

#### IV Summary of Articles

## **The global concurrent financial crisis and International Accounting : Issues and Challenges**

**Chitoshi Koga**

Kobe University

The core issue in the main Plenary Session in this annual meeting highlights the fair value accounting in the global concurrent financial crisis. This accounting issue, however, should not be treated just as one special issue in the financial crisis, but widely explored as the essential critical issue underlying the International Accounting Standards. From this viewpoint, this paper primarily deals with the following three matters. First, the major issues presented in this Session were scrutinized and largely classified into the following three sectors ; those issues re-

lated to the rule-setting sector (fair value accounting, off-balance-sheet entity), assurance sector, and monitoring and regulatory sector. Secondly, we pointed out that the fair value accounting should be carefully examined in terms of the comprehensive frame of reference underlying the fair value accounting. Finally, we proposed to ensure an accelerated implementation of the grand design for the most adjusted disclosure system to the Japanese economic and business environments.

# The Impact of Financial Crisis on the Convergence of Accounting Standards

**Tatsuhiko Tashiro**

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The purpose of this paper is to examine the impact of the simultaneous world financial crisis in 2008 on the international convergence of accounting standards, and to reconsider what should be of the convergence in the future.

The impact of the financial crisis appears as the heat up of the politicization of accounting at least on the surface. But

it bring out that there are more complex political factors and difficulties in standards-setting process in international context than in domestic.

Additionally, it is considered that problems will be caused by the accounting standards-setting monopoly, and reconsidered the *raison d'être* of alternative accounting standards.

# Mixture of Financial Regulations and Accounting Regulations for Financial Institutions : Economic Impact of Capital Adequacy

**Ichiro Hoshino**

Hiroshima University

This paper, as stated in its title, considered the relevance of accounting regulations and financial regulations for financial institutions by focusing on the economic impact of capital adequacy requirements. In doing so, this paper examined the realities of the mixture of backgrounds and impacts of several concepts and issues, by placing particular emphasis on the relationship between policy and politics.

As a matter of course, it is not possible to examine these kinds of broad and complex phenomenon comprehensively and systematically. This paper can be thought of as contributing a fresh perspective to existing theory by scrutinizing the network between institutions, systems and other factors.

Some of the conclusions in this paper are as follows. This paper pointed out that : the financial crisis and world recession occurring from September 2008 creat-

ed a new development in politics and internationalization discussed to date in the field of accountancy, by mixing accounting regulations, financial regulations and accounting standards ; and in that process or as a result of, these sets of rules have themselves become colored as a kind of international treaty with factors of diplomatic negotiation becoming infused in the process of creating and establishing them. Of course, these conclusions are not easy to claim, but by adding the circumstances to date, the background and theoretical and political considerations, this paper was able to make a certain amount clear.

The examination and conclusions in this paper can be thought of as providing a certain kind of analytical framework. I hope that authors, including the author of this paper, will utilize these results effectively, to produce developmental research results.

# Auditing during the recent fragile economic environment and expectations for CPAs in the years to come

**Takao Inohana**

Certified Public Accountant

The current harsh economic environment surrounding financial markets and general industries has heavily affected many companies' financial results and made it more difficult for CPA professionals to audit financial statements. The purpose of this paper is to identify significant matters encountered by independent auditors during recent financial statement audits. Examples include going concern, recoverability of deferred tax assets, inventory valuation, impairment of long lived assets, revenue recognition, valuation of securities and inappropriate accounting.

In an increasingly global economy, CPAs are required to think critically on multiple accounting issues and make proper judgements. With the upcoming implementation of principle-based IFRS in Japan, CPAs will need to independent-

ly judge a greater number of complex issues in the future. Currently, in Japan no educational prerequisites are required for candidates taking the CPA examination, which is very unusual compared to other countries and jurisdictions.

It is anticipated that one set of high-quality, global accounting standards and one set of global audit standards for all multinational firms irrespective of their domiciliation will ultimately prevail. Furthermore, the different CPA qualifications in major economically developed countries will likely become standardized and recognized by multiple licensing bodies. The present situation in Japan of not stipulating certain educational requirements to sit for the CPA examination may be viewed negatively by other countries and jurisdictions.

# Auditing and Control Issues Related to Fair Value Measurement of Derivative Instruments

**Koji Ikeda**

Konan University

With the advent of world financial crisis triggered by the bankruptcy of Lehman Brothers, fair value measurement of derivative instruments (especially Level 3 of the fair value hierarchy) becomes a hot topic in international accounting research. As for fair value measurement of derivative instruments, IFRS and U.S. GAAP require reporting entity to use “quoted market price.” However in the case of customized derivative instruments, because of the lack of trading market reporting entity applies “valuation model” such as Black-Scholes Model to estimate the theoretical price of fair value. In this case, unobservable inputs using estimates and assumptions determine the fair value of customized and complex derivative instruments. *AICPA Audit Guide for SAS 92* pointed out the difficulties to audit derivative instruments as follows. For auditors, the increases in the number and use of complex derivative instruments have resulted in changes in the approach to auditing of financial

statements of many entities. For example, evaluating audit evidence related to assertions about derivative instruments frequently requires the use of “considerable judgment,” particularly for valuation assertions, which can be particularly sensitive to changes in underlying assumptions or based on highly subjective estimates. Auditor needs special knowledge and skills for assessment of inherent and control risk and design of substantive procedures. In the process of substantive procedures, auditor’s knowledge of financial engineering and information technology is necessary for sensibility analysis. This paper explores new auditing approach to subjective fair value measurement of derivative instruments derived from valuation metrics. To elaborate the research of International Standards on Auditing (ISA) related to fair value measurement of derivative instruments, we need to develop the new auditing theory on Soft Accounting Information.

# Global Convergence of accounting Standards and Accounting for the Impairment

**Kiyoshi Misawa**

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Since the Norwalk Agreement in 2002, the FASB and the IASB published the Memorandum and Understanding (MOU) in 2006, and the U.S. Securities Exchange Commission (SEC) proposed the forced application of the IFRS in August 2008.

In December 2008, the European Commission made the final decision of the equivalent evaluations of the convergent works of the international accounting standards.

In the processes of these convergent works, the convergent direction of the impairment accounting, the asset valuations on the basis of the fair value, and the accounting for the impairments of goodwill have been examined.

However, the specific and fundamental issues of the impairment accounting has been unresolved. Some of these issues are the problems of the recognition of impairment losses and its applications of the fair

value as the measurement basis, and the changes from the periodic depreciation of goodwill to the impairment of it, or accounting for the reversal of impairment losses.

Accounting for the reversal of impairment losses are allowed by the SFAS and the accounting standards in Japan, but the IFRS doesn't allow its treatment. The reversal of impairment losses involves the important problems of the theoretical integrity of accounting.

This paper reviews some of the fundamental problems of the impairment accounting and researches the directions of the global convergence of the impairment accounting. Additionally, it compares the traditional accounting standards in Japan and the recent accounting standards that have been developed in Japan after the Tokyo Agreement in 2007 and considers the future direction of the global convergence of accounting.

# Derecognition of Financial Assets under International Financial Reporting Standards : Interaction with Consolidation of Special Purpose Entities

**Norihide Takechi**

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This paper discussed interaction between derecognition of financial assets and consolidation of SPEs (Special Purpose Entities) under International Financial Reporting Standards. IASB have been considering the interaction over more than decade. As a result, IASB made the decision to introduce “Derecognition is assessed at the consolidated level” on IAS 39 (2003). On the grounds of this notion was to compatible with control concept on derecognition and consolidation. This concept was continuing

on Exposure draft on Derecognition (2009). In contrast, Alternative view on Exposure draft was not considered the interaction, as similar to IAS 39 (1998). The basis of alternative view was the accounting consequence provided when both accounting procedures were applied. To respect an original meanings of financial components approach (control approach), it is supported to accept derecognition of financial asset is assessed at the consolidated (reporting entity) level.

# Considerations relating to the Globalization of Accounting Standards and Treatments of Distributable Profit

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In these years, the movement toward the convergence/adoption of accounting standards has been proceeding rapidly. On the other hand, the systems of corporate law and of accounting for corporate law are still at the discretion of each country, and thus we cannot see any action toward the unification of corporate law.

The purpose of in this paper is to examine how to coordinate these two systems in Japan, where accounting for corporate law and financial accounting have maintained close relationship with each

other.

In this paper, I investigated the cases of other countries, especially of U.S. and UK, since those countries' cases indicate the most prominent example how to deal with distributable profit.

Considering the surrounding environments, Japanese standard setters will have to follow the similar way as the European countries, seeking insights into depth and breadth of issues relating to the globalization of accounting standards and treatments of accounting for corporate law.



# Isomorphic Process and Its Related Issue of Control and Accountability in Higher Education : A Case of AACSB Business Accreditation

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Assurance is an institutional basis for that organization's activities and products are credible. There encompassed with control and accountability. For higher education, accreditation is a vehicle of assurance and it becomes more important in global context. An example is AACBS business accreditation. Although AACSB is accreditation institution in U.S., over 570 business schools from the over 30 countries and regions have been accredited.

This paper introduces the concept of "isomorphism" emphasized by new institutionalism in order to explain the national and global expansion of AACSB business accreditation. AACSB business accreditation has coursed "institutional isomorphic process" in the organizational field of business schools, in the sense that schools adopt "similar" form or style of strategic management, faculty recruiting policy, and so-called outcome assessment for assurance of students' learning. The

type of this isomorphism is not only "mimetic" and "normative" but also "coercive" for the international business schools, because they compete to recruit faculty and students globally and therefore desire to acquire legitimacy as "high quality business school" in global environment.

Accreditation is also a vehicle to control higher education. AACSB business accreditation is a form of self-control by a private sector based on organized network of schools and their constituents. In this context, the basis for assurance of schools is maintenance for relationship to various constituents or stakeholders, including potential and current students as consumer. Discharge from accountability is critical to maintain the relation and protect the consumer. There is a contrast to underemphasis on consumer protection and overemphasis on accountability to government caused by intensive regulation to higher education in Japan.

# INFLUENCES GERMAN TAX LAWS HAD UPON ACCOUNTING REGULATIONS

—How did a preferential tax system influence  
book-keeping rules of tax and commercial laws? —

**Takashi Sakamoto**

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In postwar Germany, a lot of preferential taxation steps were taken from the economic viewpoint aiming for reconstruction of war damages and the following economic growth promotion. After 1949 in particular the presentation of regular bookkeeping was a precondition to demand a series of preferential taxation steps. (This linkage system of preferential taxation steps with regular bookkeeping corresponds to blue-report business income taxation in Japan.) Income tax rules take advantage of GoB as the condition for applying for preferential taxation steps as well. The legislative policy noting that the propriety of taking preferential taxation steps or not is to be based on regular bookkeeping, however, came in for severe criticism and therefore the linkage system of preferential taxation steps with regular bookkeeping was abolished in the business year which ended before January 1, 1975.

The following are influences which the linkage system of preferential taxation steps with regular bookkeeping had.

① A contribution to maturing the concept of regular bookkeeping

The linkage system of preferential taxation steps with regular bookkeeping helped judgments upon the regularity of bookkeeping to integrate, and as a result it has a lot of influences on the development and the decision of the concept of the formal GoB. And then a series of judgments which were given from the view of both ‘an agreement between the regulation of commercial laws and the principles of regular bookkeeping’ and ‘the possibility of the whole report being submitted to merchants and a third party having professional knowledge’ still show one of the significant standards of judgments about interpreting the regularity of bookkeeping.

② Application areas of regular bookkeeping

In judging the propriety of whether to take preferential taxation steps or not, there exist only a few documents prescribing the denotation of regular bookkeeping. A series of judgments make it clear

that GoB relating to preferential taxation steps is broadly interpreted as the formal GoB involving the area of the formal GoBi.

③ The principle of clarity

The principle of clarity, that is, the viewpoint of ‘the possibility of the whole report being submitted to merchants and a third party having professional knowledge’ is supposed to be the general and decisive standard of regular bookkeeping.

④ Reference to the substantial intention of bookkeeping

Emphasis should be particularly put on the fact that judgments point out bookkeeping is not an object in itself. Bookkeeping is not the end itself. Demands for the composition of bookkeeping depend on the contents and the sizes of businesses.

⑤ Elevation of the tension in bookkeeping

The linkage mentioned above seems to have contributed to raising bookkeepers’ tension and then leading to bookkeeping of higher quality. Tax reduction and exemptions admitted by tax exception rules reached so high in those days that sudden penalty tax additions by reexamination forced merchants and companies into serious financial difficulties.

⑥ Codification of Fundamental Taxation Law (1977) and Commercial Law Amendment (1985)

‘The principles of the possibility of the whole report being submitted to merchants and a third party having professional knowledge’ and ‘The principles of the possibility of reexamination (follow-up)’ were each codified into the first and second sentences of sub-section 1, Section 145 of Fundamental Taxation Law (1977) and the second and the third sentences of sub-section 1, Section 238 of Commercial Law Amendment (1985).

# The Persistence and Pricing of Domestic and Foreign Earnings for Multinational Firms

**Takashi Asano**

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I investigate how market prices the persistence of domestic and foreign earnings for multinational firms and whether the pricing is affected by the quality of geographic segment reporting. I use Mishkin [1983] test, multiple regression analysis, and a zero-investment hedge portfolio test. I find (1) market underprices the persistence of foreign earnings ; (2) the mispricing of foreign earnings observed in firms with low quality reporting no longer exists in firms with high quality reporting. The latter is important because market's mispricing of foreign

earnings lessens as segment reporting quality increases. In US, market's mispricing observed in the pre-SFAS131 period diminishes after SFAS131. In Japan, the new standard about segment reporting is effective for fiscal year beginning after March 31, 2010. New standard introduces management approach and achieves the convergence with international standards such as IFRS and SFAS. The results of this study suggest that positive effects may occur following the implementation of new standard in Japan.

# Thoughts on *IFRS for SMEs*

**Masataka Hiraga**

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The purpose of this study is to reveal the basic concepts which *IFRS for SMEs* is based on. *IFRS for SMEs* is a set of standards, which includes 35 sections, for entities that 1) do not have public accountability, and 2) publish general purpose financial statements for external users.

*IFRS for SMEs* is set forth by simplifying full IFRSs in terms of users' needs of SMEs financial statements and cost-benefit considerations. Analyzing the differences between *IFRS for SMEs* and

full IFRSs caused by the simplification, the IFRS has two features. That is the simplified recognition and measurement principles based on 1) revenue and expense view and 2) historical cost basis. However, section 2 in *IFRS for SMEs*, which is the conceptual framework of the IFRS, is grounded on the asset liability view and fair value basis.

This finding means that nature of *IFRS for SMEs* does not differ from that of full IFRSs.