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Impact of Lease Capitalization on Financial Ratios of Listed German Companies

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Abstract

The separation of leases into operating and finance leases for accounting purposes can result in incentives to favor operating lease contracts, since they avoid on-balance-sheet debt. the IASB and FASB are conducting a long-term joint project on leasing, following the G4+1 group's research on possible improvements to lease accounting. one alternative is to treat all leases in a manner similar to today's finance leasing. Our simulation results for Germany show notable changes in a variety of financial ratios, especially for assets and liability relations, which may trigger management with incentives to dampen these effects. Of note for standard setters, the effects of operating lease capitalization should not be overstated. Only minor effects can be observed for profitability ratios and market multiples often used for valuation purposes. Moreover, most industries remain almost unaffected and the relative ratio-based ranking of all sample companies does not change

much. Additionally, we observe that the common Creditstats® model yields somewhat comparable results.

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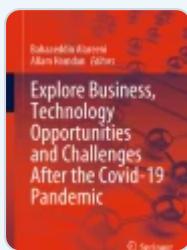
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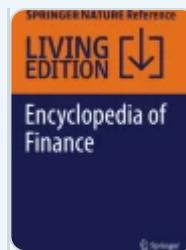
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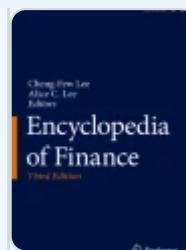
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