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JAPAN ACCOUNTING ASSOCIATION

Japan Accounting Association.

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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 2008 is the 16<sup>th</sup> issue of *Japanese ACCOUNTING FORUM*.

This issue contains the summary of presentations at the 66<sup>th</sup> Annual Conference of JAA which was held at Matsuyama University in Ehime Prefecture on September 1-3, 2007. It also includes the reports of regional activities of JAA during the 2007 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, Japan Accounting Association

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JAPAN ACCOUNTING ASSOCIATION

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**ACCOUNTING FORUM**

No. 16, 2008

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## 2007 Annual Conference of JAA

### Report

#### 2007 Annual Conference

Chairman of 2007  
Annual Conference  
**Mitsunori Harada**  
Matsuyama University

#### Program

The 66<sup>th</sup> Annual Conference (2007) of the Japan Accounting Association was hosted by Matsuyama University from September 1st through 3rd, 2007. The main theme of the conference was “Going back to the Basics of Accounting”.

On September 1st, meetings of the Council and of the General Assembly of Membership were held, and soon after those events, three Study Group research reports, one Special Subject Committee research report and two Special Committee research reports were presented. In addition to those, we had a Special Program (ASBJ Session) sponsored by the Accounting Standards Board of Japan (ASBJ).

On September 2nd, before the sessions of the main theme, concurrent sessions were held. One session was devoted to invited presentations by five Korean researchers. Forty eight reports on various themes were presented at the other fourteen sessions. At the session of the main theme mentioned above, three plenary sessions were held. Finally, we had an Open Symposium in which many members and nonmembers participated.

On September 3rd, before the panel discussions of the plenary sessions, forty eight reports on various themes were presented by the members at fourteen concurrent sessions. After that, the panel discussions of the three plenary sessions were held very actively.

A banquet was held in the evening on September 1st at the Student Union of Matsuyama University. Five hundred and eighty five members and nonmembers enjoyed the friendly party. During these three days of sessions, almost a thousand participants attended the meetings and actively participated in discussions. The conference of this year was a great success which is more than we had expected.

The schedule of the conference was as follows:



Event	Date and Time	Venue
Screening Committee for Awards Meeting of the Board of Directors	Aug.31 14:00 to 16:00 16:00 to 18:00	Matsuyama University
Meeting of the Council Meeting of the General Assembly of Membership Study Group Reports Special Subject Committee Report Special Committee Reports ASBJ Session Banquet	Sep. 1 10:00 to 12:00 13:00 to 14:30 14:40 to 15:10 15:20 to 15:50 15:55 to 17:00 17:10 to 18:10 18:30 to 20:30	Matsuyama University
Concurrent Sessions Plenary Sessions 1 Review of Japanese Accounting Theory and Praxis 2 Management Accounting as Management Systems 3 Transformation of Profit Information and Ideal Way of Financial Statements Audit Open Symposium Creation and Growth of Enterprise Value and Business Accounting	Sep. 2 9:50 to 12:00 13:00 to 15:20 15:30 to 19:00	Matsuyama University
Concurrent Sessions Panel Discussions 1 Review of Japanese Accounting Theory and Praxis 2 Management Accounting as Management Systems 3 Transformation of Profit Information and Ideal Way of Financial Statements Audit	Sep. 3 9:50 to 12:00 13:00 to 15:00	Matsuyama University

## **2007 Annual Conference of JAA**

### **Plenary Session 1 : Review of Financial Accounting in Japan**

#### **Accounting Income and Economic Income: Two Boundaries and the Nature of Accounting**

**Noriyuki Tsunogaya**  
Kyushu University

The feature of the concept of economic income will be very much in agreement with the "decision-usefulness approach", "asset and liability view", and the definition of assets and liabilities ("future economic benefits concept") that are the basis of contemporary accounting concepts.

If we observe over a comparatively long time span, we could point out that there exists a genealogy that attempts to place economic and accounting views on the relationship between a higher ("principle") and lower ("surrogate") ranks. The feature of this "economic monism" is summarized in the four following points. First, the traditional realization concept is made light of as revenue recognition. Second, the service-potentials concept is taken as an asset and liability definition. Third, as an ideal measurement basis, a discounted present discount is taken and historical cost, replacement cost, and net realizable value are used as surrogates for it. Finally, it is thought to be natural that self-generating (internal) goodwill is recognized on the balance sheet.

On the other hand, we can also point out that there exists another genealogy that is going to reconcile two opposing views. The feature of this "accounting and economic dualism" can be expressed by the two following points. First, realized and unrealized incomes are clearly distinguished. Second, the amount of change in a self-generating goodwill is positioned as a key concept to bridge between economic, current value, and accounting incomes.

Incidentally, the comprehensive income that is in the middle of economic and accounting incomes is calculable by different two routes. Route 1 is based on the genealogy of "economic monism". Whereas, route 2 is based on the genealogy of "accounting and economic dualism".



Ironically though, the more we emphasize the above mentioned features of contemporary accounting, the more an economic income concept or fair value accounting will be pushed to the front, while the accounting income concept will retreat. Do realization and recycling (reclassification) concepts really become unnecessary? Inversely, why are these concepts required? What are the strong points and demerits of fair value accounting? Although present value accounting (economic income) and fair value accounting (fair value income) are along the same lines, there is a big difference between them whether to recognize self-generating goodwill or not. Should we recognize self-generating goodwill on the balance sheet for investors, creditors and other users to enable rational decision making? Supposing that is not the right way for us, how then does accounting dynamism correspond to this situation? We appear to need further research on the issues mentioned above.

## **Continuity and Discontinuity of Accounting Thought in New Standards**

**Hideki Fujii**

Kyoto University

This paper aims at inquiring into underlying accounting thought in new standards, which have been issued as a result of what's called "Big Bang Renovation of Accounting System" in Japan since late 1990's. For this purpose, we take, as criteria to decide their theoretical characteristics, the "Kapitalgleichung,"  $A - P = K$ , formulated in J.F. Schär [1922], *Buchhaltung und Bilanz* and the "original equation," Goods = Proprietorship, in H.R. Hatfield [1916], *Modern Accounting*, both of which have been considered suitable to describe basic idea embedded in Japanese accounting tradition. The new standards show discontinuity of the traditional accounting thought, to the extent that they premise net assets defined as residual amount in the assets of an entity that remains after deducting its liabilities, while K (Kapital) in Schär's Kapitalgleichung, as well as proprietorship in Hatfield's original equation, is not residual amount but an independent element presenting abstract total value of the entity's goods. We can find, in this discontinuity, influence of the asset and liability view of accounting, which orients current standards setting in FASB and IASB. On the other hand, the new standards keep continuity of the traditional thought in the area of equity accounting and income determination. They require presenting owners' equity as an independent item in net assets section of balance sheet, and determining net income as change in owner's equity during a period. In other words, they define net income as "results of investments" and owner's equity as net stock of investments which generates these results. This means that so called "other comprehensive income," i.e. window fall to an entity, should be excluded from income as performance measure, and that this is consistent to traditional accounting thought formulated in the Kapitalgleichung and the original equation. Taking all into consideration, we may conclude that the new standards consist of mixture of two different thoughts of accounting, more specifically a kind of nest of boxes where traditional equity accounting and income determination are covered with soritical structure of elements of financial statements defined on the asset and liability view of accounting.

## **Interaction between Financial and Tax Accountings and Its Breaking Off**

**Kazumi Suzuki**

Kobe University

This study investigates the historical process of the interaction between accounting standards and corporate income tax codes, and points out distinctive features and problems in current accounting practices. Japanese Corporate Income Tax Law has also accepted the accounting thought including the historical cost basis, the accrual basis and the matching principle, therefore Japanese taxation has harmonized taxable income assessment with the financial accounting standards until 1998. The tax amendments since 1998 which have oriented to past and organizational allocations and the settings of new accounting standards around 2000 as a part of international convergence of accounting standards which have oriented to future and market mechanism, however, have induced mixed situation in accounting practices. In some areas, both the accounting standards and the tax codes have specific rules and their contents differ. In another, both the accounting standards and the tax codes have specific rules and their contents are almost the same. And in the other areas, there are specific rules in the tax codes but the simple or no accounting standards so that the tax rules are likely to work as de facto accounting standards in these areas. This situation makes the characteristic of reporting income ambiguous because the reporting income consists of both elements reflecting the past and organizational allocations and the future and market mechanism.

## **Efficiency and Equity of Financial Reporting**

**Kazuyuki Suda**

Waseda University

This study investigates the efficiency and equity of financial reporting regulated by the government. The efficiency of financial reporting is defined to produce and distribute efficiently information relevant for securities valuation in the securities market. The equity is defined as equality of opportunity to access to information relevant for asset valuation in the securities market (Lev, 1988). While there is a vast literature on the relevance and usefulness of accounting information in Japan and these studies are related to maintain the efficiency of financial reporting, very few empirical literatures on the equity of financial reporting or symmetric distribution of accounting information across investors is in Japan. This study suggests that it is necessary for us to investigate more the equity of financial reporting because systematic and large information asymmetries lead to high transaction costs, bid-ask spread, and lower liquidity of securities resulting from the defensive measures taken by uninformed investors who perceive significant inequity. For example, an extensive literature has accumulated on the economic consequences of Regulation Fair Disclosure in the U.S. Bailey et al.(2003) found that the quantity of voluntary earnings disclosure and abnormal trading volume increased after Regulation Fair Disclosure. Ahmed et al.(2007) documented that Regulation Fair Disclosure had reduced differences in information quality between investors prior to quarterly earnings announcements. We need more empirical research to judge the level of the equity of financial reporting in Japan.

## **2007 Annual Conference of JAA**

### **Plenary Session 2 : Management Accounting as Management Systems**

#### **A Formation of Management Accounting in U.S. Big Business**

**Shinichi Korogi**

Kurume University

In this particular study, working on the first resources, how management accounting has been formatted based on return on investment was examined from management system perspectives.

Before developing a theory, first we need to confirm what ought to be a fact. Recognizing it correctly ensures ways of developing a persuasive theory.

As a result of exploration, I found that choosing a railroad route is recognized as a decision making activity and that a budgeting and a timetable control are considered as an evaluation activity in the American railroad companies in the middle of 19<sup>th</sup> century. And these activities are functioned on return on investment.

As seen in ways of choosing a railroad route developed by the American railroad companies in the middle of the 19<sup>th</sup> century, decision making activity such as fund distribution by the top management impacted on how to structure an appropriation system for a strategic planning of the E.I du Pont de Nemours Powder Company in the early 20<sup>th</sup> century.

It is also suggested that management was organized with a strategic planning activity, a management control activity, and an operational control activity in the E.I du Pont de Nemours Powder Company in the early 20<sup>th</sup> century, and that management accounting on return on investment had been developed to support these activities.

# **Japanese Corporations' Organizational Principles and Management Control: A study based on R. N. Anthony's theoretical framework**

**Eri Yokota**

Keio University

This study first looked at R. N. Anthony's management theory as a typical management control theory. It is recognized that Anthony's theoretical framework is underpinned by a set of organizational principles. This study examined what kind of changes this theoretical framework needs to undergo today. It then investigated the characteristics of the organizational principles underlying Japanese corporations and the style of management control adopted by them. In a detailed analysis, it compared the organizational principles underpinning Anthony's theory with those of R. Simon's theory, which characterized this concept as a traditional form of management control. The study went on to examine the organizational principles underlying Japanese corporations in the context of the Japanese divisional organization system, which was highly dependent on management control, and looked into the relationship those principles had with Japanese-style management control on the basis of the preceding investigations.

The results showed that, in a Japanese corporation, management control took the form of top management exerting centralized control over the entire organization while involving middle management and first line management in the process, and that, despite the corporate organization being based on the division of labor and division of power, its units were not entirely autonomous. Although a trend has emerged in recent years to introduce a more decentralized organization based on an autonomous management system with a view to directly linking remuneration to performance, an adjustment mechanism seems to have been put in place to harmonize it with Japanese corporations' traditional organizational principles in terms of the involvement of middle management and first line management, relationship between performance and remuneration, and so on.



## **Recognizing the Assimilative Process of the American-Type Cost Accounting Systems to Our Country**

**Koji Yamamoto**

Osaka Prefecture University

The American-Type Cost Accounting Systems brought a great influence to the implementation and development of the cost accounting in our country. I show the arguments done in the assimilative process of standard costing to our country. Then, I recognize the role which a researcher and a man of business in those days played. Furthermore, I mention the importance of the researcher's role as a facilitator about the implementation of the new cost accounting or the new theory.

The expression of “the assimilative process” means that the adaptation as a system of our country is made. As for the assimilation of the standard costing, the influence of the activities in the business world was strong in addition to the researcher's activities. A man of business tried to learn and exchange information for actively.

On the other hand, the academic dispute over the concept of the standard cost was seen. It is important that there was a difference in the opinion about the role of the researcher and a man of business in that background. Moreover, at the dispute over the relation between the standard costing and the budget, a man of business threw a doubt on the popular view of the researchers, and the researcher showed the understanding as a result of the dispute.

The researcher must take the needs of the business and the effective way of researching. The case studies and especially the action researches are necessary so that a researcher may play a part as a facilitator of restructuring the theory.

## **2007 Annual Conference of JAA**

### **Plenary Session 3: Transformation of Profit Information and Ideal Way of Financial Statements Audit**

#### **The Fundamental Problems in the Financial Statements Audit Arising from the Change of Earnings Information**

**Takatoshi Hayashi**

Kwansei Gakuin University

It seems that earnings information, which means information about net income and its calculation process, has changed in quality and quantity in the recent decade. Change in quality means uncertainty and subjectivity included in the earnings information is increasing. Some of the accounting standards such as standard for impairment of assets or postretirement benefits require management to make accounting estimates to prepare financial statements. Financial statements audit is expected to provide reasonable assurance, a high level of assurance regarding the reliability of financial statements. The quality of earnings information affects the level of assurance provided by financial statements audit. Other things being equal, the level of assurance depends on quantity and quality of audit evidence. As the uncertainty and subjectivity that accounting information includes becomes higher, auditors will not rely on corroborative evidence but will rely on persuasive evidence, so the level of assurance becomes relatively low. Based on such an understanding, the following points were discussed. Is reasonable assurance the appropriate level of responsibility for auditing certain accounting estimates? Should the auditor's reporting model be revised to provide different levels of assurance on different parts of the financial statements? Should auditor's viewpoint be built into accounting standards setting process in order to maintain relatively high level of assurance?

# Concept of Earnings Quality and Meanings of Audit

**Yukiharu Kurokawa**

Keio University

“The quality of earnings” or “earnings quality” is commonly dealt with in the context of “different corporate values for the same reported earnings” which depends upon whether the company’s earnings quality is high or low. When one begins to think carefully about how to define the constituent elements in earnings quality, i.e., what factors will impact the degree of quality, one realizes that the phrase “quality of earnings” is used rather casually and will differ across the speakers and the purposes. The concept is both wide-ranging and ambiguous.

First of all, we examine what kind of accounting information is provided and what factors influence the process of provision, then, we confirm where audit is in it. Second, we present some tentative ideas for clarifying the concept of earnings quality from the perspective of the accounting information provision process and the factors that influence it. Third and finally, we discuss whether the meanings of audit change depending upon the different contents of social choice phase and individual choice phase of earnings quality. We also mention the relation between business activity-business valuation and demand for audit.

Table 1 Summary of the accounting information provision process and the constructs of earnings quality

1. Social choice  
(Accounting objectives/policies)
  - Criteria for accounting standards
  - Usefulness of earnings (financial) information (particularly forecasting abilities)
  - Earnings concept
  - Relationship to cash flow
2. Individual choice  
(Accounting strategy)
  - Accounting guidelines
  - Practice of earnings management (manipulation)  
(Accounting environment)
  - Reliability of financial data
3. Business activity-business valuation  
(business environment, business strategy)
  - Sustainability of firm (high degree of continuity in results valuations)
  - Discretion in actual expenses incurred for operations

# **Research Matters of Audit and Assurance Services Corresponding to Qualitative Change in Profit Information**

**Fumio Naito**

Konan University

I reported on the following seven points. As an assumption of the report, I set that profit information means the financial information in which all financial statement amounts relate to pretax earnings.

1. Has profit information been transformed?

A qualitative characteristic of profit information has changed because of the relative decrease of the suitability of the accounting standard to the subject of profit information.

2. How has profit information been transformed?

It is judged that the level of the characteristic of "Reliability" as a qualitative characteristic of profit information has relatively decreased more than the level of the rise in the characteristic of "Relevance to decision making".

3. Is the change in the characteristic of profit information definite? And does the change in the characteristic of profit information change the meaning of usefulness as information for investment decision making?

The change in the characteristic of profit information cannot be asserted to be definite. However, "Reliability" has decreased while "Relevance to decision making" as information for investment decision making increases. As a result, the meaning of utility has changed.

4. Can the audit correspond to the transformation of profit information?

The audit of financial statements has the possibility that it cannot necessarily correspond to the change in a qualitative characteristic of profit information.

5. What problem is thought if the audit cannot correspond to the transformation of profit information?

When the accounting standard is applied to an individual case, the accounting judgment increases diversity and the subjectivity. As a result, there is a possibility that

the change that cannot be allowed in the profit number is caused. It is necessary to feed back the problem of the application of the accounting standard to the accounting standard setters by making an effort to prove this fact.

6. What strategy should be taken to solve such a problem?

Because the assumption of the audit has changed, it is necessary to change the audit method, and, to devise the report of the audit opinion.

7. What theoretical correspondence will be needed to assume that the strategy can be achieved?

When the suitability of the accounting standard has decreased, it is necessary to develop a new audit method that enables to provide a reasonable assurance.

## **Need to Disclose Structured Information and its Auditability**

**Kenji Shiba**  
Kansai University

It is widely known that contents of reported profit are changing. But at the same time, the audit of financial statements has not been able to catch up this process. Changes have always occurred and it is reasonable that audits require some time to adapt to these changes, which does not mean that audits are not necessary. It is important that studies on disclosure, accounting and auditing come together to settle new systems for these fields, in order to build a better society.

Information disclosure may grow unlimitedly, and we cannot expect all to be audited. Among the disclosed information, some can be structured and easy to understand, like the information about profits. But others, like the non-financial information about the management of intellectual capitals, cannot be easily structured or it's risky to structure. There is also information that is impossible to be structured.

The difference between auditing and peripheral activities will depend on how much structured the information is, and the level of auditability. When the understandability decreases, demands for auditing increase. However, auditing offers decrease due to difficulties in auditability. Here is the auditing paradox. If auditors refuse to perform their duties due to practical unauditability, peripheral activities will grow instead.

We can explain the auditing paradox as a result of the conflict in the auditors mind and its inconsistency with their conduct. To corroborate this, Prof. Tomomi Takada and I have performed a "Research on Auditors' Judgment on Going Concerns"; and as reported, we could confirm those conflicts and inconsistencies. We would like to continue with this kind of research, and considering a market oriented auditing, where audits provide different levels of certainty for disclosures with different levels of structured information, coexisting with peripheral activities.

## **2007 Annual Conference of JAA**

### **Special Committee**

#### **Research on Business Organization and Management Accounting**

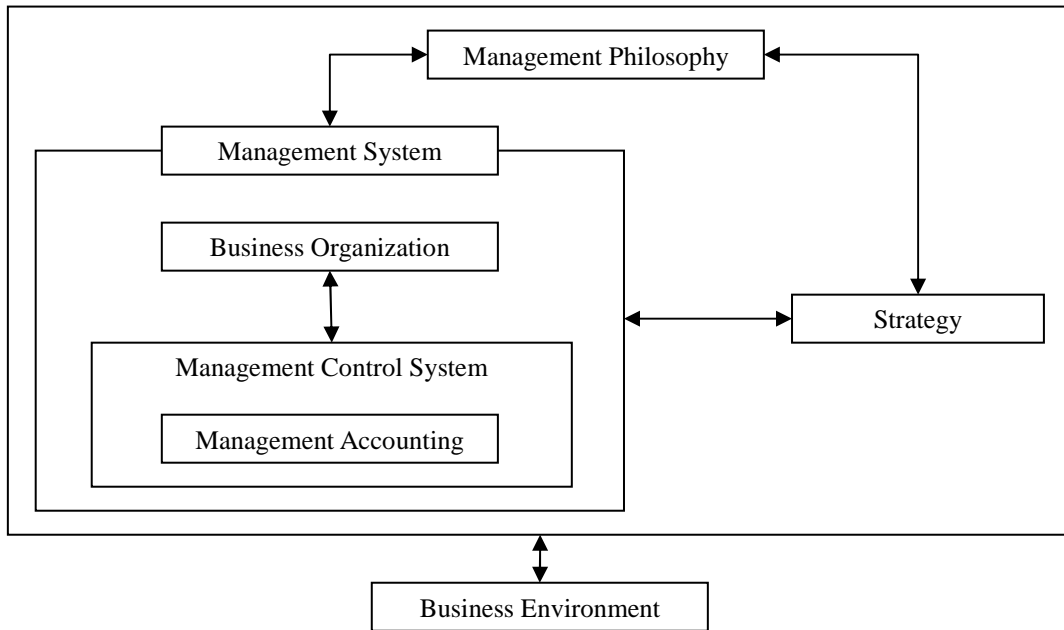
Chair: **Toshiro Hiromoto**

Hitotsubashi University

The research purpose of this committee is to study on business organization and management accounting, focusing on the facts that Japanese management accounting systems such as target costing and micro profit centers have been created and developed in the different environments and organizations from the ones traditional management accounting in the U.S. has been based on, and that management accounting models originated in U.S. have been adapted to Japanese environments and organizations in their implementation process.

To carry out our purpose, this committee needs to address two issues: one is to trace the historical process of evolution of management accounting; the other is to explain the role of management accounting in the modern organizations. The latter issue consists of concrete attempts to highlight the characteristics of autonomous organizations, to provide details about the process of establishing a current order of management accounting in some Japanese and American companies, and to study on the evolutionary framework to explain the process.

The reason why this special committee focuses on the environmental and organizational context as the foundation of management accounting is that this committee postulates that the role of management accounting depends on the company's context such as their environment, philosophy, strategy and organizational form. This promise is in sharp contrast to traditional management accounting research that has been guided by the principle of relevance. The analytic framework of our research is shown in the figure below.



The key concepts across the various approaches adopted in our research to address the issues mentioned above are “market-organization interpenetration,” “micro-macro-loop,” and “evolution.” The market-organization interpenetration means weak linkage between organizational units, called a loose coupling organization, in which the units or individuals are autonomous and responsive to markets. The micro-macro-loop that creates the information flow between individuals (micro) and the whole (macro) is important to make sure that individuals act so as to keep the order of the organization as a whole. And this committee stands on the evolutionary approach in which management accounting that is not designed rationally in advance could work well ex post facto.

Although these concepts have been used in the other area, this committee expanded and advanced them based on insights obtained by management accounting research in addition to borrow them. Another characteristic of this committee is that it is comprised of the following commission members who have various research careers. That variety enabled this committee to include different perspectives such as historical, evolutionary, theoretical and empirical approaches under the common framework.



**Commission members:**

Hiramoto, Toshiro, chairman (Hitotsubashi University)

Hiki, Fumiko (Hitotsubashi University)

Ito, Katsuhiko (Seikei University)

Kawada, Makoto (Meijo University)

Kimura, Shogo (Nagoya University)

Morofuji, Yumi (Okayama University)

Nakagawa, Masaru (Doshisha University)

Nishimura, Yuko (Aoyama Gakuin University)

Obata, Hiroshi (Hitotsubashi University)

Sawabe, Norio (Kyoto University)

Torii, Hiroshi (Meiji Gakuin University)

Yokota, Eri (Keio University)

**Research collaborator:**

Fujino, Masafumi (Nihon University)

Kataoka, Hiroto (Oita University)

**Special Committee****The comprehensive research on accounting-based firm valuation**

Chair: **Hisakatsu Sakurai**  
Kobe University

The purpose of this special committee is to investigate various issues of evaluating firm value based on accounting information. In the first year, by extensively reviewing prior literature, we made the interim report as follows: In the part I, we summarize studies on the relationship between accounting information and security values and the purpose of financial reporting in the conceptual framework to define our point of views. We then discuss the role of accounting information through considering the efficient market hypothesis and its anomaly and studies in behavioral finance. The part II includes the topics for price multiple-based valuation methods (e.g., PER, PBR), discounted present value-based models (such as discounted dividend model, discounted cash flow model, and residual income model), the method to estimate cost of capital (i.e., discount rate), the applicability of residual income model to research on accounting standards setting, and various attributes of financial performance measures. In the part III, we discuss (i) the prediction of future earnings based on the

association between corporate strategy and financial performance, and (ii) the role of accounting accruals in firm valuation. The part IV includes the topics for valuation of loss firms and firm valuation in M&A.

## **Subject Research Committee**

### **Implementation and Development of Cost Accounting in Our Country: Literature Historical Research; Interim Report on Cost Control Function**

Chair: **Koji Yamamoto**  
Osaka Prefecture University

The purpose of this Subject Research Committee is to examine issues that were discussed concerning the implementation and development processes of the cost accounting in our country by comprehensive literature review. Then, we verify whether a development corresponding to the conditions of our country was formed in academia. We also investigated what kind of roles academics and business people played in the development.

We proceed with the research about the standard costing as an accounting for control function. Prior to the literature review, we divide the following stages as a logical process of the implementation and the development of the cost accounting: "introduction, recognition" stage, the "implementation, reception" stage, and the "active adaptation" stage.

In interim report, to begin with, we survey a historical background in the period. And we argue the managerial technique such as time study based on the scientific management, which has been introduced at the early stage of the development. We also argue a unit calculation of resource as a base of the cost accounting.

Then we take up the various points of arguments discussed over the standard costing and examine a trend about the implementation with the business world. We discuss disputes over two concepts about the basic and the current standard cost and over the relations between the standard costing and the budget about the control function. So, we mention view toward the final report.

## Study Group

### Changes in Accounting Society and Market Logic

Chair: **Yukiharu Kurokawa**

Keio University

The issues underlying this theme are as follows:

1. Accounting Measurement and capital market quality

Usefulness of accounting information is usually verified by statistically measuring the impact of accounting information on stock markets. 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.” In chapters 1, 2 and 3, we logically consider the relationship between earnings quality (contents on disclosure) and market quality. Chapter 4 shows results of a questionnaire concerning financial reporting of listed companies in emerging equity market.

2. Valuation models of enterprises and reactions by markets

A theoretical figure of corporate value that individual investors perceive of the company they may invest in is created based on the combination of a corporate assessment model and information required by the model. It is necessary to identify the corporate assessment models that are actually used in the market. Chapters 5 and 6 introduce empirical research about market reactions to managements’ earnings forecast and about the relationship between reliability of financial reporting and pricing of new issues.

3. Change the nature of accounting profession and management of auditing firms

Focusing on the shift of the nature of accounting profession from specialist to manager and employee, in other words, the disappearance of the accounting profession, leads us to raise a research question to “examine management of audit firms.” Chapter 7 show results of a questionnaire concerning organizational culture in accounting firms.

4. Adaptation of corporate accounting techniques among public sector and its impact

Corporate accounting systems have been introduced into public sector. Chapter 8 reports implications of questionnaire responses from local governments.

Contents of the final report :

- Chapter 1 Quality of Earnings and Inefficient market  
Yukiharu Kurokawa , Keio University
- Chapter 2 Quality of Earnings Based on the Concept of “Released as Business Risk”  
Yuko Katsuo, Gakushuin University
- Chapter 3 Some INQUIRIES into the Market Regulations and the Disclosure Rules : the  
Development of the Emerging Equity Markets in Japan  
Mitsuru Tagaya, Aoyama Gakuin University
- Chapter 4 A Questionnaire Concerning Financial Reporting of Listed Companies in  
Emerging Equity Market in Japan  
Yusuke Nakajo, Yokohama City University  
Yoshiko Sato, Japan investor Relations Association
- Chapter5 Market Reactions to Management Earnings Forecast: Effects of  
Expectation and Earnings Management  
Takashi Asano, Aichi Shukutoku University
- Chapter 6 Reliability of Financial Reporting and Pricing of New Issues in Japanese  
Capital Markets  
Akira Usui, Waseda University
- Chapter 7 A Questionnaire Concerning Organizational Culture in Accounting Firms  
Takashi Nagami, Keio University  
Koji Oyanagi, Senshu University
- Chapter8 Initiatives of Change in Governmental Accounting - Implications of  
Questionnaire Responses from Local Governments in Japan  
Shigeru Ohtsuka, Chiba University

## **Study Group**

### **A Study on the International Movements of Environmental Financial Accounting and its Basic Concepts**

Chair: **Masao Kawano**  
Chuo University

The objective of this study is to examine possibility of environmental financial accounting and its directions in Japan. Environmental financial accounting can be defined as an area of accounting for the environment within the framework of financial accounting. Firstly, to examine possibility of environmental financial accounting, we started the study by surveying existing theories, regulations and praxis of

environmental financial accounting studied by international institutions and professional accountants' bodies of western countries. Secondly, we conduct comparative studies by clarifying basic concepts underlying the theories, regulations and praxis of western environmental financial accounting. We publish an interim report of the study this year.

Based on the Fourth Assessment Reports of IPCC (Intergovernmental Panel on Climate Change), it is said that more strict countermeasures in fighting against the global warming are needed. It is also mentioned that, corporations will have to pay more costs for activities that reduce environmental burdens. However, while disclosures of environmental accounting information have been increasing among Japanese companies after the publication of the Ministry of the Environment's Guidelines of Environmental Accounting, only a little environmental accounting related information have disclosed on financial statements except for costs or liabilities related to soil contamination and/or abatement of asbestos. We believe that addressing more environmental matters in financial statements is important.

Studies in the area of environmental financial accounting have initiated by international institutions such as United Nations, European Commission and other professional accountants' bodies (such as FEE and CICA) through 1990s. In addition, new accounting standards and related interpretations for environmental issues have been set by the FASB and IASB since 2000. We paid close attention especially to the accounting for asset retirement obligations. We examined financial influences of the FAS 143 "Accounting for Asset Retirement Obligations" to the U. S. corporations and considered possible problems to practices of Japanese corporations.

We also addressed the accounting for emission rights. We examined international and Japanese accounting standards related to emission rights and clarified present state of accounting procedures and disclosures of emission rights through some case studies of corporations.

In order to complete a final report of our study group, remaining issues that need to be examined are listed below;

- (1) To continue studies of topics examined in the interim report,
- (2) To summarize theoretical characteristics of environmental financial accounting,
- (3) To place environmental financial accounting from the viewpoints of financial accounting theory, and
- (4) To clarify problems related to environmental financial accounting in Japanese social and economic context.

## Study Group

### Calculate Regulations of Companies Act

Chair: **Masamich Yoshioka**

Tokyo University of Science

Vice-Chair: **Motonobu Tokumae**

Fukui Prefecture University

Vice-Chair: **Akiko Sugiyama**

Toyo University

The purpose of this study is to investigate a position of “Calculate Regulations of Companies Act” among the so-called “Triangle system”. We consider “Calculate Regulations of Companies Act” from three viewpoints as follows.

#### **1. A position of accounting standards against “Calculate Regulations of Companies Act”**

At the bottom of income statement, net profit or loss is shown. On the other hand, it is not shown in the balance sheet. Net profit or loss is also shown in the statement of changes in stockholders’ equity as one of the items of accumulated earnings.

#### **2. A position of Audit against “Calculate Regulations of Companies Act”**

Entry items of auditor’s report on accounting documents are regulated in Corporate Calculate Regulations, not in the body of Companies Act.

Auditor’s fair opinion corresponds with the auditor’s opinion that is based on Financial Instruments Transactions Law. The auditor’s fair opinion is based on auditing standards. Auditors can enunciate “the auditor’s fair opinion with qualifications” as well as “not enunciated auditor’s opinion” or “irrelevant auditor’s opinion”.

#### **3. A position of Income Tax Law against “Calculate Regulations of Companies Act”**

Income Tax Law respects accounting standards and follows the definite settlement of accounts. Income Tax Law adjusts net income before income taxes to calculate taxable income. Income Tax Law related to provisions for calculation of dividend of surplus was revised. The new Companies Act admits several dividend of surplus during a single accounting period as well as in the resolve of regular shareholders’ meeting.

So far we have outlined Calculate Regulations of Companies Act from the three viewpoints mentioned above. The study group members’ comments on the “Triangle System”

## **2007 Annual Conference of JAA**

### **Regional Reports**

#### **Hokkaido Region**

**Yuji Yoneyama**  
Hokkaido University

The Hokkaido regional meetings were held in 2007 as follows:

#### **1. The 71st Regional Meeting at Kushiro Public University of Economics on June 2nd, 2007.**

- (1) “Analysis of Accounting Standards and Tax Regulations on Corporate Reorganizations in Japan,” Hiroshi Taira, Hokkai-Gakuen University.
- (2) “Corporate Disclosure in the Securities Acts,” Jun Hiyama, Sapporo University.
- (3) “Reciprocity Principle Built in Japanese Management Accounting,” Okihito Maruta, Hokkaido University.

#### **2. The 72nd Regional Meeting at Hokunoukenpokaikan on November 17th, 2007.**

- (1) “A Study of the Linkage between Cost Improvement and Profit Management,” Akira Maeda, Otaru University of Commerce.
- (2) “(3) “The Exclusion of Expenses Related to Remuneration of Executives of “Individually Controlled Family Corporations” When Making Tax Assessments,” Shigeyuki Nakashima, Hokkai School of Commerce.
- (3) “Short-term Income Determination and Cost Accounting in German-speaking Countries,” Satoshi Imamura, Hokkai-Gakuen University.
- (4) “Some Notes on the Datini Ledgers,” Yoshiharu Fukushima, Hokkaido Information 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. During 2007, following two meetings were held.

### **1. The 72nd Meeting at Niigata University on May 26th, 2007.**

- (1) “On Empirical Research on the Keeping and Using of Accounting Data in Smaller Companies in the Ishinomaki Area,” Hidetaka Fujiwara, Tohoku University.
- (2) “The Framework and Practices of Business Process Management,” Gunyung Lee, Niigata University, Naoya Yamaguchi, Niigata University, Yoko Ogushi, Niigata University.

### **2. The 73rd Meeting at Hirosaki University on November 11th, 2007.**

- (1) “A Study on the Environmental Accounting Model for Biomass Policy and Project in the Area of Woodland,” Masanao Kanetoh, Hirosaki University.
- (2) “The Present State and the Issues of the Bookkeeping Class as Introductory Educations,” Shingo Sekine, Ishinomaki University.

## Kanto Region

**Takaaki Kikui**  
Sophia University

The 55th regional meeting was held at Sophia University on December 15th, 2007. The main theme of the meeting was “A Role of the Non-financial Information in Business Accounting.” Discussions were coordinated by Yoshikuni Hirose, Waseda University.

Following reports and panel discussions were presented.

- (1) “Accounting Measurement Systems and the Disclosure of Non-financial Information,” Keiko Kitamura, Chuo University.
- (2) “Summarization-Process Information and Non-financial Information New Cost and Revenue Accounting Provides - Possibilities of XML-based Cost and Revenue Accounting - ,” Hiroshi Obata, Hitotsubashi University.
- (3) “A Mandatory CSR Reporting Clause of the New UK Company Law,”



Yoshinao Kozuma, Sophia University.

- (4) “The Coverage and Level of Assurance over Expanding Business Reporting,” Shinji Hatta, Aoyama Gakuin University.

## Chubu Region

**Akihiro Noguchi**

Nagoya University

### **1. The 114th Chubu Regional Meeting was held at Yokkaichi University on May 12th, 2007.**

- (1) “Case Study on the Introduction of Accounting Information System of Consumer Financing Company,” H. Nakano, Nagoya University Ph.D. student.
- (2) “Empirical Research on the Ability of Accounting Earnings to Predict Future Cash Flows,” I. Ogata, Koryo International College.
- (3) “Accounting Professions in Canada,” M. Matsuwaki, Yokkaichi University.

### **2. The 115th Regional Meeting was held at Nagoya University on July 10th, 2007.**

- (1) “Tax Effect Accounting for Stock Options,” K. Yamashita, Nagoya University Ph.D. student.
- (2) Panel Discussion: Accounting Professions and Academics, A. Noguchi, Nagoya University, J. Yamada, N. Hattori, Tokai Chapter of JICPA.

### **3. The 116th Regional Meeting was held at Aichi Gakuin University on December 8th, 2007.**

Theme: Changes in Accounting Thought and Business Accounting

Moderator: Hirano, K. (Aichi Gakuin University)

- (1) “Research on the Adaptability of IAS/IFRS in Developing Countries,” M. Hiraga, Aichi Gakuin University.
- (2) “Revenue Recognition Criteria and Fair Value Measurement,” T. Tashiro, Meijo University.
- (3) “Ensuring the Reliability of Financial Information,” Y. Yoshida, Chukyo University.
- (4) “Toward Accounting for Investment Decision Making,” T. Ito, Tokai Chapter of JICPA.

<http://www2.soec.nagoya-u.ac.jp/%7Enoguchi/chubu/english.htm>

## Kansai Region

**Toshio Ohno**  
Kobe Gakuin University

The 57th Kansai Regional meeting was held at Kobe Gakuin University (their new Port Island Campus in Kobe) on December 8th, 2007. The main theme of the meeting was “The “Raison Deter” of GAAP – Consensus and Reliability” and following three presentations, moderated by Hideki Fujii, Kyoto were delivered in the main session:

- (1) “Convergence of Accounting Standards,” Tokuei Sugimoto, Kwansei Gakuin University.
- (2) “Internal Control Audit – New Horizon,” Humio Naitou, Konan University.
- (3) “A New Integration or Disintegration of Financial and Management Accounting, ” Toshihumi Matsumoto, Doshisha University.

Before this main session, a special session titled as “Issues related to SME Accounting in Japan” was moderated by Teruyuki Kawasaki, Konan University. Two tax accountants (Mr. Sakamoto and Mr. Ueda) were invited as guest speakers and they made special reports.

## Kyushu Region

**Chikako Ozu**  
Kyushu University

The Japanese Accounting Association (JAA) Kyushu regional congresses are regularly held two times a year – in August and March. The committee decided to organize the 80th co-memorial congress and Kyushu University was selected as a venue. Early spring congress was assembled at Saga University. The title, name of the presenters at each of the meetings are shown below:

### **1. The 80th meeting held at Kyushu University, on August 4th, 2007.**

- (1) “The Trend and Issues on CSR Accounting: In Respect of Japanese and International Circumstances,” Kosuke Miyaji, Nagasaki Prefectural University.
- (2) “On the Generation of Management Accounting as a means of Management System,” Shinichi Korogi, Kurume University.
- (3) “Trust Accounting and Its Taxation: The Tax Treatment of Pass-Through and Its Practical Implication,” Hideo Suenaga, Kumamoto Gakuen University.

- (4) Memorial Lecture: “The JAA Kyushu Regional Congress: Past, Present and the Way Forward,” Akira Nishimura, Beppu University.

**2. The 81st meeting held at Saga University, on March 29th, 2008.**

- (1) “Consolidation Issue of SPE in Japan,” Cao Yu, Fukuoka University.
- (2) “Japanese Management Accounting Fostering Reciprocity Relationship,” Okihiro Maruta, Kyushu University.
- (3) “For an Investigation into Auditing to Self-Governing Body: On an Opportunity of Enforcement of Local Governmental Financial Sound Law,” Tatsumine Ito, Seinan Gakuin University.