



Contents lists available at [ScienceDirect](#)

# China Journal of Accounting Research

journal homepage: [www.elsevier.com/locate/cjar](http://www.elsevier.com/locate/cjar)



## Institutions and accounting standard transformation: Observations from Japan

Naohiro Urasaki\*

*Faculty of Business Administration, Kinki University, Japan*

### ARTICLE INFO

#### *Article history:*

Received 11 March 2013

Accepted 12 October 2013

Available online 27 January 2014

#### *Keywords:*

Single set of accounting standards

IFRS

Financial instruments

Substance over form

Fair value

Dichotomy of accounting systems

Accounting standards for SMEs

### ABSTRACT

This paper describes the transformation of Japan's accounting standards over the past 2 decades and the driving forces behind this transformation. It also analyzes the current state of Japan's accounting standards, which are characterized by the dichotomy of accounting systems inherited from the country's political, economic and legal institutions. The discussion in this paper emphasizes that a single set of accounting standards is not always effective for every entity.

© 2014 Production and hosting by Elsevier B.V. on behalf of China Journal of Accounting Research. Founded by Sun Yat-sen University and City University of Hong Kong.

## 1. Introduction

The economic downturn that began in 1991 after the collapse of the Japanese Asset Price Bubble is referred to as the Lost 10 years, a period that has also been thought to extend to the recent decade (2001–2010). During these 2 decades, Japanese accounting systems drastically changed to help restart the Japanese economy based on government policy. The necessity of the financial system reform is emphasized in the *Financial System Reform* (Ministry of Finance, 1997) report as follows.

\* Tel.: +81 6 6721 2332; fax: +81 6 6729 2493.

E-mail address: [naohiro.urasaki@hotmail.co.jp](mailto:naohiro.urasaki@hotmail.co.jp)



“In the ‘aging’ society of the 21st century, in order to ensure the continuation of Japan’s economic vitality, it is necessary to find a more efficient way of investing private assets which reach up to 1200 trillion yen. It is important to provide funds for the developing industries that carry the coming era on their shoulders. Further, to make a contribution to international society commensurate with its economic strength, it is imperative that Japan provides a smooth supply of funds for the world.”<sup>1</sup>

With a view to reconstructing Japan’s financial markets to make them internationally competitive and comparable with those in New York and London, the financial system was rapidly reformed according to three principles: “free” to ensure a free market that implemented market principles, “fair” to ensure a transparent, trustworthy market and “global” to ensure an international market that was ahead of its time (Ministry of Finance, 1997). Transforming the accounting standards was a reform effort made to regenerate the vitality of Japan’s financial markets. Due to this effort, Japan’s accounting standards are currently considered to be at a level similar to those of the West (Saito, 2011).

This paper describes the transformation of Japan’s accounting standards over the past 2 decades and the driving forces behind this transformation. It also analyzes the current state of Japan’s accounting standards, which are characterized by the dichotomy of accounting systems inherited from the country’s political, economic and legal institutions. The discussion in this paper emphasizes that a single set of accounting standards is not always effective for every entity.

## 2. Effects of financial liberalization and globalization on the equity finance of Japanese listed companies

The progress of financial liberalization and globalization since the 1980s has caused the financial service sector to develop rapidly and, as a result, the performance of the financial economy began to drive economic fluctuations that were previously driven by the real economy (Ogawa and Kitasaka, 1998). Due to the circumstances characterizing the last 20 years of the 20th century, deregulation of the Japanese financial system changed the financing method of Japanese listed companies from indirect to direct. The deregulation policy previously described is cited as the Japanese version of the “Big Bang,” which was successfully conducted a decade earlier in the United Kingdom. The change that Japanese accounting systems have undergone since 1997 is commonly referred to as the “Accounting Big Bang.”

Fig. 1 depicts the trends of the financial assets, financial liabilities and equity ratios of companies across 33 industries, excluding banks listed on the Tokyo Stock Exchange and the Osaka Stock Exchange from 1985 to 2001.<sup>2</sup> The equity ratio increased from 28.5% in 1985 to 42.2% in 2001. Consistent with this trend, the financial liabilities ratio decreased from 57.2% in 1985 to 45.9% in 2001. The upward change in the equity ratio reflects that management chose equity finance instead of debt finance by considering the merits of capital costs according to the circumstances of financial liberalization and globalization.

In addition to these trends, the financial assets ratio did not change significantly from 1985 to 2001. However, the ratio was higher than 56% during the period and reached 61.8% in 1990 during the bubble economy. According to the relatively high ratio of financial assets to total assets of Japanese listed companies, the valuation of financial assets was considered an important issue for investors to make informed economic decisions. The data did not include information on the appreciation of marketable securities for trading purposes and investments in mutual-holding securities among business partners. The more important issues

<sup>1</sup> The financial system reform was initiated by Prime Minister Hashimoto in November 1996. The Securities and Exchange Council, the Business Accounting Council (BAC), the Financial System Research Council, the Insurance Council and the Committee on Foreign Exchange and Other Transactions began formulating a plan for reform measures to be completed by 2001. To promote the reform process as a unified scheme, a “Financial System Reform Consultative Committee” consisting of representatives from each of the councils was set up to discuss the issues crossing each council’s scope (Ministry of Finance, 1997).

<sup>2</sup> The reporting periods for the companies in the sample end in March of each year. The sample includes the following figures (year, sample/total number of listed companies, sample %): 1985, 961/1,864, 51.6%; 1986, 993/1,922, 51.7%; 1987, 1,089/2,015, 54.0%; 1988, 1,257/1,961, 64.1%; 1989, 1,431/2,004, 71.4%; 1990, 1,525/2,049, 74.4%; 1991, 1,589/2,093, 75.9%; 1992, 1,639/2,125, 77.1%; 1993, 1,677/2,160, 77.6%; 1994, 1,701/2,187, 77.8%; 1995, 1,743/2,225, 78.3%; 1996, 1,767/2,250, 78.5%; 1997, 1,792/2,253, 79.5%; 1998, 1,800/2,254, 79.8%; 1999, 1,804/2,254, 80.0%; 2000, 1,804/2,254, 80.0%; 2001, 1,807/2,255, 80.1%.

Download English Version:

<https://daneshyari.com/en/article/1004403>

Download Persian Version:

<https://daneshyari.com/article/1004403>

[Daneshyari.com](https://daneshyari.com)