EFFECT OF DEBT MATURITY STRUCTURE ON EARNINGS MANAGEMENT: EVIDENCE FROM CAPITAL GOODS COMPANIES IN SRI LANKA

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1. Introduction

Earnings management, a phenomenon in which managers manipulate financial statements to achieve particular objectives, has attracted considerable attention in the recent past. The maturity structure determines the debt repayment period and is crucial in managing financial statements. Hence, this study aims to investigate the impact of short-term debt maturity structure on the earnings management of listed capital goods firms in Sri Lanka.

2. Research Methodology

Using a simple random sampling technique, the researchers used a sample of 19 listed capital goods companies in Sri Lanka over ten years from 2013 to 2022. The researchers used the Modified Jones model in measuring earnings management. Short-term and long-term debts are used to measure the debt maturity structure as proxy variables. The Random effect model is selected as the fitted model based on the results of the Hausman test.

3. Findings and Discussion

The researchers of this study found that long-term debt has a negative effect on earning management. However, the study posited that short-term debt has no effect on earning management in listed capital goods firms in Sri Lanka.

4. Conclusion and Implications

Firms with higher long-term debt levels tend to exercise greater financial discipline. The requirement to fulfil debt covenants, interest payments, and repayment commitments is what motivates this discipline. In such a context, management has less incentive to manipulate earnings, as excessive earnings management may jeopardise the firm's ability to meet its debt obligations. Hence, Capital goods firms with high levels of long-term debt may face higher borrowing costs if they engage in aggressive earnings management practices that negatively impact their creditworthiness.

Keywords: Capital Goods Companies, Debt Maturity Structure, Earnings Management, Long-Term Debt, Short-Term Debt.