

IV Summary of Articles

# Concepts Underlying Financial Performance and its Measurement (Review of Basic Perspectives in its Analysis)

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The major objective of this paper is to explore the fundamental differences in basic concepts underlying IFRS and J-GAAP along which the two standards can be contrasted.

As a starting point for the discussion, several basic concepts traditionally cited as reflecting differences in performance measures of the two standards were examined. However, these concepts could at best only partially explain the differences between IFRS and J-GAAP. Furthermore, the traditional debates surrounding these basic concepts failed to relate the difference in accounting standards to the objectives of financial reporting. They merely described the difference in accounting standards and never ascribed the difference to the difference in basic concepts or perspectives.

The basic concepts underlying financial

reporting depends on its objectives and the environment surrounding it. If that is the case, what is most needed in clarifying the basic concepts is to link them with the objectives and environmental restrictions, which are in the higher-level hierarchies within the system of accounting. This paper remains limited to describing the hierarchical structure of fundamental concepts and the environmental factors surrounding them. Its contribution, if any, lies in offering an analytical framework. On the other hand, this paper does not resolve questions such as which level of fundamental concepts (and differences therein) give rise to the differences between IFRS and J-GAAP, or whether the differences in fundamental concepts are caused by variations in environmental factors. These are limitations of this paper.

# Presentation and Disclosure of Financial Performance - Focusing on IFRS18 -

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The purpose of this paper is to provide an overview of recent international trends in performance reporting based on IFRS18 *Presentation and Disclosure in Financial Statements*, issued by the International Accounting Standards Board (IASB) in April 2024, and to organize the underlying accounting concepts.

Focusing on three key amendments under IFRS18 related to performance reporting, i.e., 1) structure of the statement of profit or loss (subtotals and classifications), 2) grouping of information (aggregation and disaggregation), and 3) management-defined performance measures (MPMs), this paper first explains the background and main requirements of each amendment.

Then, with regard to 1), this paper addresses; Why is the operating category indirectly defined

as the default category? How does the IASB consider providing information about unusual income and expenses (to understand sustainable profits)? Compared to Japanese accounting standards, why there is no separate category for extraordinary items and on the other hand, why is the discontinued operation presented as a separate category? Why are income and expenses arising from equity-accounted investments finally determined to be included in the investment category? With regard to 2), this paper addresses; Why is the concept of “useful structured summary” introduced and how is it related to the fundamental qualitative characteristics in *the Conceptual Framework for Financial Reporting*? With regard to 3), this paper addresses; for what purpose MPMs are incorporated into the accounting standards.

# Measurement and Presentation/Disclosure of Corporate Financial Performance: The Effect of Sustainability Information to Financial Reporting

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Sustainability-related information itself is not financial performance. Although, if both information would be connected, sustainability-related information may be useful for investors.

Information connectiveness relates to (1) the figures of sustainability-related risks and opportunity, (2) sustainability-related information affecting investors' estimates of financial information, and (3) sustainability-related information affecting the measurement of corporate value.

Additivity is important for (1). Sustainability-related information used in the extent of (2), may affect investors' estimate of future corporate performance in changing the materials used in calculating discounted current value. Financial information disclosed in financial statements are past information,

but investors will confirm their estimate and the real figures by using sustainability-related information.

The article will first explain about how the IFRS Sustainability Disclosure Standards came into place by ISSB, and next about a brief review of the contents of IFRS S1 and IFRS S2. Moreover, if we want to present sustainability-related information to financial statements, we should overcome the problems of additivity, and to decide which society need which kind of valuable information. We will discuss these matters in the face of traditional financial accounting and disclosure theory.

Finally, we examined how to present or disclose sustainability-related information in financial statements in a rather radical way.

# A Study of Financial Performance as Credit Provision Indicators for Non-listed Companies - Based on the Revisions to IFRS for SMEs -

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The second revision of the IFRS for SMEs is currently in progress. Although the IASB initially planned to finalize the second revised version by the end of September 2024, discussions are ongoing to address two newly identified issues raised at the meeting on October 21, 2024. Consequently, the IASB has announced its intention to publish the finalized version in 2025.

The first edition of IFRS for SMEs was published in 2009, and in developing this first edition, a top-down approach (simplification and exclusion from full IFRS for listed companies) was adopted, and the target of application was mainly non-listed companies in developing countries and emerging economies. This means that the companies to which the standard applies are determined not by quantitative criteria such as the amount of capital or the number of employees, but by qualitative criteria such as whether or not they are listed. The objectives of the framework are to “enhance the international comparability of financial statements,” “improve the overall reliability of financial statements,” “reduce significant costs associated with maintaining domestic-based standards,” and “facilitate credit provision in

international financing.”

The first revised version of IFRS for SMEs was published in 2015, and revisions were made mainly to “income taxes” and “goodwill”, but there were no significant changes to other items.

In the second round of revisions after 2019, the term ‘alignment’ appeared, and the IASB directly and clearly stated that it would ‘align IFRS for SMEs with full IFRS’. Currently, under the “alignment approach,” efforts are being made to align numerous items with full IFRS, and deliberations are ongoing.

This paper first explains the current status and content of the second revision process of the IFRS for SMEs and clarifies the IASB’s intentions behind promoting alignment.

Next, it examines the reasons behind this alignment movement from four perspectives and highlights the fundamental changes occurring within the IFRS for SMEs itself.

Finally, the paper focuses on the primary financing methods of non-listed companies, examines financial performance as credit provision indicators required for extending credit to financial institutions, and emphasizes the importance of recurring profit (or loss).

# Formulating the Mutual Recognition Strategy of Accounting Standards in Japan: From the Analytical Lenses of Actor-Network Theory

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This paper attempts to clarify the process of formulating the mutual recognition strategy that was put forward as a response to international accounting standards in Japan, by considering the strategy as formed through the interaction of various domestic and foreign factors and their interactions, and by explaining in detail the existence of each factor, the nature of their interactions, and the mechanisms and processes of change that cause such interactions in the process of its formation. In doing so, we conducted an analysis based on the concept of “translation” in Actor-Network Theory. As a result, the mutual recognition strategy is captured as the result of a translation by KEIDANREN (Japan Business Federation). KEIDANREN expanded the problems of Legend and double disclosure that had existed in industry from the beginning to problems of accounting system in Japan and proposed the request for mutual recognition of accounting standards as a solution, enrolment the Financial Services Agency, JICPA, and ASBJ in particular. In this process, it became clear that international

environmental changes had been constructed domestically as an issue related to the reliability of Japanese standards.

Two major characteristics were seen in this process of consensus-building. The first was that KEIDANREN’s method of facilitating translation was to change the content of its publications in response to the actions of other actors. The second point was that there was a consensus of values among the actors. At the time, the actors in Japan shared the value that Japanese standards were internationally comparable and equivalent, based on the so-called “Accounting Big-Bang”.

In this paper, by adopting the perspective of Actor-Network Theory, we have been able to explain in detail the process of consensus-building by viewing the request for mutual recognition that is the institutional response to international accounting standards in Japan as a translation process carried out by the KEIDANREN. Actor-network theory would allow us to explain the debate over international accounting standards as a process of translation.

# A Case Study of Audit Failure in Addressing Non-Compliance with Laws and Regulations by Audited Entity: Audit Judgment, Duty of Care, and the Basis for Sanctions in the Rolls-Royce Case

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In this paper, we examine the Rolls-Royce case—whose sanction details were published in 2021—to gain insights into the auditing and regulation of non-compliance with laws and regulations by audited entities. This study aims to clarify specific issues from this administrative sanction case and deepen the understanding of the auditor’s responsibility and the nature of regulation. Specifically, it focuses on (1) the actual failure in audit judgment that led to violations of auditing standards concerning the audited entity’s non-compliance, (2) the specific duties of care

outlined by the regulatory body, and (3) the basis upon which administrative sanctions were imposed on the auditor. Particularly regarding the last point, we demonstrate that the FRC imposed administrative sanctions based solely on the audit standard violations themselves, regardless of whether material misstatements could have been detected. Since the FRC’s administrative sanctions serve as precedents influencing subsequent cases, the Rolls-Royce case is expected to become a leading case referenced in future administrative sanctions in the UK.

# Non-Financial Information for Valuation

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Over the past few years, there has been significant discussion regarding the institutionalization of non-financial information disclosure, particularly concerning its decision usefulness for financial capital providers. The International Sustainability Standards Board (ISSB) has played a central role in developing standards for the content of these disclosures. In Japan, the Sustainability Standards Board of Japan (SSBJ) has been established to deliberate on domestic standards. While the expansion of non-financial information disclosure is generally accepted, several issues require careful consideration in its specific implementation.

This research group aimed to examine non-financial information from the perspectives of both managers who disclose it and investors who utilize it. We employed various research methodologies, including model analysis, empirical analysis, interview surveys, and questionnaire surveys.

Due to space limitations in this final report, we will not reiterate the content of the interim report. Instead, we will only provide an overview of the subsequent research (detailed information can be found in the separately prepared full report). Firstly, we

present the findings of the second empirical analysis conducted by our research group. We measured the degree of current disclosure of each firm in terms of conformity with IFRS S2 and examined the relevance of these measures to market capitalization and firm characteristics. Next, we show the outlines of the questionnaire survey on sustainability information disclosure initiatives, including the specific questions and their rationale, the target respondents and survey period, the post-survey analysis, and remained issues.

We then discuss non-financial information from a management accounting perspective. To achieve effective non-financial information disclosure in the future, it is crucial for firms to adopt a proactive stance toward disclosure. To encourage this, it will be necessary to demonstrate the benefits of non-financial information disclosure for the disclosing firms themselves. As an initial step, we conducted an interview survey to understand their current views on non-financial information disclosure. Finally, we propose the roles that researchers should or are expected to play in the standardization and institutionalization process of non-financial information.

# Human Capital Accounting and Auditing

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Efforts to develop human capital disclosure systems are rapidly progressing in many countries, including Japan. Drawing on previous empirical and theoretical studies on the recognition, measurement, and disclosure of human capital, our research group aims to clarify the development and challenges of human capital disclosure and assurance (audit) systems as implemented by standard-setting bodies and international organizations

in major developed countries.

This interim report, as a summary of the first year of our research, offers a theoretical overview of human capital and human capital accounting from the perspectives of business administration, financial accounting, management accounting, and auditing. It also examines the current human capital disclosure systems in the EU, the United Kingdom, and Japan.