

## Impacts and Resolutions of the International New Leasing Accounting Standards on Chinese Retailing Business

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**Abstract:** In 2016 the International Accounting Standard Board formulated the new accounting standards for leasing, which had a significant impact on China's retailing business. This paper points out the impact of the new accounting standards on China's retailing business based on the understanding of the content of the international new leasing accounting standards, and then proposes three resolutions which can improve profitability in the period of steady and rapid economic development.

### 1. Introduction

The leasing can be divided into two types in the traditional international leasing accounting standards framework. China has also fully applied the international standards to complete the management work in the current leasing system. In 2016, the International Accounting Standard Board carried out the optimization of the accounting standards through analyzing the existing problems in the current accounting leasing standards, and finally established the new accounting standards.

### 2. Updating contents of the international new leasing accounting standards

In traditional accounting standards framework, leasing can be divided into two types: operating and financial leasing. The key is based on whether the lessor transfers the risk and remuneration of the ownership of relevant items to the lessee, and China also has completed the leasing management business according to this standard. In this way, the financial leasing assets and liabilities of the lessee need to be written into the balance sheet, while the relevant information of the operating leasing need not be written; only the relevant information needs to be written in the note of balance sheet.

In the new international leasing accounting standard, when the lessee leases items in the long term, the lessee has the ownership of this item. This leads to some large enterprises follow this method, while the returns and risk of this kind of goods can not be written into the financial statements, failing to meet the disclosure requirements of leasing business. From this perspective, the international accounting standards board has formulated new accounting standards for leasing, which eliminate the difference between operating and financial leasing. Except for short-term liabilities and low-value leasing assets, all other contents should be written into the financial statements.

### 3. The impact of the international new leasing accounting standards on Chinese retailing business

#### 3.1 The impact of the balance sheet

All leasing projects are required to be disclosed in financial statements, causing the rise of proportion of liability. This paper analyzes the changes of assets and liabilities with one specific enterprise as a case study.

The main irrevocable leasing project for this enterprise is the store. The contract period of 15 years, the first year repayment is A, the second year repayment is B and the third and coming year repayment is C. The total repayment should be  $A + B + 13C$  without considering the time value of money. However, in reality the total repayment should be total present value of the annual repayment.

Take the Yonghui supermarket 2014 financial statement as an example, with the implementation of new standard, the content of leasing is required to be disclosed into financial statements. It would cause the rise of profit by 108%, while that of liability by 187%. Asset-liability ratio was 58% before the disclosure, while that after the adjustment it reached 80%, which means the financial leverage increase sharply. Additionally, debt security coefficient have fallen sharply from the previous 72% to 25%. In other words, the new leasing accounting standard has great negative effects to retailing business.

### **3.2 The impact of the income statement**

Under the new accounting standards, the property acquired by the original operating leasing of retailing business will no longer be included in the income statement, items such as leasing depreciation will be used instead. On the whole, this inclusion method will inevitably reduce the total amount of property in the income statement.

The case mentioned above in this paper is the research object. The total amount of depreciation in operation is set as D, and the total project cost of increase and decrease is E. On this basis, the impacts will be spread throughout the years all these projects in the operation of the system. Through the comparison of several years, it can be found that the running cost is high and keeps decreasing. In other words, with the new accounting standards application, the early stage of the enterprise profit fell sharply, later profits to rebound, but difficult to meet the previous profit before application. Taking Yonghui supermarket as the specific research object, it is found that before the application of new accounting standards, the profit gained in 2015 was 600 million RMB. With the application of new accounting standards, that is -11 million RMB. It can be seen that the impact of the new accounting standards on the income statement is extremely obvious.

### **3.3 The impact of the cash flow statement**

In the traditional accounting leasing standard, the recording item of such content in the commodity capital of the retail enterprise operating leasing is the fund of operating activities. In the new accounting standard, this kind of content is defined as the debt repayment item. Through the research and analysis of the financial statement of an enterprise, it is found that the cash flow of the enterprise increases significantly. It is significant to note that with the application of new accounting standards, enterprise's total debt also raised sharply, to calculate the cash flow of the debt ratio, the analysis of the actual operation of enterprises, in the choice of the enterprise. This paper found that figure drops, from the point of view of the overall analysis, the enterprise debt repayment ability, can be found under the new accounting standards system, has had a huge impact on the cash flow statement.

### **3.4 Other influences**

For retailing business, if no measures are taken, the application of the new accounting standards will cause a severe impact on the financial system. From the financial statements, it can be found that the profit of the enterprise is greatly reduced and the financial leverage ratio is increased. In view of this situation, it is difficult for enterprises to raise further financing capability, and the development speed of the enterprise would fall down. Therefore, the method adopted by many enterprises is to improve the financial leasing. By this means, the operation quality of the whole system can be greatly improved, and the underlying assets can bring certain investment opportunities to retailing business, so that enterprises can obtain higher income.

In addition, under the new accounting standards, new requirements are put forward for the working mode, working method and working process of accountants, which require accountants to revise the current working mode according to the new working system, which can improve the operation quality of the whole system to a certain extent and drive the further development of enterprises.

#### **4. Methods for Chinese retailing business to deal with the international new leasing accounting standards**

##### **4.1 Adjust the proportion of leasing**

It could be found through the analysis above with the application of new leasing accounting standards, both the operating and financial leasing lead to poor performance of the financial statements of enterprise, the negative effects on the enterprise. Hence, in the future operation and development, the most fundamental and most significant ideas to reduce the proportion of operating leasing, businesses need to modify the terms of the contract according to this thought, the work to implement by two means.

One is to reduce the proportion of medium - and long-term operating leasing projects in the leasing contract. In this way, the impact of this project on the entire financial statement can be effectively diminished [2]. The other way is to reduce operating leasing in the proportion of total assets. Specifically, for stores, large equipment, etc., they can be leased through financial leasing. In this way, it can reduce the negative impacts in early stage to the enterprise and also reduce the renewal and uncertain impact on retailing business, causing the enterprise to be safe and stable in operation to obtain higher economic benefits.

##### **4.2 Strengthening accountants training**

The impacts of implementation of international leasing standards to existing accounting system could not be ignored, especially for accounting, contract review and approval of projects. It brings the high requirement for accountants: more deep understanding of the content, let it play the application of accounting audit and investigation work, prevent new international leasing accounting standards of the negative impact of the enterprise.

In accountants training, the priority they need understand is the relevant contents of the new accounting standards. Then, accountants can participate the reconstruction and review of financial statements and attend key capital decision making procedure. In this way, accountants can take advantage of their professional skills and knowledge into the financial management of enterprises to improve the efficiency of enterprise operation.

##### **4.3 Maintain cash flow**

Cash flow is one of the significant indexes to evaluate company's credibility. Lack of enough cash flow will lead to the reducing credit rating, inevitably brings to the ill impacts for company's market position. Specifically, for retailing business, the credit rating plays a significant rule for future development of the enterprise in present and the future development. Accordingly, it is highly recommended that companies keep enough cash flow for further development. In addition, under the new accounting standards, the demand of purchasing generated in the operation of retailing business will increase. Without enough cash flow in hand, it is extremely hard for companies to meet the demand of purchasing products and equipment in the subsequent operation. This could slow down the development of the enterprise. Therefore, in order to better cope with the adverse impacts of the new accounting standards on enterprises, it is necessary and suggested that enterprises maintain or even increase the cash flow to achieve better development.

#### **Conclusion**

To sum up, under the new international leasing accounting standard system, the financial volatility of retailing business increase. According to the financial statements of enterprises, the

profits and credit rate of the enterprises would decrease, and the overall debt level of the enterprises increases as well. Such information is obviously not conducive to the development of the enterprises. To eliminate such negative impacts, methods can be applied, including adjusting leasing ratio, strengthening personnel training and maintaining cash flow.

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