-size, typically measured by total assets or market capitalization, can significantly influence finance lease capitalization choices. Larger firms often have more complex lease portfolios and may choose to capitalize leases to present a clearer picture of their financial position. Capitalizing leases can provide transparency for stakeholders and facilitate comparisons with industry peers (Graham & Tucker, 2006). Leverage, represented by the debt-to-equity ratio or other leverage metrics, plays a vital role in lease capitalization decisions. Companies with higher leverage may be inclined to capitalize leases to demonstrate a more conservative financial position. This can enhance their creditworthiness and reduce perceived financial risk (Fidelis, Helen & Suleiman, 2019). The age of a firm can also influence lease capitalization choices. Younger firms may capitalize leases to appear more established and financially stable. Conversely, older, established firms may opt not to capitalize leases to maintain higher reported earnings, especially when they have a long history of successful financial performance (Glaum et al., 2007).

The cash flow position of a company is a critical determinant. Companies with strong cash flows may choose not to capitalize leases to maintain higher reported earnings in the short term. Conversely, companies with weaker cash flows may capitalize leases to reflect their financial obligations more

accurately (Fidelis, Helen & Suleiman, 2019). The effective tax rate can impact lease capitalization choices due to its effect on tax liabilities. Companies with a higher effective tax rate may be motivated to capitalize leases to reduce taxable income and associated tax payments. Conversely, companies with a lower effective tax rate may have fewer incentives to capitalize leases for tax purposes (Dechow & Skinner, 2000). Liquidity ratios, such as the current ratio or quick ratio, reflect a company's ability to meet short-term financial obligations. Companies with strong liquidity may lean towards not capitalizing leases to present higher current ratios. Conversely, those with lower liquidity may capitalize leases to demonstrate their capacity to fulfill lease obligations (Fidelis, Helen & Suleiman, 2019). Finance lease capitalization accounting choice is a pivotal decision for companies, affecting their financial statements, ratios, and overall financial health. Focusing on several key factors that influence this accounting choice of Finance lease capitalization. The study will explore how firm-size, leverage, firm age, cash flow, effective tax rate, and liquidity ratio serve as crucial determinants.

2. Literature Review

This section reviews the concepts, the theories and the empirical studies.

2.1 Lease

Leasing serves as a viable alternate method for funding company equipment. The aforementioned statement describes a contractual agreement whereby the owner of equipment, referred to as the lessor, grants ownership and utilisation of a designated asset to another party, known as the lessee, in exchange for the payment of predetermined rents within a mutually agreed-upon timeframe (Umar, Hannatu, & Almustapha, 2016). The lessee's entitlement to gain ownership of the goods is contingent upon the exercise of an option to buy, often occurring at the conclusion of the lease period. The primary responsibility of the lessor is to provide financial assistance for the lessee's procurement of necessary equipment. The lessee, in turn, is responsible for selecting the specific items and engaging directly with the supplier to assess their performance qualities and appropriateness.
According to Salam (2013) the concept of leasing has been variously described by different writers, while there is a consensus that it pertains to a common underlying concept. According to Kurfi (2003), leasing may be seen as a viable financing option that serves as an alternative to the conventional methods of debt and equity capital for enterprises seeking to acquire capital assets. According to Kraemer and Lang (2012), leasing is conceptualised as a contractual arrangement between two entities, whereby one entity (referred to as the lessor) grants the use rights of an asset to another entity (known as the lessee) for a certain duration, in exchange for a stated monetary compensation. According to the information circular (2010) published by the Nigerian Accounting Standard Board (NASB), leasing is defined as a contractual arrangement between two parties: the lessor, who is the owner of the assets, and the lessee, who is granted the right to use the leased assets in exchange for periodic payments referred to as rent.

2.1.1 Finance Lease

A finance lease, sometimes known as a capital lease, is a kind of leasing arrangement in the field of finance. In the context of a finance lease, the lessee assumes a significant portion of the risks and rewards typically associated with ownership. Finance leases are leasing agreements that are of a long-term nature and cannot be cancelled (Kurfi, 2003). The word "capitalization" is used to indicate that the lessee is required to recognise the leased equipment as a capital asset in the financial statement known as the balance sheet (Baker & Hayes, 2006). This approach amalgamates some advantages associated with lease arrangements and ownership. From an economic perspective, a finance lease has similarities to a loan, however it should be noted that it does not possess the legal characteristics of a traditional loan. The lessee of a capital lease is obligated to make monthly rental payments, which consist of the whole cost of the leased equipment together with the interest accrued during the specified duration, often referred to as the main period. If the lease agreement extends beyond the first term, it may be possible for the lessor to decrease the rent once they have recouped their investment (Burgess, 2002). In Kenya, large enterprises often obtain motor vehicles via financing leases.

2.1.2 Determinants of Finance Lease

So many factors can determine the finance lease of any firm. The under listed are the determinants used by the study.

2.1.2.1 Firm-Size

Firm-size, often measured by total assets or market capitalization, is a critical determinant of finance lease capitalization. Large firms, characterized by extensive operations and complex financial structures, face unique challenges in managing leases. Consequently, they may opt to capitalize leases. Capitalization allows them to present a more accurate and transparent financial picture to stakeholders (Graham & Tucker, 2006). Large firms often have numerous leases, ranging from real estate to equipment leases, which can result in significant lease liabilities. Capitalizing these leases provides a clearer representation of their financial obligations

and allows stakeholders to assess the scale of these obligations accurately. It also facilitates comparisons with industry peers, aiding investors and analysts in their decision-making processes. Additionally, for larger firms, capitalizing leases may enhance their creditworthiness. By recognizing lease liabilities on their balance sheets, they demonstrate a commitment to transparent financial reporting. This can be particularly appealing to creditors and investors, as it reduces perceived financial risk (Holthausen & Watts, 2001).

2.1.2.2 Leverage

Leverage, often assessed using metrics like the debt-to-equity ratio, exerts a substantial influence on lease capitalization decisions. The level of leverage a company carries affects its perception of risk and financial stability. Firms with higher leverage ratios, indicating a significant reliance on debt, may choose to capitalize leases. Capitalizing leases reduces reported debt levels on the balance sheet, as lease liabilities are treated as long-term obligations rather than short-term liabilities. This can create a more conservative financial image, potentially enhancing the firm's creditworthiness and reducing its perceived financial risk (Holthausen & Watts, 2001). On the contrary, firms with lower leverage ratios may feel less compelled to capitalize leases, as their balance sheets already exhibit a lower debt burden. Therefore, leverage plays a crucial role in lease capitalization decisions by influencing how companies choose to present their financial positions and manage perceived financial risk.

2.1.2.3 Firm Age

The age of a firm is another determinant of finance lease capitalization choices. Younger firms, striving to establish themselves in the market and gain trust from stakeholders, may lean toward capitalizing leases. Capitalization can project a more established and financially stable image, which can be particularly advantageous for attracting investors and creditors. In contrast, older, well-established firms with a history of successful financial performance may be less inclined to capitalize leases. These firms may prioritize maintaining higher reported earnings to showcase their consistent profitability and dividend-paying capacity (Glaum et al., 2007).
The choice between capitalizing and not capitalizing leases often reflects the firm's long-term versus short-term perspective. Younger firms may emphasize the long-term benefits of capitalization, while older firms may prioritize immediate earnings and shareholder returns. Therefore, firm age significantly influences lease accounting decisions, particularly in balancing financial stability and short-term performance.

2.1.2.4 Cash Flow

Cash flow is a crucial determinant of finance lease capitalization decisions. It represents the amount of money a company generates and has on hand to meet its financial obligations. Cash flow can significantly impact lease accounting choices.

Strong Cash Flow: Companies with robust cash flows may be less inclined to capitalize leases. Instead, they might prefer to keep lease expenses off the balance sheet to maintain higher reported earnings in the short term. This approach can be particularly beneficial for companies looking to demonstrate strong profitability to investors and shareholders (Subramanyam, 1996).

Weak Cash Flow: Conversely, companies with weaker cash flows may choose to capitalize leases. Capitalization provides a more accurate reflection of financial obligations, which can be crucial for businesses facing liquidity challenges. By recognizing lease liabilities, these companies acknowledge and plan for their lease-related cash outflows, which can be especially important when managing tight budgets.
Therefore, cash flow directly influences finance lease capitalization decisions by shaping a company's ability to manage lease expenses and its preference for short-term profitability versus long-term financial transparency.

2.1.2.5 Effective Tax Rate

The effective tax rate, which reflects the percentage of a company's earnings paid in taxes, is another determinant of lease capitalization choices.

Higher Effective Tax Rate: Companies subject to a higher effective tax rate may have an incentive to capitalize leases. By capitalizing leases, they can reduce their taxable income, ultimately leading to lower tax payments. This approach can be advantageous for minimizing tax liabilities and preserving cash for other business needs (Dechow & Skinner, 2000).

Lower Effective Tax Rate: In contrast, companies with a lower effective tax rate may be less motivated to capitalize leases solely for tax purposes. Instead, they might focus on other factors, such as financial reporting transparency and stakeholder preferences. The effective tax rate influences lease capitalization decisions by affecting the tax implications of capitalization versus expensing. It's an essential factor for companies seeking to optimize their tax positions.

2.1.2.6 Liquidity Ratio

Liquidity ratios, such as the current ratio and quick ratio, measure a company's ability to meet short-term financial obligations.

Strong Liquidity: Firms with strong liquidity positions may choose not to capitalize leases. This decision allows them to maintain higher current ratios, indicating their capacity to meet short-term liabilities. Investors and creditors often view strong liquidity as a positive indicator of financial health (Schipper & Vincent, 2003).

Weak Liquidity: Companies with weaker liquidity may prefer to capitalize leases. Capitalization reflects lease-related obligations and helps stakeholders assess the company's ability to fulfil these obligations, even when liquidity is constrained.
Liquidity ratios influence finance lease capitalization decisions by highlighting the trade-off between short-term liquidity and long-term financial transparency. Companies must consider how their liquidity positions impact their ability to manage lease obligations and meet short-term financial commitments.

2.2 Theoretical Review

Financial contracting theory and pecking order theory were reviewed for this study.

2.2.1 Financial Contracting Theory

According to Stanton and Wallace (2004), the previous emphasis in financial leasing theory has mostly revolved on the differential tax position of the lessee and the lessor, serving as the major justification for engaging in leasing activities. The contention posits that in cases when a company is unable to meet its complete tax obligations, the act of acquiring and depreciating an asset may incur higher costs due to the potential utilisation of a lower amount of capital (Imhoff, Robert & David, 2004). Conversely, the act of leasing an item might result in the lessee asserting a tax allowance claim, with the subsequent tax advantages being indirectly passed on to the lessee via reduced lease payments.
Leasing is often seen as a kind of financial contracting (Standard & Poor's, 2002). The recent literature has placed more attention on the capacities of different financial contracts in determining agency costs (Umar, Hannatu, & Almustapha, 2016). According to the idea of financial contracting, it is suggested that the attributes of a firm, such as its business risks, should influence the costs associated with contractual agreements. This, in turn, may impact the decision to lease an item as opposed to purchasing it. Asset substitution difficulties refer to conflicts that arise due to agency costs. These conflicts imply that borrowed money might potentially be used to fund other projects that may carry higher levels of risk or be distributed as dividends to shareholders (Umar, Hannatu, & Almustapha, 2016). In contrast, leasing effectively resolves these problems by using the substantial operating capital of the lessee firm.

2.2.2 Pecking Order Theory

This sequence has garnered widespread acceptance among several scholars. Baskin (2002) posits that there exists a positive correlation between debt ratios and growth demand, whereas conversely, a negative association is shown between debt ratios and profitability. Nevertheless, the use of a pecking order mechanism has not been employed in the context of leasing. There have been criticisms about the exclusion of domestically produced money and growth from earlier research' models, leading to significant issues in their specifications (Umar, Hannatu & Almustapha, 2016).

The presence of information asymmetries might potentially result in a corporation choosing to adopt a pecking order strategy, as suggested by Myers and Majluf (2006). According to Rao and Drazin (2002), managers may choose to retain a reserved borrowing capacity and shun external stock markets due to the presence of information asymmetries. The pecking order hypothesis posits that the capital structures of particular entities will align with historical patterns, prioritising profitability and expansion above achieving an ideal balance between debt and equity. According to Baskin's (2002) research, which examined a sample of prominent U.S. corporations, it was shown that there exists an inverse relationship between debt ratios and profitability, but a positive relationship was seen between debt ratios and the increase of assets.
The existing body of literature pertaining to leasing has often overlooked the impact of profitability and growth in leasing. Consequently, this oversight has led to inaccuracies in the specifications, hence compromising the reliability of the tests (Umar, Hannatu & Almustapha, 2016). The pecking order hypothesis posits a negative correlation between leasing and profitability, while also suggesting a favourable association between leasing and asset expansion in the long run. One of the aspects that has been widely acknowledged by academics as a determinant in leasing is the tax bracket of the lessee. In the context of leasing, it is feasible to transfer non-utilizable tax shields from corporations who own low or zero marginal tax rates to lessors that are subject to taxation. Consequently, this arrangement leads to reduced lease payments for the lessee. According to Toy et al. (2001), there is a negative relationship between the tax bracket and leasing.

2.3 Empirical Review

The study conducted by Michiels, Schepers, Vandekerkhof, and Cirillo (2021) investigated the perspective of external accountants about the utilisation of leasing as an alternative means of financing in the context of family-owned enterprises. Ultimately, given their role as a highly regarded consultant, accountants are likely to have considerable influence over the financial choices made in privately-owned family enterprises. Through the use of an exploratory qualitative study, the researchers investigated the many aspects that exert effect on the advice provided for a specific financing choice, as well as the accountant's suggestion about the decision to lease or not to lease inside family-owned enterprises.

In their study, Fidelis, Helen, and Suleiman (2020) investigated the causal association between lease financing and the profitability of conglomerates listed in Nigeria. The study focused on the time frame from 2012 to 2017. The research was focused on six corporations that were listed on the Nigerian Stock Exchange as of 2017. The data were compiled from publicly available sources detailing the activities of the firms in question. The data underwent analysis using descriptive and pooled ordinary least square multiple regression statistics. The researchers performed a unit root test with the Augmented Dickey-Fuller methodology. The findings from the panel analysis suggest that the relationship between fixed assets turnover and return on assets (ROA) is negative and statistically insignificant. Similarly, the impact of lease financing (LFN) on ROA is positive but lacks statistical significance. Additionally, the long-term debt ratio is shown to have a negative and negligible effect on ROA. The variable of firm size was included as a control measure in order to address potential issues related to non-linearity and heteroscedasticity. Based on the aforementioned findings, it is recommended that Nigerian conglomerates consider utilising leasing as a form of debt financing. This approach can effectively enhance their capital reserves, enabling them to absorb potential losses, expand their fixed assets, and sustain continuous growth. Consequently, this strategy would contribute to the generation of employment opportunities and income, in the form of tax revenue, profits, dividends, wages, and salaries, thereby fostering national growth and development.

The study conducted by Raimi and Garba (2023) examined the relationship between lease financing and the financial performance of five lease manufacturing businesses listed on the Nigeria Stock Exchange. The research period spanned from December 31, 2006, to December 31, 2021. The research used secondary data obtained from the yearly audited financial statements and reports of five publicly traded conglomerates that operate leasing manufacturing companies (CLCs). The measurement of financial performance is often conducted via the utilisation of return on assets, which serves as an indicator of the profitability and efficiency of an organisation. On the other hand, the assessment of lease financing is often accomplished by using metrics such as the total lease index, fixed assets turnover index, and total assets turnover index. These measures aid in evaluating the effectiveness and utilisation of lease financing within a company. The study employs an ex-post facto research approach and a longitudinal panel that incorporates both time series and cross-sectional data. The data underwent examination utilising descriptive statistics and regression analysis techniques. The analysis revealed a considerable positive correlation between total leasing and financial performance, as well as between fixed assets and financial success. Furthermore, it is worth noting that the total assets turnover has a noteworthy inverse correlation with financial success.

In their study, Kátia, Sónia, and Vânia (2023) examined the level of adherence to the disclosure requirements outlined in the International Financial Reporting Standards (IFRS) 16. Specifically, their analysis focuses on the first year of obligatory implementation of IFRS 16 and aims to identify the variables that influence compliance with these standards. As a methodological approach, we conducted a content analysis on the reports and accounts of a representative sample of firms that are publicly listed on Euronext Lisbon. A multiple linear regression model was constructed, whereby the compliance disclosure index was considered the dependent variable and certain features of firms were regarded as possible explanatory variables. The findings derived from the analysis of descriptive data reveal that, during the first year of implementing IFRS 16, the mean degree of adherence to disclosure obligations is estimated to be roughly 0.66. The results of the multivariate analyses demonstrate a strong positive relationship between the type of auditor and the compliance disclosure index. Consequently, the researchers conclude that businesses whose accounts are audited by one of the Big Four accounting firms display a greater degree of disclosure compared to those examined by other audit firms.

In their study, Dayag, Jennifer, and Olivia (2023) conducted an analysis on the effects of capitalising operating leases on the main financial ratios of 38 service sector businesses listed in the Philippines. The study focused on the period from 2016 to 2021, considering the application of the Philippine Financial Reporting Standard 16 (PFRS 16). The study included the computation of essential financial ratios, which were afterwards analysed in relation to the impact of the implementation of PFRS 16 – Leases. The analysis also considered the influence of business size, firm age, inflation rate, nominal GDP

growth rate, and the unemployment rate as moderating factors. The Mann-Whitney U Test was used to examine the effects of pre- and post-Philippine Financial Reporting Standards (PFRS) adoption on financial ratios. This study used Ordinary Least Squares (OLS) regression analysis to investigate the influence of predictor factors on PFRS 16 and important financial measures. The findings of the research indicate that the adoption of PFRS 16 has a noteworthy adverse impact on return on equity, price-earnings ratio, and price-to-book ratio. Conversely, it has a considerable beneficial effect on the debt-equity ratio and earnings per share. The age of a firm has a positive moderating effect on the relationship between return on equity and the adoption of PFRS 16 ($p = 0.032$). The moderating effect of the nominal GDP growth rate on the main financial ratio and PFRS 16, specifically in relation to the price-earnings ratio, is statistically significant ($p = 0.019$). The implementation of PFRS 16 has a substantial impact on certain important financial parameters. The management need to reassess its company strategy, particularly with regards to leasing agreements, due to its potential implications on their financial reporting.

Shiyanbola, Desi, Oyedele, and Oyewumi (2022) conducted a research to examine the influence of lease finance and liquidity on the return on equity of certain industrial businesses listed in Nigeria. The researcher obtained secondary data from a sample of 66 industrial organisations using an ex post facto study approach. A deliberate selection process was used to identify and compile a roster of ten organisations, spanning a duration of ten years from 2011 to 2020. The data underwent analysis using both descriptive and inferential statistical methods. The study revealed that lease financing and liquidity had a positive effect on return on equity (Adj.R2 = 0.064; F (4. 95) = 18.57; p-value = 0.05). The research found that when company size was included as a controlling variable, it had a significant positive impact on return on equity, along with leasing financing and liquidity. The adjusted R-squared value was 0.121, indicating that these variables explained 12.1% of the variance in return on equity. The F-statistic of 28.29, with 5 and 94 degrees of freedom, was statistically significant at a p-value of less than 0.05. The research findings indicated that the use of leasing and liquidity had a positive influence on the return on equity of a specific group of industrial companies listed in Nigeria.

The objective of Denis's (2022) research is to investigate the level of compliance of Romanian banks with the disclosure criteria outlined in the International Financial Reporting Standard 16 (IFRS 16). The population comprises a total of 23 banks in Romania. The researchers used the content analysis methodology to conduct this study, focusing on the examination of the IFRS 16 disclosures included within the 2020 IFRS financial statements. In order to assess compliance, a dichotomous and unweighted disclosure checklist was devised, comprising of 34 elements that are categorised into six distinct groups. The findings of our research indicate that Romanian banks exhibited an average level of compliance of 62% with the disclosure requirements of IFRS 16 during the first year after its implementation.

In their study, Wei, Maria, and Oktay (2022) investigated the tangible impacts of lease capitalization requirements, which pertain to the norms mandating enterprises to capitalise financing leases on corporate investment. This study demonstrates that the implementation of these regulations results in a reduction in investment, particularly for companies that heavily depend on leasing agreements. The authors proposed and demonstrated that the capitalization of leases has an impact on investment via two distinct mechanisms: a learning channel and a contracting channel. With respect to the first channel, it is said that managers are able to spot instances of excessive investment and operations that need discontinuation or downsizing. This ability stems from the information they gather and analyse in order to adhere to lease capitalization regulations. Consequently, it has been shown that the impact of lease capitalization is more pronounced in situations where learning opportunities are more abundant. In relation to the secondary channel, it is contended that the capitalization of leases has an impact on investment via its influence on contractual agreements.

In their study, Christopher, John, Akaniyene, and Theresa (2022) conducted an investigation of the impact of lease financing on the operational outcomes of publicly traded consumer goods firms in Nigeria. The study included a time frame spanning from 2009 to 2018. The present research aims to evaluate the impact of finance or capital lease, leveraged lease, and the potential moderating influence of business size on lease financing and performance within the consumer goods industry. The study also used a historical research approach to examine the causal link between the variables. Data were collected using the Desk Survey Method, namely from the Annual Reports and Accounts of the firms. The study of data included the use of the Ordinary Least Square (OLS) Multiple Regression Technique, together with the application of descriptive statistics. Pre-tests, such as the Panel Unit Root test and the Johansen/Fisher combined co-integration test, were used to assess the existence of non-stationarity and long-term relationships, respectively. The use of Vector Auto Regressive Lag and Panel Vector Error Correction Model was also applied as a means to tackle the issue of short-run and long-run dynamics. The findings of this study indicated that the implementation of financing leasing arrangements had a statistically significant and favourable impact on the financial performance of consumer goods firms listed in Nigeria. The

performance of listed consumer goods businesses in Nigeria was significantly negatively affected by leveraged lease and company size.

The study conducted by Michiels, Schepers, Vandekerkhof, and Cirillo (2021) examined the advisory role of accountants in relation to financing options available to family businesses. The researchers aimed to identify the factors that influence accountants' decisions when recommending specific financing choices, with a particular emphasis on the potential use of leasing as an alternative form of financing for family businesses. The inclusion of the accountant's viewpoint is of significant importance, as shown by existing literature, which establishes the accountant as a highly valued adviser with considerable influence over the financial decision-making processes inside family companies. The study suggests that the accountant considers the company's financial position, cash flow, risk tolerance, and long-term goals when making financing recommendations. Additionally, the research highlights the importance of analysing the potential impact of different financing options on the company's profitability and growth potential. Overall, the findings of this research emphasise the critical role of accountants in providing informed and strategic financing advice to companies.

There is a disparity in the level of consideration given to investment opportunities between executives or CEOs of family enterprises and other individuals. The research suggests that accountants may find these five factors to be enough justifications for advocating the use of leasing as an alternative financing method for family companies. The existing literature on leasing within family companies is limited. However, this study provides evidence suggesting that the family firms surveyed in this research exhibit a significant reliance on leasing as a financial strategy.

In his study, Thomas (2020) aimed to provide a comprehensive understanding of the underlying factors that contribute to the widespread appeal of leasing among individuals. The rationales have been categorised under three distinct categories. (i) Leasing offers a viable option for those with little wealth and income, or those who prioritise capital and cash flow preservation for other objectives, to finance asset purchases. (ii) Leasing operations serve the purpose of mitigating the potential risks associated with asset ownership by passing the residual rights from the owner to the lessee for the term of the lease. Additionally, leasing arrangements enable lessees to assess the suitability and performance of assets without assuming the full responsibilities and obligations of ownership. (iii) The practise of leasing, which involves the allocation of asset rights between the lessor and the lessee, enables these entities to specialise in distinct roleand effectively address collective action challenges that may be difficult to resolve via contractual means.

The objective of the study conducted by Wong and Joshi (2015) is to provide a comprehensive analysis of the anticipated revisions to lease accounting regulations and to demonstrate their influence on the financial statements and financial ratios of prominent Australian corporations. The research used the constructive capitalisation technique, as outlined by Imhoff et al. (1991), to illustrate the probable influence of the newly implemented regulations on financial ratios and financial statements. The findings indicate that the capitalization of all lease assets and liabilities will result in substantial changes to the financial statements. The findings of this research indicate that the capitalization of leases will have a substantial effect on the financial figures provided in the balance sheet and income statement. As a consequence, there will be notable alterations to the ratios of return and leverage. A comparative analysis of positive and negative income subgroups reveals noteworthy alterations in the financial ratios of each segment.

According to Mary and Charles (2017), the objective of this study was to investigate the impact of information accessibility, financial resources, and tax shield on the utilisation of lease finance within the context of Kariobangi Light Industries. The present study used a descriptive research approach. The study focused on a sample of 300 managers/owners from enterprises located in the Kariobangi Light Industry area. The researcher used a stratified random selection technique to pick a representative sample comprising 30% of the target population. The study's sample included 90 participants. The research used primary data collection methods via the utilisation of self-administered questionnaires. The data was subjected to content analysis, and the findings were then provided in written form. The quantitative data in this study was analysed using descriptive and inferential statistics with the use of the Statistical Package for Social Sciences (SPSS). Descriptive statistics, including measures such as the mean, frequency, standard deviation, and percentages, were used to characterise the sample and identify prominent patterns seen in the data. Additionally, a multivariate regression analysis was used to determine the correlation between the dependent variables and the independent factors. The research further discovered that financial resources have the greatest effect on lease finance among organisations operating in the manufacturing business, with access to information and tax shield following closely after. The research suggests that it would be beneficial for leasing businesses to organise seminars aimed at manufacturers, with the purpose of providing training and education on the advantages of lease financing.

Conceptual Framework

Conceptual framework for this study shows the influence of certain factors on the finance lease capitalisation of listed firms in Nigeria. This framework shows the impact of (firm-size, leverage, firm age, cash flow, effective tax rate, and liquidity ratio) on finance lease capitalisation of listed firms in Nigeria.

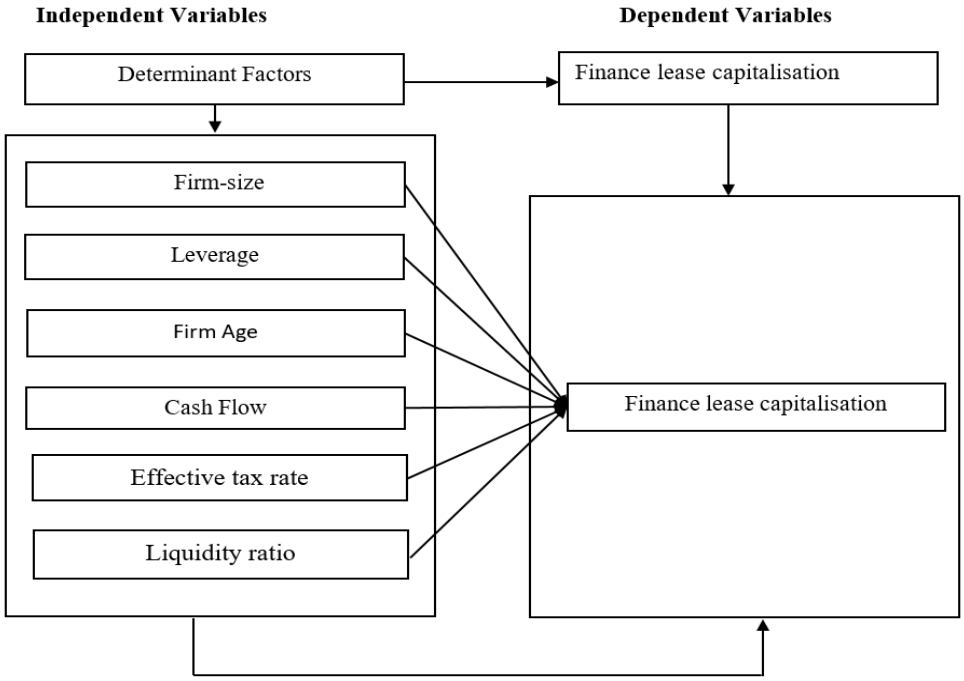

Figure 1: Model Schematic Framework
Source: Researchers' Concept (2023)

2.4 Gap in Literature

Michiels, Schepers, Vandekerkhof, & Cirillo (2021) primarily concentrated on the perspective of external accountants in family businesses. While this provides valuable insights into their influence on financing decisions, it does not directly address the broader determinants of finance lease capitalization within the Nigerian business environment. The study's focus is specific to family businesses and might not capture the nuances of finance lease choices in larger corporate settings. Fidelis, Helen, and Suleiman (2019) analysed the relationship between lease financing and profitability in Nigerian conglomerates. While this study provides insights into the financial performance of conglomerates, it does not specifically delve into the factors influencing finance lease capitalization choices. It examines the impact of lease financing on profitability but doesn't explore the determinants of the decision to capitalize leases or not. Mary and Charles (2017) focused on lease financing in the manufacturing industry, particularly in Kariobangi Light Industries. While they examined the influence of financial resources, access to information, and tax shields on lease financing, their study is sector-specific and may not encompass the broader determinants of finance lease capitalization across different industries in Nigeria. The study also lacks a direct exploration of lease capitalization decision-making factors. The key gap identified in these study is the absence of a comprehensive examination of the determinants of finance lease capitalization in developing nations especially Nigeria, across various types of businesses and industries. None of the studies directly address the factors that influence the choice to capitalize finance leases or not, which is crucial for understanding accounting practices and financial decision-making in the Nigerian context. To bridge this gap, this study explored the specific factors that drive finance lease capitalization decisions in different sectors and types of businesses.

3. Methodology

This study used ex-post-facto research design. This particular study style utilised pre-existing knowledge derived from previous events. The research covers 156 listed enterprises on the Nigerian Exchange Group (NGX) as of December 31, 2022, purposive sampling method is used. The scope of this study is directed to a total of 44 companies that are currently listed on the NGX as at December 2022. The sample consisted of firms that have easily accessible information and have published annual reports for the consecutive years spanning from 2015 to 2022. Data were obtained from the annual reports and accounts of the companies, as well as consulting a limited number of publications. This study shall present an overview of our data by using descriptive and inferential statistics

3.1 Model Specification

Based on the research goals established in the literature review, the emphasis is on the determinant of finance lease capitalization. For this study, the model that was used in previous studies of Michiels et. al. (2021) and Fidelis, et. al. (2019) were modified and adapted;

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \varepsilon \text{ ----------} (1)$$

Where: Y = lease financing in manufacturing companies; β0 = Constant Term; β1, β2, and β3= Beta coefficients; X1= Tax shield; X2= financial resources; X3=access to information; ε = Error term,
The above model is now mathematically expressed below;

$$FLC_{it} = \partial_0 + \partial_1 \text{FIMA}_{it} + \partial_2 ETR_{it} + \partial_3 \text{Size}_{it} + \partial_4 \text{LEV}_{it} + \partial_5 \text{LIQ}_{it} + \partial_6 \text{CASF}_{it} + \mu_{it} \text{ ----------} (2)$$

Where:
FLC = Finance lease capitalisation; FIMA = Firm Age; ETR= Effective tax rate; LIQ= Liquidity; LEV= Leverage; FIMS = Firm size
μ_{it} = Model disturbance term; i = number of sampled cross-sectional firms, t = time of the sampled companies. ∂_1 - ∂_6 = coefficient of the variables,

Table 1: Measurement of Variables

Variable	Measurement	Source
Finance Lease Capitalisation	Measure by a dichotomous variable of 1,0. 0 for foot note disclosure and 1 for capitalization	Michiels, Schepers, Vandekerkhof, & Cirillo (2021); Fidelis, Helen, and Suleiman (2019)
Cash Flow	Measure by the net cash flow of the firms	Umar, Hannatu & Almustapha A. (2016).
Liquidity Ratio	Measured by current ratio of the firms.	Fidelis, Helen, and Suleiman (2019)
Effective Tax Rate	This is a measure of the proportion of profit before tax is paid as tax. It is computed as tax paid divided by profit before tax.	Umar B., Hannatu & Almustapha (2016).
Leverage	Long-term debts/ total equity.	Fidelis, Helen, and Suleiman (2019); Beattie V, Goodacre A & Thomson SJ (2000)
Firm Age	Measured by the number of years the firms have been incorporated.	Umar, Hannatu & Almustapha (2016).
Firm size	This is measured as the natural logarithm of total assets	Fidelis, Helen, and Suleiman (2019); Beattie V, Goodacre A & Thomson SJ (2000)

Researchers' Compilation (2023)

4. Data Analysis and Discussion of Findings

This section presents both the descriptive and inferential analysis on several key factors that influence this accounting choice of Finance lease capitalization. The result from various diagnostic and specification tests as well as results from the test of the various stated objectives and the discussion of the findings was made based on each objective.

4.1 Descriptive Statistics

Descriptive statistics are presented in the Table 2, which shows the mean, standard deviation, minimum and maximum value for both outcome and predator variables. The average finance lease capitalization rate is approximately 35.73%. This suggests that, on average, a significant portion of lease obligations is recognized on the balance sheet as assets and liabilities. The median value is 0%, indicating that there is substantial variation in the extent to which firms capitalize finance leases. Some companies do not capitalize finance leases at all, while others do so more extensively. The kurtosis value (1.354) is slightly higher than 3, suggesting that the distribution of finance lease capitalization rates has slightly heavier tails than a normal distribution. This means there might be some outliers with extremely high or low capitalization rates. The mean firm age is approximately 46 years, indicating that the sample consists of relatively mature firms. The median age of 44 years is close to the mean, suggesting that the distribution of firm ages is relatively symmetrical. This is supported by the standard deviation of 24.56698 indicating that the distribution is not far from the mean value. The average effective tax rate is 26.43%. Firms, on average, pay taxes at this rate on their taxable income. The median ETR is 44%, which is notably higher than the mean, indicating a right-skewed distribution with some firms having much higher tax rates. The positive skewness (1.03) confirms the presence of a few firms with disproportionately high tax rates. The kurtosis (4.23) suggests that the distribution of ETR is somewhat heavy-tailed.
The mean liquidity score is 1.06, implying that, on average, firms maintain a reasonably healthy level of liquidity. The median value of 0.80 is lower than the mean, indicating potential skewness towards lower liquidity. The average leverage is 19.61, indicating that firms, on average, have a moderate level of debt in their capital structure. The median leverage is 6.76, significantly lower than the mean, indicating potential skewness toward lower leverage. The mean firm size, represented by the natural logarithm of firm size, is 7.55. The negative skewness (-0.14)

indicates that a few firms are significantly larger than the majority. It appears that finance lease capitalization rates vary widely among firms, with factors like firm age, effective tax rates, liquidity, leverage, and firm size influencing this variation. Further analysis and modeling are needed to establish the relationships between these variables and finance lease capitalization decisions.

Table 2: Descriptive Statistics

	FLC	CASF	ETR	FIMA	LIQ	LEVERAGE	LGSIZE
Mean	0.357349	46905666	0.264324	45.83573	1.056309	19.60784	7.554345
Median	0.000000	3078679.	0.188090	44.00000	0.802670	6.759804	7.734665
Maximum	1.000000	1.60E+09	12.28496	128.0000	33.04065	88.08564	9.853890
Minimum	0.000000	-33678650	-4.715152	7.000000	0.045586	0.040000	4.598364
Std. Dev.	0.479911	1.58E+08	0.960766	24.56698	1.964837	25.73341	1.129269
Skewness	0.595349	6.009070	7.370828	1.032261	12.98018	1.335392	-0.141342
Kurtosis	1.354441	45.69185	88.34805	4.232160	206.0904	3.213109	2.440259
Jarque-Bera	59.64971	28194.09	108460.7	83.57592	606088.4	103.7893	5.685301
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.058271
Sum	124.0000	1.61E+10	91.72031	15905.00	366.5392	6803.920	2621.358
Sum Sq. Dev.	79.68876	8.52E+18	319.3826	208823.6	1335.762	229124.2	441.2358
Observations	347	344	347	347	347	347	347

Source: Researchers' Computation (2023)

4.2 Determinant Factors of Finance Lease Capitalization Accounting Choices

4.2.1 Correlation Matrix of Dependent and Independent Variables

The correlation matrix in Table 3, shows the relationship between each two pairs of variable in the model. The correlation matrix is a preliminary test to check for possibility of multi-collinearity. However, in this study, further test of multi-collinearity was conducted using the variance inflation factor (VIF) and Tolerance Value (TV).

FLC has a positive correlation of 0.158 with firm age (FIMA) at the 0.01 significance level. This suggests a weak positive relationship between firm age and finance lease capitalization. Older firms tend to have slightly higher finance lease capitalization rates. FLC has a negative correlation of -0.044 with the effective tax rate (ETR), but this correlation is not statistically significant (p-value = 0.410). This implies that there is no strong relationship between the effective tax rate and finance lease capitalization. FLC has a very weak negative correlation of -0.045 with liquidity (LIQ), which is not statistically significant (p-value = 0.405). This suggests that there is little to no relationship between a firm's liquidity and its finance lease capitalization. FLC has a negative correlation of -0.099 with leverage (LEVERAGE) at the 0.05 significance level. This indicates a weak negative relationship between leverage and finance lease capitalization. Firms with higher leverage tend to have slightly lower finance lease capitalization rates. FLC has a negative correlation of -0.122 with the natural logarithm of firm size (LgSize) at the 0.05 significance level. This implies a weak negative relationship between firm size and finance lease capitalization. Smaller firms tend to have slightly higher finance lease capitalization rates.

Overall, the correlation results suggest that while there are some weak relationships between finance lease capitalization and certain determinants such as firm age, leverage, and firm size, these relationships are not very strong. The lack of statistical significance in some correlations (e.g., ETR and liquidity) suggests that factors like a firm's effective tax rate and liquidity may not significantly influence finance lease capitalization decisions. It's important to note that correlation does not imply causation, and other unmeasured variables or industry-specific factors could be at play. Further research and more sophisticated statistical analyses, such as regression analysis, would be needed to understand the exact nature and strength of these relationships and identify any causal factors that may impact finance lease capitalization decisions in firms. Additionally, the small sample size might limit the generalizability of these findings, and caution should be exercised when drawing conclusions from this data.

Table 3: Correlation Matrix

		FLC	CASF	LIQ	ETR	Leverage	FIMA	LgSize
FLC	Pearson Correlation	1						
	Sig. (2-tailed)							
CASF	Pearson Correlation	.249**	1					
	Sig. (2-tailed)	.000						
LIQ	Pearson Correlation	-.045	-.063	1				
	Sig. (2-tailed)	.405	.245					
ETR	Pearson Correlation	-.044	-.034	-.017	1			
	Sig. (2-tailed)	.410	.524	.756				

Leverage	Pearson Correlation	-.099	-.116*	.062	.078	1		
	Sig. (2-tailed)	.065	.032	.250	.146			
FIMA	Pearson Correlation	.158**	-.168**	-.075	.017	.060	1	
	Sig. (2-tailed)	.003	.002	.163	.755	.267		
LgSize	Pearson Correlation	-.122*	.371**	.047	.001	-.101	-.327**	1
	Sig. (2-tailed)	.023	.000	.384	.983	.061	.000	

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).
Source: Researchers' Computation (2023)

4.2.2 Multi-collinearity Test

VIF is a measure used in regression analysis to quantify the degree of multicollinearity between independent variables. A high VIF indicates a high degree of multicollinearity, which can be problematic for regression models as it makes it difficult to attribute the variation in the dependent variable to each individual independent variable accurately. The result of multi-collinearity test is presented in Table 4.

Table 4: Variance Inflation Factor

	VIF	1/VIF
CASF	.847	1.181
LIQ	.982	1.019
ETR	.992	1.008
Leverage	.973	1.028
FIMA	.886	1.128
LgSize	.786	1.272

Source: Researcher's Computation (2023)

The VIF values for all the independent variables are relatively low, suggesting that there is generally low multicollinearity among the determinants of finance lease capitalization. This is a positive finding for regression analysis, as it indicates that each of these variables can contribute to explaining variations in finance lease capitalization without causing undue interference or correlation issues with one another. However, it's essential to keep in mind that while the VIF values indicate low multicollinearity, they do not necessarily establish causation or the strength of the relationships between these variables and finance lease capitalization. Further regression analysis and interpretation of coefficients would be needed to determine the precise impact of these determinants on finance lease capitalization decisions in firms.

4.2.3 Regression Analysis

The study conducted Hausman specification test after fixed and random tests were carried out for the model in Table 5. The essence of Hausman specification test is to choose the more preferred model between the fixed and random effect models. Hausman specification test conducted for the model produced p-value of 0.000, which is significant at 5%. This implies that the variation across entities is assumed to be fixed and correlated with the independent variables included in the model. As a result of this, the result of the fixed effect model was considered suitable for the analysis.

The R-squared value is 0.880135, indicating that approximately 88.01% of the variation in FLC is explained by the independent variables included in the model. This suggests that the model does a good job of explaining the observed variation in finance lease capitalization. The adjusted R-squared, which accounts for the number of independent variables in the model, is 0.860157. It suggests that even after adjusting for the number of variables, the model retains a high explanatory power. The F-statistic is 44.05629, with a p-value of 0.0000, indicating that the overall model is statistically significant. This means that at least one of the independent variables is related to FLC in a statistically significant way. The constant term (C) has a coefficient of approximately -0.912497, and it is statistically significant (p-value = 0.0012). This constant represents the intercept of the regression model when all independent variables are equal to zero.

The coefficient for CASF is approximately -1.05E-10. However, it is not statistically significant (p-value = 0.3454), suggesting that firm age does not have a significant linear relationship with finance lease capitalization. In other words, changes in firm age do not appear to predict changes in FLC. The coefficient for ETR is -0.005892, but it is also not statistically significant (p-value = 0.5815). This implies that variations in the effective tax rate are not associated with significant changes in FLC. The coefficient for FIMA is 0.023405, and it is highly statistically significant (p-value = 0.0000). This positive coefficient suggests that firm size has a significant positive relationship with FLC. As firm size increases, FLC tends to increase as well. This relationship is substantiated by the low p-value, indicating strong statistical evidence. The coefficient for LEVERAGE is 0.003910, and it is statistically significant (p-value = 0.0048). This positive coefficient suggests that

leverage has a significant positive relationship with FLC. As leverage increases, FLC tends to increase as well. The coefficient for LGSIZE is 0.016475, but it is not statistically significant (p-value = 0.5672). This suggests that the natural logarithm of firm size does not have a statistically significant linear relationship with FLC. The coefficient for LIQ is -0.003179, and it is not statistically significant (p-value = 0.5772). This indicates that variations in liquidity are not associated with significant changes in FLC.

Overall, the regression analysis suggests that firm age (FIMA) and leverage (LEVERAGE) are the significant determinants of finance lease capitalization (FLC) in this model. Cash flow (CASF), effective tax rate (ETR), the natural logarithm of firm size (LGSIZE), and liquidity (LIQ) do not show statistically significant linear relationships with FLC.

Table 5: Random Regression Effect Model

Dependent Variable: FLC
Method: Panel Least Squares
Date: 10/04/23 Time: 15:33
Sample: 2015 2022
Periods included: 8
Cross-sections included: 44
Total panel (unbalanced) observations: 344

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CASF	-1.05E-10	1.11E-10	-0.945086	0.3454
ETR	-0.005892	0.010677	-0.551866	0.5815
FIMA	0.023405	0.004375	5.350081	0.0000
LEVERAGE	0.003910	0.001377	2.839525	0.0048
LGSIZE	0.016475	0.028759	0.572840	0.5672
LIQ	-0.003179	0.005697	-0.558075	0.5772
C	-0.912497	0.279985	-3.259098	0.0012
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.880135	Mean dependent var		0.357558
Adjusted R-squared	0.860157	S.D. dependent var		0.479979
S.E. of regression	0.179491	Akaike info criterion		-0.463750
Sum squared resid	9.471778	Schwarz criterion		0.094483
Log likelihood	129.7650	Hannan-Quinn criter.		-0.241413
F-statistic	44.05629	Durbin-Watson stat		0.745730
Prob(F-statistic)	0.000000			

Source: Researchers' Computation (2023)

4.3 Discussion of Results

The coefficients for both cashflow (CASF) and effective tax rate (ETR) are very close to zero and have p-values well above the conventional significance level of 0.05. This suggests that neither firm age nor the effective tax rate has a statistically significant linear relationship with finance lease capitalization (FLC). This finding aligns with the study by Fidelis, Helen, and Suleiman (2020), which also did not find a significant association between lease financing and profitability in Nigerian conglomerates. The coefficient for firm age (FIMA) is positive and highly statistically significant (p-value = 0.0000). This indicates that firm age has a strong positive relationship with FLC. As firms increase in FIMA, they tend to engage in more finance lease capitalization. This finding corroborates the results of previous studies, such as the one by Shiyanbola, Desi, Oyedele, and Oyewumi (2022), which found a positive influence of lease financing on return on equity for industrial firms in Nigeria. The coefficient for leverage (LEVERAGE) is positive and statistically significant (p-value = 0.0048), indicating that there is a significant positive relationship between leverage and FLC. As leverage increases, FLC tends to increase as well. This aligns with the research by Christopher, John, Akaniyene, and Theresa (2022), which found that lease financing had a positive impact on the financial performance of consumer goods firms in Nigeria. The coefficients for the natural logarithm of firm size (LGSIZE) and liquidity (LIQ) are both close to zero and have p-values above 0.05. This implies that these variables do not have statistically significant linear relationships with FLC. Similar findings were reported by Dayag, Jennifer, and Olivia (2023), who found that capitalizing operating leases did not have a significant impact on the financial ratios of service sector businesses in the Philippines.

5. Conclusion and Recommendations

This study focus on several key factors that influence this accounting choice of Finance lease capitalization.

The study explored how firm-size, leverage, firm age, cash flow, effective tax rate, and liquidity ratio serve as crucial determinants. This study used ex-post-facto research design. This particular study style utilised pre-existing knowledge derived from previous events. The research covers 156 listed enterprises on the Nigerian Exchange Group (NGX) as of December 31, 2022, purposive sampling method is used. The scope of this study is directed to a total of 44 companies that are currently listed on the NGX as at December 2022. The regression analysis suggests that firm age (FIMA) and leverage (LEVERAGE) are the primary determinants of finance lease capitalization (FLC) in this model. Ageing firms and those with higher leverage tend to engage more in finance lease capitalization. On the other hand, Cash flow, effective tax rate (ETR), the natural logarithm of firm size (LGSIZE), and liquidity (LIQ) do not exhibit statistically significant linear relationships with FLC. These findings provide valuable insights for financial decision-makers and policymakers. The study by Christopher, John, Akaniyene, and Theresa (2022) found a positive impact of lease financing on the financial performance of consumer goods firms, which is consistent with the positive relationship between leverage and FLC in this analysis.

However, it's crucial to acknowledge that the specific factors influencing FLC may vary across industries, regions, and time periods, as demonstrated by the diverse findings in the empirical reviews. In conclusion, this regression analysis provides valuable insights into the determinants of finance lease capitalization, highlighting the significance of firm size and leverage. The study recommended that given that firm age (FIMA) and leverage (LEVERAGE) have been identified as significant determinants of finance lease capitalization (FLC), it is advisable for firms to pay close attention to Increasing Firm Size Strategically, Optimize Leverage Levels, and Monitored Tax Rate Effectively. These findings contribute to the existing literature on lease financing and offer guidance to firms and policymakers in making informed financial decisions. However, it's essential to consider the broader context and potential industry-specific nuances when interpreting and applying these findings.

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