

### Ⅲ Summary of Articles

# Economic consequences of mandatory IFRS adoption on corporate behavior in Japan

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#### Substance of the paper

This paper examines economic consequences of mandatory IFRS adoption on corporate behavior in Japan. This paper is composed of four parts.

Firstly, I discuss experiences of pre-mandatory adopting countries or areas. These experiences show that the adoption leads to information overload, increases of earnings volatility, and diversity of some accounting procedures. Secondly, I organize prior literature on economic consequences of mandatory IFRS adoption. Prior literature presents that mandatory IFRS adoption has improved the value relevance or capital markets effects, although the differences of accounting procedures have existed after mandatory IFRS adoption, and the economic effects of the adoption depends on the strength of law protection or law origins. Thirdly, I calculate some accounting numbers based on the IFRS and compare these numbers with those based on the existing Japanese accounting standards. This calculation suggests that financial performance under

the IFRS is more volatile and pro-cyclical than that under existing accounting standards. Fourthly, I analyze costs and benefits of mandatory IFRS adoption by using our survey to the people in charge of accounting in Japanese firms or the international comparison of financial information. I show that Japanese corporations tend to raise capital themselves or from banks and don't tend to depend on the stock or debt market. Thus, their benefits of the adoption by Japanese corporations are smaller than others. Meanwhile, their costs are larger than others, because the adoption may affect the amounts of invested capital and corporate behavior to maintain or improve competitive advantage. In fact, Japanese corporations tend to stick to the stable dividends or making profits to invest in capital or corporate advantage continually. However, increases of earnings volatility leads to avoid the long-term investment, thus Japanese corporations may not maintain the investment to maintain or improve competitive advantage.

# A Research on the Exposure Draft “Leases” Issued by the FASB and the IASB

**Akira Ishii**

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This paper aims at analyzing mainly an exposure draft (ED) “Leases” issued in August 2010 by the US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) in comparison with the current accounting standard for lessees and the discussion paper “Leases: Preliminary Views” issued in March 2009.

ED creates a new accounting model, right-of-use model, for lessees and eliminates the concept of operating leases. These proposals will result in all leases being capitalized and the resulting assets and liabilities being recognized ‘on bal-

ance sheet’. In addition, it could capitalize the estimated contingent (variable) rentals and non-bargain renewal options for lessees and therefore set up more assets and liabilities.

This article highlights the key concepts and changes and financial and commercial impacts for lessees and specially assess the definition of leases, the scope of this proposed standard, the determination of lease term, contingent (variable) rentals and residual value guarantees, and adjustments to the obligation to make lease payments as a result of reassessment for lease terms and conditions and so on.

# The Study on the IFRS Under the Movement of the Integration in World Capital Markets: The IFRS as the New Accounting Language

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(Substance of the paper)

From the point of view of financial reporting, the two important aspects of globalization are the international integration of capital markets and the coming of the IFRS.

As international trade and foreign direct investment have increased, capital markets have been speedily globalized. It grows links between domestic and world capital markets. The fact that many companies published their annual reports in English explains why English is the most common business reporting language. In the world capital markets, the emerging of global markets affected the transfer of accounting technology.

A notable feature of the world economy has been the globalization of many listed company. A large proportion of the world's listed companies use IFRS (or US GAAP) for their consolidated financial statements. The IFRS is the one of the most important accounting standards in the global markets. The IFRS is not only accounting standards but also accounting language, which includes the book-keeping, in the international business.

To explain why the IFRS will be adopted in major securities markets, in spite of the persistence of international differences in financial reporting, this paper examines the situation on the globalization and integration of capital markets with the development of IT.

# Auditors' Judgments for IFRS as the Principles-Based Accounting Standards: Evidence from UK and Japanese Auditors

Yoshihiro Machida

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Substance of the paper

One of the most important issues to implement IFRS is the difference between the judgments for principle-based accounting standards as IFRS and those for rule-based accounting standards as the Japanese or U.S. standards. The concept of principle-based standards is supported for overcoming the default of rule-based. However, if it is considered as no rule in detail, we worry that Management might use it as justification for their discretionary accounting and disclosure. The enforcement issue of IFRS should be considered in relation to the fraud financial reporting. And also principle-based accounting is the

important problem in auditing.

In this study, we consider some issues in auditing under IFRS, and then conduct the experimental research how the UK and Japanese auditors make different judgments in our experimental cases as they have different experiences under different type of accounting standards. We find that UK auditors tend to call for more amendments to financial statements than Japanese auditors. One of our insights suggest that we should prepare for accounting profession to make much experience thorough more case studies and practical education as earlier as can.

# Global Standard Setting in Accounting and the Adoption of International Financial Reporting Standards

**Tomomi Shiosaki**

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This paper examines the setting and enforcement of global accounting standards governing the interrelations between the IASB and its outside actors, from the viewpoint of international politics. After having confirmed the position of IASB within the network of international financial regulation and supervision, we analyze the global / regional / national actors who participate in the setting of global accounting standards, the network structure between these actors, and also the institutional

framework of international accounting. Furthermore, the paper examines the endorsement and enforcement mechanisms of the global accounting standard on the interrelations between global actors and those actors operating at regional / country level. Analysis has found an increase in the number of new actors who have not seen in the era of IASC, the expansion of IASB's network across global / regional / national levels, and the change and continuity of the relationship between actors.

# Significance of Conceptual Framework in Adopting IFRSs

**Naohiro Urasaki**

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## Substance of the paper

Facing the world trend of adopting IFRS for local accounting standards, the change of accounting system has significant influences not only on corporate accounting practices but also on accounting research. Debate of adopting IFRSs has been conducting among accounting institutions such as ASBJ, BADC, JICPA, and JAIAS as well. This paper identifies challenges and opportunities created by global financial reporting for the accounting research. In pursuing ultimate goal towards optimal design of financial reporting systems in IFRSs Era, three factors should be considered to advance the research. Firstly, education of making professional judgment based on principle-basis account-

ing is required for scholars carrying the research. Secondly, for international communication among academic institutions, sharing knowledge of common conceptual framework for financial reporting is urgently required for the scholars. Thirdly, differential reporting for unlisted entities shall be designed in accordance with attributes of business organizations. At either end of research theoretically or empirically, emerging issues not covered current accounting standards should be analyzed into internal principle leading economic transactions and events. That is the reasonable way of philosophy of operationalism underpinning accounting measurement that faithfully represents business economies in the IFRSs Era.

# On the Adoption of the IFRS and the Expansion of Fair Value Accounting

Isamu Iwasaki

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Fair Value Accounting has been spreading around the world since 1980's. As to the Fair Value Accounting, IASC published IAS 39 *Financial Instruments* in 1999 and IASB published IFRS 9 *Financial Instruments* in 2009. And IASB published IFRS 13 *Fair Value Measurement* in 2011.

Under this condition, in this paper, I will examine the problems of the IFRS-

type fair value accounting. So, at the 1<sup>st</sup> section I will confirm the international over-view of the accounting standards on fair value accounting. And the 2<sup>nd</sup> section I will examine the adoption of the IFRS in Japan and its effects on Japanese accounting theory and practice. At the last section I will examine the problems of use of the IFRS-type fair value accounting in Japan.

# IFRS and Reform of Business Accounting in Germany

**Takeshi Gunji**

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## Substance of the paper

In Germany, the commercial code was revised with the enactment of BilMoG in 2009. One of the purposes was to sustainably provide the alternative standards which are equally valid, simpler and more inexpensive to IFRS. The influence of IFRS is particularly accepted in the domain of accounting recognition (on balancing) and accounting measurement

(evaluation regulation).

This paper examines the contents and the feature of accounting system of Germany which was revised to modernize the accounting rules by the revision of commercial code in 2009. Then, it considers the meaning of the accounting reform in Germany, as well as the introduction of IFRS to the small and medium companies in Japan.