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CONSIDERATIONS REGARDING THE JAPANESE ACCOUNTING SYSTEM

PhD. Student Anatol MELEGA
Stefan cel Mare University of Suceava, 720229, Romania
melega.anatol@gmail.com

Abstract
The economic evolution of a nation is closely correlated with the customs, accounting and fiscal regulations, characteristics, nuances, values, practices, customs that have developed since the emergence of the state. Without a preliminary analysis of these determinants, the task of understanding the Japanese accounting system or the Japanese economic system in general would be difficult to accomplish. In this paper we aim to analyze the Japanese accounting system together with all its particularities.

Key words: *accounting profession; IFRS; globalization; harmonization*

JEL Classification: *M40*

I. INTRODUCTION

The globalization of the world economy has had as an effect at the same time as a catalyst the emergence and operation of multinational companies. Because their subsidiaries and branches operate in different countries, they are subject to the accounting regulations of the respective countries, which makes it difficult to obtain globally comparable data. Thus was born the need to harmonize the accounting systems of the countries of the world, thus increasing the possibility of making well-founded investment decisions.

The accounting systems were created in order to ensure the necessary and quality information necessary for the managers' decision-making. The quality of accounting information is influenced by various factors, such as: geopolitical, economic, traditional factors, etc. The development of capital and financial markets has highlighted the need for convergence of accounting systems.

In a broad sense, the accounting system represents the set of concepts, theories, principles, recording and control techniques, jurisprudence, institutions and mechanisms that contribute to obtaining accounting information.

The Japanese accounting system has recently undergone a number of changes in the context of the globalization of accounting. Due to its economic power and the process of internationalization of accounting, Japan felt the need to adapt the Japanese accounting framework to international norms. The Japanese government, in close collaboration with the bodies of the Japanese accounting profession, has developed a series of projects to align the Japanese accounting system with international financial reporting standards.

II. HISTORICAL REFERENCES REGARDING THE ACCOUNTING OF JAPAN

In the paper, International Accounting, Mueller, Gernon and Meek (1994) classified the countries of the world into four large groups according to the particularities of their accounting systems, and Japan placed it along with most European countries in the Continental Group (Walton, Haller & Raffournier, 2003).

In Japan, the accounting regulations are determined by the Commercial Code of 1899, led by the Ministry of Justice and the Securities and Securities Act of 1948, adopted under the influence of the American standard of reporting and auditing.

Japan's industrialization began in 1868 after the Meiji Restoration. In 1890, the first Franco-German-inspired Commercial Code was adopted, aimed at protecting the interests of creditors and the state, as the main collector of taxes and fees.

Before World War II, the Japanese economy was controlled by a small number of so-called Zaibatsu, industrial-political consortia that usually involved a bank and relied on noble families. The importance of banks and the many aspects of business control continues today, although informal groups called Keirestu have replaced Zaibatsu.

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In the period 1949-1950, the Financial Accounting Standards for Enterprises were issued and clear regulations were established regarding the terminology, forms and methods for preparing the financial statements. Also during this period, the Japanese Institute of Certified Public Accountants (JICPA) was established as a self-disciplinary association.

Between 1950 and 1990, a number of important events took place in Japan that influenced the development of accounting and auditing. Among the most representative events that marked the Japanese accounting system are:

- 1951- the Tax Accounting Law was adopted;
- 1960- the editing of the first professional accounting publication of JIPCA has started;
- 1963- the financial statements of companies whose shares are traded on conditions other than the stock exchange have become subject to audit;
- 1967- the first audit corporation was established, in accordance with the Law of Certified Public Accountants;
- 1971- accounting standards have been issued for private schools;
- 1975- the Accounting Standards for the Consolidated Financial Statements have been issued;
- 1981- the Audit Manual was issued by the JIPCA audit committee.

After World War II, Japan became one of the world's largest economic powers. The capitalization of the Tokyo stock market, by the end of 1989, surpassed that recorded in New York. At the end of 1994, it was more than three times the market capitalization of London. In 1994-1995, the world's first six largest banks were in Japan. In 1998, with the devaluation of the national currency (yen) and due to the decline in the stock market, none of the 6 banks were Japanese.

During the 1990s, the Japanese stock market experienced a massive devaluation of stocks and assets, which led to a need to reorganize and recover the banking system. At the same time, it is noteworthy that this decline in the stock market has led to an opening to change and external influences in accounting. Japanese accounting is heavily influenced by the state.

The long-term international influences felt on Japan's financial reporting were those of the United States on the Securities and Trading Law and of Germany on the original version of the Commercial Code. US influence has limited the involvement of the IASC (Internal Agency Standing Committee). However, from 1993 to 1995, the IASC was chaired by a Japanese president, which led to an increase in international influence in Japan. In 2001, a private sector regulation standard was largely developed in order to connect with the new IASB standards.

Modern and conservative, Japanese accounting is the image of the economic system as a whole. The Japanese accounting framework has long oscillated between its German origins and the modernization introduced by the American occupation. Long before the importance of international norms increased, the mixture of the two accounting philosophies - investor information and third party protection - already made this reference an original and complex system (Tabără, Horomnea & Mircea, 2010).

III. LEGAL FRAMEWORK FOR REGULATING ACCOUNTING AND FINANCIAL REPORTING

Accounting in Japan has developed from national accounting techniques. Although it was severely affected by international pressures between 1980 and 1990, the Japanese accounting system maintained its national identity and tradition. Today, accounting in Japan operates according to the double-entry accounting system.

Japan has a triangular system for regulating accounting and financial reporting. The three laws that prescribe financial accounting and reporting in Japan are the Commercial Code, the Securities Law (Stock Market Law) and the Income Tax Law (Tax Law). Several laws and regulations related to them are also applicable (see http://www.hp.jicpa.or.jp/english/accounting/standards/archive01.html).

According to the Civil Code, joint stock companies (Kabushiki Kaisha) must draw up an annual report, in principle, individually. This annual report must include the balance sheet, profit and loss account, activity report and credit proposal, respectively loss of profit. Also the Code requires certain corporations to include the designated consolidated financial statements (balance sheet and profit and loss account) in the financial statements for the years ended or after April 2004.

The Securities Act requires each issuer of designated securities to submit annual and half-yearly reports. The financial statements prepared for the purpose of recording securities and periodic reports in accordance with the law must consist of the consolidated balance sheet, consolidated income statement, consolidated statement of retained earnings, consolidated statement of cash flows, spreadsheet, profit and loss account, statement settlement of profit and loss, preparation of support plans.

The tax regulations require that the financial statements addressed to the tax service be those approved by the General Meeting of Shareholders, according to the provisions of the code. The link between social and tax accounts, designated by the principle of final accounts (Kakutei Kesson Shugi) makes it difficult to use methods other than those allowed from a tax point of view, the key to meeting the requirements of the Code (protection of receivables) and the Stock Exchange Law. of investors), (Tabără et. al., 2010).

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The stock market law is supervised by the Ministry of Finance. This law requires large companies to carry out an independent audit.

The financial statements prepared in accordance with the Commercial Code and the Law on Securities and Stock Exchanges are, for the most part, compatible with each other.

The (tax) profit tax law provides methods for calculating taxable income and requires the recording of income and expenses in the accounts to be qualified according to the law. This requirement affects the accounting of Japanese companies.

In solving the issues vaguely treated in the Commercial Code or the Stock Exchange Law comes the Fiscal Law. For example, the Commercial Code states that current assets will be valued at their cost, unless the market value is substantially lower, without being substantially defined. Fiscal regulations are used to solve this situation, which give as a solution a decrease of value over 50% (Nobes & Parker, 2004).

The relationship of influence between the three mentioned regulations tends to change from year to year in favor of FSA (Financial Services Agency) and to the detriment of the Ministry of Justice, which reorients the approach to accounting from a legal perspective to an economic one (Mircea, 2013) .

IV. THE ACCOUNTING PROFESSION AND ACCOUNTING STANDARDIZATION BODIES

IV.1. Accounting standardization bodies

The process of setting accounting standards, previously led by the Ministry of Finance and the Financial Services Agency (FSA), after the reorganization of government ministries and agencies, has gradually changed.

The Financial Accounting Standards Foundation (FSAF) was established in July 2001. Also this year, the Accounting Standards of Japan (ASBJ) were organized under the auspices of the FASF. ABSJ was established as an independent private sector entity to develop Accounting Standards in Japan.

The role of ASBJ in the development of accounting standards has been noticed since the beginning of its activity, it has developed a series of accounting and guidance standards.

The factors that led to the creation of the FASF are increased globalization and the modernization of businesses and financial transactions, which demonstrated the growing need for new standards, as well as the need to establish a system that can collaborate, respond quickly and efficiently with the IASB and IFRS changes. The objectives of the FASF are to contribute to the development of financial practices in Japan, to give recommendations and to contribute to the international accounting system through study, research and the development of accounting standards in general.

To do this, FASF performs 5 activities (see https://www.asb.or.jp/en/fasf-asbj/overview.html):

1. „Study, research, development for generally accepted accounting standards;
2. Study, research on information systems, as well as other practices of business financing systems;
3. Recommendations based on the results obtained;
4. Assistance in developing and improving International Accounting Standards;
5. Other activities necessary to achieve the objectives.”

The FASF is chaired by a board of directors and administrators. The former are responsible for raising funds, decide on the members and determine the business plan, and the latter provide assistance with plans and budgets and select committee members and auditors.

In April 2004, the Certified Public Accountants and Auditing Oversight Board (CPAAOB) was established under the Public Accountants Act.

The Certified Public Accountants and Auditing Oversight Board is an independent regulatory body established within the Financial Services Agency (FSA).

The Certified Public Accountants and Auditing Oversight Board has an executive office, consisting of two divisions: the Office for Planning, Management and Examination of the CPA, which is responsible for general affairs, deliberating disciplinary action against economic agents and audit firms and implementing CPA recommendations; The Monitoring and Inspection Office is responsible for overseeing the quality control review.

ASBJ (Auditing Standards Board of Japan) is the structure responsible for developing Accounting Standards.

In Japan, there are several academic accounting firms (Mircea, 2013):

1. JAA, 1937 – Japanese Accounting Association;
2. JCAA, 1975 – Japanese Cost Accounting Association;
3. Japan Audity Association, 1978;
4. Japan Accounting History Association, 1982;
5. Japan Association of Business Analists;
6. Japanese Association for Internaţional Accounting Studies, 1984;
7. Japanese Bookkeeping Association, 1985;
8. The Japan Society for Social Science of Accounting, 1986;
9. Japan Corporate Social Accounting and Reporting Association, 1988;

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10. Association of Accounting în Mathematics, 1988;
11. Association of Internaţional Studies for Public Sector Accounting;
12. Japan Tax Accounting Association.

IV.2. The accounting profession

If we make a comparison with the Japanese administration or the accounting profession in the Anglo-Saxon countries, then we can say that in Japan, the accounting profession has had quite a small influence on the way of financial reporting.

In Japan, the accounting profession is organized within the Japanese Institute of Chartered Accountants (JIPCA), which plays a key role in drafting Japanese accounting principles.

The Japanese Institute of Chartered Accountants (JIPCA) began as a voluntary organization in 1949 and later became a corporation under the CPA Act of 1966. Since then, JIPCA has enjoyed over 60 years of professional excellence.

As a self-regulatory organization for the accounting profession, the Japanese Institute of Chartered Accountants (JIPCA) is a transparent and independent body. JIPCA aims to strengthen the accounting profession and also serves the public interest by respecting professional ethics, values and principles.

Professionals wishing to work as CPAs (Certified Public Accountants) are required to register with JIPCA. As of January 31, 2017, over 29,000 CPAs and 220 audit firms were registered.

The most important responsibilities of the Japanese Institute of Chartered Accountants (JIPCA) are (see https://jicpa.or.jp/english/about):

- ✓ To support the professional ethics of the members by elaborating the code of ethics for the accounting profession and promoting the observance of the code;
- ✓ To develop and implement measures to improve the quality of services provided by members by organizing seminars and research projects;
- ✓ Researching the theories and practices of audit, accounting and other related areas of professional services to promote the implementation of auditing and accounting standards and to establish audit and accounting systems;
- ✓ Study the CPA system and services (including tax services) and issue recommendations to government and regulatory agencies, as appropriate;
- ✓ Develop and implement measures to ensure that its members provide adequate audit services;
- ✓ To support members by providing necessary assistance by consulting members and providing materials;
- ✓ Resolving disputes regarding members' commitments through mediation;
- ✓ Develop and implement measures to educate and train people who pass the CPA exams.

To obtain the quality of expert accountant in Japan, you must go through three eliminatory steps:

1. The first stage consists in verifying the general knowledge of the candidates;

2. The second stage is an intermediate test which consists in examining the candidates through a grid test of knowledge in the field, such as: accounting, auditing, economics, ect. Candidates who have passed this stage will do a 4-year internship, of which 2 years of training and 2 years of professional experience;

3. The last stage, the third, is a test of technical competence, which includes audit practice, financial analysis and accounting practices.

JIPCA is a founding member of IFAC, IASB and CAPA (Confederation of Asian and Pacific Accountants) and one of the most important members of the IAASB.

The Federation of Tax Advisers is another body of the accounting profession in Japan, which provides services related to financial-tax or business consulting, accounting, preparation of financial statements, or consulting in specific tax areas.

V. ELEMENTS REGARDING FINANCIAL REPORTING

V.1. Degree of implementation of IFRS

Established in 2001, the ASBJ (Japan Accounting Standards Board) is the body that develops national accounting standards. The ASBJ and the International Accounting Standards Board (IASB) have entered into a cooperation agreement to begin work on the convergence of Japanese accounting standards (GAAP) with International Financial Reporting Standards (IFRS).

In 2009, the Japanese Business Accounting Council (BAC 2009) published an interim report "Application of IFRS in Japan" authorizing listed companies to voluntarily apply IFRS. In addition, a roadmap has been developed to refer to the fact that Japanese accounting regulators should introduce the mandatory adoption of IFRS for consolidated financial statements by approximately 2015 and that regulators should make a decision in this regard meaning until 2012.

However, in June 2011, it was decided to suspend the proposal to introduce the mandatory adoption of IFRS by 2015 (Ozu, Nakamura, Nagata & Gray, 2018).

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Currently in Japan the use of IFRSs is not mandatory, only listed companies have been allowed to use IFRSs in the consolidated financial statements, instead of Japanese GAAP. In order to use IFRS, companies must meet certain requirements. In 2013, the FSA revised the Cabinet Ordinances and removed certain requirements to further improve the application of International Financial Reporting Standards (Tsunogaya, Hellman & Scagnelli, 2015*)*.

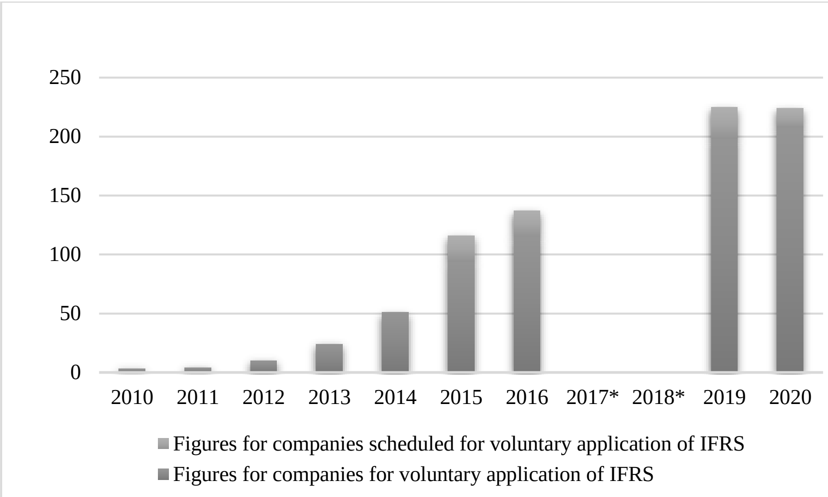
Given that the FSA designated all IFRSs issued by the IASB prior to the effective date without exception, the designated IFRSs are identical IFRSs, as issued by the IASB.

Under the latest ordinances governing eligibility requirements, listed companies or those requesting to use designated IFRSs in their consolidated financial statements must establish internal processes to ensure proper reporting in accordance with IFRSs, be aware of enough about the existence of the subject.

Companies using IFRSs must disclose in its annual report on securities, information on specific efforts to ensure the preparation of financial statements in accordance with IFRS.

International Financial Reporting Standards are not permitted to be used in separate statutory financial statements.

According to the Tokyo Stock Exchange, in April 2020, the number of listed companies that have adopted IFRS is 208, and another 16 companies have revealed that they intend to adopt International Financial Reporting Standards (see https://www.jpx.co.jp/english/listing/others/ifrs/index.html).The number of companies adopting IFRS is constantly growing (see Figure 1).



**No data available*

Figure 1 – Evolution of the number of listed companies that have adopted IFRS
Source**:** www.asb.or.jp/en, Accounting Standards Board of Japan

Public companies are not required to use IFRSs, but for some time now Japan has been considering their possible mandatory adoption of IFRSs. Japan currently encourages companies to use IFRS on a voluntary basis. To this end, on June 30, 2013, the Business Accounting Board of Japan (BAC) published the report "Current Policy on the Application of International Financial Reporting Standards (IFRS)". A number of measures have been proposed in this report to contribute to the greater, but not mandatory, use of IFRS in Japan. Among other things, the most important measures in the BAC report list:

- ✓ Increasing the number of companies that can voluntarily adopt designated IFRSs by eliminating certain eligibility requirements (already implemented in October 2013);
- ✓ Introduction of the IFRS approval process, which may include limited changes to IFRSs based on specific criteria;
- ✓ IFRS will be promulgated by the Accounting Standards Board of Japan (ASBJ) and will be approved by the FSA;
- ✓ Simplification of disclosure requirements in separate financial statements in accordance with Japanese GAAP.

In June 2015, as a result of the second recommendation in the BAC report, the ASBJ issued Japan's Modified International Standards (JMIS): "accounting standards that include IFRSs and amendments to the ASBJ". JMISs are issued by the International Accounting Standards Board (IASB), with certain "deletions or modifications" where necessary. During the approval process, it was agreed that several standards should be changed in terms of guidance on accounting for goodwill and other global income. To this end, two accounting standards for ASBJ changes have also been published:

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- ✓ Accounting Standard Modifications ASBJ no. 1 „*Goodwill accounting contains amendments”* to IFRS 3 „*Business combinations”* and IAS 28 „*Investments in associations and joint ventures”*.
- ✓ Accounting Standard Modifications ASBJ no. 2 „*Accounting for other total income contains changes”* to IFRS 7 „*Financial Instruments: Disclosures”*, IFRS *9 Financial Instruments* (2010), IAS 1 „*Presentation of Financial Statements”* and IAS 19 „*Employee Benefits”*.

V.2. Diferences between Japanese Accounting Priciples and IFRS

Major changes have taken place in Japan in recent years. Many of the traditional accounting regulations have been abandoned and IFRSs have been implemented.

There are a number of differences between Japanese GAAP and International Financial Reporting Standards. These differences are related to conditional and unconditional accounting conservatism. „Conditional conservatism (ex post conservatism or news dependent) - means that under favorable circumstances book values are not written up (conservative behavior), but under unfavorable circumstances book values are written down” (Neag & Mașca, 2015). On the one hand, IFRS includes elements of conditional conservatism, such as the recognition of contingent liabilities and the non-recognition of contingent assets (IAS 37), the decrease in cost or net realizable value for inventories (IAS 2) and the impairment of long-term financial assets and assets (IFRS 9 and IAS 36), (Shimamoto & Takeda, 2020). According to Japanese accounting principles and IFRSs, when the firm makes an investment and cannot recover it due to profitability, it must incur an impairment loss. When economic conditions change, IFRS allows the reversal of the impairment to the extent that the recoverable amount is measured and exceeds the carrying amount after impairment. In contrast, Japanese accounting principles do not allow this impairment loss to be reversed.

„Unconditional conservatism (or ex ante conservatism, or news independent) - means that the accounting process determined at the inception of assets and liabilities yield expected unrecorded goodwill” (Beaver & Ryan, 2005).

Unconditional accounting conservatism is manifested by the following differences between Japanese accounting principles and IFRS:

- *Presentation of extraordinary income and expenses in the annual financial statements:*

Items related to extraordinary income and expenses, in accordance with Japanese accounting principles, are presented according to their nature, but according to IFRS, no profit or loss item should be presented in the financial statements as an extraordinary item (income or expense).

- *Recognition of contingent liabilities:*

According to Japanese National Accounting Principles (JGAP), contingent liabilities are recognized in accounting when they are expenses or losses under certain conditions expected to occur after an acquisition and the probability of occurrence is reflected to the extent that it is significant and in accordance with International Financial Reporting Standards. Contingent liabilities, which are in fact liabilities arising from past events, are recognized regardless of the probability of an outflow of economic resources, which arise when fair value can be measured reliably.

- *Depreciation of goodwill:*

According to Japanese accounting principles, goodwill is recognized as an asset and is amortized on a systematic basis over a period of 5-20 years, and under IFRS, goodwill is not amortized.

In August 2007, the Japan Accounting Standards Board and the IASB announced their agreement to accelerate the convergence process by eliminating major differences between Japan's GAAP and IFRS. The achievements of the agreement were jointly announced by the ASBJ and the IASB in June 2011. The Japanese authorities have not imposed a reconciliation obligation on Community issuers that prepare their financial statements in accordance with IFRS. Therefore, it was considered necessary that, as of January 1, 2009, Japan's GAAP be considered equivalent to adopted IFRS.

VI. CONCLUSIONS

The Japanese accounting system is a well-structured system and is constantly changing. The Japanese Government, together with members of the Japanese accounting profession, pays special attention to the internationalization of accounting . They encourage Japanese companies to adopt International Financial Reporting Standards by providing transition guides from JGAAP to IFRS.

Japan took a major step in 2010, when it allowed listed companies to voluntarily apply IFRSs for consolidated financial statements.

There are a number of differences between Japanese accounting rules and principles and IFRS. These differences are felt during the process of transitioning companies from national accounting principles to IFRS, as well as in the risk assessment process. Although IFRSs are considered high quality accounting standards, there are certain limitations that could affect the quality of the information provided.

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