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A Study on the Impact of the New Leasing Standards on the Financial Risk of Listed Companies—A Case Study of G Company

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Abstract: *The new lease accounting standards exert a profound impact on enterprises highly dependent on operating leases, potentially triggering and intensifying financial risks. Taking Company G as a case, this paper conducts an in-depth investigation into the risk transmission mechanism and corresponding consequences based on its financial data from 2018 to 2021. The study found that the standards mandate on-balance-sheet recognition of lease liabilities and right-of-use assets, restructure the expense composition in the income statement, and reshape the cash flow profile. These changes have exerted substantial pressure on Company G's solvency, operational efficiency, and profitability. Accordingly, this paper suggests optimizing internal controls, strengthening external supervision, and establishing a collaborative internal-external risk prevention system to mitigate risks and promote sustainable development.*

Keywords: *New Leasing Standards; Financial Risk; G Company; Financial Statements*

1. Introduction

Leasing, as an important financing method, plays an increasingly crucial role in the development of the modern economy [1,2]. The Leasing Standards issued by China in 2006 (hereinafter referred to as the old leasing standards) can no longer meet the needs of economic development and the requirements of accounting information quality [3]. Especially for enterprises highly dependent on lease transactions such as aviation, transportation, and large-scale manufacturing, a large number of core assets have been kept off-balance sheet for a long time, which greatly reduces the reliability of financial information and interferes with the objective evaluation of enterprises' profit levels and financial risks by financial statement users [4]. Therefore, to truly reflect the economic substance of lease transactions, the Ministry of Finance issued the *Accounting Standards for Business Enterprises No.21-Leases* in December 2018 to further standardize the accounting treatment of lease transactions. The core difference between the old and new leasing standards lies in the introduction of the "single model" of the right-of-use asset model, which abandons the "dual model" that distinguishes between operating leases and finance leases [5,6]. This reform has a profound impact on enterprise accounting treatment and also brings certain financial risks.

G Pharmaceutical Co., Ltd. (hereinafter referred to as G Company) is a comprehensive listed pharmaceutical enterprise. It has a full industrial chain layout covering pharmaceutical distribution, logistics, retail and industrial investment, thus forming an integrated pharmaceutical operation system. As of the end of 2024, the total construction area of retail stores disclosed officially by G Company was 877,652 square meters, of which the construction area of leased properties accounted for about 95.77%. Its 2024 financial report pointed out that the business premises of the top ten revenue-generating stores in the core business of retail direct sales were all obtained through leasing. The implementation of the new leasing standards exerts a substantial impact on G Company, which is highly reliant on leased stores, affecting both its financial statement presentation and corporate strategic decision-making.

Based on this, this paper takes G Company as a case study, analyzes the changes brought by the new leasing standards using its operational data, and aims to provide suggestions for improving operational performance, controlling financial risks, and promoting the sustainable development of the enterprise.

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2. The Impact of the New Leasing Standards on Financial Statements

2.1. Analysis of the Balance Sheet

The implementation of the new leasing standards has introduced two additional items to the balance sheet: right-of-use assets and lease liabilities [1]. Under the original standards, rental payments were expensed as incurred. By contrast, the new lease standard requires the present value of future lease payments to be recognized as a liability, fundamentally shifting lease accounting from off-balance-sheet to on-balance-sheet treatment [7].

As shown in Table 1, taking G Company as an example, following its adoption of the new leasing standards in 2019, total assets increased to 3.35 trillion yuan and total liabilities rose to 1.82 trillion yuan. Specifically, newly recognized right-of-use assets amounted to 195.55 billion yuan, accounting for 42.6% of total asset adjustments; lease liabilities increased by 118.24 billion yuan, representing 37.7% of total liability adjustments. It can be seen that the structural changes in non-current assets and non-current liabilities are mainly attributable to the recognition of these two newly added items, and the enterprise's capital structure has also been significantly adjusted.

Overall, by incorporating lease transactions into on-balance-sheet accounting, the new leasing standards improve the authenticity and completeness of the balance sheet in reflecting an enterprise's financial position, thereby enhancing the decision usefulness of financial reports for users' economic decisions.

Table 1: Balance Sheet Adjustments for G Company (Unit: Million Yuan).

Item	31 December 2019	Adjustment Amount	31 December 2018	Change Rate
I. Total Assets	3352060.91	459030.86	2893030.05	15.87%
Current Assets	2665245.50	215683.86	2449561.63	8.80%
Non-Current Assets	686815.42	243347.00	443468.42	54.87%
Right-of-Use Assets	195546.11	195546.11	-	100%
II. Total Liabilities	1816077.13	313624.73	1502452.40	20.87%
Current Liabilities	1673045.29	197251.93	1475793.36	13.37%
Non-Current Liabilities	143031.84	116372.79	26659.05	436.52%
Lease Liabilities	118240.71	118240.71	-	100%
III. Total Shareholders' Equity	1535983.78	145406.13	1390577.65	10.46%

Data Source: Manually compiled and calculated from G Company's annual reports.

2.2. Analysis of the Income Statement

The new leasing standards exert a substantial impact on the income statement. Under the previous standards, operating lease expenses were recognized on a straight-line basis, whereas the new standards separate lease expenses into the depreciation of right-of-use assets and interest expenses on lease liabilities. This restructuring refines the expense composition and improves disclosure quality. However, front-loaded interest expenses result in lower profits in the early stage of the lease term, thus creating a pattern of lower profits initially and higher profits later [8]. As a result, the new standards increase profit volatility, while profit pressure gradually diminishes over the lease term.

Taking G Company as an example, its net profit in 2019 increased by 10.07% year on year, even though financial expenses surged by 133% (see Table 2). This rise in financial expenses mainly results from the periodic accrual of interest on lease liabilities under the new standard. However, because this accrual involves no actual current cash outflows, it does not impair the company's real profitability. Meanwhile, the company capitalized on policies such as the "4+7" volume-based procurement and GPO in its distribution business. Through service transformation and upgrading, it expanded its market share against the backdrop of drug price reductions. As a result, core business earnings offset the increase in financial expenses, demonstrating strong endogenous growth and stable operation.

Table 2: Changes in the Income Statement for G Company, 2018-2019 (Unit: Million Yuan).

Statement Item	2018	Amount of Change	2019	Change Rate
Operating Revenue	4,312,238.55	892,337.86	5,204,576.41	20.69%
Operating Cost	3,802,410.86	826,830.02	4,629,240.88	21.74%
Selling Expenses	276,278.99	29,261.38	305,540.37	10.59%
Financial Expenses	5,149.00	6,848.30	11,997.30	133.00%
Administrative Expenses	78,333.83	5,867.67	84,201.50	7.49%
Operating Profit	167,097.89	16,456.86	183,554.75	9.85%
Total Profit	167,892.94	17,772.87	185,665.81	10.59%
Net Profit	134,843.11	13,578.76	148,421.87	10.07%

Data Source: Manually compiled and calculated from the company's annual reports.

2.3. Analysis of the Cash Flow Statement

Under the previous leasing standards, rental payments from operating leases were classified as cash outflows from operating activities [8]. In 2019, G Company's cash flow structure underwent material changes. Net cash flows from operating activities and investing activities rose by 51.24% and 8.09% year on year respectively, while net cash flows from financing activities fell by 133.9%, with detailed data shown in Table 3.

These variations are attributable to two primary factors. First, the growth in current sales performance has enhanced operating cash flow. Second, following the implementation of the new leasing standards, rental payments previously classified under operating activities have been reclassified to cash paid for other financing-related activities, directly resulting in negative growth in financing cash flow.

The increase in financing cash outflows has affected G Company's cash flow management, yet actual payment pressure remains unchanged as only the accounting classification has been adjusted. Since lease liabilities are measured at amortized cost, interest payments decrease annually, while stable principal repayments imply sustained pressure from financing cash outflows. Accordingly, financial statement users should focus on lease payment disclosures in the notes to accurately evaluate the company's actual obligations and their impacts on cash flows.

Table 3: Changes in the Cash Flow Statement for G Company, 2018-2019 (Unit: Million Yuan).

Item	2018	Amount of Change	2019	Change Rate
Net Cash Flow from Operating Activities	132,260.64	67,774.57	200,035.21	51.24%
Net Cash Flow from Investing Activities	-22,245.83	-1,798.87	-24,044.70	8.09%
Net Cash Flow from Financing Activities	285,878.11	-382,795.07	-96,916.96	-133.90%

Data Source: Manually compiled and calculated from the company's annual reports.

3. The Impact of the New Leasing Standards on G Company's Financial Indicators

3.1. The Impact on Solvency

The current ratio and quick ratio are key indicators for measuring an enterprise's short-term solvency [9]. As shown in Table 4, following the implementation of the new leasing standards, G Company's current ratio decreased from 1.66 to 1.42 and its quick ratio from 1.32 to 1.06. With regard to long-term solvency, all indicators of G Company also exhibited an overall deteriorating trend. After adopting the new standards in 2019, its asset-liability ratio rose from 51.93% under the old standards to 54.18% and continued to increase annually thereafter, reaching 57.88% by the end of 2021. The equity ratio increased from 1.08 to 1.37, the equity multiplier from 2.08 to 2.37, and the interest coverage ratio declined from 12.97 to 7.86, displaying a continuous downward trend overall.

The changes in G Company's solvency indicators stem from the combined effects of the new leasing standard and industry-specific operational characteristics. The adoption of the new standard requires future lease payments to be recognized as lease liabilities, resulting in a one-time rise in total liabilities and a corresponding decline in the current and quick ratios. Meanwhile, as right-of-use assets are depreciated, their growth lags behind that of cumulative lease liabilities, exerting upward pressure on long-term solvency measures such as the asset-liability ratio. These effects are amplified by features of the pharmaceutical distribution industry. G Company's business expansion requires continuous

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investment in its store and warehousing network, leading to sustained growth in lease liabilities. Furthermore, downward pressure on drug prices, exacerbated by the COVID-19 pandemic and centralized procurement policies, has compressed profit margins and constrained the growth of owners' equity. The weakened support from equity capital has further accelerated the upward trend in the asset-liability ratio.

Overall, the deterioration of G Company's solvency indicators is not only an inevitable outcome of the explicit financial data under the new leasing standards, but also reflects the reality that financial leverage of pharmaceutical distribution enterprises continues to rise under the dual pressure of policies and the market.

Table 4: Changes in Solvency Ratios for G Company,2018-2021.

Financial Indicators	**Short-term Solvency**		**Long-term Solvency**			
	Current Ratio	**Quick Ratio**	**Debt-to-Asset Ratio**	**Equity Ratio**	**Equity Multiplier**	**Interest Coverage Ratio**
2018-12-31	1.66	1.32	51.93%	1.08	2.08	12.97
2019-01-01	1.60	1.28	54.44%	1.19	2.19	-
2019-12-31	1.59	1.27	54.18%	1.18	2.18	7.83
2020-12-31	1.44	1.11	57.35%	1.34	2.34	9.36
2021-12-31	1.42	1.06	57.88%	1.37	2.37	7.86

Data Source: Manually compiled and calculated from the company's annual reports.

3.2. The Impact on Operational Capacity

Total asset turnover is a core indicator reflecting an enterprise's operational efficiency in generating revenue through asset utilization. By recognizing right-of-use assets, the new leasing standards increased total assets in the short term, reducing G Company's total asset turnover from 1.68 to 1.63 in 2019. The ratio remained stable in the subsequent two years and rebounded to 1.66 in 2021. This indicates that the standards only exerted a short-term negative impact at the initial stage of implementation. With business expansion and asset structure optimization, such effects were gradually absorbed. The overall stability of the indicator demonstrates the controllable impact on operational efficiency as well as the company's strong operational resilience and asset adaptability.

In contrast, changes in accounts receivable turnover bear no direct relation to the new leasing standards and are mainly driven by operational factors such as the enterprise's credit policy [10]. As shown in Table 5, G Company's accounts receivable turnover declined consecutively from 5.22 to 4.59 during 2019-2021. The primary cause is that, amid business expansion, accounts receivable grew faster than operating revenue, resulting in deteriorating turnover efficiency. Fundamentally, this trend reflects a widespread industry challenge in pharmaceutical distribution under centralized drug procurement policies: extended payment periods from hospital clients and increased capital occupation.

Table 5: Changes in Operational Efficiency Ratios for G Company, 2018-2021.

Date	**Total Asset Turnover (times)**	**Accounts Receivable Turnover (times)**
2018-12-31	1.68	5.10
2019-01-01	-	-
2019-12-31	1.63	5.22
2020-12-31	1.63	4.87
2021-12-31	1.66	4.59

Data Source: Manually compiled and calculated from the company's annual reports.

3.3. The Impact on Profitability

This paper selects three core financial indicators, namely return on equity, return on total assets, and cost-expense profit ratio, to analyze the impact of the new leasing standards on G Company's profitability. As shown in Figure 1, from 2018 to 2021, all three profitability indicators of G Company exhibited a downward trend to varying degrees, directly reflecting the short-term impact of the new leasing standards on its profitability.

Return on Equity (ROE) declined from 11.56% in 2018 to 9.29% in 2021, representing a cumulative decrease of 2.27 percentage points. This is mainly attributable to the recognition of lease liabilities under the new standards, which raises interest expenses and follows a front-loaded amortization pattern,

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exerting stronger erosion on net profit in the early stage, coupled with downward pressure on pharmaceutical prices at the industry level. A mild rebound in 2020, likely driven by the distribution of epidemic-related supplies, failed to reverse the overall downward trend.

Return on Assets (ROA) fell from 5.26% to 3.27%, down by 1.99 percentage points. The new standards require the recognition of off-balance-sheet operating leases as right-of-use assets, which significantly expands total assets, while constrained growth in net profit dilutes asset returns.

The Cost-Expense Profit Ratio dropped from 3.92% to 2.97%, as the reclassification of lease expenses and front-loaded interest increased financial expenses without a corresponding increase in total profit.

In summary, the new leasing standards affect G Company's profitability by expanding assets to dilute returns and eroding net profit through early-stage interest expenses. Although the phased rebound of indicators in 2020 reflects the enterprise's certain resilience to pressure, its profitability remains under considerable challenges amid the industry backdrop of normalized centralized drug procurement and continuous price declines. Going forward, it is necessary to gradually mitigate the negative effects brought by the new standards by optimizing asset structure and improving operational efficiency.

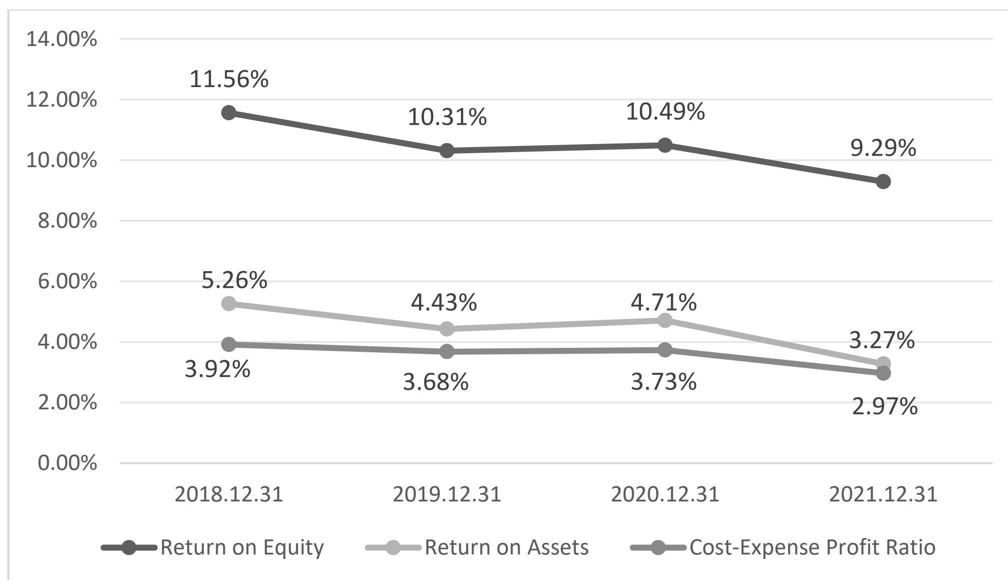

Figure 1: Changes in Profitability Ratios for G Company, 2018-2021.

4. Recommendations for G Company's Application of the New Leasing Standards

4.1. Optimize the COSO-Based Internal Control System under the New Leasing Standards

This paper suggests that G Company take the COSO internal control framework as the cornerstone and integrate technologies such as AI image recognition, natural language processing, and AI audit robots to efficiently adapt to the new leasing standards. In the control environment, it should establish a digital governance structure and monitor store and equipment lease assets in real time via AI terminals. For risk assessment, a risk early warning system based on random forests and other models shall be established to identify lease contracts and idle asset risks accurately. In control activities, AI can automatically verify rent adjustments, align depreciation with lease terms, and realize process automation. For information and communication, an integrated business-finance-fund platform should be built to standardize information disclosure. In supervision activities, AI audit robots can be applied to conduct special audits, ensuring precise compliance with the new leasing standards and effective financial risk prevention.

4.2. Build a Digital-Intelligent Regulatory Audit System for External Constraints

G Company should keep pace with regulatory developments, integrate into external regulatory and audit systems through technological means, and strengthen external constraints under the new leasing standards. For regulatory alignment, it must integrate with financial data centers, standardize leasing-related accounting submissions, and use intelligent tools to monitor high-risk areas such as discount rate

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selection and lease term definition, with early warnings to detect potential risks. In audit collaboration, it should encourage customized audit modules for compliance verification, establish auditor credit archives and firm rotation systems, and strengthen oversight via internal-external audit linkage. Furthermore, using industry big data platforms, the company can draw experience from advanced industry practices, predict external risks including long-term store lease commitments and equipment idleness, and formulate proactive strategies to facilitate smooth adaptation to the new leasing standards.

4.3. Construct an Internal-External Collaborative Comprehensive Prevention and Control System

Guided by digital technology and combined with its store and equipment leasing characteristics, G Company can eliminate information silos between internal control and external supervision, establishing a full-chain risk prevention and control system. Through a dedicated data-sharing interface, the firm integrates internal leasing control and early warning data with external regulatory and audit data to enable real-time two-way interaction, automatically synchronizing leasing filings and accounting information to ensure consistency between internal management requirements and external compliance standards. Meanwhile, intelligent tools embed regulatory and audit priorities into internal leasing processes, forming a collaborative mechanism for internal investigation and external review. A joint accountability system is also established to link external penalties and rectification with internal performance appraisal, driving continuous optimization of internal control and supporting the compliant operation of the company’s leasing business.

5. Conclusion

This paper focuses on Company G to analyze how the new lease standards affect its financial statements and financial risks. Results show that the standards fundamentally restructure the balance sheet by recognizing right-of-use assets and lease liabilities, which significantly increases the company’s debt-to-asset ratio and financial leverage. Changes in expense recognition amplify profit volatility and suppress net profit, especially at the early stage of leases. In terms of cash flows, the reclassification of lease payments boosts operating cash flow but increases pressure on financing activities. Although the new rules improve financial transparency, they also reduce solvency, profitability and operational efficiency to varying degrees. To mitigate these risks, the paper proposes that G Company adopt digital and intelligent tools to optimize internal control, strengthen external supervision, and establish a coordinated internal-external governance framework, thereby effectively managing financial risks and supporting sustainable development under the new lease regime.

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