

VII Summary of Articles

The new work plan of the IASB and issues for the accounting profession in Japan

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The objective of this article is to find out issues for the accounting profession in Japan by making an overview of the work plan issued by the International Accounting Standards Board (IASB) as a feedback to its agenda consultation in 2015, the status of IFRS endorsement in the EU and the development of accounting standards in the US and Japan.

The major activities of the IASB from 2017 through to 2021 will shift to supporting implementing new IFRS standards and research projects including better communication projects after completing major accounting standards except for conceptual framework in 2017.

In the EU, the IFRS endorsement framework was strengthened in 2014 and endorsement work has been steadily performed by the European Financial Reporting Advisory Group (EFRAG).

In the US, convergence of the US GAAP and IFRS has been completed and the Financial Accounting Standards Board (FASB) has been focusing on improvement of

the US GAAP with contributing to further development of IFRS.

In Japan, the Accounting Standards Board of Japan (ASBJ) is making efforts to make the Japanese GAAP consistent with the international accounting standards. The number of voluntary adoptions of IFRS has been remarkably increasing in the environment of the existence of four accounting standards including “Japan’s Modified International Standards (JMIS): Accounting Standards Comprising IFRSs and the ASBJ Modifications”.

In these circumstances, four major issues for the accounting profession in Japan are noted as follows:

- (a) Consistent application of IFRS globally and domestically
- (b) Interpretation of IFRS by the IASB and IFRIC
- (c) Enhancement of comparability of IFRS , US GAAP and Japanese GAAP, and
- (d) Undertaking of research activities and timely development of IFRS standards by the IASB.

The Roles and Problems of Accountancy Professions in Japan Clarified from Relationship between the Reliability of Financial Reporting and the Effectiveness of Internal Control

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In Japan the situation regarding financial reporting of companies and internal controls in the last decade is as follows: At first an optional application for International Financial Reporting Standards (IFRS) started from March, 2010, and then the number of companies that applied is 156 including 17 companies that are in the process of applying as of October, 2017. As of the end of June 2017, the current aggregate value of (1) companies having applied IFRS, (2) companies deciding to apply IFRS, and (3) companies planning IFRS application has accounted for 30% of that of listed companies in the Tokyo Stock Exchange (617 trillion yen). By the addition of value of (4) companies examining IFRS application, the total current aggregate value of them has accounted for 52%.

On the other hand, the Internal Control Report was introduced for listed companies and store registration companies (including foreign companies) from 2008 through an application standard called 'The Standards and Practice Standards for Management Assessment and Audit concerning Internal Control over Financial Reporting'. Despite

the improvement of companies in internally controlled financial accounting systems, accounting irregularities and violations are still being reported.

This paper focuses on the limit of internal control of financial reporting, especially with paying attention to 'unusual transactions' of the Toshiba Corporation's accounting matter as a case study. Toshiba Corporation is one of the leading companies in the electronic device industry, so this matter had received a lot of interest. Then, in this paper the roles and problems of professional accountants from now on is investigated through reviewing how they manage with the problems of transactions. The main points here are as follows: First, from the viewpoint of the system of the Financial Statement Audit and the Internal Control Audit Reports, the relationship between the reliability of financial reporting and the effectiveness of the internal control is analyzed. Then, based on the present conditions of the companies' accounting practices, the limit of the internal control is considered. Finally, the roles and problems of accountancy professions in Japan are presented.

Reduction of Complexity and IFRS

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Complicated business transactions and economic events make accounting standards and disclosure standards too detailed and complicated contents. This is a factor which reduces the understandability of users of accounting information. In the United States, in order to secure the quality and transparency which bring about the usefulness of financial reporting, some projects for reducing "complexity" in a wide range area have been advancing. The scope of these projects is the whole financial reporting system of the United States including accounting standards and disclosure standards.

The case in the United States has suggested some viewpoints required in order that the financial reporting system in a jurisdiction may function effectively. In this

paper, the present condition of activity towards "reduction of complexity" in the United States and IASB is checked and some points of argument which should be examined when IFRS is adopted in Japanese disclosure system are considered.

As "reduction of complexity" in accounting standards, both FASB and IASB adopted a principles-based approach and have addressed the problem of a measurement attribute. Moreover, the effectual disclosure is explored for the usefulness of financial reporting. It will be required to examine conformity with such IFRS based on the disclosure policy which clarified the basic objective of the financial reporting in Japan, in order to adopt IFRS in the disclosure system.

Issues surrounding Japan's Small and Medium Accounting Standards

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There are two small and medium accounting standards in our country. Confirm facts from the actual survey as to which accounting standards are currently selected. In this paper, in the point of selecting two accounting standards, we will formulate that "Issues surrounding Japan's small and medium-sized accounting standards" exist.

Therefore, we set two objectives. The first is the quality aspect of accounting standards. We set the hypothesis that accounting standards superior to qualitative will be selected if qualitative superiority exists according to accounting standards. However, there was the fact that accounting standards that generally gained an evaluation of "being convenient" were selected in the practical world. Therefore, the first hypothesis was

rejected. As a result, it was pointed out that criteria other than qualitative problems may exist in the selection between accounting standards.

The second aspect is education on SME accounting standards. I mentioned the possibility of gradual learning from simple to difficult. However, it was pointed out that careful consideration is required for the scope of education and the order of education when multiple accounting processes are tolerated for one item. Also, if diversification of accounting standards is observed, a variety of accounting information is produced. At this time, the reliability of accounting information is the key, pointed out that the point of accounting education shifts according to the degree of reliability.

Assurance of Financial Reporting by SMEs

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This paper aims to analyze the fairness and reliability of financial reporting by unlisted companies and small and medium-sized entities (hereinafter collectively referred to as “SMEs”) if they adopt International Financial Reporting Standards (IFRS), from a practical point of view.

First, the category of what is considered to be an SME (vs a listed company) in Japan was reviewed. Then the financial reporting framework used by companies within the category was also reviewed. Regarding the framework, in Japan, it was confirmed that various accounting standards and guidances (including IFRS and IFRS for SMEs) are permitted under the Companies Act as “business accounting practices generally accepted as fair and appropriate”. It was also confirmed that the use of IFRS for SMEs has not been widely adopted in practice and that national accounting standards are used in

developed countries outside of Japan.

Next, common practices employed by Professional Accountants (PAs) for SMEs were investigated. In Japan, it was confirmed that the PAs and audit firms provide assurance services mainly to listed companies and rarely to SMEs. In contrast, with the support of the International Federation of Accountants (IFAC), it was confirmed that the small and medium-sized accounting firms (i.e. outside of the large international accounting firms) provide wide range of assurance services to SMEs in overseas.

Finally, I analyzed the relationship between Japanese SMEs and IFRS for SMEs (or IFRS), the revision of the Civil Code and the trend of the administrative agency’s policy, the practical issues in the Companies Act, assurance services provided by PAs and their advantages/disadvantages.

The Cohesiveness of Direct Cash Flow Statement in IFRS X

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The purpose of this paper is to clarify the importance of cohesiveness to list the cash flow and financial statements side by side, based on the core principles of Financial Statement Presentation in IFRS X. According to the IASB 'Agenda paper' (2011) and the view of the advocates who valued the cash flow, this study aims to describe the report of business (operating) and financing activity, and the position of the direct cash flow statement in the financial statement.

The proposal of IFRS X divides the cash flow into the business and financing activity, and applying this consistency for the statement of financial position and comprehensive income. Furthermore, it will be required to limit to the direct method only for the description of the operating activity and to annotate the adjustment of operating cash flow out of operating income.

Meanwhile, the following problem would be pointed out.

Firstly, the finance leases should be included into the operating finance subcategory, and it is categorized to the financing activity which has strong relationship. That is the item concerning operating finance subcategory should be classified into either of business or financing activity according to its character. Secondly,

the statement of financial position should be indicated according to the elements, such as assets, liabilities and equity etc. Thirdly, the selective application of direct and indirect method, both should not be allowed.

The importance of IFRS X in the financial statements has been evolved providing direct cash flow information with the statement of financial position and comprehensive income. This makes the accountants agreed and changed their practice accordingly. Financial statements are basically the chart to indicate the corporate financial direction in the future. It is the means for the stakeholders to obtain the necessary corporate financial information. The financial statements must be effective, and to indicate the necessary but enough information, and it must be comprehensive to all stakeholders. The direct cash flow statement should be useful measure for this purpose.

IASB has been working to improve the effectiveness of information disclosure in Discussion paper(2017)"Disclosure Initiative – Principles of Disclosure". For this improvement, it is necessary to focus a cohesive financial statement of an entity's activities (business and financing activity) and to provide for direct cash flow information.

IFRS adoption and the accrual anomaly

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The main purpose of this paper is to investigate the accrual anomaly in Japanese stock market. In the investigation, I use IFRS based, Japanese GAAP based, and US GAAP based financial data prepared by Japanese firms and compare with these empirical results. As we know, Sloan[1996] first observes the accrual anomaly, and numerous studies seek to obtain deep understanding of the accrual anomaly. In the perspective of the international accounting studies, we need to focus on the studies that indicate the international evidence for the accrual anomaly and the IAS/IFRS adoption (e.g., Pincus et al.[2007]; Kaserer and

Klingler[2008]). In addition, this paper reviews the studies for the effects of IFRS on stock market, the explanations for the occurrence of the accrual anomaly (e.g., Richardson et al.[2010]; Chordia et al.[2014]; De George et al.[2016]).

This paper conducts the empirical analysis using Japanese firms' financial data prepared in accordance with IFRS, Japanese GAAP, and US GAAP over the period of 2014 to 2016. I observe the significant negative coefficients on accrual variables for IFRS firms and Japanese GAAP firms. However, the empirical results differ among years of analysis.

The Relationship between Financial Indicators of Local Governments' Financial Reports and Credit Bond Ratings - An International Comparison -

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The purpose of this paper is to investigate the effect of the implementation of full-accrual based financial reports in local governments on the relationship between financial indicators of local governments' financial reports and credit bond ratings (FR-BR relationship) in Japan. To achieve the purpose, this paper compares the FR-BR relationship in Japanese local governments and that in U.S. states. Japanese local governments have not yet completed the full implementation of accrual basis, but U.S. states completed the implementation in 1999. Therefore U.S. states are good benchmarks for comparison with Japanese local governments.

The results shows that the FR-BR relationship appears clearly in U.S. states, on the other hand, it does not appear in Japanese local governments. This paper points out three main reasons why the FR-BR relationship in Japan does not appear: lack of reliability or comparability, variance of financial healthiness, and implicit government guarantees. First, Japanese financial reports are not reliable or comparable enough for rating agencies

because of the incomplete of the implementation of full-accrual based financial reports. Second, the variance of the indicator of financial healthiness in Japan is much lower than that of U.S. states. This means that the differences in financial conditions among Japanese local governments are relatively small. This fact causes the weak FR-BR relationship in Japan. Third, some previous studies point out that Japanese central government "implicitly" offers the debt guarantees for local governments. This "implicit governmental guarantees" makes the credit bond ratings constant in Japan.

The implementation of full-accrual based financial reports in Japanese local governments cannot eliminate these factors immediately, but the results of this paper suggest the possibility of the appearance of FR-BR relationship in the future. This is the first-step to establish the approach to investigating the FR-BR relationship.

Financial reports of local governments can make an contribution to the credit bond ratings, and can be an important information-infrastructure in bond markets.

The current state and problems of corporate accounting in Myanmar: The lingering effects of the socialist and the new military regimes

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The objective of this study is to investigate the current state and problems of corporate accounting in Myanmar, also known as “Asia’s last frontier.” Myanmar is being transformed into a democratic nation following its turbulent history of regime changes from the colonial rule of the United Kingdom to the military regimes. Currently, it is aiming at economic development through the introduction of foreign capital. It is also planning to establish an infrastructure, including the formation of capital markets, and achieving fiscal soundness by establishing a tax system.

Research and education stagnated under the socialist and the new military regimes (it is called the new military regime to distinguish it from the socialist military regime). Thus, there are hardly any studies on accounting to use as reference. Further, there is a significant absence of necessary materials and data. Hence, conducting an interview survey in Myanmar was considered

to be effective.

This survey revealed that the awareness of compliance with accounting rules and accounting literacy is low in companies in Myanmar, which has become a major obstacle to institutional reforms in the country. Its causes include the destruction of accounting education brought about by Myanmar’s political system. The neglect of higher accounting education under both the regimes and the repression of students and faculties under the government’s “policy of non-politicization” following the democratization movement of 1988, which was mainly led by university students, has created a situation in which extremely few universities teach accounting (only 3 out of 169 universities). Therefore, no progress is being made in training advanced accounting professionals. This is considered to be the reason behind the serious lack of accounting literacy in Myanmar.

Unfunded Pension Liabilities and Innovation: Number of patent applications and number of cited patents

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The purpose of this research is to conduct empirical research on the relationship between unfunded pension liabilities and innovation. Specifically, we examine the effect of liabilities on retirement benefits on the number of patent applications and the number of cited patents.

Acharya and Subramanian [2009] conduct international comparison and report that the risk taking of Japanese companies is the lowest. In Noma [2015], one logic with low risk taking of Japanese companies is unveiled from the viewpoint of unfunded pension liabilities as inside debts.

While inside debts have the effect of deterring risk taking, there are studies showing that stock options granted to employees aggressively take risk taking and that as a result, innovation becomes active (Bova et al. [2015], Chang et al. [2015]).

Acharya and Subramanian [2009] show that innovation is hindered by bankruptcy procedures that prioritize creditors, and innovation becomes active under bankruptcy proceeding favorable to debtors. Japan's defined benefit pension is strongly protected and there is a possibility that it is hindering innovation.

So, what is the impact of unfunded pension liabilities on the quality of innovation? In this research, empirical analysis is performed assuming the least squares method, Poisson distribution, negative binomial distribution, etc, and between the unfunded pension liabilities, the number of patent applications, the unfunded pension liabilities and the number of cited patent citations I found a negative relationship. This suggests that the greater the unfunded pension liabilities, the lower the quality of innovation.

Research on Accounting Problems in Global Business

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This is a research related to accounting problems in global business. However, it is not a research on international comparison of accounting standards. Why? Because it is an approach from the viewpoint of Japanese companies only in their international or global management. It is not an approach considering that for Japanese companies, doing business abroad means facing different cultures, so that the point of view is management in cross-cultural environments. Thus, the important thing here is to be successful in cross-cultural communication. So, it is important to make efforts in cross-cultural understanding. Consequently, accounting can become a strong tool for this understanding, and sometimes it can turn to be a barrier. In this research, we consider that accounting is also one environmental factor for doing business abroad.

Takahashi emphasizes that for promoting cross-cultural communication, it is necessary to build an accounting system where financial and management accounting are consistent. Ozawa and Matsumoto explain

that to overcome cross-cultural factors related to funds management, it is important to have a global cash management. Tobita says that SMEs are flexibly applying domestic managerial accounting techniques adapted to local needs. From data about doing business abroad and the theory of foreign direct investments, Hayashi concludes that the adoption of IFRS is influencing the country of choice. Nakaoji and Sota, from interviews done in companies doing business in Taiwan, present cases where IFRS are adopted when it is difficult to adapt to the local accounting standards. Ogata points that companies voluntarily adopting IFRS in Japan, tend to do so from management points of view. We can think that doing business abroad is included here. And, in order to give a theoretical basis for Shiba's explanatory notes, Kudo suggests that research in Accounting as a culture and research in international transfer of technology may provide a theoretical basis for our research studies.

A Study on Integrated Financial Reporting Models for Business and Nonbusiness Organizations

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The purpose of this research group is to attempt to examine the financial reporting model that can be shared by organizations for both business and nonbusiness. It is obviously less relevant, whether for business or nonbusiness purposes, financial statements of some structures and presentations, which are prepared by carrying out different accounting procedures in accordance with their respective accounting standards, etc., while operating the same kind of business, for information users in particular from the viewpoint of comparability.

An integrated financial reporting model provides disclosure in financial statements and key performance indicators (KPI). In this final report, it is examined about the

model from a perspective of (1) entity theory, (2) cash conversion cycle, (3) income transaction and capital transaction, (4) exchange transaction and non-exchange transaction, (5) fund with/without restrictions, (6) performance and other considerations. It is also examined from the perspective of management accounting in addition to the auditing and taxation of the model. Furthermore, it is discussed International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS), and introduced the accounting system of New Zealand, which has been trying to share accounting standards with private and public sectors.