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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 2015 is the 23rd issue of *Japanese ACCOUNTING FORUM*.

This issue contains the summary of presentations at the 73rd Annual Conference of JAA which was hosted by Yokohama National University in Kanagawa Prefecture on September 4-6, 2014. It also includes the reports of regional activities of JAA during the 2014 academic year.

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

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## **2014 Annual Conference of JAA**

### **Report**

#### **2014 Annual Conference**

Chairman of 2014  
Annual Conference

**Shuji Mizoguchi**

Yokohama National University

The 73rd conference of Japanese Accounting Association is held twice after an interval of 28 years at Yokohama National University since the 45th conference of Japanese Accounting Association was held here in 1986.

Yokohama National University Staff, including from professors to graduate students, deeply appreciate for the chance to hold this conference and think that there is not the honor to go too far in this.

The recent accounting research diverges into many academic fields under the global economic environment and the speed of the research has been accelerated.

The research domain of Financial accounting, Management accounting and Auditing represented by past accounting approach is mutually closing, the border among them becomes much more ambiguous and the innovative research in the compound domain of accounting approach is reported these days. In addition, a lot of collaborative research with proximity research domains such as accounting and economics, statistics, business administration, psychology, the information science is carried out, too. The research mainly on the accounting approach includes a various research domain and is applied to global business. Besides, the composition accounting approaches such as case study, positive approach, historical study and so on, are put together appropriately.

According to the concept depicted above, the main theme of the 73rd conference of Japanese Accounting Association is determined, “The accounting research in the value diversification era”, which is gathered up in “diversity” and “interdisciplinary” under the economic globalization.

The 73rd conference of Japanese Accounting Association preparatory committee.

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**2014 Annual Conference of JAA  
Plenary Session: The Accounting Research in the Value  
Diversification Era**

**Session 1: Equity and Profits in Financial Accounting  
–Movement of Accounting Standards and New Research  
Questions–**

**Direction of Equity and Profit on the IASB's Project**

**Kenichi Akiba**

Waseda University

My presentation aims to point out issues and suggest future direction of profit recognition and the distinction between equity and profit on the International Accounting Standards Board (IASB)'s project, based upon Discussion Paper (DP) "A Review of the Conceptual Framework for Financial Reporting" issued by IASB in July 2013 and the responses to the DP from major stakeholders in Japan and members of Accounting Standards Advisory Forum (ASAF).

Firstly, not only major stakeholders in Japan but also many constituents around the world including members of ASAF support the IASB's preliminary views that a profit or loss should be presented and items of other comprehensive income (OCI) are principally recycled.

Secondly, the IASB's preliminary views were that the existing definition of equity should be retained and that each class of equity claim should be updated. Although many stakeholders both in Japan and other areas advocate the definition of equity, update of the measurement are not supported. Therefore, it is expected that the IASB follows such responses towards revising Conceptual Framework.

# **New Accounting Standards and the Distortion of Shareholders' Equity**

**Satoru Otaka**

Yokohama National University

The purpose of this study is to review the current trends in global accounting standards in the light of the concept of equity and examine the expected role of other comprehensive income (OCI) from the perspective of equity valuation. The objective of financial reporting is to provide useful information to investors, creditors, and other decision makers, which is agreed upon among the major accounting standard setters, that is, Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB). Therefore, one of the fundamental problems is the relevance of accounting standards to equity valuation models (e.g., residual income model).

Both FASB and IASB do not discriminate between equity and net assets in their existing conceptual frameworks. Furthermore, their accounting standards require that transactions without acquisitions or losses of control over another entity be treated as equity transactions. It follows that book value of equity can change as a result of transactions between the parent and the non-controlling shareholders (e.g., purchases of the subsidiary's common shares by the parent). As a consequence, book value of equity is distorted from the point of view of the parent company's shareholders, which leads to the distortion of future residual income attributable to them.

This study builds a frame of reference for relativizing features of global accounting standards and proposes to use OCI in order to undo the distortion of shareholders' equity. This role of OCI is to reconcile the entity perspective and the equity holders' perspective. A future research agenda is why the entity perspective is prevailing in the major accounting standard setters in spite of the distortion of equity.

## **A Direction of an Empirical Research Using Data of Earnings and Book Values**

**Hiroyuki Ishikawa**

Osaka City University

My presentation shows the usefulness of the method of simultaneous estimation of growth and the cost of capital. This method not only provides cost of capital which does not depend on historical data, but also “avoids the need for making inevitably erroneous assumptions about the expected growth rate beyond the earnings forecast horizon” (Easton 2007).

Using this method, we can analyze the revision of the investor’s expectation. For example, there is a lot of evidence showing that the market reacts positively to the dividends increase announcement, but how do the expected rate of growth and the expected rate of return change before and after the announcement?

Using 5,778 firm-years from 1998 to 2013, I find the evidence that both indicators increase after the announcement relative to the previous period. This finding is robust even after controlling the stable dividend firms. This evidence shows that the findings in the U.S. which the increase in dividends means firm’s mature and decrease in systematic risk do not apply equally to Japanese firms.

## **Session 2: Diversification of Accounting Information and Integrated Reporting**

### **Towards the Development of an Integrated Reporting Framework and Financial Reporting System**

**Osamu Furusho**

Nihon University

The debate surrounding integrated reporting is likely to be influenced by the financial reporting scope and reporting item public disclosure regulations of individual jurisdictions. In other words, the process of shaping integrated reports is expected to take place gradually, rather than as a radical transition to an extremely different next-generation reporting model. Recent developments, therefore, have raised additional issues regarding the boundaries and scope of financial reports including narrative information, such as accounting narrative and ESG information.

The integration of financial reports, with financial statements as their core, and non-financial reports, such as environmental reports, CSR reports, and sustainability reports, does not mean that financial statements will be in a sense dissolved and absorbed into an integrated report. Financial statements and non-financial reports, having unique roles to play, will maintain their separate existences. In shaping the overall corporate reporting framework, it is conceivable that we will see the formation of a new integrated reporting superstructure in which management commentary, corporate governance and remuneration reporting, environmental and CSR reporting, and financial information reporting silos are integrated to the extent possible in clearly explicated relationships. In that connection, how to position financial statements and the scope of management commentary will be critical issues for the development of integrated reporting systems.

As a point of comparison in examining conditions in Japan, this paper highlights attention paid to problems concerning the credibility with the process of shaping integrated reports and the trust of a stock market and a listed company and provides an overview of formation process and goals in the South Africa. This paper raises additional issues for institutionalization of integrated reporting based on the “comply or explain” approach within the larger framework of the overall integrated financial reporting system.

## **Relation between Integrated Reporting and Sustainability Reporting**

**Atsuo Mukoyama**  
Osaka City University

International Integrated Reporting Council (IIRC) announced The International Integrated Reporting Framework (IR Framework) in December 2013. According to IR Framework the primary purpose of Integrated Report is to explain to providers of financial capital how an organization creates value over time. To accomplish this purpose Integrated Reporting is required to “integrate” the financial information about economic performance and the non-financial information about social-environmental performance of a company. The purpose of this study is to discuss a background and the point at issue of Integrated Reporting in comparison with Sustainability Reporting.

IIRC is an organization of the co-founding of A4S (Accounting for Sustainability) and GRI (Global Reporting Initiative). GRI announced a guideline on Sustainability Reporting and revised it several times. The GRI guideline functions as de facto standard on Sustainability Reporting.

IIRC aims financial stability and sustainability through the circle of integrated thinking and integrated reporting, resulting in efficient and productive capital allocation. IIRC sounds an alarm bell to short-termism in making investment decisions and an enlightening role is expected for Integrated Reporting.

It is important to point out that how IIRC’s framework explain the value. That value has two interrelated aspects - value created for:

- (a) The organization itself, which enables financial returns to the providers of financial capital.
- (b) Others (i.e., stakeholders and society at large).

The value (a) means economic value (or profit) and the value (b) means social value (or profit). Integrated Reporting provides us the opportunity to reconsider relation between economic value and social value.

It is contrastive that GRI includes Completeness in Reporting Principles whereas IIRC includes Conciseness in Guiding Principles. GRI and IIRC place Materiality and Comparability in Principles, but the implication is not necessarily common. Two bodies use the same principle, but the published information by a company can be totally different.



# **Research and Disclosure Trend, and KPI Proposal on Integrated Reporting**

**Chika Saka**

Kwansei Gakuin University

Integrated reporting has been a fast-growing research category, which includes: (1) Conceptual research discussing and proposing frameworks and templates of integrated reporting, (2) Case study research investigating the internal mechanisms or institutionalisation in integrated reporting firms, (3) Content analyses of integrated reports, (4) Integrated reporting and firm characteristics, (5) The effects of legal system and culture on integrated reporting, (6) Assurance of integrated report, (7) Integrated reporting and legitimacy, (8) Integrated reporting and stakeholder management, (9) Integrated reporting in not-for-profit sector or SME, (10) Integrated reporting and education, and so on.

According to CorporateRegister.com, the world's largest database of corporate responsibility reports, 268 firms had issued integrated reports as of 2014 July. Among them, 61 firms had issued their first integrated report in 2011, and with 70 and 85 firms issuing their first integrated reports in 2012 and 2013, respectively. More firms are expected to begin issuing integrated reports in 2014 and after. Among the 268 firms, 71% have an integrated report that is more than 100 pages, with the largest report having 432 pages. Currently, many firms' integrated reports seem merely "connected", and not "integrated". IIRC's International IR Framework is principles-based. Although it acts as a force for financial stability and sustainability and for consideration of key stakeholders' legitimate needs and interests, it doesn't provide specific key performance indicators (KPIs). Even much of the prior research, there is no evidence on the usefulness of any KPIs for sustainability. Therefore, at this moment, major integrated reporting firms (160 firms, 60%) apply the GRI Sustainability Reporting Guidelines.

This study focuses on firms that have survived for more than 100 years and that have already achieve sustainability, and finds two distinguishing facts through empirical analyses of all listed firms in 34 countries; the value added distributed to stakeholders is significantly larger, and the stability of profitability is significantly higher in sustainable firms. These two KPIs are equivalent to the two interrelated aspects of value under the IIRC framework, therefore this study proposes them as KPIs for integrated reporting to distinguish firm's sustainability with due considerations to stakeholders. This study provides the first evidence that value added information is actually useful for evaluating the firm's sustainability.

## **Session 3: The Value Diversification and Management Accounting**

### **Diversification and Generality of Management Accounting**

**Fumiko Hiki**

Hitotsubashi University

Management accounting systems were originally developed for business organizations. They are increasingly implemented to nonprofit organizations such as medical institutions, nursing care facilities and other service organizations. It means that the type of organizations which adopt management accounting is diversified.

In this paper, the author focused on amoeba management system as an example of management accounting system successfully implemented into new sectors to investigate diversification of management accounting. In the concrete, two cases of amoeba management introduction (medical institutions and JAL restoration) are compared and examined. Points of difference from traditional management accounting are found in “cooperation consideration system” and profit concept emphasized in organizations. Cooperation consideration system is used to facilitate coordination between departments. This system is alike but different from transfer pricing system and commission system developed for business organizations in manufacturing industry.

Historical context should be paid attention to consider generality of management accounting. According to representative and notable executives such as Eiichi Shibusawa, Konosuke Matsushita and Kazuo Inamori, profit should be sought in an ethical and moralistic way. They strongly believed that profit should be earned as a result of social contributions and put their belief into practice. Shortsighted policy and immediate profit seeking were strictly restrained. Ethical conduct must be observed even in business organizations. Ethical conduct and profit seeking (“Rongo” and “Soroban” in old Japanese expression) should be compatible with each other in any type of organizations. Every organization needs both high ethical standards and pursuit of profit. These generality makes management accounting indispensable to nonprofit organizations like hospital or care home. Management accounting can be recognized as an important management tool in these nonprofit organizations.

In Japanese successful manufacturing companies, management accounting systems were designed and used to realize corporate philosophy and management principles. Considering the role of management accounting itself and management accountant in these companies, generality of management accounting are found. These findings are clearly demonstrated the fact that management accounting generally took an active role of setting up strict discipline and keeping them

observed. Medical institutions should be learn much from experience of these leading manufacturing companies.

# **Accounting Based on Multiple Valuation Principle for the Public Realm: Social Role of Management Control**

**Katsuhiko Kokubu**  
Kobe University

It is not a simple task to approach the diversification of values and management accounting. The Diversification of values is an important phenomenon in modern society and management accounting is an infrastructural system that supports modern economies. But the relationship between them is not clear. This presentation relates the diversification of values to management accounting in terms of publicness. The author argues the multiple evaluation principle can introduce the concept of publicness into a firm through management accounting, but it is very difficult to do so in practice because the economic value is very strongly dominating corporate behavior. In this paper, the pragmatic problems of adopting the multiple evaluation principle in management accounting is examined by case studies introducing material flow cost accounting (MFCA) into firms, which evaluates and promotes both the environmental and economic value.

The conclusions in this paper are summarized with the following points:

1. The problems encountered in the diversification of values are synonymous with those of publicness, and the debate in the context of management accounting should be understood as a matter related to publicness in the private sector. In view of this, it is necessary to build a new type of management accounting based on the multiple evaluation principle.
2. As an example of MFCA, when evaluating environmental and economic multiple values, it is possible for innovation to occur if the environmental value is independent from the economic value. However, if these values are understood as a single continuous concept, the economic value will tend to preside over that of the environment.
3. The introduction of the multiple valuation principle to management accounting is crucial in order to encourage innovation and promote publicness. However, for this to happen, some institutional measures are necessary to prevent multiple values from merging with and being absorbed into economic values.

# **The Viability of Governance Control**

**Johei Oshita**

Kyushu University

This paper aims to present the necessity and viability of governance control, a method that the author finds more appropriate than controlling management in the current circumstances. This opinion is based on the following understanding of the present situation in the fields of control theory and management accounting theory. For better content in the future, it is necessary to analyze a significant number of practical cases within control theory, as well as to elaborate the theory itself. It is also necessary to incorporate the latest trends and the essentials of new theories in neighboring disciplines including Financial accounting/Financial reporting, Internal control/Internal audit, and Company law/Corporate governance. By conducting the above-mentioned practices, control theory is approaching a stage in which we need to reconsider the concept in its entirety as well as the matters relevant to the inside and outside of control theory.

As is described in this paper, the author has a personal feeling that control theory must accept competitive edge, value creation, and sustainability as contradictory factors and respond to them flexibly. These factors contain a variety of temporal paradoxes (long- and short-term), financial and nonfinancial paradoxes, and paradoxes between internal aspects and external ones of enterprises. At the same time, we should closely observe the growing tendency of companies and organizations to autonomously introduce a series of rules and recommendations on internal control, which are provided by many international public agencies and private organizations, into control theory as voluntary regulations lately. Examples include the set of rules that the Committee of Sponsoring Organizations of the Treadway Commission (COSO) proposed in the wake of corporate governance. The International Integrated Reporting Council (IIRC), which has recently attracted attention, proposed a new form of external reporting that merges information on environment, society, and governance (ESG information) with financial information. Analysts of control theory should not neglect these trends.

How do those in favor of control theory respond to the wide variety of requests or restrictions in companies? As soon becomes evident, this paper seeks the optimal approach to the question of governance levels. Different from the conventional control in management, it emphasizes the development of systems of control that consider not only the inside, but also the outside, that is, more outward looking management control that prioritizes social/external aspects. In short, this paper tries to construct a new control theory by clarifying the necessity and viability of governance control.

## **Session 4: Audit Judgment and Skepticism –Seeking New Research Opportunities–**

### **Perspectives on Audit Inquiry and Professional Skepticism in Fair Value Audit**

**Takashi Nagami**

Keio University

Audit inquiry as an audit technique in fair value audit plays an important role to ascertain management assertions. Especially the importance of audit inquiry becomes higher as uncertainty of the fair value measurement becomes high, because specific indexes or stock market information could not be referred as an audit evidence and available evidential matters for such fair value would be limited to sources from economic business states or management's explanations. However sufficient discussion about the effectiveness of audit inquiry has not been done and detail guidance to perform the audit inquiry have not indicated in auditing standards. Five phases are presented to perform effective inquiry in fair value audit and the factor of professional skepticism (PS) is explained in each phases in this presentation.

First phase is the "mind-setting" for interviewers to reduce confirmation bias, and "questioning mind" would be applied as a factor of PS in this phase. It is expected to heighten interviewer's questioning mind by making a conversion from positive assertion to negative assertion on fair value measurements. Second phase is the "forming models" before conducting inquiry, and "search for knowledge" would be applied as a PS factor in this phase. Interviewers should form well-defined models to obtain enough information from interviewee. Third phase is the "performing inquiry with various techniques" in conducting inquiry, and "search for knowledge" would also be applied as a PS factor in this phase. Fourth phase is the "reading verbal and non-verbal communication" in the process of inquiry, and "interpersonal understanding" would be applied as a PS factor in this phase. To pay attention to the possibility of fictitious or deceitful explanations by interviewee auditors should train and learn some psychological lie detection techniques. Final phase is the "discreet judgment" after the performance of inquiry, and "suspension of judgment" would be applied as a PS factor in this phase. Auditors should judge any existences of difference between management's explanation and auditor's mental model and any existences of cues for fictitious or deceitful explanation, and should re-evaluate the risk of material misstatement.

It would be essential to establish measurable indicators to heighten PS for each phases of audit inquiry applicable to the audit practice or to the experimental research in fair value audit.

## **Personal Network in an Audit Firm and Auditors' Professional Skepticism**

**Hironori Fukukawa**

Hitotsubashi University

Auditors' professional skepticism (PS) can be considered at personal level, engagement level, or organizational level. In most experimental studies, PS has been examined at personal level. For example, seminal studies by Hurtt (2010) and Quadackers (2009) examine PS as an auditor's personal trait. On the other hand, archival studies generally investigate PS at engagement level. However, few studies examine PS at organizational level. This study investigates PS at both personal and organizational levels by analyzing a personal network within an audit firm.

The importance of examining PS at organizational level has been emphasized in some recent studies (e.g., Toba 2014; Carpenter and Reimers 2013). Given that most CPAs have not encountered any fraud in the last 10 years (JICPA 2014) and that audit firms traditionally have adopted an apprenticeship model for human resource development (Wedemeyer 2010), a crucial issue for an audit firm is how to maintain an adequate level of PS at organizational level.

To identify a personal network developed in an audit firm, this study uses the information on engagement partners' names in audit reports. It is assumed that audit partners who engage in a particular audit exchange various information and share knowledge. Suppose that two partners (A and B) signed an audit report of Company X, three partners (A, B and C) signed an audit report of Company Y, and two partners (A and D) signed an auditor report of Company Z. In this situation, Partner A has a tie with Partner B, Partner C, and Partner D. And the tie between Partner A and Partner B is considered stronger than the tie between Partner A and Partner B or C. The level of PS exerted by each partner is measured by the weighted mean of discretionary accruals of companies whose financial statements were audited by the partner.

As a result of preliminary analysis, it is found that the level of PS exerted by a partner is positively affected by the level of PS of other partners who have a tie with the partner. The finding has some practical implications. For example, it provides useful information regarding how to implement partner rotation. This study proposes that examining PS from a network perspective is a promising approach for future research.



# **Professional Skepticism in SEC Enforcement Actions**

**Takatoshi Hayashi**

Kwansei Gakuin University

This paper examines Accounting and Auditing Enforcement Releases (AAER) involving lack of professional skepticism (PS) over the period from 1999 to 2014. Both researchers and regulators have emphasized the importance of PS when conducting financial statements audit. Because PS means mental attitude an operational definition of PS is necessary. However various definitions of PS exist in the auditing literature. Our research objective is, based on the analysis of AAER, to describe Securities and Exchange Commission (SEC)'s understanding of PS and to find out how SEC associate lack of PS with audit failure.

We identified 111 AAER including the word "skepticism" during above mentioned time period and selected 95 AAER relevant to lack of PS. We carried out two analyses. One is an analysis of 95 AAER from pragmatics point of view to describe SEC's understanding of PS and the other is an analysis of AAER 3436, one of the 95 AAERs, to clarify association between lack of PS with audit failure.

Our results from analysis of 95 AAERs show the following: We find the phrase "PS" is mainly used to point out auditor failed to maintain or exercise PS (44.9%), or to explain the requirements of PS in auditing standards applicable to the case (35.0%). The context in which SEC concluded auditor failed to maintain or exercise PS are planning and performing audit procedures (27.4%), the overall audit work (23.1%), and audit of specific item or transaction (22.6%). Besides, exercise (60.6%) and maintain (27.4%) are the verb used well to describe PS and appropriate (31.4%), heightened (22.9%) and increased (12.9%) are the adjective used to modify PS.

An analysis of AAER 3436 shows that lack of PS is not associated with specific audit objectives, audit procedures or audit evidence, but associated with overall audit failures consist of various violations of auditing standards. SEC found auditor's improper professional conduct on the ground that auditor failed to maintain PS, failed to exercise professional due care and failed to obtain sufficient competent audit evidence.

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## **Session 5: Diversification of Accounting Standards and Tax Accounting**

### **Diversification of Accounting Standards and its Influence on Corporate Income Tax**

**Masashi Sakamoto**

Rikkyo University

The optimal relationship between corporate accounting and corporate tax law is an old yet a new theme. Throughout history, across countries and regions, much time has been devoted to discussion regarding how corporate accounting and corporate taxation should be linked. Beneath all this is a natural supposition that corporate taxation must be based on corporate accounting. The stronger the link between the two, the stronger the influence they exert on each other. The computational structure of corporate taxation becomes increasingly dependent on the corporate accounting system, while, in turn, the accounting system becomes more influenced by the tax law. Any changes in one of these systems will have a major impact on the other. Problems surface when either one or both are altered, thus, disturbing the balance that has existed between the two.

While the link between the accounting system and tax law has long been a subject of discussion in Japan, and it is now getting renewed attention against the backdrop of the recent changes in corporate accounting system. It is the double tracking of Japan's accounting standards that has been attracting attention. While Japan is taking steps toward international integration of its accounting standards, domestically it faces an unprecedented situation where multiple accounting standards and guidelines coexist. This raises a variety of issues regarding tax treatment, among others.

This paper discusses "issues in taxation associated with the increasingly diverse accounting standards" from the viewpoint of the interpretation of tax law. To have a clear focus, we will not discuss the individual rules on computation. Rather, our discussion focuses on the interpretation of the wording "corporate accounting standards generally accepted as fair and valid" as it appears in Article 22-4 of the Corporation Tax Act of Japan.

## **Issues of Deductible Expenses for Tax Purpose under the Diversified Accounting Standards**

**Kazumi Suzuki**

Kobe University

In Japan, there are four statements for accounting standards: the Business Accounting Principles and other accounting standards released by the Business Accounting Board, the Business Accounting Standards developed by the Accounting Standards Board of Japan (ASBJ), the Accounting Guidelines for Small- and Medium-sized Entities and the General Accounting Standard for Small- and Medium-sized Entities. These accounting standards are classified into two lines: the Business Accounting Principle oriented to calculate residual of recovered invested capital and the Business Accounting Standards oriented to determine periodical change of net assets reflecting expectations in future. Reported income in accordance with the former presents real performance and is seen as fixed distributable income. Reported income under the last is temporally useful for decision making only when it is disclosed. On the other hand, the Japanese Corporation Tax Law has been revised considering separations from accounting under the Company Act in order to make secure of fair and proper determination of taxable income. Both the accounting standards by ASBJ and tax revisions have expanded differences of timing between costs, expenses and losses for reporting purpose and deductible expenses for tax purpose.

This study compares the regulations in the tax law and the court decisions with GAAP under the various accounting standards, then discusses the adaptability to measure ability to pay tax. The article 22 paragraph 3 in the Corporation Tax Law adopts the matching principle in respect with costs and is consistent with the line of the Business Accounting Principle. In respect with timing of expenses and losses, however, the tax law adds a requirement that those should be legally fixed. The timing of expenses and losses for tax purpose are likely to be delayed rather than for reporting purpose because accounting treatments in accordance with the line of the Business Accounting Standards often depend on future estimations and fair values.

Both determinations of reported and taxable income cannot avoid uncertainties due to future prospects. Strict determination of taxable income without uncertainties deviates from the calculation of residual of recovered capital and distorts the measurement of ability of tax burden. Rationality of estimations assured by the independent accounting auditors should be accepted in the determination of taxable income.

## **Issues of Taxable Units Induced by Diversification of Business Entities**

**Miho Furuta**  
Konan University

We have many choices on managing organization- legal form, nationality, way of control and so on. In these circumstances, one of subject on tax accounting is to identify which entities must be imposed to corporate income tax act, not to individual income tax act. From this viewpoint, this paper tries to describe the nature of taxable unit of corporate income tax in the days of diversification of business entities.

Nowadays, importance of corporate income tax on entity level increases as a system of withholdings of member's income taxation. That is, from the view of fictional theory of corporation, its functions are one is members of corporate entity are not subject to tax before its distribution, and another is taxed income and loss of corporations are retained in the corporation until distribute income to members or adjust by loss carry-forward system. In this condition, we need to consider taxing on income of group corporations.

In the study of financial accounting, a scope of consolidation is a main issue to consider the group corporations accounting. And, basically, the group corporations are treated as one accounting entity no matter how many different types of business entity in the group. On the other hand, in the tax accounting considerations, the legal characteristics and member compositions of each entity are issues to be considered and they are treated as an aggregate of entities. In Japanese corporate income tax systems, there are many types of consolidation or group calculation such as consolidated taxation, group-members taxation, pay-through taxation, path-through taxation and corporate taxation on each legal entities. Basically, tax systems vary with legal characters of each entity but they may receive different treatment each other in case of its group member's composition. And, in spite of its variety of member's legal characters or numbers, every taxable unit have common feature that is a unit of retaining taxed income or tax loss. That is, not all units have nature of correspondence to legal entity, but all taxable units of corporate income tax have nature of correspondence to corporate tax -the nature of retaining unit of taxed income or tax loss. Taxing on these units may also work as a system of withholding tax on BEPS cases.

Based on this analysis, it seems reasonable to support importance of corporate income tax on each entity level because of its withholding function. However, it should be also mentioned that the importance of fully adjustment with personal income tax is increased more and more because of fictional theory of corporation.

**2014 Annual Conference of JAA  
Special Committee**

**Comprehensive Study on the Dynamism of Economic Society and  
the Paradigm Shift of Accounting Systems**

Chair: **Teruyuki Kawasaki**

Konan University

The purpose of this special committee is to study the change of economic society (the dynamism of economic society) and the paradigm shift of accounting systems in Japan (and foreign countries) from various viewpoints, such as accounting theory, accounting culture, sociology, auditing, and empirical studies.

We organized the dynamism of economic society in the following three points.

- (1) The first is the change of economic system. The conventional entities do business and raise funds domestically. On the other hand, the recent entities trend to do business globally and raise funds overseas.
- (2) The second is the change of market economy. The conventional market economy is characterized as the “product type”, in which the visible goods (finished products) were the leading products. However, the recent market economy is characterized as the “finance type”, in which financial goods (financial instruments) are leading products.
- (3) The third is the change of accountability. The concept of accountability are changing from “the accountability for shareholders” (stewardship responsibility) to “the accountability for stakeholders” (information services).

Next, we discussed the contents of paradigm shift in accounting systems and organized them as the following two fluctuations.

- (1) The first fluctuation is the dichotomization of accounting systems. This means the dichotomization of “the accounting system for large entities” and “the accounting system for SMEs (Small- and Medium-sized Entities)”.
- (2) The second fluctuation is the double-tracking of accounting standards inside each accounting system. For example, in Japan, while there are four accounting standards for large entities, there are two accounting standards for SMEs.

Our interim report is organized from three parts. Part I provides the background of the dynamism of economic society. Part II explains details of the paradigm shift in accounting systems (accounting systems for SMEs). Part III explains the paradigm shift of auditing system and taxation system.

Chair:

Teruyuki Kawasaki (Konan University)

Members:

Takaya Ueno (Certified Public Tax Accountant)

Hidetsugu Umehara (Meiji University)

Naohiro Urasaki (Kinki University)

Yasuhiro Ohta (Keio University)

Chikako Ozu (Kyushu University)

Tetsuyuki Kagaya (Hitotsubashi University)

Kouji Kurata (Rikkyo University)

Kenji Kometani (Tohoku University)

Junko Saino (kansai University)

Manabu Sakaue (Hosei University)

Nobuhiko Sato (Kumamoto Gakuen University)

Satoshi Sugahara (Hiroshima Shudo University)

Noriyuki Tsunogaya (Nagoya University)

Shoichi Tsumuraya (Hitotsubashi University)

Yusuke Nakajo (Yokohama City University)

Takatoshi Hayashi (Kwansei Gakuin University)

Masataka Hiraga (Aichi Gakuin University)

Yoshihiro Machida (Aoyama Gakuin University)

Observer:

Shigeo Ohtsuka (Chiba University)

## **Special Committee**

### **Accounting Policy and Earnings Management by the Management**

Chair: **Masao Tsuji**

Waseda University

This committee empirically investigates accounting policy and earnings management of Japanese firms from a management accounting perspective. We carefully review the prior literature to list up the research topics on managers' discretionary behaviors aiming to shed some light and provide new insights on the accounting policy and earnings management from a managerial accounting perspective. This committee investigates the information provider role which managerial accounting plays in supplying performance management information that will help the managers to make decisions.

The final report is organized as follows:

#### Part One – Theory

- 1 Objectives of the Firms and the Managers
  - 1.1 On the Association of Accounting Policies and Earnings Management
  - 1.2 On the Association of Corporate Governance and Earnings Management
- 2 Accounting Policies, Earnings Management, and Profit Management
- 3 Income Smoothing and Earnings Management
- 4 Financial Restatement and Earnings Management
- 5 Analytical Analysis of Accounting Information and the Behaviors of Managers
  - 5.1 Investment Efficiency and Earnings Management
  - 5.2 On the Behavior of Managers: A Contract Approach
- 6 Capital Market and Earnings Management
  - 6.1 Literature Review
  - 6.2 Value of the Firms and Earnings Management
- 7 Audit Quality and Earnings Management

#### Part Two – Empirical Studies

- 8 Earnings Distribution and Earnings Management
- 9 Retirement Benefits and Earnings Management
- 10 Ratchet Effect and Income-decreasing Earnings Management
- 11 Corporate Social Responsibility and Earnings Management
- 12 Consolidated Segment Earnings and the Behaviors of Managers
- 13 Director Duality and Earnings Management



- 14 Board Age, Risk Taking, and Earnings Management: A Governance Perspective
- 15 Debt Convents and Earnings Management
- 16 Going Concern and Earnings Management
- 17 Power to Detect Earnings Management based on Accruals Models

#### Reference

Part One of the final report discusses the objectives of the firms by asking fundamental questions such as how managers can archive these objectives by choosing their accounting policies and what kinds of policies can create value for shareholders. This committee defines “accounting policy” as the choice of accounting decisions by managers in order to archive firms’ performance objectives. “Earnings management” is defined as the process of managers’ uses of discretion to archive target earnings by choosing accounting policies that are within the range of the Generally Accepted Accounting Principles. We consider “earnings management” through real activities as a separate concept from “profit management” which seeks optimal allocation of resources and optimization of managerial effects. Also, by saying within the range of GAAP, we do not consider restatement as earnings management.

In Part Two of the final report, we consider accounting choices by the managers and conduct empirical researches from various aspects. Earnings management could be initiated by a group of managers rather than by a single manager and implemented by other staff managers. The outcome of earnings management could be affected by unexpected factors. Therefore, it will be difficult to carry out empirical researches without a strong theoretical support. We hope that our research can be the building blocks for future research that wishes to expand the scope of earnings management research.

**2014 Annual Conference of JAA  
Subject Research Committee**

**Transformation of Public Management and  
the Functions of the Accountancy**

Chair: **Kenji Shiba**  
Kansai University

**Member of the Committee**

Chair: ***Kenji Shiba*** Kansai University

<i>Kazuo Aida</i>	Keio University
<i>Nobuo Azuma</i>	Board of Audit of Japan
<i>Kenji Izawa</i>	Ernst&Young ShinNihon
<i>Morihiko Umeda</i>	Chukyo University
<i>Shigeo Ohtsuka</i>	Chiba University
<i>Akira Omori</i>	Yokohama National University
<i>Ryota Kaneko</i>	Kokugakuin University
<i>Mari Kobayashi</i>	Waseda University
<i>Hiroyuki Takano</i>	Musashino University
<i>Masafumi Fujino</i>	Nihon University
<i>Takami Matsuo</i>	Kobe University Graduate School of Business Administration
<i>Kiyoshi Yamamoto</i>	The University of Tokyo, Graduate School of Education
<i>Toshinobu Yoda</i>	Hosei University

**Abstract**

We believe that the establishment of the study of public sector accounting is urgently necessary based on our idea that while the transformation of public management changes the functions of accounting and accountancy, the functions of accounting and accountancy would also lead to the transformation of public management. Whereas we emphasized the functions of public sector accounting in last year's interim report, in the final report we took on the challenge of investigating

the functions of the study of accounting. One function of public sector accounting is the double-entry recording feature as a technical function. It is believed that there is an interest coordination function and an information provision function in social functions. On the other hand, it is considered that the functions of the study of public sector accounting include, as in other studies, a truth-seeking function and a problem solving support function.

In the final report, Toshinobu Yoda (Hosei University) represented the members to report on the method of theorizing public sector accounting and the study of accountancy from the perspective of multifactorial attributes of citizens, who are important stakeholders of public sector accounting and whose attributes include service recipient, voter, and taxpayer and resource provider.

Takami Matsuo (Kobe University) followed by highlighting the importance of planning and of an operating performance control system that aimed for optimization of cost benefit based on the diversification of administrative services and the decentralization of planning functions, and argued that the establishment of a budget management scheme that used sector-by-sector accounting, output performance, various cost concepts related to achievements and accrual accounting was important.

Thirdly, Shigeo Ohtsuka (Chiba University) presented a model for utilizing financial statements after pointing out issues such as the divergence between asset evaluation in financial statements and asset use at local governments, the lack of evaluation standards for results information, and the lack of linkage with the budget system.

Finally, Nobuo Azuma (Board of Audit of Japan) argued that government accounting should be positioned by the relationship with the scheme of financial democracy, and pointed out issues in the budget control and financial reporting of independent corporation accounting, such as the existence of a cost progress standard and that output performance indicators and outcome performance indicators for performance evaluation were not always set up for each clerical business.

We finished our research with the final report entitled “Transformation of Public Management and the Functions of the Accountancy” at the Yokohama National University. Detailed descriptions of all chapters are omitted here.

## 2014 Annual Conference of JAA Study Group

### Management Accounting for Enterprise Group Management

Chair: **Tomoaki Sonoda**  
Keio University

Japanese companies used to give weight to the performance of their parent companies, but since the late 1990s, they have changed their management styles and have attached importance to the enterprise group's performance. Four events triggered this change:

- lifting of the prohibition on establishing holding companies
- establishing shared services centers at many Japanese companies
- transition of the main financial statements to consolidated financial statements
- trends in enterprise integration, M&As, divestiture of business, and overseas expansion

These changes at Japanese companies have had an important impact on management accounting research. They have come to need a corporate group-wide perspective. In view of this trend, our study group has set two research subjects.

The first subject is consistency between total optimization of the enterprise group as a whole and partial optimization of each subsidiary company or each consolidation segment that is a suborganization of one enterprise group. As long as parent companies use profits as performance indicators of the subsidiary companies, it is difficult to realize total optimization of the enterprise group as a whole. Management accounting can contribute to figuring out the mechanism of this inconsistency and to achieve total optimization.

The second subject is a change of management accounting methods. Management accounting methods are usually aimed at internal availability in one company, but some research has broadened the ranges to include an enterprise group. For example, segment accounting, one of the typical management accounting methods, mainly measures each division's performance in one company. On the other hand, consolidation segment accounting has not only the characteristics of segment accounting but also characteristics of consolidation accounting, which has an enterprise group perspective.

In our interim report, each author studies one theme from the viewpoint of either or both research subjects. The interim report deals with human resources management, knowledge management, transfer pricing taxation, environmental accounting, loyalty programs, and corporate group valuation.

## Study Group

### A Study on Accounting Theory Construction by Theory Research

Chair: **Kiyotaka Ueno**  
Chuo University

The purpose of this study is to acquire the thought and methodology to construct accounting theory and to indicate future accounting theory study and theory construction by studying representative theory of accounting researchers. In order to attain these research purposes, this study focuses on the following tasks:

- (1) Take up the representative accounting researchers and present those theories in detail.
- (2) In that case, focus on accounting thought and methodology of each theory, present those contents in detail and consider the influence of those theories on subsequent accounting.
- (3) Consider the accounting purpose, accounting structure, accounting measurement, income concept and accounting function of each theory in detail when we examine the accounting thought and methodology.
- (4) Consider the social background of each theory and explicate the relationship between contemporary accounting and each theory, because the accounting thought and methodology relate to the social and economical situation at that time.
- (5) Try to logical integration of accounting theory construction, explicate the types of accounting theory construction and construct a general theory in accounting.

The final report contains part IV: accounting measurement controversy, part V: accounting and internationalization, part VI: development of positive accounting study and final chapter: construction of accounting theory.

In part IV, as accounting theory that took part in the discussion of accounting measurement after 1980 and discussed acquisition cost accounting, current cost accounting, fair value accounting and so on, theories of Anthony, Solomons, Whittington, Barth, Nissim and Penman, Christensen and Demski are explained.

In part V, as accounting theory that became important accounting theme in the present accounting and discussed internationalization of accounting, theories of Nobes and Benston are described.

In part VI, as accounting theory that began about 1970 and became popular in the present day (positive accounting study), theories of Ball and Brown, Beaver, Watts and Zimmerman, Feltham and Ohlson, Dechow are explained.

The final chapter searched for the methodology of accounting theory construction

based on the theories mentioned above. This chapter described followings.

- (1) Analyzed those accounting theory. As the important field of accounting theory is positive theory and normative theory, we classified accounting theory in those each field.
- (2) Tried construction of accounting theory by logically integrated positive theory and normative theory through those common factors.
- (3) Suggested future research direction of accounting theory as social science by elucidated the characteristics of accounting theory explicated.

Chair:

Kiyotaka Ueno (Chuo University)

Members:

Chizuru Asano (Meiji University)

Hiroshi Ishiyama (Yamanashi Prefectural University)

Noriko Ichikawa (Surugadai University)

Masayoshi Ono (Chiba Economic University)

Tomohiro Kaneko (Toyo University)

Katsuhiko Shimamoto (Kwansei Gakuin University)

Hiroshi Nagashima (Rissho University)

Yoshimoto Nakano (NJK Corporation)

Masaaki Narikawa (Tohoku Institute of Thecnology)

Tetuji Nishiyama (Takachiho University)

Kenji Hayashi (Nihon University)

Jun Hishiyama (Senshu University)

Atsuhito Masiko (Toyo University)

Akihiro Yamada (Chuo University)

Tomoya Yoshida (Saitama University)

Ryusuke Watanabe (Kanto Gakuin University)

**2014 Annual Conference of JAA  
International Session**

**A New Test of Detecting Ability of Earnings Management Models**

**Giseok Nam**, Hankuk University of Foreign Studies

**June Woo Park**, Ph.D Student, York University

**New Models and the CFO Approach to Performance Control in EM  
Studies**

**Soon Suk Yoon**, Western Illinois University

**Hyo Jin Kim**, Jeonju University

**Gregg S. Woodruff**, Western Illinois University

**The Relationship between R&D Capitalization and Subsequent  
R&D Investment Decision: The Monitoring Role of Board of  
Directors**

**Liu-Ching Tsai**, National Chia-Yi University

**Chaur-Shiuh Young**, National Cheng Kung University

**Chia-Hui Chen**, Ph.D Student, National Cheng Kung University

**Hui-Wen Hsu**, Feng Chia University

**Ownership Structure and Managerial Controls**

**Joanna Ho**, University of California, Irvine

**Cheng-Jen Huang**, Tunghai University

**Christo Karuna**, University of Houston

**Anne Wu**, National Chengchi University

## **2014 Annual Conference of JAA Regional Reports**

### **Hokkaido Region**

**Hiroshi Yoshimi**  
Hokkaido University

The regional meetings were held in 2014 as follows.

1. The 85th Regional Meeting at Hokkaido Citizens Actives Center on 24 May, 2014.
  - (1) “Influence of Double Account System for Imperial Government Railway,” Masato Nakamura, Hokkaido University.
  - (2) “Quantitative Dimension Analysis of Management Accounting Information: with a Focus on J costs,” Satoshi Hatamoto, Otaru University of Commerce.
  - (3) “Problems in First-time Adoption of International Financial Reporting Standards,” Koichiro Matsumoto, Hokusei Gakuen University.
  
2. The 86th Regional Meeting at Hokkaido University on 1 November, 2014.
  - (1) “‘Interests’ and the AICPA Code of Professional Conduct,” Osamu Murakami, Hokkaido University.
  - (2) “The Role of Accounting Systems in Management Control Systems,” Masahiko Sakai, Otaru University of Commerce.



## Tohoku Region

**Masahiro Shiseki**  
Aomori Public University

In 2014, following meetings were held.

1. The 86th Meeting, July 12, 2014 at the Hachinohe Portal Museum “hacchi”
  - (1) “Utilization of Accounting Information in Agribusiness”  
Shuko Naito, Hirosaki University
  - (2) “The Impact on the Investment of Lease Accounting Standards Change:  
Analysis of statistical Survey by Ministry of Finance”  
Naoki Sato, Aomori Public University
  - (3) “The Relation between Accounting Conservatism and Debt Contracting”  
Yoshitaka Ohashi, The University of Aizu
  - (4) “Accounting Issues on Decommissioning Nuclear Power Plant”  
Tomohisa Hirano, Fukushima University
  
2. The 87th Meeting, November 8, 2014 at Fukushima College Ekimae Campus
  - (1) “Empirical Study on Comprehensive Income and Dividend Policy in small and  
medium-sized Japanese firms: The Study focusing on the percentage of Net  
Income and Other comprehensive Income”  
Akihiro Nedate, Fukushima University
  - (2) “The Feature of Management Behavior in Reconstructive Process from the  
Great East Japan Earthquake”  
Tomoko Okano and Shinsuke Tamura, Ishinomaki Senshu University
  - (3) “On Rational Matching Concept in Tax Effect Accounting”  
Shuhei Kinugawa, Fukushima University
  - (4) “The Dichotomization of Accounting System in Japan and the State of Foreign  
Countries”  
Teruyuki Kawasaki, Konan University

## Kanto Region

**Naoki Murata**  
Nihon University

The 62nd Kanto regional meeting was held at Nihon University on December 6, 2014. The main theme of the meeting was “The Implications of Japanese Accounting Standards through a narrow Gap between the Japanese Standards and IFRS.”

The discussions were coordinated by Kenji Tanaka, Meiji University.

The titles of the presentations and the names of the presenters were as follows:

- (1) “Information properties of IFRS and the choice by Japan,” Toshifumi Matsumoto, Waseda University.
- (2) “The Dynamics of Standard-setting in IASB’s Revenue Recognition Project,” Yasuhiro Yamada, Rikkyo University.
- (3) “Earnings Attributes, Institutional Factors, and Accounting Standards in Japan,” Tetsuyuki Kagaya, Hitotsubashi University.

## Chubu Region

**Akihiro Noguchi**  
Nagoya University

The regional meetings were held as follows;

### **1. The 133rd Regional Meeting at Nagoya University on July 5, 2014.**

- (1) “Elements Influencing the Accounting Standards Convergence towards IFRS in China”, Miao Xinyun, Graduate Student of Nagoya University.  
Discussant: Hu Dan, Nagoya University.
- (2) “Contribution of Francis M. Wheat on the Reform of Financial Reporting Systems in the United States”, Kazumasa Takemori, Chubu University.  
Discussant: Michimasa Satoh, Aichi Gakuin University.

### **2. The 134th Regional Meeting at Meijo University on December 6, 2014.**

#### Concurrent Presentation

- (1) “Patient and Healthcare Workers’ Safety in Specialty Outpatient Service and Hospital Budgeting : A Study of Personal Distribution of Healthcare Provider for Dialysis based on Medical Safety Risk and Departmental Budget for a Different Time Zone in Consideration of the Said Personal Distribution”, Toru Hashiguchi, Nihon Fukushi University, and Mukai Shinji, Suzuka General Hospital.  
Discussant: Hiroshi Ozawa, Nagoya University.
- (2) “Legitimacy of Accounting Standard-setting Board: Financial Crisis and the IASB”, Junta Mori, Aichi Shukutoku University.  
Discussant: Noriyuki Tsunogaya, Nagoya University.

#### Plenary Session

Theme: New Trends for Disclosure of Business: Focus on Sustainability

Moderator: Tatsuhiko Tashiro, Meijo University

- (1) “Utilization and Reporting of Environmental Performance Indicator for Business”, Akira Higashida, Meijo University.
- (2) “Environmental Activities and Disclosure in Toyoda Gosei”, Takeyoshi, Muto, Toyoda Gosei.
- (3) “Contributions for Sustainability by CPAs”, Kaoru Ogawa, Tokai Association of JICPA.

<http://www.soec.nagoya-u.ac.jp/~noguchi/chubu/english.htm>

## Kansai Region

**Naohiro Urasaki**

Kinki University

The 64th Kansai regional meeting was held at Kinki University on December 13, 2014. The main theme of the meeting was “Issues and Development of Accounting Research in the Era of Accounting Systems Reform.”

Discussion of the plenary session was coordinated by Tatsuo Inoue, Kwansei University. The titles presented and panellists were as follows.

1. “Management Control System for Intangibles in Small Companies: The Use of Reporting System on Intangible Assets.,” Yoshinobu Shima, Kinki University
2. “The Future of Empirical Accounting Research Using Big Data,” Kazuhisa Otagawa, Kobe University
3. “The Viewpoint of Corporate Governance and Accounting Ethics : As the Case of Authority to Decide Election and Dismissal of Auditors, and Audit Fee, ” Yasuhide Hrada, Shitennoji University
4. “The future perspectives of accounting education research: current research trend under IFRS principle-based approach,” Satoshi Sugahara, Hiroshima Shudo University.

In the morning, we had two presentations at the concurrent session coordinated by Yoshimi Honda, Osaka University of Economics.

1. “Derecognition of Non-Financial Assets,” Takashi Fujita, Ritsumeikan Asia Pacific University
2. “Disclosure of Risk Information in Four Key Countries,” Fu Xin, Tottori University of Environmental Studies.

## Kyushu Region

**Keiichi Oishi**  
Kyushu University

The Japanese Accounting Association (JAA) Kyushu regional conferences are regularly held twice a year – in July and March. This academic year, the summer conference was held at Kyushu International University, and the early spring conference was held at Nakamura Gakuen University.

### **1. The 94th meeting at Kyushu International University, on 19th July, 2014.**

- (1) “The Research on Accounting Regulation Reform in the UK of 1980s”, Yuki Okamura, Kagoshima Prefectural College.
- (2) “Verification of Introduction Effects of Amoeba Management System”, Okihiro Maruta, Kyushu University.
- (3) “On the FASB's Conceptual Framework”, Isamu Iwasaki, Kyushu University.
- (4) “Report on Japanese Taxation by the Shoup Mission and the Role of Accounting”, Toshifumi Yamashita, Saga University.

### **2. The 95th meeting at Nakamura Gakuen University, on 17th March, 2015.**

- (1) “A Study on Macro Hedge Accounting”, Wang Lin, Fukuoka University.
- (2) “The Charge Revision in Electric Power Industry after the Great East Japan Earthquake and the Problem Point of Rate-of-Return Regulation”, Manabu Takano, Seinan Gakuin University.
- (3) “Interpretation problem of the generally accepted accounting standard seen in a recent case”, Ichiro Iwatake, Kumamoto Gakuen University.
- (4) “The Origins of Teaching and Learning of Accounting in Modern Japan”, Eiichiro Kudo, Kumamoto Gakuen University.