Ⅶ Summary of Articles

Economic Globalization and Consequent Conflicts in Accounting and Accountability Issues

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The objective of this study is to investigate the impact of economic globalization on conflicts in accounting issues by shedding lights on the contradictory two processes; "the universalization of particularism" and "the particularization of universalism". After the significant accounting reforms (called "accounting big bang") initiated in 1997, Japan is obliged to adopt global standards (Anglo-American models); however, Japan has operationalized (particularized) these standards and models to relief the conflicts between global and local aspects.

Indeed, during the accounting big bang period, operational devices, such as adequate preparation periods as well as a series of exceptional and materiality rules, were provided to adopt new accounting standards. The Business Accounting Council (BAC) allowed the voluntary adoption of International Financial Reporting Standards (IFRS) starting in the March 2010 fiscal year-end for consolidated financial statements; however, the BAC postponed the decision concerning the mandatory adoption of IFRS indefinitely given the importance of local social, historical, political, and economic factors. The Accounting Standards Board of Japan (ASBJ) has developed Japan's Modified International Standards (JMIS) not only to promote voluntary adoption of IFRS but also to express Japanese constituents' views that are consistent with Japanese-specific institutional factors (including the importance of the concept of net income and long-term perspectives) to the International Accounting Standards Board (IASB).

Even if globalization makes much progress, the importance of localization will not reduce. This is because, given the institutional complementarity in each country, there is no guarantee to say that IFRS is the "best practice" for all countries. This is also because, monopoly of accounting-standard setting may lose the opportunity of fair and free competition, and thus, innovation of accounting standard-setting.

Nonetheless, this study specifically suggests that consideration of local contexts is important not only to achieve "particularism" (national interests) but also to enhance the quality of global standards and practices, namely "the universalization of particularism".

Economic Consequences of the Globalization of Accounting Standards: Evidence from Changes in the Lease Accounting Standard

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This study examines the economic consequences of the globalization of accounting standards using finance leases in Japan. When Japanese firms adopted Statement No. 13, *Accounting Standard for Lease Transactions*, they could choose to either recognize or disclose preexisting finance leases that do not transfer ownership to lessees (FLNO). This study uses propensity score matching to compare firms that recognize FLNO in financial statements to those that disclose them in the notes. The effects of this accounting choice on the cost of debt is then assessed using difference-in-differences analysis. The results show that firms that choose to recognize preexisting FLNO are more likely to lower their cost of debt than those that choose disclosure after the adoption of Statement No. 13. Since recognized amounts in financial statements are more likely to reduce information asymmetry between managers and capital market participants than disclosed financial information in the notes, the result suggests that the difference in recognition and disclosure has significant effects on firms' costs of capital. This research contributes significantly to the accounting literature on recognition versus disclosure and has important implications for the discussions on the on-balance sheet treatment of lease arrangements.

Current Status and Future Opportunities around Global Management Accounting Research in Japan

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The purpose of this paper is to address the current status and future opportunities around global management accounting research in Japanese academic field.

Japanese management accounting researchers have shown significant interest in the globalization of firms' activities over the past two decades. Prior research has proposed firms' strategic types of globalization, described characteristics of practices, and explained these by using some theoretical perspectives. While most of Japanese research, however, has focused primarily on the characteristics of global management accounting practices, only limited research has examined following two issues; (1) determinants of global management accounting practices (i.e., cultural, organizational, institutional and environmental factors), (2) consequences of global management accounting practices, specifically the costs of designing and executing these practices (i.e., efforts that are invested to resolve complex communications, misunderstanding of priorities, and conflict).

In this paper we review relevant research with regard to these two issues (determinants and consequences of global management accounting practices) and propose implications for Japanese academic field. In addition, we show some future research opportunities for Japanese researchers to contribute to international academic field.

Considering Application of International Financial Reporting Standards from the Perspective of the Financial Consensus
― Outline of unified theme ―

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The 9th East Japan subcommittee of the Japanese Association for International Accounting Studies was held at the Faculty of Economics, Nihon University, on Saturday, July 7, 2018. The subcommittee meeting was conducted smoothly, principally by the chair of preparation committee, Professor Osamu Furusho, along with another member of the preparation committee, Professor Naoharu Hiki. There was some concern raised due to the lack of participants, mainly on account of the overlapping schedules of different subcommittees held by other accounting-related academic societies and weather conditions. Nonetheless, in reality, many members of our association were able to participate to the subcommittee.

The unified theme of the subcommittee was “To consider application of international financial reporting standards (IFRS) from the perspective of the financial consensus.” The latter financial consensus means matching or approximating profit based on financial accounting and management accounting. As indicated by the headquarters’ salutation, this theme focused on the financial consensus with respect to arguments regarding “A process to solve tasks to integrate financial reporting standards of Japan and IFRS.” We invited three professors to report on the theme from the perspective of their specialisations. In addition to that, we also asked the three professors to discuss their current situations and any issues pertaining to the financial consensus of firms in Japan, from the perspectives of both logic and business practices.

Significant impacts and challenges of the entity's practical implementation of IFRS 15 *Revenue from contracts with customers* and a new Japanese revenue standard

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In 2015, the Accounting Standards Board of Japan (ASBJ) started its standard setting activity to develop its new revenue standard in consideration of IASB's issuance of IFRS 15. Based on feedback received from various constituents in Japan, ASBJ decided that the starting point for its development of a new revenue standard should be the general guidance of IFRS 15. At the same time, ASBJ decided it was desirable to develop several exemptions to reduce the entities' burden of practical implementation as a voluntary option in limited situations where the comparability across financial statements of different entities would not be significantly undermined.

Both IFRS 15 and the new Japanese revenue standard require more accounting judgements and estimates based on a contract with a customer, and accordingly the impacts of implementation in practice are extensive. The real-life effects of IFRS 15 and the new Japanese revenue standard will not be limited to those on the financial statements of periodic financial reports but will likely also extend to non-financial areas such as internal controls. Therefore, IFRS 15 and the new Japanese revenue standard affect both financial and non-financial management and operations at and after the implementation.

One of the significant impacts of implementation is on management accounting. It is undeniable that applying a consistent policy or approach of revenue recognition to both financial accounting and management accounting is neither required nor necessary as each accounting has a different objective. However, it might provide a useful information about the revenue and related information in practice when both financial accounting and management accounting apply the same accounting policies of revenue recognition with some practical adjustments as necessary.

This paper was prepared based on the author's presentation at the regional research meeting of the Japanese Association for International Accounting Studies on July 7, 2018. The views, thoughts and opinions expressed in this document belong solely to the author and not necessarily to any other group, or individual.

Adoption and Localization of IFRS in Taiwan

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The purpose of this paper is to consider Taiwanese strategy concerning the introduction of IFRS, based on the evidence of its adoption and localization in Taiwan. The main points which arise are:

① The background to the adoption and adaptation of IFRS is the global trend to enhance the comparability of financial reports. The aim is the revitalization of the Taiwanese capital market, to the benefit of its leading industrial sectors, achieved through the improved efficiency of setting accounting standards.

② A gradual process of convergence minimized the disruption which would have resulted from a rapid switch to IFRS from local GAAP.

③ Taiwan regulators invested in global companies and supported the application of IFRS. The process was widely released as an example case, and promoted the smooth adoption of IFRS by all public companies.

④ By applying IFRS-based accounting standards to private companies, they can appeal Taiwan's accounting system as a global standard.

While Taiwan strategically introduces IFRS, localization of accounting practice is also assumed. Revenue recognition criteria on tax law are different from accounting revenue recognition criteria. However, in practice some cases are observed applying the tax standards rather than the accounting standards.

In future I wish to consider to what effect the application of IFRS 15 from January 1, 2018 will have an accounting practice and tax laws.

A study on level 2 fair value disclosures

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More than one method is used to measure fair values for financial reporting. However, the reliability of these two measurements differs. Therefore, the IASB and FASB have separated fair values into three levels, called the fair value hierarchy, to indicate differences in reliability. In my opinion, the current disclosure is insufficient.

Prior studies have analyzed the value-relevance of fair values by separating them into three levels and into accounts. These results generally agree that level 2 measures have value-relevance, but do not agree that every account classified as level 2 does. This means that, although there are some level 2 fair values that are not value relevant, when fair values are separated into "only" three levels, they are regarded as value relevant information, thus misleading information users.

To solve this problem, this study suggests a new hierarchy that splits level 2 based on the causes of this problem, such as differences in market activity and the possibility of observing important inputs. The new hierarchy will provide better separation.

By focusing on disclosure of level 2 fair values, this study indicates the need to improve disclosure of measurement reliability.

Characteristics and problems of capital maintenance in International Public Sector Accounting Standards
- Comparison with Accounting Standards for Incorporated Administrative Agency -

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The purpose of this research is to compare the International Public Sector Accounting Standards (IPSAS), which are applied to the public sector but have the concept of capital, and “Accounting Standards for Incorporated Administrative Agency” and “Annotations on Accounting Standards for Incorporated Administrative Agency” (Standards for Incorporated Agency), which also have the concept of capital, in order to clarify the characteristics and problems of capital maintenance in IPSAS from the viewpoint of the relationship between intention of resource contributors and performance disclosure. I believe that clarifying this point will contribute to the examination of how the intention of resource contributors should be reflected in the performance disclosure in the financial information of the public sector.

As a result of this research, it has been found that IPSAS, assuming the entity model, is trying to maintain the comparability with financial reporting of commercial enterprises, by recognising not only “exchange transaction” but also resource inflows from “non-exchange transaction” such as tax revenue as a mean of cost recovery of provided administrative services and also recognising resource inflows from “non- exchange transaction” as revenue. On the other hand, for the distinction between capital transactions and profit and loss transactions, it has been founded that IPSAS distorts the profit performance because it does not take into account the intention of individual resource contributors unlike Standards for Incorporated Agency, and as a result the intended capital is not recognised.

Furthermore, in a view of capital concept, it has been founded that IPSAS distorts the profit performance because it assumes only nominal capital concept unlike Standards for Incorporated Agency, so the continuity of capital circulation is denied and the capital at the level intended by the resource contributor is not maintained.

Also, it has been founded that IPSAS distorts the profit performance because it does not differently treat the maintenance of capital in the case where resource contributors do not intend to collect invested capital unlike Standards for Incorporated Agency, so a reduction in substantial capital is not recognised and only the cost unintended by resource contributors is recognised.

Developments of Cash Flow Accounting
—Cash Flow Accounting Linked with Realizable Value—

Nobuo Kamata
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Accrual accounting includes many subjective judgments. Some critics argue three deficiencies of accrual accounting as follows, (1) cost allocation to goods or periods is not based on real transactions or events, (2) the matching costs with revenues are basically arbitrary because they are practically impossible, (3) historical costs are not relevant to decision making.

In response to these critics, in 1971, APB issued "Reporting Changes in Financial Position" (Opinion 19). Since then, the needs for cash flow information have grown steadily. Nowadays, accounting standards setting bodies require a statement of cash flows as a set of financial statements. Users need the information about liquidity as well as profitability. Financial performance of a firm is assessed in terms of cash flows which reflect changes in the capability to command resources.

Chambers and Lee wrote the books which attracted many persons. Chambers proposed the notion of adaptive behavior of a firm which has affected the concept of Lee's continuity of entity. Lee maintains that if a firm is to survive, it must adapt to changing economic condition. Therefore, the information on the realizable assets is necessary. Lee's financial statements consist of four financial statements that can link the realizability of the changes of net assets with cash flows.

Some of the cash flow reporting concepts have been already incorporated into IASB and FASB conceptual frame work and standards. These movements suggest us that cash flow reporting system may only be the future financial accounting system.

International Comparative Research regarding the mandatory Application of IFRS

Chairperson: **Takayuki Nakano** (Hosei University)

Members: **Takefumi Ueno** (University of Shizuoka), **Clemence Garcia** (Gakushuin University), **Tomomi Shiosaki** (Kyushu University), **Hirokazu Naruoka** (Senshu University), **Tomohiro Noguchi** (Aichi Gakuin University), **Masataka Hiraga** (Aichi Gakuin University), **Tatsumi Yamada** (Chuo University), **Noriaki Okamoto** (Rikkyo University), **Jonghoon Kim** (Hitotsubashi University), **Noriyuki Tsunogaya** (Nagoya University), **Satoru Nishiumi** (Aichi Gakuin University), **Naofumi Higuchi** (Certified Public Accountant), **Miao Xinyun** (Sugiyama Jogakuen University)

Observers: **Su Yan** (Graduate School of Commerce, Waseda University)

The purpose of this study is to discuss what kinds of economic effects and costs emerged in countries and regions where the International Financial Reporting Standards (IFRS) were mandatorily applied from multiple aspects by analyzing systems and actual situations, and conducting empirical analysis, to obtain academic evidence, and then report the policymaking-related and practical findings regarding the mandatory application of the IFRS based on the obtained evidence. We formed two research teams. One is the institution analysis team, which analyzes systems and actual situations mainly for grasping facts based on qualitative data. The other is the empirical analysis team, which engages in quantitative empirical analysis mainly for grasping facts based on quantitative data. We try to shed light on the facts in countries where the IFRS were mandatorily applied based on two approaches in a multifaceted and comprehensive manner.

We achieved mainly the following two outcomes. Firstly, the institution analysis team qualitatively clarified the facts of the International Accounting Standards Board (IASB), which formulated the IFRS, and the countries and regions where the IFRS were mandatorily applied (Germany, France, the U.K., Australia, Canada, Malaysia, and South Korea) before and after the mandatory application of the IFRS. At present, the number of jurisdictions where the IFRS are mandatorily applied exceeds 100, and it is impossible to study all of them. Accordingly, we chose 7 countries that are important to Japan. Secondly, the empirical analysis team carried out a survey regarding the mandatory application of the IFRS, to study (1) the effects on the quality and comparability of financial statements, (2) the effects on the capital market, and (3) the effects on stewardship accounting and debt contracts. For our final report, we plan to conduct theoretical and empirical research of the voluntary application of the IFRS in Japan, in addition to the above research.

Research on Accounting Problems in Global Business

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This is a research related to accounting problems in global business, with an approach considering accounting problems in facing cross cultural differences. Companies doing their business globally are forced to struggle with cultural differences in the foreign markets, so they start to think about cultural issues. The culture they encounter might trespass the boundaries of a country, or there may be multiple cultures in just one country. Companies may do business globally, but at the same time, they must face management problems for dealing with local differences. When we recognize those realistic management problems as cultural issues, we have a new approach. When this new approach is applied to accounting, it becomes a cross cultural accounting. Here, the object of the research is culture and accounting, that means, the cultural differences that are environmental restrictions and the accounting behavior of the companies to adapt their business locally. In a few words, International Accounting is the one considering the relations between a country and accounting, Global Accounting is the one considering the relations between the market and accounting, but we focus in the relations between culture and accounting, to make a basic research for the establishment of Cross Cultural Accounting.