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Current Liabilities in Contemporary Corporate Finance and Economic Systems: A Narrative Review of Governance, Liquidity Transmission, and Firm Performance

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ABSTRACT

Current liabilities represent the critical nexus between short-term operational continuity, working capital architecture, and macroeconomic credit transmission. Despite their central role in corporate solvency, scholarly insights into short-term obligations remain fragmented across accounting regulation, supply chain finance, and corporate leverage literature. This study presents a comprehensive narrative review synthesizing peer-reviewed journal articles published over the latest seven-year period (2020–2026) to evaluate the conceptual taxonomy, regulatory governance, and economic performance consequences of current liabilities. Employing a structured narrative synthesis across six thematic domains, the review examines recent International Financial Reporting Standards reforms—specifically the IAS 1 amendments on covenant-linked liability classification and the IAS 7 and IFRS 7 disclosures for supplier finance arrangements—alongside empirical evidence on trade payables, short-term bank debt, maturity mismatch, and crisis-era liquidity management. The findings demonstrate that while spontaneous trade credit and reverse factoring buffer operating cash flows, excessive reliance on short-term financial debt to fund long-term assets induces rollover fragility, elevates idiosyncratic equity volatility, impairs environmental, social, and governance performance, and accelerates transitions toward Minskyan Ponzi financing during macroeconomic shocks.

Keywords*: Current Liabilities; Trade Credit; Short-Term Debt; Working Capital Financing; Financial Liquidity.*

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INTRODUCTION

In contemporary corporate finance and institutional economics, the structure and governance of short-term obligations, formally classified on the statement of financial position as current liabilities, constitute a foundational determinant of enterprise survival, operational elasticity, and systemic credit stability. Far from representing passive bookkeeping residuals of routine procurement or temporary cash deficits, current liabilities actively mediate the conversion of working capital into operating cash flows and establish the boundary between solvent liquidity management and financial distress (Mirón Sanguino et al., 2024; Zimon et al., 2026). Within the standard accounting and economic taxonomy, current liabilities encompass obligations expected to be settled within a firm's normal operating cycle or within twelve months after the reporting period, including trade accounts payable, notes payable, short-term bank borrowings, commercial paper, accrued operating expenses, taxes and dividends payable, unearned revenues, and the current portion of long-term debt (Esfahani, 2025; Pant et al., 2026). Because these claims require continuous cash outflows or recurring refinancing negotiations, their composition directly governs a firm's net working capital position, cost of capital, and resilience to exogenous macroeconomic disturbances.

Over the past seven years (2020–2026), the economic environment surrounding short-term corporate liabilities has undergone profound structural transformation. The sequential shocks of the COVID-19 pandemic, global supply chain bottlenecks, geopolitical conflicts such as the Russia–Ukraine war, energy price volatility, and aggressive monetary policy tightening by central banks have tested the limits of corporate liquidity buffers across both advanced and emerging economies (Zimon & Tarighi, 2021; Tarighi et al., 2024; Wang et al., 2025). During acute revenue contractions, enterprises frequently experience a scissor effect in which inventory conversion and accounts receivable collection decelerate while maturing current liabilities demand immediate settlement. Empirical investigations from this turbulent period demonstrate that mismanagement of short-term liabilities can rapidly transform temporary illiquidity into structural insolvency, whereas strategic deployment of spontaneous trade credit and calibrated debt maturity structures enables firms to absorb external shocks and sustain productive investment (Karakoç, 2025; Wetzel & Wagner, 2025).

Simultaneously, the institutional and accounting architecture governing current liabilities has witnessed its most consequential regulatory overhaul in two decades. High-profile corporate collapses involving opaque supply chain finance structures, most notably Carillion and Greensill Capital, exposed how reverse factoring arrangements could obscure the boundary between operational trade payables and interest-bearing financial debt (Gelsomino et al., 2025; Krasteva-Hristova et al., 2026). In response, the International Accounting Standards Board (IASB) promulgated landmark amendments to International Accounting Standard 1 (IAS 1) regarding the *Classification of Liabilities as Current or Non-Current* and *Non-Current Liabilities with Covenants*, alongside targeted amendments to IAS 7 and International Financial Reporting Standard 7 (IFRS 7) mandating granular disclosures for *Supplier Finance Arrangements*, both taking mandatory effect for annual reporting periods beginning on or after January 1, 2024, ahead of the broader presentation reforms of IFRS 18 (Krasteva-Hristova et al., 2026). These regulatory interventions reflect a growing recognition among standard-setters and financial economists that the economic substance, rollover conditions, and covenant structures of current liabilities are critical for capital market pricing and credit risk assessment.

A brief review of recent scholarly literature published within the last seven years reveals three distinct but largely disconnected research streams examining current liabilities. The first stream, rooted in working

capital management (WCM) and operational research, focuses on spontaneous current liabilities, primarily accounts payable and trade credit, as mechanisms for compressing the cash conversion cycle (CCC) and enhancing operating profitability (Umar, 2023; Jaworski & Czerwonka, 2024; Levický & Košařová, 2026). The second stream, situated in corporate finance and banking economics, investigates contractual short-term financial debt, debt maturity structure, and the perilous phenomenon of using short-term debt for long-term investment (SDLA or STD-LTI), linking maturity mismatches to rollover risk, Minskyan Ponzi financing, and environmental, social, and governance (ESG) deterioration (Wu et al., 2022; Chen et al., 2023; Bai, 2026; Tang et al., 2026). The third stream, emerging from financial accounting and supply chain finance, scrutinizes hybrid payable instruments such as reverse factoring and digital credit platforms, evaluating how technological innovation and disclosure mandates alter corporate liquidity buffers and financial vulnerability (Gelsomino et al., 2025; Chen et al., 2026; Krasteva-Hristova et al., 2026).

Despite these substantive advances, a critical gap persists in the academic literature. Prior review articles have either conducted bibliometric mappings of broad working capital keywords without isolating the specific economic mechanisms of the liability side of the balance sheet (Mirón Sanguino et al., 2024), synthesized general debt maturity determinants prior to the post-2022 inflationary and regulatory regime shifts (Wu et al., 2022), or conducted meta-analyses restricted to aggregate liquidity-profitability correlations (Jaworski & Czerwonka, 2021, 2024). This study differs fundamentally from previous research by placing current liabilities at the analytical center of an integrative narrative synthesis that bridges accounting standard-setting (IAS 1, IAS 7/IFRS 7, IFRS 18), operational supply chain finance (trade payables and reverse factoring), microeconomic capital structure (short-term debt maturity mismatch and equity volatility), and macroeconomic credit transmission across the 2020–2026 literature.

Based on this theoretical and empirical divergence, the problem formulation of this research is structured around four primary research questions: (1) How have contemporary accounting standards and regulatory disclosure frameworks redefined the recognition, classification, and analytical comparability of current liabilities between 2020 and 2026? (2) Through what economic channels do spontaneous operational liabilities, specifically trade accounts payable and supplier finance arrangements, affect supply chain stability and buyer-supplier profitability? (3) Under what institutional and macroeconomic conditions does contractual short-term debt transition from an agency-monitoring discipline into a source of maturity mismatch, Ponzi financing, and ESG degradation? (4) How do aggressive versus conservative current liability financing strategies influence corporate profitability, stock return volatility, and crisis resilience? Correspondingly, the objective of this study is to construct a rigorous, multidisciplinary narrative review of journal articles published over the latest seven years (2020–2026) that synthesizes the theoretical foundations, empirical regularities, and policy implications of current liabilities for scholars, corporate financial executives, credit analysts, and economic regulators.

METHODS OF RESEARCH

This study employs a structured narrative literature review methodology designed to synthesize heterogeneous theoretical, regulatory, and empirical research across financial economics, corporate accounting, and operations management. Unlike a single-parameter quantitative meta-analysis, which requires identical econometric specifications and homogeneous variable definitions across all pooled samples, a narrative review enables the critical integration of multi-method scholarship, including panel

econometrics, generalized method of moments (GMM) estimations, regulatory disclosure case analyses, and theoretical supply chain models. This methodological choice is particularly suited to the study of current liabilities, where accounting reclassification rules, buyer-led reverse factoring contracts, and macro-financial maturity mismatches interact across distinct analytical levels.

The data collection process followed a rigorous, multi-stage bibliographic identification and screening protocol. Comprehensive electronic searches were executed across major international academic databases and publisher repositories—including Scopus, Web of Science (Core Collection), ScienceDirect (Elsevier), Emerald Insight, Taylor & Francis Online, SpringerLink, Wiley Online Library, MDPI, and IDEAS/RePEc, covering the strict seven-year publication window from January 1, 2020, through November 2026. Search strings combined core conceptual terms using Boolean operators: *("current liabilities" OR "short-term liabilities" OR "accounts payable" OR "trade credit" OR "short-term debt" OR "supplier finance arrangements" OR "working capital financing") AND ("profitability" OR "firm performance" OR "liquidity" OR "maturity mismatch" OR "IAS 1" OR "IAS 7" OR "reverse factoring" OR "economic crisis")*. All retrieved bibliographic records and underlying empirical datasets referenced within the reviewed studies are publicly accessible through their respective publisher Digital Object Identifiers (DOIs) and archival Uniform Resource Locators (URLs) documented in the reference list.

To ensure scholarly rigor and relevance, four explicit inclusion and exclusion criteria were enforced during screening: (1) Temporal Criterion: articles had to be published in peer-reviewed academic journals within the latest seven years (2020–2026); seminal pre-2020 theories (such as Modigliani-Miller, Pecking Order, Trade-Off, Transaction Cost, and Minsky's Financial Instability Hypothesis) were examined exclusively as foundational lenses through which recent 2020–2026 empirical studies were interpreted; (2) Quality and Peer-Review Criterion: only peer-reviewed journal articles indexed in recognized international databases with verifiable DOIs or archival repository records were retained, excluding unpublished student theses, non-refereed blog posts, and commercial promotional white papers; (3) Substantive Focus Criterion: studies had to explicitly model, measure, or critically analyze current liabilities or their primary constituent instruments (trade payables, reverse factoring, short-term loans, covenant-linked current debt, or current liability financing ratios); and (4) Language and Accessibility Criterion: manuscripts had to be published in English with full text or complete econometric and methodological documentation accessible for verification. Following title, abstract, and full-text evaluation, a core corpus of 25 flagship peer-reviewed sources published between 2021 and 2026 was selected for in-depth narrative synthesis and structured into six thematic clusters, as detailed in Table 1.

Table 1. Methodological Screening Protocol and Thematic Architecture of the Reviewed Corpus (2020–2026)

Methodological Stage / Thematic Cluster	Operational Scope & Selection Parameters	Primary Analytical Constructs	Representative Journal Sources (2021–2026)
Stage 1: Database Identification	Scopus, Web of Science, Elsevier, Emerald, Taylor & Francis, Springer, MDPI	Boolean query on current liabilities, trade credit, short-term debt (2020–2026)	Mirón Sanguino et al. (2024)

Methodological Stage / Thematic Cluster	Operational Scope & Selection Parameters	Primary Analytical Constructs	Representative Journal Sources (2021–2026)
Stage 2: Eligibility & Quality Filter	Peer-reviewed English journal articles (2020–2026); verifiable DOI/URL	Exclusion of non-refereed notes, pre-2020 primary samples, and off-topic studies	Wu et al. (2022)
Cluster 1: Accounting & Governance	IAS 1 (2024) covenant rules, IAS 7 / IFRS 7 supplier finance disclosures	Current/non-current boundary, covered (A) vs. paid (F) payables comparability	Krasteva-Hristova et al. (2026)
Cluster 2: Trade Credit & Payables	Spontaneous liabilities, DPO extension, reverse factoring in supply chains	Transaction cost savings, liquidity transmission, buyer-supplier bargaining	Wetzel & Wagner (2025)
Cluster 3: Short-Term Debt Mismatch	Short-term debt for long-term use (SDLA / STD-LTI) and rollover risk	Minskyan Ponzi financing, mixed ownership, bank fintech risk mitigation	Bai (2026)
Cluster 4: WCM Policy & Performance	Aggressive vs. conservative current liability financing across sectors	ROA, ROE, Tobin's Q, idiosyncratic stock return volatility, adjustment speed	Chang et al. (2025)
Cluster 5: Crisis, Fintech & ESG	COVID-19, geopolitical inflation, digital finance, and ESG spillovers	Liquidity preference, short-term loan dependency, environmental underinvestment	Tang et al. (2026)

(Source: Author's methodological synthesis of peer-reviewed literature, 2026)

RESULT AND DISCUSSION

The narrative synthesis of the 2020–2026 academic literature reveals that current liabilities can no longer be conceptualized as homogeneous, costless short-term claims. Instead, their economic behavior and valuation consequences depend on three structural dimensions: (1) their contractual origin, whether they arise spontaneously from supply chain operations or contractually from financial markets; (2) their accounting presentation and covenant contingencies under evolving international reporting standards; and (3) their interaction with firm-level working capital policies and macroeconomic credit cycles. The subsections below present the analytical results and theoretical discussions across six interconnected domains.

Conceptual Taxonomy, Accounting Classification, and Regulatory Evolution of Current Liabilities

From an economic and accounting standpoint, current liabilities represent present obligations of an enterprise arising from past events, the settlement of which is expected to result in an outflow of economic

resources within the entity's normal operating cycle or within twelve months after the reporting date (PwC Viewpoint, 2024; Pant et al., 2026). Under International Accounting Standard 1 (IAS 1, Paragraph 69), an entity classifies a liability as current when any of four conditions holds: (a) it expects to settle the liability in its normal operating cycle; (b) it holds the liability primarily for the purpose of trading; (c) the liability is due to be settled within twelve months after the reporting period; or (d) the entity does not have the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. All other obligations are classified as non-current liabilities.

A pivotal regulatory development during the review period is the IASB's issuance of the 2020 and 2022 amendments to IAS 1, titled *Classification of Liabilities as Current or Non-Current* and *Non-Current Liabilities with Covenants*, which became mandatorily effective for annual periods beginning on or after January 1, 2024 (PwC Viewpoint, 2024). Prior to these amendments, substantial ambiguity existed regarding how management expectations of refinancing or post-reporting-date covenant waivers affected the current versus non-current boundary. The revised IAS 1 framework establishes that a liability's classification depends strictly on the *substantive rights* in existence at the end of the reporting period, completely independent of management's subjective intentions or expectations regarding whether the borrower will exercise a deferral right or prepay the debt early. Specifically, if a long-term loan agreement contains financial covenants (such as a minimum interest coverage ratio or maximum net-debt-to-EBITDA threshold) that must be complied with *on or before* the reporting date, any breach existing on the balance sheet date eliminates the borrower's unconditional right to defer settlement for twelve months, requiring immediate reclassification of the entire debt balance into current liabilities, even if the lender grants a waiver after the reporting date but before financial statement authorization.

Conversely, under the 2022 IAS 1 amendments, covenants that an entity is required to comply with only *after* the reporting period (future covenants) do not affect the current or non-current classification at the reporting date, provided that the entity discloses in the notes the carrying amount of such non-current liabilities and the specific facts and circumstances indicating any risk that the entity may struggle to comply with the covenants within twelve months (PwC Viewpoint, 2024). Economically, this distinction prevents sudden, artificial distortions in reported net working capital caused by prospective covenant tests while compelling transparent note disclosures that enable bondholders and banks to price near-term default and acceleration risk accurately.

Equally transformative is the regulatory reform addressing supplier finance arrangements (SFAs), commonly referred to as reverse factoring or supply chain finance programs. For over a decade, large corporate buyers utilized third-party financial institutions to pay suppliers early while extending their own payment maturities from 30–60 days to 120–180 days or longer, continuing to report these obligations inside ordinary trade payables without disclosing the intermediation of banks (Gelsomino et al., 2025). Examining the pre-regulation reporting landscape across international firms, Gelsomino et al. (2025) demonstrate that companies operated in a 'regulatory vacuum' where reverse factoring initiation was strongly driven by buyer financing needs and working capital optimization, yet voluntary financial statement disclosures remained sparse and inconsistent across enforcement regimes.

To close this transparency gap following the collapses of Carillion and Greensill Capital, the FASB enacted Accounting Standards Update (ASU) 2022-04 (Subtopic 405-50) in the United States, and the IASB issued amendments to IAS 7 (Paragraph 44F–44H) and IFRS 7 effective January 1, 2024 (Krasteva-Hristova et al., 2026). Under the amended IAS 7 rules, reporting entities must disclose: (a) the terms and

conditions of supplier finance arrangements; (b) the carrying amount of financial liabilities that are part of the arrangements and the exact balance sheet line items in which they are presented (denoted as covered liabilities, *A*), alongside the subset of those liabilities for which suppliers have already received payment from finance providers (denoted as paid financing, *F*); (c) the range of payment due dates for both liabilities within the arrangements and comparable trade payables outside the arrangements; and (d) non-cash changes and liquidity risk concentrations.

Table 2. Functional Taxonomy and Accounting Governance of Corporate Current Liabilities

Current Liability Category	Origin & Explicit Financing Cost	Economic & Liquidity Mechanism	Governing Standard & Disclosure Mandate	Primary Empirical Reference
Trade Accounts Payable (AP)	Spontaneous operational; implicit cost only if early-payment discount foregone	Reduces Cash Conversion Cycle (CCC); transfers working capital burden to suppliers	IAS 1 (operating cycle current classification); IFRS 7 maturity notes	Umar (2023)
Supplier Finance / Reverse Factoring	Hybrid operational-financial; third-party bank pays supplier early at buyer-linked discount	Extends buyer DPO (often >120 days) while easing supplier liquidity constraints	IAS 7 (Para 44F–44H) & IFRS 7 (2024); FASB ASU 2022-04 (covered A vs. paid F)	Krasteva-Hristova et al. (2026)
Short-Term Bank Loans & Overdrafts	Contractual financial; explicit interest rate tied to monetary policy benchmark	Bridges temporary working capital deficits; creates rollover risk if funding fixed assets	IFRS 9 (amortized cost); IAS 1 (12-month settlement classification)	Chen et al. (2026)
Current Portion of Long-Term Debt	Contractual financial; scheduled principal amortization or covenant-breach acceleration	Increases near-term debt service pressure; tests operating cash flow coverage	IAS 1 (2020/2022 Amendments, effective 2024) on substantive deferral rights	PwC Viewpoint (2024)
Accrued Expenses, Taxes & Dividends	Spontaneous statutory/board-declared; zero explicit interest prior to statutory due date	Provides temporary internal float; dividend declaration creates immediate current claim	IAS 1, IAS 12 (current tax), IAS 19 (short-term employee benefits), IAS 37	Tarighi et al. (2024)

(Source: Synthesized from PwC Viewpoint, 2024; Gelsomino et al., 2025; Krasteva-Hristova et al., 2026

However, in a rigorous empirical investigation of the 2024–2025 consolidated financial reports of five major European consumer multinationals (Carlsberg, Haleon, Heineken, Nestlé, and Unilever), Krasteva-Hristova et al. (2026) uncover four critical comparability failure modes that persist even after the IAS 7 amendments. First, payment-term disclosure formats diverge sharply: Heineken reports an identical 7–180-day range both inside and outside its supplier finance arrangements despite an 8–11-day gap in weighted average maturities, whereas Nestlé's monetary buckets reveal that balances exceeding 120 days are approximately 53 percentage points more concentrated inside the arrangement than outside it. Second, the choice of numerator, scaling covered liabilities (*A*) versus already-paid liabilities (*F*) by trade

payables—reverses the cross-firm reliance ranking between Heineken and Unilever across both reporting years. Third, ambiguity in the denominator caption (trade payables alone versus broader trade and other payables) causes Nestlé's paid-financing ratio to fluctuate between 23.1% and 35.6% depending on the analytical base assumed. Fourth, whole-million currency rounding obscures smaller programs entirely. Consequently, financial economists and credit analysts must apply a structured diagnostic sequence, verifying scope, payment status, and denominator boundaries before interpreting payment-term extensions, to avoid misclassifying financing-driven payable extensions as organic operating cash flow improvements (Krasteva-Hristova et al., 2026). Table 2 synthesizes the complete functional taxonomy and accounting governance of corporate current liabilities established across the reviewed literature.

Spontaneous Current Liabilities: Trade Credit, Accounts Payable, and Supply Chain Financing

Within the operational cycle of non-financial corporations, trade accounts payable represent the single largest spontaneous component of current liabilities. When a supplier delivers raw materials or intermediate goods on deferred payment terms, it simultaneously extends short-term financing to the buyer. In the classical Cash Conversion Cycle (CCC) framework, defined as Days Inventory Outstanding (DIO) plus Days Sales Outstanding (DSO) minus Days Payable Outstanding (DPO), an expansion of accounts payable directly lengthens DPO, thereby compressing the net time interval during which a firm's cash is locked in working capital operations (Umar, 2023; Esfahani, 2025). However, the 2020–2026 empirical literature reveals that the relationship between trade payables and corporate financial performance is governed by complex economic trade-offs involving transaction costs, implicit discount rates, supplier bargaining power, and supply chain stability.

Developing a comprehensive Supply Chain Financing Theory of the trade payables–performance link, Wetzel and Wagner (2025) demonstrate that extending trade payable maturities influences buyer performance through two opposing mechanisms: a *direct liquidity-and-cost benefit* (preserving internal cash reserves and substituting free supplier credit for costly bank debt) and an *indirect supply-chain disruption cost* (degrading supplier financial health, inducing supplier price markups, or reducing delivery priority when payment delays are coerced). When buyers unilaterally stretch accounts payable beyond industry norms without providing financing support, financially constrained upstream suppliers suffer working capital starvation. Conversely, when buyers integrate supply chain finance instruments such as reverse factoring, they decouple the buyer's DPO extension from the supplier's cash receipt timeline, enabling buyers to capture working capital efficiency gains without destabilizing their supply network (Wetzel & Wagner, 2025; Gelsomino et al., 2025).

Cross-country empirical evidence corroborates the strategic value of accounts payable management when calibrated to sector-specific operating structures. Analyzing panel data of listed halal food and beverage enterprises across five Organization of Islamic Cooperation (OIC) economies, Indonesia, Malaysia, Saudi Arabia, Pakistan, and the United Arab Emirates, using Feasible Generalized Least Squares (FGLS) regression, Umar (2023) documents that while the overall cash conversion cycle and accounts receivable period significantly depress corporate profitability, the accounts payable period (APP) exerts a statistically significant positive impact on Return on Assets (ROA) and Return on Equity (ROE). In the halal consumer staples sector, where Shariah compliance restricts conventional interest-bearing debt instruments, trade payables serve as a vital, non-interest-bearing short-term liability that finances inventory turnover and enhances shareholder returns.

At the broader macroeconomic level of emerging markets, trade credit functions as a counter-cyclical financing lifeline for externally financially dependent (EFD) enterprises. Investigating publicly traded firms across 12 major developing economies, Karakoç (2025) examines the 'ebb and flow' of trade credit in financing corporate growth. The empirical findings establish that financially dependent firms rely heavily on trade credit liabilities to sustain asset and sales expansion precisely when they have exhausted their conventional bank debt capacity. Crucially, Karakoç (2025) demonstrates that corporate dependence on trade credit exhibits a pronounced cyclical trajectory: as firms progressively strengthen their internal balance sheets and cash generation, they systematically scale back their reliance on trade payables due to the implicit costs embedded in supplier credit terms; yet enterprises confronting high growth opportunities continue utilizing elevated trade credit for at least two years following their initial classification as financially constrained. This dynamic confirms that trade payables act as an elastic, second-tier external financing buffer that bridges institutional voids in developing capital markets.

Contractual Short-Term Financial Debt, Maturity Mismatch, and Rollover Fragility

In contrast to spontaneous operational payables, contractual short-term financial debt, comprising short-term bank loans, credit lines, commercial paper, and current maturities of long-term obligations, imposes rigid principal and interest repayment schedules backed by legal default remedies. In their systematic review of the international debt maturity literature across accounting, finance, and corporate governance journals, Wu et al. (2022) classify the determinants of corporate debt maturity into five core domains: firm-specific attributes (size, growth options, asset maturity, credit quality), taxation (term structure of interest rates and tax shields), corporate governance (managerial ownership, board independence), country-level institutional quality (legal enforcement, creditor rights), and macroeconomic conditions (inflation and monetary policy uncertainty). While agency theory posits that short-term debt disciplines self-interested managers by subjecting them to frequent lender monitoring and credit renegotiations, Wu et al. (2022) emphasize that heavy reliance on short-maturity debt simultaneously exposes firms to acute refinancing (rollover) risk and earnings manipulation incentives.

The most hazardous manifestation of contractual current liabilities identified in the 2020–2026 economic literature is the structural maturity mismatch known as 'short-term debt for long-term use' (SDLA or STD-LTI), wherein corporations continuously roll over short-term borrowings to finance illiquid, multi-year capital expenditures. Extending Hyman Minsky's Financial Instability Hypothesis (which categorizes borrowers into hedge, speculative, and Ponzi units) to the micro-enterprise level using panel data of Chinese A-share listed companies, Bai (2026) provides landmark empirical evidence on the micro-foundations of macro-financial fragility. In the analyzed sample, the mean SDLA ratio reaches 0.262 (with a maximum of 0.739), while the mean incidence of Ponzi financing, defined as a regime in which operating cash flows are insufficient to cover either principal repayments or current interest obligations, forcing the firm to issue new debt or liquidate assets merely to service existing current liabilities, reaches an alarming 47.5% (Bai, 2026).

Through stepwise mediation modeling, Bai (2026) establishes that funding long-term investments with short-term liabilities significantly increases the probability of a firm falling into a Ponzi financing trap through two parallel destructive channels: (1) amplifying immediate debt-repayment pressure and liquidity risk, and (2) eroding corporate solvency by inducing managerial myopia, short-term arbitrage, and inefficient capital allocation that depress operating profitability (EBIT). Because long-term capital projects

generate cash flows only over extended horizons while short-term bank loans require repayment within twelve months, any tightening of credit supply or rise in benchmark interest rates breaks the refinancing chain. Bai (2026) further demonstrates that stronger bank-firm relationships, higher stock market liquidity, and robust internal corporate governance significantly moderate and attenuate the transmission from SDLA to Ponzi distress.

Institutional ownership structures and macroeconomic shocks further shape the prevalence and consequences of short-term debt maturity mismatches. Examining non-state-owned enterprises (Non-SOEs) undergoing mixed-ownership reform, Chen et al. (2023) find that the introduction of state-owned shareholders into private firms paradoxically increases the scale of short-term debt used for long-term investment, mediated by expanded short-term credit access, larger capital expenditure budgets, and internal control adjustments, though state-backed implicit guarantees partially lower the explicit interest cost of such debt. However, when exogenous macroeconomic crises strike, short-term debt dependence severely penalizes firm performance. Quantifying urban pandemic shock intensity across listed firms, Wang et al. (2025) prove that extending debt maturity (shifting liabilities from current to non-current tenors) significantly mitigates the negative performance shock of economic lockdowns by alleviating maturity mismatch, lowering refinancing costs, and insulating financially constrained high-growth firms from acute liquidity squeezes.

Working Capital Financing Strategies, Profitability, and Equity Risk Dynamics

At the strategic level of corporate financial management, decisions regarding the volume and composition of current liabilities are operationalized through a firm's Working Capital Financing Policy (WCFP), typically measured by the Current Liabilities to Total Assets ratio (CLTAR) or the net Working Capital Policy ratio (WCP) relative to sales. Corporate finance theory distinguishes between an aggressive working capital policy, characterized by minimizing current asset holdings and financing a high proportion of current and even permanent operating assets through current liabilities, and a conservative working capital policy, which maintains substantial liquid asset buffers financed predominantly by long-term debt and shareholders' equity (Chang et al., 2025; Pant et al., 2026).

Synthesizing decades of international empirical estimates through rigorous meta-analytical techniques, Jaworski and Czerwonka (2021) and Jaworski and Czerwonka (2024) evaluate the structural interplay between working capital management, financial liquidity, debt ratios, and corporate profitability across diverse macroeconomic and institutional environments. Their meta-studies confirm that while a shorter Cash Conversion Cycle and higher liquidity generally support profitability, increasing total debt and current liability ratios beyond an optimal threshold consistently exerts a statistically significant negative effect on corporate profitability due to escalating debt service costs and financial distress premiums. Furthermore, in a dynamic panel investigation of enterprises across Central and Eastern Europe, Czerwonka and Jaworski (2024) demonstrate that firms actively adjust their current ratios and short-term liability structures toward target liquidity equilibria, with the speed of adjustment conditioned by firm size, capital market development, and macroeconomic GDP growth.

Sector-specific econometric investigations published in 2025 and 2026 further illuminate how industry operating cycles condition the performance impact of current liabilities. Analyzing 403 furniture manufacturing enterprises in Slovakia over the 2015–2022 period using static and two-stage dynamic System GMM estimators, Levický and Košařová (2026) confirm a statistically significant dynamic

adjustment process in Return on Assets and show that accelerating inventory turnover and customer receivable collections while calibrating short-term commercial liabilities supports operating profitability. In the United States construction industry, where project retainage on subcontracts, progress billings, and notes payable create specialized current liability structures, Esfahani (2025) demonstrates that net working capital ratios and accounts payable turnover must be evaluated alongside contract backlog and collection period variance to safeguard contractor profitability.

Moreover, the organizational architecture of the firm moderates the operational damage inflicted by working capital and current liability imbalances. Drawing upon Resource Dependence Theory (RDT) and applying two-stage least squares instrumental variable (2SLS-IV) regressions to 228 manufacturing firms listed on the Bombay Stock Exchange (BSE 500), Pant et al. (2026) benchmark the operational consequences of Working Capital Risk (WCR). Their empirical estimates reveal that elevated working capital risk directly reduces production efficiency by 0.291 units and inventory efficiency by 0.443 units. However, affiliation with a diversified Business Group (BG) significantly and positively moderates the WCR–efficiency relationship: internal capital markets, shared supplier networks, and intra-group credit guarantees buffer affiliated firms against short-term payable disruptions and liquidity shortages that severely impair standalone enterprises (Pant et al., 2026).

Crucially, recent financial market research resolves a longstanding puzzle in corporate finance: if textbook theory suggests that aggressive working capital policies boost accounting returns by minimizing idle cash and utilizing cheap current liabilities, why do so many large corporations deliberately maintain conservative working capital buffers? Analyzing 84,900 firm-year observations across 42 industries, Chang et al. (2025) investigate the impact of aggressive working capital policies on stock return volatility. Using Fama-MacBeth and fixed-effects regressions while controlling for book-to-market ratios, leverage, interest coverage, and financial distress, Chang et al. (2025) prove that adopting an aggressive working capital policy (reducing receivables and inventory while expanding accounts payable and short-term liabilities) causes a statistically significant contemporaneous and persistent future increase in stock return volatility.

Decomposing total equity risk into systematic risk (beta) and firm-specific (idiosyncratic) risk, Chang et al. (2025) reveal that once industry and year fixed effects are controlled for, working capital policy has no significant effect on systematic beta; instead, aggressive reliance on current liabilities drives equity volatility almost entirely through elevated *idiosyncratic risk*. Because conservative working capital provides credit insurance, smooths Research and Development (R&D) and fixed investment expenditures, and insulates cash flows from supply chain shocks, stripping away net working capital exposes the firm to heightened cash flow uncertainty and asymmetric information costs that equity investors do not get compensated for bearing. Consequently, corporate executives must weigh the accounting cost savings of higher current liabilities against the capital market penalty of amplified idiosyncratic stock volatility.

Macroeconomic Shocks, Digital Financial Inclusion, and ESG Spillovers of Short-Term Liabilities

The fifth major thematic contribution of the 2020–2026 literature centers on how multi-wave macroeconomic crises, digital banking technologies, and sustainability imperatives reshape corporate current liability management. During the initial shock of the COVID-19 pandemic in 2020–2021, empirical studies across European markets documented a pronounced shift toward precautionary liquidity preservation in alignment with Keynes's Liquidity Preference Theory. Studying 61 Polish small and medium-sized enterprises (SMEs), Zimon and Tarighi (2021) found that firms with moderate-conservative

working capital strategies weathered the initial pandemic lockdowns without catastrophic liquidity deterioration, whereas Kiesewetter et al. (2026), applying Arellano-Bond Difference GMM estimation to Baltic public companies across both the 2008 Global Financial Crisis (GFC) and the COVID-19 pandemic, demonstrated that government liquidity-support interventions during COVID-19 prevented the severe elongation of accounts payable and receivable turnover cycles that had paralyzed firms during the 2008 GFC.

In emerging markets characterized by chronic inflation and high nominal interest rates, crisis-induced adjustments to current liabilities are even more pronounced. Analyzing 1,200 firm-year observations across 200 companies listed on the Tehran Stock Exchange (where nominal interest rates averaged 18%), Tarighi et al. (2024) show that the COVID-19 crisis and elevated firm-level risk compelled managers to significantly increase their Current Assets to Total Assets Ratio (CATAR, averaging 0.65), Current Ratio, Quick Ratio, and Cash-to-Current-Assets ratio while actively reducing their Current Liabilities to Total Assets Ratio (CLTAR, averaging 0.45) and operating cycle length. Similarly, tracking Polish manufacturing companies in the energy-intensive aluminum pressure-casting industry across three sequential regimes—pre-COVID-19, the COVID-19 pandemic, and the Russia–Ukraine war, Zimon et al. (2026) document that while average financial liquidity ratios held steady before COVID-19 (2.20) and during COVID-19 (2.16), the geopolitical and energy-cost shock of the Russia–Ukraine war compressed the mean liquidity ratio to 1.64 as short-term liabilities expanded and liabilities turnover days lengthened, forcing firms to curtail fixed asset investments to preserve solvency. Figure 1 illustrates these empirical liquidity and short-term liability coverage benchmarks across the examined macroeconomic and institutional regimes.

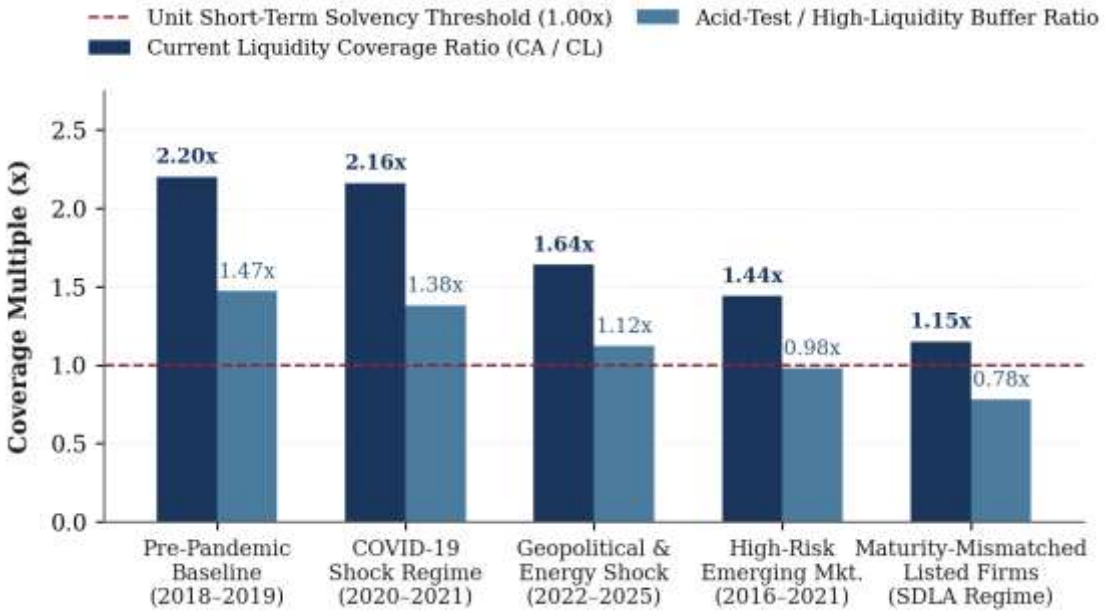


Figure 1. Empirical Benchmarks of Current Liability Coverage and Acid-Test Buffers Across Macroeconomic Regimes

(Source: Author's elaboration based on empirical data from *Tarighi et al., 2024*; *Bai, 2026*; *Zimon et al., 2026*)

Beyond macroeconomic shocks, the rapid rise of financial technology (Fintech) and digital financial inclusion (DFI) has fundamentally altered how banks originate and monitor short-term corporate liabilities. Investigating how commercial bank fintech adoption (BankFintech) affects corporate maturity mismatch, Liu et al. (2025) verify 'Porter's Risk Mitigation Hypothesis' of fintech: by integrating big-data credit scoring, blockchain cash-flow tracking, and macro-risk early warning systems, BankFintech lowers banks' risk-weighted assets, improves capital adequacy and liquidity ratios, and shifts bank lending preferences toward duration-matched long-term loans. Simultaneously, intelligent risk-control constraints compel borrowing firms—especially in non-state-owned and technology-intensive industries ($\beta = -0.755$, $p < 0.05$)—to enhance their financial information transparency, thereby significantly inhibiting the use of short-term debt for long-term purposes (Liu et al., 2025).

Complementing this supply-side banking evidence, Chen et al. (2026) model the demand-side transmission channels linking Digital Financial Inclusion (DFI) to corporate financial vulnerability through two balance-sheet mechanisms: short-term loan (STL) dependency and financial flexibility (FF). Their mediation analysis demonstrates that DFI reduces corporate financial vulnerability primarily by lowering reliance on short-term debt—which accounts for 35% to 45% of the total stabilizing effect in single-mediator specifications and nearly 80% in joint mediation models—while simultaneously inducing firms to hold smaller internal cash buffers. Interaction tests confirm that financial flexibility (cash reserves and unused borrowing slack) dampens the marginal distress risk of short-term debt, warning managers that digital credit convenience must not breed overconfidence or excessive erosion of internal liquidity buffers.

Recent research uncovers a vital spillover from short-term liability management to corporate sustainability and Environmental, Social, and Governance (ESG) performance. Analyzing panel data of listed companies from 2011 to 2023, Tang et al. (2026) demonstrate that each one-standard-deviation increase in a firm's reliance on short-term debt for long-term investment (STD-LTI) causes a statistically significant reduction of approximately 0.0390 units in its corporate ESG score. The authors identify three underlying economic transmission channels: (1) escalating short-term refinancing pressure increases credit rents and debt-service outflows; (2) maturity mismatch crowds out the firm's capacity to extend supply chain finance to upstream partners; and (3) heightened rollover anxiety induces managerial myopia that directly slashes discretionary environmental and decarbonization investments. Thus, prudent governance of current liabilities is not merely a financial solvency imperative, but a foundational prerequisite for corporate sustainability.

Comparative Synthesis of Empirical Literature and Future Research Agenda

To consolidate the empirical findings across the reviewed seven-year literature (2020–2026), Table 3 presents a structured comparative matrix of key peer-reviewed studies, detailing their geographic and sectoral scope, econometric methodologies, primary current liability proxies, and core empirical conclusions. Across these investigations, a clear paradigm synthesis emerges: current liabilities operate as a dual-edged economic instrument. When anchored in transparent operational trade credit, supported by business group networks or well-disclosed supplier finance arrangements, and matched to short-term asset conversion cycles, current liabilities lower the weighted average cost of capital and enhance operating return on assets (Umar, 2023; Wetzel & Wagner, 2025; Pant et al., 2026). Conversely, when short-term liabilities are stretched aggressively without liquidity buffers or rolled over to fund illiquid long-term capital assets, they heighten idiosyncratic stock return volatility, degrade ESG performance, and push enterprises

toward Minskyan Ponzi insolvency during macroeconomic or geopolitical contractions (Chang et al., 2025; Bai, 2026; Tang et al., 2026).

Table 3. Comparative Synthesis of Empirical Journal Studies on Current Liabilities and Corporate Performance (2021–2026)

Author(s) & Year	Sample & Sectoral Context	Method & Liability Proxy	Core Empirical Findings & Economic Implications
Zimon & Tarighi (2021)	61 Polish trading & manufacturing SMEs (2015–2020)	Panel OLS; Current Ratio, Quick Ratio, AP turnover	Moderate-conservative working capital policies buffered SMEs against early COVID-19 liquidity shocks.
Jaworski & Czerwonka (2021)	Multi-country empirical meta-sample across economies	Meta-analysis; Liquidity ratios (CR) & Debt ratio (DR)	Confirmed positive liquidity–profitability link and negative impact of excessive debt on firm profitability.
Wu et al. (2022)	International archival corporate finance corpus	Systematic review; Short- vs. long-maturity debt	Mapped 5 determinant clusters of debt maturity; highlighted rollover risk and endogeneity challenges.
Chen et al. (2023)	Chinese listed Non-SOEs (2010–2020)	Panel fixed effects & mediation; STD-LTI mismatch	State-shareholder entry increases short-term debt for long-term investment via expanded credit access.
Umar (2023)	Listed halal food & beverage firms in 5 OIC nations	FGLS panel regression; Accounts Payable Period (APP)	Longer APP significantly increases ROA and ROE, whereas longer receivable and inventory cycles reduce profits.
Jaworski & Czerwonka (2024)	Cross-national meta-study of WCM studies	Meta-regression; CCC, CLTAR, and institutional indices	Macroeconomic growth and institutional quality moderate working capital and short-term liability effects.
Czerwonka & Jaworski (2024)	Central and Eastern European (CEE) listed enterprises	Dynamic panel GMM; Target liquidity & adjustment speed	Firms actively adjust current ratios toward target equilibria at speeds shaped by size and GDP growth.
Mirón Sanguino et al. (2024)	Web of Science working capital corpus (up to 2024)	SciMAT bibliometric mapping; NWC & supplier credit	Identified post-2020 thematic shift toward supplier credit, crisis resilience, and short-cycle cash flows.
Tarighi et al. (2024)	200 Tehran Stock Exchange firms (1,200 obs, 2016–2021)	Panel OLS; CLTAR (mean 0.45), CATAR (0.65), CR, QR	High firm risk and COVID-19 drove managers to lower CLTAR and adopt conservative liquidity buffers.

Author(s) & Year	Sample & Sectoral Context	Method & Liability Proxy	Core Empirical Findings & Economic Implications
Chang et al. (2025)	84,900 US firm-year observations across 42 industries	Fama-MacBeth & FE; Working Capital Policy (WCP)	Aggressive WCP (higher payables, lower NWC) increases stock return volatility via idiosyncratic risk.
Esfahani (2025)	US listed construction companies	Correlation & regression; NWC, AP, subcontract retainage	Demonstrated sector-specific dynamics of accounts payable and subcontract retainage on profitability.
Gelsomino et al. (2025)	International firms utilizing reverse factoring programs	Archival disclosure analysis; Reverse factoring (RFP)	RFP initiation reflects buyer financing needs; pre-IAS 7 reporting suffered from a regulatory vacuum.
Karakoç (2025)	Public firms across 12 developing economies	Panel econometrics; Trade credit (TC) to total assets	Financially dependent firms use trade credit cyclically to fund growth when bank debt capacity is exhausted.
Liu et al. (2025)	Chinese listed non-financial firms & commercial banks	Panel FE & mechanism tests; BankFintech & SDLU	Bank fintech adoption significantly curbs corporate short-term debt for long-term use via risk screening.
Wang et al. (2025)	Chinese listed firms exposed to urban pandemic lockdowns	Panel regression; Debt maturity structure	Extending debt maturity mitigates pandemic performance shocks by reducing rollover and liquidity pressure.
Wetzel & Wagner (2025)	Multi-industry buyer-supplier supply chain dataset	Econometric & theoretical modeling; Trade payables & SCF	Trade payables boost performance via financing savings but require SCF to avoid supplier distress.
Bai (2026)	Chinese A-share non-financial firms (2006–2020)	Stepwise mediation & moderation; SDLA & Ponzi dummy	SDLA (mean 0.262) significantly increases Minskyan Ponzi financing (mean 0.475) via solvency erosion.
Chen et al. (2026)	Listed corporate panel examining digital finance	Joint mediation & interaction; STL dependency & FF	Digital financial inclusion lowers vulnerability mainly by reducing short-term loan dependency (35–80% share).

Author(s) & Year	Sample & Sectoral Context	Method & Liability Proxy	Core Empirical Findings & Economic Implications
Kiesewetter et al. (2026)	Baltic public companies across GFC 2008 & COVID-19	Arellano-Bond Difference GMM; CCC & AP turnover	State liquidity aid during COVID-19 prevented the severe payable/receivable slowdowns seen in GFC 2008.
Krasteva-Hristova et al. (2026)	5 European consumer groups (2024–2025 IFRS reports)	Critical case audit; IAS 7 supplier finance (A vs. F)	Identified 4 comparability failures in post-2024 IAS 7 disclosures, reversing cross-firm rankings.
Levický & Košařová (2026)	403 Slovak furniture manufacturing firms (2015–2022)	Static & two-stage dynamic System GMM; WCM & ROA	Confirmed dynamic ROA persistence and efficiency gains from disciplined short-term operational policies.
Pant et al. (2026)	228 Indian manufacturing firms (BSE 500, 2015–2023)	2SLS-IV panel regression; Working Capital Risk (WCR)	WCR lowers production (−0.291) and inventory (−0.443) efficiency, but Business Group ties buffer the loss.
Tang et al. (2026)	Chinese listed companies (2011–2023)	Panel fixed effects & channel tests; STD-LTI & ESG	1 SD rise in STD-LTI reduces ESG performance by 0.0390 via credit rents and environmental cuts.
Zimon et al. (2026)	Polish pressure-casting manufacturing firms	Multi-period comparative analysis; Liquidity & AP days	Liquidity fell from 2.20 (pre-COVID) and 2.16 (COVID) to 1.64 during the Russia–Ukraine war shock.

(Source: Author's compilation of reviewed peer-reviewed journal articles, 2021–2026)

Looking forward, this synthesis identifies four high-priority avenues for future academic inquiry. First, as the IASB's IFRS 18 (*Presentation and Disclosure in Financial Statements*, effective January 1, 2027) replaces IAS 1, empirical accounting scholars should investigate how mandatory operating, investing, and financing category subtotals on the income statement interact with the 2024 IAS 1 and IAS 7 balance-sheet liability disclosures to reshape credit ratings and cost of debt. Second, large-sample cross-country panel studies are needed to quantify how the comparability failure modes identified by Krasteva-Hristova et al. (2026) affect discretionary accrual models and cash-flow signalling across jurisdictions following IFRS versus US GAAP (ASU 2022-04). Third, corporate finance researchers should examine how artificial intelligence-driven treasury systems and central bank digital currencies (CBDCs) alter real-time accounts payable settlement and intraday liquidity buffers. Fourth, building on Tang et al. (2026)), future studies should explore whether green supply chain finance and sustainability-linked working capital facilities can reverse the negative ESG spillovers of short-term debt pressures.

CONCLUSION

This narrative review has synthesized seven years of peer-reviewed scholarship (2020–2026) to establish an integrated economic and accounting framework for corporate current liabilities. Three overarching conclusions emerge from the analysis. First, current liabilities are structurally heterogeneous: spontaneous trade credit and properly structured supplier finance programs serve as vital operational buffers that compress the cash conversion cycle and sustain growth among financially constrained enterprises, whereas contractual short-term debt used to finance long-term illiquid assets generates severe rollover risk, elevates idiosyncratic equity volatility, impairs corporate ESG commitments, and accelerates Minskyan Ponzi fragility. Second, the post-2024 regulatory regime—anchored by the IAS 1 amendments on covenant-linked liability classification and the IAS 7/IFRS 7 supplier finance disclosure mandates, has substantially enhanced balance-sheet transparency, yet analytical pitfalls regarding numerator selection, denominator scope, and payment-term distribution require disciplined diagnostic adjustments by financial statement users. Third, macroeconomic and geopolitical crises between 2020 and 2026 have demonstrated that the optimal current liability ratio is dynamically contingent on monetary conditions, organizational group structures, and digital financial inclusion, requiring corporate treasurers and economic policymakers to balance short-term financing efficiency against multi-regime liquidity resilience.

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