

Japanese

ACCOUNTING FORUM

2007

No. 15

JAPAN ACCOUNTING ASSOCIATION

Japan Accounting Association.

Liaison Office: Hayashi Building, 1-10 Kanda Nishiki-cho, Chiyoda-ku,
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Japanese ACCOUNTING FORUM 2007
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Preface

Japanese ACCOUNTING FORUM of Japan Accounting Association (JAA) is published annually to publicize academic activities of JAA in English.

The first issue of *Japanese ACCOUNTING FORUM* was published in 1993. This edition for 2007 is the 15th issue of *Japanese ACCOUNTING FORUM*. Past issues were published in the form of hard copy. This is the first time that *Japanese ACCOUNTING FORUM* is put on the website of JAA.

This issue contains the summary of presentations at the 65th Annual Conference of JAA which was held at Senshu University in Tokyo on September 6-8, 2006. It also includes the reports of regional activities of JAA during the 2006 academic year.

I sincerely hope that *Japanese ACCOUNTING FORUM* serves the readers to better understand the activities of JAA.

Kazuo Hiramatsu
Chairman of the International Committee
and Managing Editor
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Japanese ACCOUNTING FORUM 2007

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JAPAN ACCOUNTING ASSOCIATION

Japanese
ACCOUNTING FORUM

No. 15, 2007

CONTENTS

Preface Kazuo Hiramatsu (2)

Report Michiharu Sakurai (7)

Plenary Sessions

Plenary Session 1: The New Corporate Law and Accounting Standards

- The New Corporate Law and Accounting Standards in Japan
-- Distinction between Capital Surplus and Earned Surplus --
Katsunobu Mandai (9)
- The Acceptance of Accounting Standards in the New Corporate Law in Japan
Masao Yanaga (10)
- The New Corporate Law and Development of Accounting Standards in Japan
Kenichi Akiba (11)

Plenary Session 2 : Management Accounting for Service Industries

- Essentials of Cost Accounting in Service Industries inferred from Healthcare Sector
Ko Arai (12)
- A Study on Usability of Management Accounting Information in Human Service
Industries
Akimichi Aoki (13)
- Possibilities of Fixed-Revenue Accounting
Kenichi Suzuki (14)

Plenary Session 3 : Establishing the System of Internal Control

Internal Control Audit - Tasks for Auditors-	Seno Tezuka (15)
Fundamental Issues for Establishing an Internal Control Audit	Yoshinao Matsumoto (16)
Challenges and Perspective on Internal Control Reporting System - From a View of the Position Monitoring Internal Control-	Shinji Hatta (17)

Special Committees

Research on Business Organization and Management Accounting	Toshiro Hiromoto (18)
Study on the Reliability of Financial Information	Yoshimasa Tomosugi (19)

Subject Research Committee

Empirical Research on Accounting: Implications for Future Accounting Institution	Kazuyuki Suda (21)
--	--------------------

Study Groups

A study on the Structure and Functions of Double-Entry Bookkeeping	Tsuneo Nakano (23)
Change of Accounting Society and Market Logic	Yukiharu Kurokawa (24)

Regional Reports

Hokkaido Region	Yuji Yoneyama (27)
Tohoku Region	Yoshio Hosaka (27)
Kanto Region	Yukiharu Kuroka (28)
Chubu Region	Akihiro Noguchi (30)
Kansai Region	Atsushi Shiiba (31)
Kyushu Region	Chikako Ozu (31)

2007 Annual Conference of JAA

Report

2006 Annual Conference

Chairman of 2006
Annual Conference
Michiharu Sakurai
Senshu University

Program

The 65th Annual Conference (2006) of the Japan Accounting Association was hosted by Senshu University (Kanda main campus) from September 6 through 8, 2006. The main theme was The New Era of Accounting Research.

On September 6, meetings of the Council and of the General Assembly of Membership were held, and soon after those, two Special Committee research reports, one Special Subject Committee research report and two Study Group research reports were presented. An election for President, Councilors, and examiners of the Research Award was done on the same day.

On September 7, before the sessions of the main theme, concurrent sessions were held. One session was devoted to invited presentations by six Korean researchers. Fifty eight reports on various themes were presented at the other sixteen sessions. At the session of the main theme mentioned above, three plenary sessions were held where New Corporation Law and Accounting Standards, Management Accounting for Service Industry, and Institutionalization of Internal Control were discussed and four reports were given at each session. Commemorative presentation open for nonmembers was conducted by both Ryuji Takeda, ex-president of the Japan Accounting Association on New Corporation Law and Seiichi Shimada, Governor at Government Housing Loan Corporation of Japan on Reform of Government Housing Loan Policy.

On September 8, before the panel discussions of the plenary sessions, sixty two reports on various themes were presented by the members at the concurrent sessions. After that, the panel discussions of the two plenary sessions were held very actively among many participants.

A banquet was held in the evening on September 6 at The Hotel Grand Palace in Tokyo. Six hundred and fifty members and nonmembers enjoyed the friendly party.

During these three days of sessions, more than eleven hundred participants

attended the meetings and actively participated in the discussions. The convention of this year was a great success, even more than we had expected.

The schedule of the convention was as follows:

Events	Date and Time		Venues
Screening Committee of Awards Preliminary Meeting of the Election Administration Committee Meeting of the Board of Directors	Sep. 5	13:00-15:00 15:00-16:00 16:30-18:30	Senshu University
Meeting of the Council Meeting of the General Assembly Of Membership Study Group Reports Special Subject Committee Report Special Committee Reports Banquet	Sep. 6	10:00-12:00 13:00-14:30 14:40-15:20 15:35-16:15 16:20-17:45 18:30-20:30	Senshu University Grand Palace (Hotel)
Concurrent Sessions Plenary Sessions 1 New Corporation Law and Accounting Standards 2 Management Accounting for Service Industry 3 Institutionalization of Internal Control	Sep. 7	9:30-12:00 13:00-16:00	Senshu University
Concurrent Sessions Panel discussion 1 New Corporation Law and Accounting Standards 2 Management Accounting for Service Industry 3 Institutionalization of Internal Control	Sep. 8	9:30-12:00 13:00-15:30	Senshu UniversityD

2007 Annual Conference of JAA

Plenary Session 1 : The New Corporate Law and Accounting Standards

The New Corporate Law and Accounting Standards in Japan – Distinction between Capital Surplus and Earned Surplus –

Katsunobu Mandai

Hitotsubashi University

The new Corporate Law has been enforced in Japan from May 1st, 2006. One of the major differences between the new Corporate Law and the traditional Commercial Code is there treatment concerning distribution of profit. The new law doesn't distinguish disbursement of capital to distribution of profits. Therefore, some people argue that there is no need to distinguish capital surplus and earned surplus recorded in a balance sheet. This paper conducts a historical review of the distinction between capital surplus and earned surplus in the US and in Japan and discusses needs for this distinction from an accounting viewpoint.

It has been long claimed both in the US and in Japan that there are fundamental differences between capital surplus and earned surplus. It has been argued and become established rules that earned surplus may be distributed to outside the company, but capita surplus must not.

This paper points out several possible reasons for the necessity for the distinction from accounting viewpoint. First, one of the characteristic of accounting is that accounting is historical documents based on book-keeping. Capital section in a balance sheet reflects not only a static feature of a firm at the end of a year but also shows historical changes about the firm from its birth to present. Second, the distinction is helpful for financial statements users. If capital surplus and earned surplus are mixed, these users will have difficulty in making decisions about the company's dividend policy and its financial strength. Third, the distinction is needed for lending agreements. If lending agreements contained restrictive covenants to restrict dividend payout less than an amount of retained earnings, it is difficult to measure the amount that the firm can pay. I believe these reasons support the distinction between capital surplus and earned surplus in a balance sheet.

The Acceptance of Accounting Standards in the New Corporate Law in Japan

Masao Yanaga

University of Tsukuba

The Article 431 of the Corporate Law of 2005 states that accounting for corporation shall be done in accordance with fair and reasonable generally accepted accounting practices. Similarly, the Article 3 of the Regulation on Company Accounts stipulates that accounting standards as well as other fair and reasonable generally accepted accounting practices should be taken into consideration in interpreting and applying the Regulation.

These provisions represent major milestone with regard to the relationship between accounting standards and companies legislation in Japan in a sense that accounting standards are now explicitly recognized in the Corporate Law where in the old Commercial Code are not.

Though 'fair' in the context of 'fair accounting practices' had been substantial concept under the Commercial Code, the notion of 'generally accepted as fair and reasonable' is not very clear under the new Companies Law. Accounting standards issued by a generally accepted accounting standards setter may be described as 'generally accepted as fair and reasonable'. In addition, which accounting standards are and whether the US GAAP and/or IAS/IFRS are considered as ones generally accepted as fair and reasonable in the Companies Law is still open for discussion.

The New Corporate Law and Development of Accounting Standards in Japan

Kenichi Akiba

Accounting Standards Board of Japan

This article introduces backgrounds and outline of new accounting standards developed by the Accounting Standards Board of Japan (ASBJ) in connection with the new Corporate Law in Japan. In addition, the relationship between new Corporate Law and development of related accounting standards are discussed. The relationship between the two can be characterized as reciprocity or interacting and is discussed in the paper in the context of convergence of accounting standards among the world and also in the context of appropriation of retained earnings.

Issues of scope and measurement of the direct transactions with shareholders are also discussed in this article. In the area of accounting, profit is acknowledged as performance created by using equity, which is deemed as a principal of an investment. In that sense, profit and equity that excludes the direct transactions with shareholders from profit recognition, should be clearly distinguished

Although new accounting standards clarifies that change of equity account is limited to the transactions directly made with shareholders, it may be not clear who is the shareholders or the potential shareholders and how the direct transactions with the shareholders are measured. Profit recognition for accounting purposes depends upon nature or substance of transaction, which is not only made with parties outside of an entity but also directly made with its shareholders.

2007 Annual Conference of JAA

Plenary Session 2 : Management Accounting for Service Industries

Essentials of Cost Accounting in Service Industries inferred from Healthcare Sector

Ko Arai

Osaka City University

Traditionally, essentials of cost accounting in service industries as a whole have been discussed. However, few have been working on finding essentials in a specific service industry, and fewer have tried to infer essentials in service industries as a whole from the findings.

In this presentation, usefulness of cost accounting for each purpose in healthcare sector (a biggest/representative service sector) is discussed and compared with traditional discussions for service industries as a whole. In healthcare sector, cost accounting has usefulness for standard cost management, short-term profit planning, and preparation of financial statements, although traditional researches have concluded cost accounting have no usefulness for these purposes in service industries. This difference comes from different ideas between traditional researches and mine with respect to characteristics of service, relationships between the characteristics and both ratios of variable/fixed cost & direct/indirect cost, and appropriateness of standard/direct costing under the characteristics. These different ideas are due to the difference of discussion levels (present situation vs. essence) and the difference of dates studied (70-80s vs. 2000s) in addition to the difference of fields studied (service industries as a whole vs. healthcare sector). Intensive researches for specific service sector and generalization for service industries are required just like researches for manufacturing industries.

A Study on Usability of Management Accounting Information in Human Service Industries

Akimichi Aoki

Senshu University

Many human service industries are capacity-constrained industries. As capacity is relatively fixed and inventory is perishable in capacity-constrained industries, the application of yield management (also called 'revenue management') is effective. The measure 'yield' means RevPATI (Revenue per available time-based inventory), and is computed by multiplying occupancy rate with average daily rate. To increase yield, both occupancy rate and average daily rate should be increased simultaneously.

There are two versions of yield management. Static yield management means price differentiation. Dynamic yield management implements continuous price manipulation in response to customer booking profile. However, this measure has one defect. Increasing yield does not necessarily leads to increasing profit. To link yield with contribution margin, yield should be computed by multiplying average contribution margin by occupancy rate. The figure of yield can be broken down into customer segments by using customer segment's occupancy rate. Also, we can obtain useful information by attributing fixed costs to customer segments based on customer segment's occupancy rate. Customer segments which had high yield but had low operating profit can be found. This is useful for the purpose of performance measurement. Also, the timing of price change can be found. This is useful for the purpose of decision making.

Possibilities of Fixed-Revenue Accounting

Kenichi Suzuki

Meiji University

Fixed revenue is defined as revenue from regular customers. Fixed-Revenue Accounting (FRA) is a new accounting method using fixed revenue concept to evaluate the financial effect of the regular customers.

This study examines possibilities of FRA through applying FRA to a large retail store as well as to a hotel chain. These action researches show four possibilities of FRA. First, FRA has the possibility to clearly show the difference of the profitability between regular customers (RC) and non-regular customers (NRC). Second, FRA has the possibility to show the factors of keeping the profit from RC: In the large retail store case, the differences analysis, in terms of contribution margin between RC and NRC, led to finding important sales items. Third, FRA has the possibility to show how regular customers contribute to the profit growth. Fourth, FRA has the possibility to show the influence of RC to the stability of the profit: In the hotel chain case, the difference between contribution margin from RC and fixed expenses led to evaluating the stability of the profit.

2007 Annual Conference of JAA

Plenary Session 3 : Establishing the System of Internal Control

Internal Control Audit - Tasks for Auditors-

Seno Tezuka

CPA, Tohmatsu

I believe it is important to point out issues that auditors are facing, related to newly introduced internal control audit regulations in Japan. Current audit practices by independent auditor also includes an assessment of internal control as a part of audit approach, however assessment of internal control audit under the newly introduced internal control audit brings new tasks for auditors.

Auditors' tasks regarding the new internal control audit can be summarized as follows:

1. Direct-reporting method, in which auditors are not required to comments "directly" on effectiveness of corporate internal control but instead comments on reliability of internal control reports prepared by corporate managers. Nevertheless, auditors have to obtain audit evidences directly related to internal control for preparation of an audit opinion. Scope of audit evidences and depth of audit approach are tasks that auditors will face.
2. Internal control audit targets on internal control over financial reporting. The range of financial reporting to be audited is another issue that carefully examined.
3. Material standard for material weakness.
4. Auditors need to evaluate how internal control mitigates risk from supposed risk.
5. Inherent limitation on internal control and its relation between audit opinions.
6. Can auditors recommend specific corrective actions for internal control issues without violating their independent position?
7. Going concern opinions and internal control audit.
8. Integrating financial statement audit and internal control audit.

Fundamental Issues for Establishing an Internal Control Audit

Yoshinao Matsumoto

Kansai University

Since June 7, 2006, the Financial Instrument Trading Law has been imposed listed companies to prepare an internal control report and submit its audit report by independent auditor. The Corporate Law, which was enforced on May 1 of the same year, prescribes an obligation to construct an internal control system and the Corporate Law Implementing Regulations lists internal control items which should be adopted by management to examine adequacy of his/her business. We had the same premise regulation on an internal control as that was introduced in July 2002 as the US SOX s404. In this paper, I examined an historical transition of internal control concept and a relationship with the business risk oriented audit approach.

Consideration of internal control concept was aroused from the fact that an auditor tried to utilize an assessed internal control system of a company which was established by management for reasonable execution of business, as a part of audit evidence. Subsequently, the internal control system came to become much more important in order to secure the fairness of financial report, partly because of recent accounting scandals in the US and its byproduct, the COSO report. Management's report of internal control and an audit on such report are influenced by an assessment of control risk in present audit risk approach.

Challenges and Perspective on Internal Control Reporting System - From a View of the Position Monitoring Internal Control-

Shinji Hatta

Aoyama Gakuin University

The Subcommittee on Internal Controls, under the Business Accounting Deliberation Council of the Financial Services Agency, issued a proposal for “Evaluation and Auditing Standards for Internal Control over Financial Reporting” in December 2005. After the announcements of the draft, the Financial Instruments and Exchange Law was enacted in June 2006, to implement “legislation for evaluating a company’s system ensuring the accuracy of financial statements and other financial information,” the so-called internal control reporting system.

Some people seem to mistakenly argue that a task will be introduced as same as the US practices of internal control, since this system is quite resembled to the mandatory reporting of internal control enforced by the US Sarbanes-Oxley Act (SOX) s404. The Japanese version of internal control reporting system will have its unique features including uniform applications of the system to all public companies, and therefore will not be a simple copy imported from SOX s404.

Under such internal control reporting system, each company must have a process to continuously evaluate its internal control system, and to maintain and to operate effective internal control. The key of this process is monitoring, one of the components of internal control, which typically has two aspects; “ongoing monitoring” and “separate evaluations”. In this paper, I discussed the challenges to insure effective internal control, and also considered a perspective of the internal control reporting system which will start shortly in Japan from a view point that monitors internal control.

2007 Annual Conference of JAA

Special Committee

Research on Business Organization and Management

Accounting

Chair: **Toshiro Hiromoto**

Hitotsubashi University

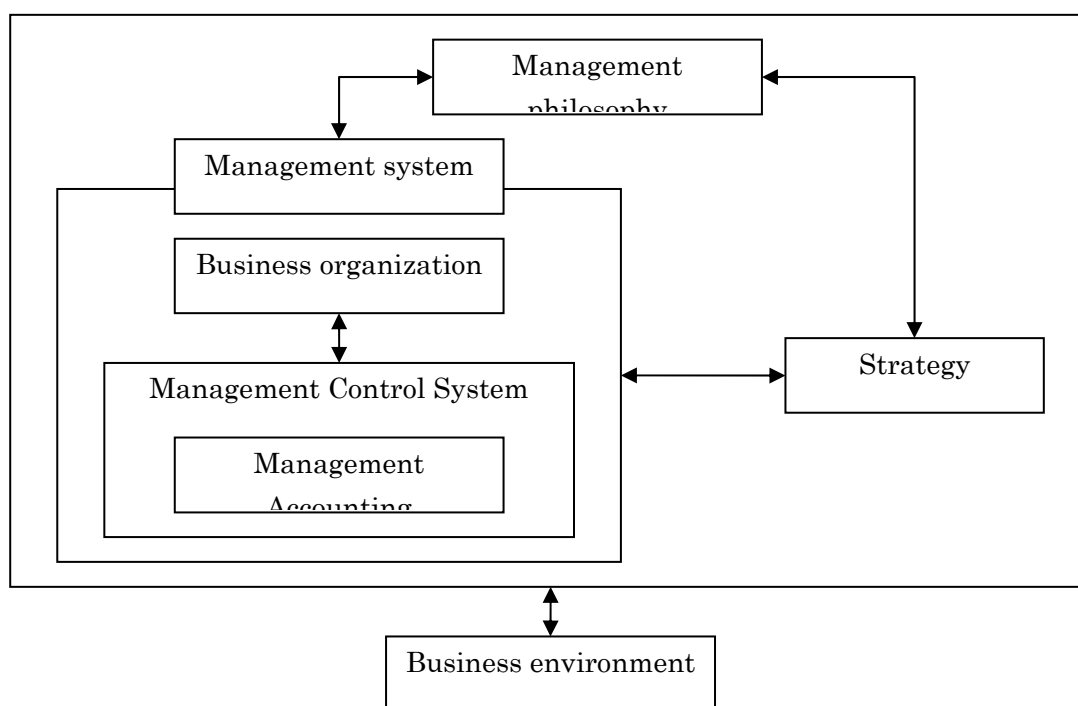
Traditional management accounting was generated due to the emergence of the modern industrialized firms and developed in parallel with the expansion of the business organizations in the United States. The management accounting models from the US have been introduced to and implemented in Japanese companies and adapted to their own organizational environment. Some models such as target costing and micro profit center have been created uniquely in Japanese organizations. The purpose of our study is, based on the fact that management accounting has been emerged and evolved in the business organizations, to address the following two issues:

1. Tracing the history of the evolution of management accounting
2. Studying on the characteristics of modern business organizations and the modern management accounting

Management accounting research has been organized based on the relevance, which was represented by the words, “different costs for different purposes.” But today, it is found out that the implementation of the relevant management accounting systems was not always successful, and the implementation studies have increased. It is true that the implementation study could be seen as being in its early stage, but our study covers the process of the system emergence as well as the implementation process. And we add the perspective on the integration of and interdependence among management accounting systems. The keywords of our study are cross-penetration of market and organization, empowered autonomous

organizations, evolution, flexible specialization, micro-macro-loops and so on.

The figure below indicates our whole concept of management accounting and reflects our concern that the management accounting systems differently function in different organizations.



Special Committee

Study on the Reliability of Financial Information

Chair: **Yoshimasa Tomosugi**

Nagoya University

The aim of this special committee is to identify the function of “quality of earnings” and “quality of audits” in the reliability of accounting and auditing, which are seriously affected by the recent accounting and auditing scandals in Japan. Three important players in our study are; 1) corporate management who creates and releases financial information in accordance

with the accounting standards, 2) investors who receive and use it, and 3) auditors who assess it as the independent party.

Three perspectives construct this research project. They are: 1) the research on the relation between the reliability of financial information and the reliability of auditing, 2) the theoretical research on the reliability of financial information, and 3) the empirical research on the reliability of financial information.

First, we analyzed the concept of “the reliability of financial information.” Although IASB/FASB joint project for the conceptual framework seems to replace the word, “reliability” by “faithful representation,” we explained the structure of reliability of financial information and the reliability in terms of measurement and communication in accounting.

Second, we pointed out many types of reliability for activities of an organization for the accounting system and financial information, and the necessity to specify their levels and position properly. And we explained that disclosure of other comprehensive income was meaningful for securing reliability of financial information about fair value measurement. In addition, we examined the meaning of “revenue and expense view,” “asset and liability view,” and “fund view” as an accounting views, and laid out the positioning of cash flow statement in respective views.

Third, we pointed out the importance of the independence of the standard-setting body, which means that it should set accounting standards reflecting the reality of corporate activities to propose reliability of financial information. The increasing uses of the present-value method and complicated calculation methods provide management with wider options for judgment which may induce fraud.

Fourth, as for the relation between the reliability of financial information and auditing, we conducted research on the need for reviewing the quality control of auditing and internal control of accounting firms, and clarified whether the accounting scandals and window dressings were caused by the defect of the risk-based approach in auditing or by the lack of independence and professional ethics.

Finally, we sent out the questionnaire to 1,636 companies listed at the Tokyo Stock Exchange, in order to figure out the present situation of the belief or understanding of the Japanese people in practice. And our recommendations to improve the reliability of financial information in Japan are as follows; 1) standard-setting body should supervise and monitor the reliability of financial information for public interest, 2) corporate management should positively do IR activities including qualitative information, 3) independent auditors should try to secure the reliability of

auditing to eliminate expectation gaps, and 4) information users should pay attention to the reliability of financial information from the standpoint of the investors who assume self-responsibility.

Subject Research Committee

Empirical Research on Accounting: Implications for Future Accounting Institution

Chair: **Kazuyuki Suda**

Waseda University

Subject Committee of Japanese Accounting Association was organized on September 2004. The subject to study is “Empirical Research on Accounting to Provide Implications for Future Accounting Institution.” The committee pointed out specifically issues of conceptual framework of accounting, individual accounting standards, Japanese Corporate Law related to business accounting, conformity rule of tax with accounting, and quality of auditing.

Discussing a way out of the issues, the committee performed twelve empirical studies from 2004 through 2006 to provide implications for future accounting institution, i.e., (1) relevance and reliability of financial accounting information, (2) relative and incremental explanatory power of dirty surplus for debt interest rate, (3) value relevance of the multi-step income statement, (4) relationship between flexibility of the accounting standard by retirement benefit plans and management accounting choice, (5) value relevance of the accounting loss information, (6) value relevance of the estimated liabilities required by the industry law, (7) relationship between audit quality and internal control, (8) information content of net income and comprehensive income, (9) value relevance of deferred tax assets, (10) relationship between retained earnings ratio and debt contract, (11) accounting for long-term construction contract and its information content, and (12) value relevance of earnings including gains from lapse of warrants. The committee provided some ideas to improve future accounting institution based on the results of the empirical studies.

The committee collected these studies and published two reports. One is

written in Japanese. The other one is written in English. The Japanese edition consists of six parts, 21 chapters. The English edition consists of five papers, i.e., the second, third, seventh, and eighth papers in the previous paragraph, and the paper contributed by Professor Douglas J. Skinner of the University of Chicago. The second, third, and seventh papers were accepted for presentation at the 29th Annual Congress of European Accounting Association. Professor Suzuki, Professor Otomasa, and Suda presented the papers on March 2006. The eighth paper was accepted for presentation at 7th Annual Congress of Asian Academic Accounting Association. The committee had a workshop on February 2006, cosponsored by Osaka University of Economics (Chaired by Kazuo Kato), and Professor Skinner presented a paper, which is included in our report.

Below are summaries of the above second and third research. These are selected due to space limitation.

Relative and Incremental Explanatory Power of Dirty Surplus for Debt Interest Rate

This study investigates the relationship between dirty surplus items on the balance sheet and the cost of debt for Japanese firms. The research focuses on three dirty surplus items, i.e., the unrealized gains and losses on the available-for-sale securities, the foreign currency translation adjustment, and the land revaluation surplus. By using the Vuong (1989) test, the paper evaluates the relative explanatory power of equity ratio with and without dirty surplus items for interest rate spread of bonds issued. The paper presents that the equity ratio excluding dirty surplus items is more strongly associated with the interest rate spread than that including dirty surplus items. The results suggest that the total amount of dirty surplus items have no explanatory power for interest rate of bonds issued. However, the paper finds that some items of dirty surplus have the relative and incremental explanatory power for bond interest rate.

Value Relevance of the Multi-step Income Statement in Japan

The paper investigates the relationship between value relevance of the multi-step income statement and managerial opportunistic behavior. In Japan, net income is disclosed by three steps, i.e., 1) operating profits from core operating activity, 2) ordinary income, measured by adding gains and losses from non-core operating and financing activities to operating profits, and 3) net income that is bottom line performance in the income statement. While Japanese firms achieve income smoothing, loss avoidance and big bath, the managerial opportunistic behavior is simply identified by the

observation of multi performance measures. The paper finds that the firms engaged in such earnings management have the different value relevance of earnings from other firms. In many cases, earnings management decreases the value relevance of earnings.

I am honored that we are able to publish research reports including their paper. I thank Japan Accounting Association and acknowledge the financial support from ‘Sangyo keiri kyokai’ on behalf of the committee.

Study Group

A study on the Structure and Functions of Double-Entry

Bookkeeping

Chair: **Tsuneo Nakano**

Kobe University

The environment around the record keeping function in accounting has changed radically, mainly due to communalization. Double-entry bookkeeping, however, seems to remain to be the only means of recording accounting transactions in many educational institutions. Most business organizations keep accounting records using computers and few keep traditional pen-and-book style records. There is some gap between recordkeeping in school and that in practice. Thus, one question arises: should we change our notion about bookkeeping?

One approach to the question is to investigate it functionally. The purpose of the study group is to make clear the structure and functions of double-entry bookkeeping. The final report, titled “The Structure and Functions of bookkeeping,” became available in September 2006. In that report, we deliberated on three topics about bookkeeping: past bookkeeping, present bookkeeping, and future bookkeeping.

1. Present bookkeeping.

Based on the questionnaires returned last year, we conducted additional investigation on the notion of bookkeeping. First, we examined the relationship between the attributes of the respondents and their answers. Second, text-mining analyses were conducted on the morphemic words, i.e. nouns, shown in the definitions of single- and double-entry bookkeeping,

and their differences. Third, to show the correlations among answers, we prepared cross tabulations for some combinations of questions. From these procedures we reached an overall image of the single- and double- entry bookkeeping, and to make this image clearer, we conducted interviews with two outstanding theorists on bookkeeping.

2. Bookkeeping in the past

We also examined the notion of the bookkeeping in the past by surveying the textbooks published in some areas and countries in the past. First, we surveyed the textbooks in Britain in the eighteenth and nineteenth centuries and concluded single-entry bookkeeping should be examined with more emphasis. Then, similar approach was adopted on the books published in Japan in the Meiji period and those in Korea. Exploring the development of bookkeeping in public sector in the United States was also examined.

3. Bookkeeping in the future

The last question is what bookkeeping will be in the future. The conclusion was drawn from its development over centuries and recent computerizing technology. First to be examined is XBRL (eXtensible Business Reporting Language), based on XML technology, and we concluded that XBRL itself will not change the framework of double entry, but it will enrich the record of transactions by filling many additional information into the records. So what the bookkeeping in the future will be? One possible direction is that records become single-entry with a lot of supplementary information and general.

The final report does not attempt to unify the opinion of the members partly due to the time allowed. But each chapter contains valuable opinions of us and we hope this study would be a foundation for the further development of the study of bookkeeping.

Study Group

Change of Accounting Society and Market Logic

Chair: **Yukiharu Kurokawa**

Keio University

The issues underlying this theme are as follows.

1. Market logic and capital market quality

It is often found that behaviors of participants in capital markets have been moving from investment to speculation. At the same time, the flow of borderless capital in capital markets all over the world has been intensifying.

The usefulness of accounting information is usually verified by statistically measuring the impact that accounting information has on stock markets. Here, however, a question arises whether the quality of a market itself can be an issue or “if the nature of accounting information should change according to the level of market quality.”

Market quality is closely related to the feasibility of “market logic.” A major determinant of market quality is the quality of competition in the market. The quality of competition in the market depends on nondiscrimination in rules (i.e. applying the same rules to all market participants) and information transparency (i.e. the same information is available for all market participants).

2. Evaluation model of enterprises and reactions by markets

How has the management of companies leading the economic society been changed by market integration, drastic development of information environments, and stricter internal controls? At the same time, has the meaning of corporate value been changed?

A theoretical figure of the corporate value that individual investors perceive of the company they may invest in is created based on the combination (corporate rating) of a corporate assessment model and information required by the model. Thus, it is necessary to identify the corporate assessment models that are actually used in the market.

3. Audit explosion and audit society

One of the changes in the accounting world that can be the phenomenon called “audit explosion - audit society.” In Japan, this is exemplified by the fact that there has been a spread of auditing or similar activities such as inspection, examination and verification in the society. This is exemplified not only by the increase auditing in profit-making enterprises, but also the auditing of national and local governmental/public organizations conducted by the Board of Audit, performance examination of non-profit organizations such as hospitals and universities, and the assessment of environmental activities of both profit and non-profit organizations. Michael Power

calls this situation “the audit society.”

Characteristics of the society, the wide spread of coverage that audit/assessment is applied and unclear judgment of audit quality itself are briefly described by the following statements: “black boxing of audit contents,” “determining audit quality by inspecting the audit process,” and “audit report as a meaning of a reassuring label.” Then we need to investigate actual situations on the question, “how the audit society has been changing in Japan.”(1)

4. Change of accounting profession and management of auditing firms

When we pay attention to the change that the major part of recent audit practice is merely office work to develop audit work papers and the work environments of young accountants, who are now no more than employees of a large auditing firm, an issue emerges called “laborization of the accounting profession.”

Focusing on the shift of the nature of accounting profession from specialist to manager and laborer, in other words, the disappearance of the accounting profession, leads us to raise a research issue “examination of management of audit firms.” This includes research of “various issues of general corporate organization applying to auditing firms such as corporate manager’s governance, labor management, employment and promotion, salary system and incentive/compensation issues, development of human resources, organizational culture and loyalty to the organization that should be particular to each organization.”(2)

5. Spread of corporate accounting techniques among public sector and its impact

It has been pointed out that there is inefficiency among various organizations belonging to the public sector (national, local governments, independent administrative agencies, etc.) and delay of accounting system, which plays a role in causing the inefficiency. In response, corporate accounting techniques have been introduced into the public sector leading to wider use of assessment techniques of profit-making organizations. What is the expansion and limit of the role of accounting information and disclosure in the public sector?

Note: (1) Michael Power “The Audit Society: Rituals of Verification”, 1997.

(2) Robin Roslender “Sociological Perspectives on Modern Accountancy”, 1992.

2007 Annual Conference of JAA

Regional Reports

Hokkaido Region

Yuji Yoneyama
Hokkaido University

The regional meetings were held in 2006 as follows.

1. The 69th Regional Meeting (May 20, 2006) at Hokkaido University

- (1) "Role of Postscript Information and the Problem," Zhang Junsong, Hokkaido University
- (2) "The Empirical Analysis between Management's Discipline and Severance Benefit," Yuzuru Sakurada, Hokkaido University
- (3) "Corporate Disclosure in the Securities Acts," Jun Hiyama, Sapporo University.
- (4) "Developments and Problems of Public Sector Accounting in Japan," Shinichiro Ishizaka, Hokkaido College, Senshu University

2. The 70th Regional Meeting (November 11, 2006) at Hokkaido University

- (1) "A Study on Going Concern and Financial Statements Audit: The Situation of America in the 1980's," Satoko Fujioka, Hokkaido University
- (2) "Consideration about opaque accounting system of Japan: The Issue of Tokyo Stock Exchange about Inadequate and Insufficient Capacity of Surveillance," Kouki Hamada, Kushiro Public University of Economics
- (3) "Effect of Leases by Impairment Accounting Standards," Katsuhiro Yoshida, Asahikawa University

A lively discussion was held among the participants in each presentation.

Tohoku Region

Yoshio Hosaka
Tohoku Gakuin University

The Tohoku Region of the Japan Accounting Association covers the north eastern (Tohoku) area of the main land.

In 2006, following three meetings were held.

1. The 70th Meeting (June 17, 2006) at Fukushima University

- (1) “On Empirical Research on the Keeping and Using of Accounting Data in Smaller Companies in the Ishinomaki Area,” Shinsuke Tamura, Ishinomaki University
- (2) “The Accounting Treatment of Emission Rights,” Hideki Shibata, Hirosaki University

2. The 71st Meeting (November 19, 2006) at Yamagata University

- (1) “A Study on ‘Net Assets’ Concept in Corporate Law,” Hiroshi Ootsu, Junior College of Aizu
- (2) “On the Quarterly Disclosure and the Assurance of Reliability,” Kazuyuki Ichimura, Niigata University of Management
- (3) Special Speech: “Reviewing a Work of Mine over Thirty Years: *Evolution of Cost Accounting at Nagasaki Shipyard.*” Yoshikazu Toyoshima, Ishinomaki University, Professor Emeritus at Tohoku University

Kanto Region

Yukiharu Kurokawa
Keio University

The 54th Kanto Conference of Japan Accounting Association was held at the Mita campus of Keio University on December 9, 2006. About 200 people participated in the conference.

Theme: “The future of accounting/auditing world – What accounting/auditing would be or should be in 10 years?”

Moderator: Yukiharu Kurokawa, Keio University.

[Selection of the theme and its background]

1. Change of Capital market quality

It is often found that behaviors of participants in capital markets have been moving from investment to speculation. At the same time, the flow of borderless capital in capital markets all over the world has been intensifying. In response to these movements, we would like to forecast what the quality of a capital market and the role of accounting information would become or should become.

2. Evaluation model of enterprises and reactions by markets

How has the management of companies leading the economic society been changed by market integration, drastic development of information environments and stricter internal controls? At the same time, has the meaning of corporate value been

changed? In the future, what is the desirable accounting for management (administration) that contributes to assessment of corporate value?

3. Subjective forecast and the change of accounting information

In the process of preparing accounting information, subjective forecast of future events/phenomena has been increasingly needed. Forecast of future events/phenomena requires assessment of prospective outcomes of multiple possible future events/phenomena and incidence rate of each event/phenomenon. Here, a question arises in accounting whether representative values should be indicated as expectation using occurrence probability distribution or mode, and if a measured value (= representative value) should be corrected by the amount of the risk premium in order to reflect the breadth of the distribution (= risk) or not.

4. Change of accounting profession

It has been pointed out that there is a decline in auditor's ethics in auditing process, which secures the reliability of accounting information. What is the future picture of the accounting profession and what should regulation of auditing firms and auditing practices be?

[Individual presentation and summary of discussion]

1. "Perspective on the Controversy over Depreciation vs. Impairment of Goodwill, with reference to the Strategic Management Theory of Sustainable Competitive Advantage," Satoshi Daigo, The University of Tokyo
2. "How to Evaluate the Uncertainty within Corporate Accounting," Mitsuru Iwamura, Waseda University
3. "Contribution of Research on Corporate Reputation to Accounting – Based on Historical Approach of Future Research Prospects," Michiharu Sakurai, Senshu University
4. "Recent Changes in the Environment of Audit and the Future," Akira Kaneko, Certified Public Accountants and Auditing Oversight Board

After 4 presenters' presentations on their own specific subjects, the following points were discussed.

- Of external environments surrounding present companies (capital market, product market, labor market, etc.), on which environmental changes did individual presenters focus?
- What are individual presenter's views on the relationship between change in corporate management and accounting/audit?
- How do individual presenters define and attempt to measure corporate value?
- Is audit sufficiently responding to increasingly complicated/internationalized corporate activities?
- Is effective organizational management implemented in auditing firms (accounting firms) themselves?
- In the process of discussing accounting standards, does academic research of

accounting fully consider environmental factors of corporate management and changes of economic transactions?

Chubu Region

Akihiro Noguchi

Nagoya University

1. The 111th Regional Meeting (May 13, 2006) at Fukui Prefectural University

- (1) “Development of Cash Flow Statements in the People’s Republic of China,” Yu Tian, Chubu University PhD student
- (2) “Accounting for Impairment: Business Decision before Accounting Policy,” Motonobu Tokumae, Fukui Prefectural University
- (3) “Analysis on the Privatization of the Japan Post System,” Kentaro Nomura, Aichi Institute of Technology

2. The 112th Regional Meeting (July 15, 2006) at Aichi University

- (1) “Manorial Accounting of the Middle Ages in Japan,” Takaharu Tanaka, Akeno High School
- (2) “Intellectual Capital Management and Managerial Accounting,” Tsuneo Mochizuki, Aichi University
- (3) “Company Law and Accounting for Shareholders' Equity,” Akihiro Noguchi, Nagoya University

3. The 113th Regional Meeting (December 9, 2006) at Nanzan University

Theme: New Company Law and Business Accounting — Theory and Practice —
Moderator: Toshihiko Shiraki (Nanzan University)

- (1) “A Comparison of ‘Comprehensive Income’ and ‘Net Income’ in Accounting from a Historical Perspective,” Kazumoto Ido, Nagoya University of Foreign Studies
- (2) “A Critical Analysis of the New Company Law from the Viewpoint of GAAP,” Koichi Takahashi, Nanzan University
- (3) “Internal Control and Auditing by the New Company Law,” Mikio Maekawa, Aichi Shukutoku University
- (4) “New Company Law and Accounting for Business Combinations and Reorganizations,” Masaya Okada, CPA

Kansai Region

Atsushi Shiiba
Osaka University

The 56th Kansai Regional Meeting was held at Osaka University on December 16, 2006. The Meeting had open sessions and a plenary session. In the open sessions, the presentations were as follows:

- (1) “Experimental Research in Accounting: A Ten-year Perspective on Judgment and Decision Making Research in Financial Accounting,” Masayuki Ueeda, Otemon Gakuin University
- (2) “The Selection between Discounted Residual Income Model and Discounted Economic Profit Model: An Empirical Analysis,” Kenji Yasukata, University of Marketing and Distribution Sciences
- (3) “International Convergence of Stock Option Accounting: Recognition of Expense in Japanese and International Accounting Standards,” Kanako Hikichi, Kwansei Gakuin University
- (4) “On the Applicability of the ‘Theory of Exchange’ for Fair Value Accounting,” Takashi Fujita, Ritsumeikan University

The main theme of the plenary session was “Corporate Accounting Reform and the Evolution of Accounting Theory.” Discussions were moderated by Teruyuki Kawasaki, Konan University. The presentations and panelists were as follows:

- (1) “Corporate Governance and the Evolution of Accounting Theory,” Norio Sawabe, Kyoto University
- (2) “The Change of Interaction between Commercial Code (Company Law) and Accounting Standards,” Hideki Kubota, Konan University
- (3) “Discretion and Responsibility in Accounting Reform,” Ichiro Hoshino, Hiroshima University

Kyushu Region

Chikako Ozu
Kyushu University

The JAA Kyushu Regional Conference regularly holds two meetings. The followings are the plenary sessions conducted at the 78th and the 79th meeting. The detail of the presentation and speakers are:

1. The 78th meeting (August 5, 2006) at Seinan Gakuin University

- (1) “A Study on Present Value Accounting: The Changing Process from Present Value Accounting to Fair Value Accounting,” Noriyuki Tsunogaya, Kyushu University
- (2) “The Thinking Pattern of Bookkeeping: Its Robustness and Bookkeeping Syndrome,” Eiichiro Kudo, Kumamoto Gakuen University
- (3) “An Examination to Bonus to Directors in Cooperate Tax,” Tetsuya Narumiya, Kinki University
- (4) “Development of Budget Allocation Management: A Study on GM at the Beginning of Twenty Century,” Shinichi Kouroggi, Kurume University

2. The 79th meeting (March 17, 2007) at Miyazaki Sangyo Keiei University

- (1) “Some Comments on the Corporate Income Tax in China,” Tan Guilian, Fukuoka University
- (2) “An Examination into the Comprehensive Statement and Realization Concept,” Kouki Kishikawa, Saga High School of Commerce
- (3) “New Movement on the Chinese Accounting Standards: With Particular Reference to the Conceptual Framework,” Toshifumi Yamashita, Saga University
- (4) “Venture Capital: Its Judgment and Investment,” Invited Presentation by Hidehiro Isogai, President, CEO, Miyazaki Taiyo Capital Co., Ltd.