School of Business, Economics and Law
UNIVERSITY OF GOTHENBURG

School of Business, Economics and Law, University of Gothenburg
The Department of Business Administration
Master Thesis 15 hp
Spring Semester 2009

HARMONIZATION
ACROSS
BORDERS

A study of Japanese views on accounting from an international perspective

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Abstract

Title: Harmonization across borders - A study of Japanese views on accounting from an international perspective

Background and research problem discussion: The augmented globalization creates an increased need for communication in terms of language, awareness of cultural differences and domestic customs. However, financial communication, such as accounting and financial results is just as important to master. There have traditionally been two different accounting traditions in the world, the Anglo-Saxon and Continental accounting traditions. Though, during the last few decades the Continental accounting tradition has adapted parts of the, at present, dominating Anglo-Saxon tradition. For example do both of the two global accounting standard-setters FASB and IASB with their accounting frameworks US GAAP and IFRS origin from the Anglo-Saxon accounting tradition. The aim with these two standard-setters has been to regulate accounting on an international level in order to attain harmonization between the accounting systems of different countries. However, domestic accounting traditions influence the interpretation of global accounting standards and make a harmonization difficult. Accounting researchers state that increased accounting harmonization can only become efficient when all countries interpret identical standards in the same way.

Purpose: The purpose of this thesis is to survey the basic views on Japanese accounting from an international, in particular Swedish, perspective. Sweden has already implemented IFRS and there is an ongoing discussion in Japan about implementing the standards of IFRS to a greater extent. By focusing especially on the items revenues and provisions, the author wishes to survey how economic events related to these items are interpreted in Japan. The author's hope with this thesis is to increase the knowledge of Japanese accounting and also to improve Japanese and Swedish companies' financial communication.

Method: The thesis is based on a qualitative study where in total four Japanese and two Swedish respondents were interviewed in their respective offices in Tokyo and Yokohama, Japan. The respondents all work for international companies in Japan and were selected because of their knowledge, experience and insight in Japanese as well as international accounting legislation. Secondary data such as the standards of IFRS, articles and academic literature developed by accounting researchers have also been used.

Empirical result and conclusion:
Concerning accounting practices, Japanese and Swedish revenue recognition is most likely similar and in congruence with IFRS. However, Japanese leasing, depreciations and provisions for paid vacation and pensions differ between the traditional Japanese accounting and that of IFRS. Compared to Sweden, Japanese depreciations on accounts receivables and inventory stocks are not practiced at the same extent as in Sweden. Finally, Japan has been influenced to a large extent by US GAAP which is more detailed than IFRS. There is therefore a risk that an implementation of IFRS may cause confusion and extra work for Japanese companies. The reason is that the principle-based framework involves a lot of judgements, which Japanese companies are not used to. Japanese companies will therefore most likely need additional external help and consultation from the accountancy/audit firms. Finally, it would most likely be favourable for all international companies if US GAAP and IFRS could unite into one global framework. It remains to be seen what will happen, but it is obvious that the larger Japanese companies are interested in taking part in the work to increase global accounting harmonization.

Several organizations and many people have participated in making this thesis possible. First of all, without the financial support from the Scholarship Foundation for Studies of the Japanese Society, the Swedish Institute, this thesis would never have been carried out. I am therefore very grateful for receiving this scholarship.

Moreover, I wish to thank the Swedish Embassy in Tokyo, The Swedish Chamber of Commerce in Tokyo and all other extremely supportive and friendly people for helping me to find respondents.

Furthermore, I would like to thank all respondents for the kind treatment I have received and for taking the time to meet me. I was also very impressed by all the experience and knowledge that was shown by the respondents and which made this project so interesting for me.

Finally, I would like to thank my supervisors Pernilla Lundqvist and Jan Marton for supporting me throughout this project.

Thank you,

Tove Sjölander

Definitions and abbreviations

IASC	International Accounting Standards Committee.
IASB	International Accounting Standards Board.
IFRS	International Financial Reporting Standards.
FASB	Financial Accounting Standards Board.
US GAAP	United States Generally Accepted Accounting Principles.
JICPA	Japanese Institute of Certified Public Accountants.
Kabukishi Kaisha	The most common business organization in Japan, relatively similar to the German Aktiengesellshaft and the public limited companies in the United Kingdom. A Kabukishi kaisha is obligated to have a minimum issued capital of ¥10 million. There are roughly one million Kabukishi kaisha in Japan, 2.600 of these have their stock traded publicly and 2.300 are listed on the Tokyo Stock Exchange.[1]
The Meiji Restoration	Took place in 1868 with the end of the Tokugawa/Edo period. Japan left more that 200 years of isolation and went through several political, economic and social reforms in order to modernize.[2]
Keiretsu	A group of large Japanese financial and industrial corporations connected through historical associations and cross-shareholdings. Each firm in a Keiretsu maintains its operational independence while retaining very close commercial relationships with other firms in the group.[3] A keiretsu is usually controlled by a powerful and influential family[4].
Zaibatsu	A group of conglomerates which controlled a significant part of the Japanese economy before and during the World War II[5]. Zaibatsu was dissolved by the Americans after the World War II but continued to exist in the form of Keiretsu, very similar to the Zaibatsu structure.[6]

[1] Nobes, Parker, 2006, pp 247
[2] Neary, 2002, chapter 1
[3] http://www.businessdictionary.com/definition/keiretsu.html, 15/2-09
[4] Nobes, Parker, 2006, pp 245
[5] http://www.businessdictionary.com/definition/Zaibatsu.html, 15/2-09
[6] Nobes, Parker, 2006, pp 245

1. Introduction

The aim of this chapter is to introduce the reader to the study objects of this thesis; accounting harmonization and Japanese and Swedish views on accounting. The background will extensively explain the study objects which are discussed further and more in detail in the problem discussion. Moreover, the problem discussion will lead to the research question. Finally, the purpose explains what the author wishes to attain through the research question and why research concerning this subject is important.

1.1 Background

It is well known that companies all over the world have become more and more internationally oriented during the last few decades. They create fusions, make investments, conduct trade and co-operate over country borders. The globalization creates an increased need for communication in terms of language, awareness of cultural differences and domestic customs. Moreover, the financial communication, such as accounting and financial results, is just as important for business leaders and employees to master.

There have traditionally been two different accounting traditions in the world; the Anglo-Saxon and the Continental accounting tradition. France, Germany, Italy, Spain[7], Sweden and Japan[8] belong to the Continental accounting tradition. In these countries a limited number of banks, families, or the government has made up the major owners in many international company groups. As a result, a small number of actors have had an unlimited access to information directly from the companies. Financial reports have therefore rather evaluated the company leaders' work than having presented sufficient financial information to individual investors. One can conclude that financial information to investors and other interested parties has therefore been comparatively limited. On the contrary, in the Anglo-Saxon countries such as the United States, the United Kingdom and Australia, financing has depended on the share market. This has brought about a large number of smaller share holders. The demand for more specific and detailed financial results and information has therefore been more significant and important. This has resulted in more transparent financial reporting.[9] However, during the last few decades, countries belonging to the Continental tradition have started to adapt to parts of the Anglo-Saxon accounting tradition and global accounting is at present dominated by the latter.[10]

There are today two organizations which set the standards that influence global accounting: the American FASB and the European counterpart IASB. The Financial Accounting Standards Board, FASB, was established in 1972 and has members from both the business sector and the CPA profession. FASB is especially influential in the United States but also internationally. The International Accounting Standards Board, IASB, was founded in 1973. The European Union has recently adapted IASB's standards in its member states which has given the organization increased authority.[11] Since 2005 all European companies listed on the stock exchange shall follow IFRS. This means that listed Swedish companies practice IFRS.[12] Concerning Japan, some companies are allowed to follow IFRS but the practice is still rather

[7] Marton, Falkman, Lumsden, Pettersson, Rimmel, 2008, pp 4
[8] Smith, 2006, chapter 5
[9] Marton, Falkman, Lumsden, Pettersson, Rimmel, 2008, pp 4
[10] Smith, 2006, pp 68-70
[11] Artsberg, 2005, pp 135-138
[12] Artsberg, 2005, pp 138-144

limited. However, there are discussions in Japan concerning implementing IFRS for all companies listed on the Japanese stock exchange by 2015.[13]

One reason to regulate accounting on an international level is to attain increased harmonization between the accounting systems of different countries'.[14] The author wishes to point out that, as discussed previously, financial communication presumes that all companies use the same accounting standards and interpret them similarly. This is a prerequisite for a company group to communicate and perform well with affiliated companies in different countries. Moreover, global investors need to be ascertained that financial information is trustworthy and based on the same standards and regulations in all countries. The author concludes that the work of FASB and IASB is the first, important step in the harmonization process. The second step is to look at the adaptation of the standards in the different countries to ascertain that they are interpreted similarly. To conclude, increased accounting harmonization between different countries can only become efficient when all countries interpret identical standards in the same way.

1.2 Research problem discussion

Since domestic accounting traditions to a great extent affect the harmonization of global accounting, these will be highlighted in this thesis. The thesis will focus on the accounting traditions of the European country Sweden and the Asian country Japan. Since Sweden has already implemented IFRS and Japan most likely is about to, the author has found it interesting to look into the traditional accounting in respective country. This thesis will especially focus on the items revenues and provisions since they are two large items which affect the result and profit considerably. In this thesis the international perspective consists of both Japanese and Swedish respondents with knowledge and experience of both Japanese and international accounting legislation and practices. Since there are Swedish respondents taking part in the study, notable differences between Japanese and Swedish interpretations of economic events related to revenues and provisions will be discussed. To facilitate this study, the international framework of IFRS will be used as a tool.

As commented on previously, increased globalization has created a demand for a more harmonized accounting system which the organizations FASB and IASB have been established to improve. To develop standards and frameworks for treating overall as well as particular accounting issues will most likely increase the harmonization of global accounting. However, not only a mutual accounting system but also a mutual implementation of the accounting system is important. A global accounting system is not efficient if every country applies it differently. The professors Nobes and Parker state that there are differences in financial reporting between countries although the accounting rules are homogenous[15].

Accounting researchers have stated that accounting harmonization has two levels; the *de jure* as well as *de facto*- level. The *de jure*-level is based on the legal and regulatory framework while the de facto-level focuses on how companies actually practice their accounting. Researchers argue that, despite all the international harmonization projects, it has been surprisingly difficult to harmonize the companies' accounting practices. Moreover, in a comparison, international accounting is far from harmonized. One reason why accounting on a de facto-level has not been harmonized is because harmonization on the de jure-level is still

[13] Interview with Finance & Business Support Manager A, 15/4 2009
[14] Artsberg, 2005, pp 138
[15] Nobes, Parker, 2006, pp 4

not sufficient. There have been disagreements concerning which regulations and common accounting standards shall be practiced. Moreover, the accounting tradition in each country influences and affects today's accounting and makes harmonization more difficult. Suggestions have been made that the American FASB should be practiced all over the world. Such a solution may have been more successful especially for multinational companies. However, a global adaption of FASB' standards would make it more difficult for non-Americans to experience any influence over the framework. That is why the European Union in 2002 chose to practice IASB's standards in the member states instead of introducing the American counterpart.[16]

To make clear, communication in terms of financial results is just as important as for example oral communication and comprehension of business culture. The aim of this thesis is to investigate a number of Japanese views on accounting and the results will be compared to the author's experience of Swedish accounting methods. The author's firm belief is that once differences are identified, they can be taken into account and dealt with. This process will most likely improve overall business harmonization.

1.3 Research question

1. What basic views are reflected in Japanese accounting, from an international perspective?

1.4 Purpose

The purpose of this thesis is to survey the basic views on Japanese accounting. By focusing in particular on the two items revenues and provisions, the author wishes to survey how economic events related to these items are interpreted in Japan. This thesis is also aimed at looking into both Japanese and international (partly Swedish) views on Japanese accounting related to IFRS. The author's hope with this thesis is to increase the knowledge of Japanese accounting and also to improve Japanese and Swedish companies' financial communication.

[16] Artsberg, 2005, pp 427-428

2. Method

The aim of this chapter is to present and explain which choices have been made throughout the project. The goal is to make the reader well- informed about how the process has been carried out. One can conclude this explanation by saying that the chapter presents the scientific starting point of the study.

2.1 Choice of method

Concerning collection of primary data, the choice was made between the qualitative and the quantitative method. Both methods are focused on increasing the understanding of how individuals, groups of people and institutions act and interact. The quantitative method collects and transforms information to numbers and amounts in a structured and fixed way. The method enables statistical generalizations which explain certain phenomena. The disadvantages of this method are, as a consequence of the high degree of standardization, the limited freedom of individual adaptation and flexibility. Information from a quantitative analysis is broad, but more generalized than deep drawing.[17]

In the qualitative method, standardization is low but on the contrary flexibility is high. The research plan can be changed and reformulated during the project which facilitates openness to new information and enables increased understanding. The number of respondents is generally smaller than in the quantitative method and the purpose is to create and increase understanding of the research problems at issue. The interviewer is comparatively less restricted to guidelines and constraints compared to using the quantitative method. However, this flexibility could make generalizations and comparisons between the respondents more difficult.[18]

This thesis is based on the qualitative method. Open questions, instead of standardised questionnaires[19], give the interviewer the possibility to reformulate questions, explain terms and ask resulting questions, a response which is not possible in the quantitative method. At the end this leads to deeper understanding of the research problem. Moreover, using the flexibility of the qualitative approach by reformulating the interview questions between the interviews, etc. will most likely improve the quality and reliability of the empirical data.[20]

According to Holme and Solvang, a qualitative research requires a more sophisticated selection of respondents. The selection of respondents cannot be randomly or occasionally chosen. The selection has to be made based on certain carefully selected criteria which are strategically and theoretically formulated. The respondents must have sufficient knowledge of the subject at issue.[21] This has been considered in this thesis and will be further discussed in 2.4.

[17] Holme, Solvang 1997, chapter 5
[18] Ibid
[19] Holme, Solvang, 1997, chapter 7
[20] Holme, Solvang, 1997, chapter 5
[21] Holme, Solvang, 1997, chapter 7

2.2 Choice of countries

As mentioned previously the author has made the decision to focus on the countries Japan and Sweden because of geographical, historical and cultural differences. Moreover, since Japan is one of the largest economies in the world, the importance of Japanese global companies is significant. One can conclude by saying that what Japanese companies do affect the rest of the world. Furthermore, today a large number of Swedish company groups have affiliated companies in Japan and similarly Japanese companies have subsidiaries in Sweden. Finally the author has studied business administration both at Gothenburg University, Sweden and at Keio University, Japan. Therefore, the author has a particular interest in these two countries.

2.3 Choice of accounting items

To make possible an analysis this study has been narrowed down to the two items revenues and provisions. These are two large items which, because of their size, affect result and profit at a great extent. Moreover, they are connected to a number of judgments, a fact which makes them particularly interesting to focus on. Other relevant items will also be discussed further on, but these two items were considered the most important ones and thus selected in order to contrast them to the general view on accounting. The author has tried to attain a trustworthy base to form the analysis on, by combining and comparing the general data concerning the views on accounting with the more specific data concerning the two items revenues and provisions. Finally, since the author believes that the traditional domestic accounting legislation has affected today's accounting considerably this legal framework will be looked into. As a result, both the Frame of reference and the empirical chapter will focus on the traditional accounting regulations. By looking into these fields of legislation it will be possible to find explanations of the interpretations concerning economic events.

2.4 Choice of respondents

Concerning selection of respondents, methodology researcher Trost states that four to eight respondents are preferable. Having too many respondents may result in unmanageable material difficulties. Moreover, if the material is too extensive it may be difficult to notice important details in it.[22] The primary data in this thesis therefore consists of interviews with six managers working within five different international companies in Japan. The respondents have been selected because of their knowledge, experience and insight in Japanese as well as international accounting legislation. Four of the managers are Japanese and two are Swedish. It is worth mentioning that both Swedish managers have a background which entails studies of business administration at a Swedish university. These respondents are, because of their knowledge of the Swedish accounting legislation and tradition, able to make comparisons between Japan and Sweden.

The respondents all work for international companies in Japan. With the help from, among others, the Swedish Embassy in Tokyo and The Swedish Chamber of Commerce in Tokyo, appropriate respondents with good knowledge of the subject were contacted. The respondents consist of one CFO, one Finance & Business Support Manager, one Accounting Manager, one CPA (Certified Public Accountant), one President and one Finance Director. The interviews were conducted in Tokyo and Yokohama in Japan in the companies' offices. The cities were chosen because most international companies are located in the area. The author is aware of the fact that a comparison with entirely Japanese-owned companies would have been beneficial. However, since the tradition in Japan is to arrange meetings through personal contacts and the author's contacts are mainly European, it was difficult to get in contact with

[22] Trost, 2005, pp 123

these companies. As all four respondents from the Japanese business sector have experience of working in both Japanese and international companies this comparison is to some extent made indirectly.

Moreover, the author is aware of the fact that it would have been interesting to include other nationalities than Japanese and Swedish respondents in the international perspective. However, the Japanese respondents had a good insight in ~~the~~ international and Japanese legislation and were able to make trustworthy comparisons. Also the Swedish respondents made reliable comparisons between principally the Japanese and Swedish legislation and practices. Since all studies need to be delimited, it is therefore the author's hope that further studies within this study object will include other nationalities.

Finally, the author has made a decision to base the empirical part on interviews in Japan. Since the author has studied business administration and accounting in Sweden, knowledge of Swedish accounting legislation and accounting tradition was sufficient. However, the author did not have enough experience and knowledge of Japanese accounting and therefore a decision was made to focus on Japan in the empirical part. The author has made the assumption that it will be possible to make conclusions based on information concerning both Sweden and Japan in the Frame of reference and thus focus more on Japanese accounting in the empirical chapter.

Finally, the author is aware that it would have been interesting to extend the international perspective to other nationalities as well. However,

2.5 Choice of Frame of reference

The aim of the Frame of reference in this thesis is to introduce the reader to the concept of accounting harmonization as well as explaining why accounting differences actually exist. Furthermore, the author has chosen to focus on Japanese accounting, its background, the regulatory framework and the Japanese position vis-à-vis IFRS. Moreover, the corresponding information concerning the Swedish accounting will be outlined. IFRS's standards concerning revenues and provisions will be presented in the appendix. Key terms for collecting information and data are in line with accounting, international accounting standards, Japanese accounting and Swedish accounting. The thesis entails these key terms and they have consequently been used in database research. The databases used were mainly the Gothenburg University's GUNDA and Samsök. The Japanese database of Hitotsubashi University, HERMES-IR, was also used.

2.6 Collecting primary data

According to the researchers Arbnor and Bjerke, primary data is information which has not been obtained or published before. This data can be provided in three different ways; through direct observations, interviews and experiments[23]. In this thesis the first two direct observations and interviews were combined and practiced. Primary data was gathered by fulfilling interviews in person. Furthermore, direct observations were made regarding for example body language, interest in the subject, facial expressions and hesitation.

Two different questionnaires have been used in this thesis. The five representatives from the Japanese as well as Swedish business sector answered questionnaire number one. The questions in this questionnaire are related to the companies' day-to-day accounting practices

[23] Arbnor, Bjerke, 1994, pp 241-245

and overall principles. The author has also tried to survey the general views on accounting as well as the framework of IFRS. CPA A answered a questionnaire which focused more on Japanese accounting principles and the practice of Japanese accounting in relation to IFRS. The practice of two different questionnaires with different angles has influenced the empirical part to some extent. The interview with the CPA had another focus than the interviews with the Japanese and Swedish business representatives. For example, particular accounting principles are discussed at length in the part concerning the interview with the CPA. However, it was considered interesting to look into different views on accounting, from different angles. A decision has also been made to divide the empirical chapter into three sections; firstly the Japanese business' view on Japanese accounting, secondly the Japanese CPA's view on accounting and finally the Swedish view on Japanese accounting. The division of the chapter has been made to facilitate outlining similarities and differences between the three sections.

Concerning the questions in the questionnaire, they surfaced during the writing of the Frame of reference. In general the questions concern the view on Japanese accounting, differences between the Japanese legislation and that of IFRS and the treatment of revenues and provisions. By comparing the traditional Japanese accounting legislation with that of IFRS, the author has become aware of Japanese characteristics. These characteristics have then been compared with Swedish legislation and accounting traditions. The questions were open and the author noted both the oral answer as well as response in the form of body language. A recorder was used during all interviews with the permissions of the respondents. These procedures brought about a more trustworthy material, something the author believes is important. The information from the interviews was also written down within 24 hours after the interviews to maintain reliability of empirical data. Finally, four of the interviews were conducted in English since the respondents were Japanese. However, all respondents speak very good English and since the author also used a recorder, the language barrier did most likely not affect the results. The remaining two interviews were carried out in Swedish since the respondents as well as the author are Swedish. The author's firm opinion is that the absence of a language barrier in these two interviews rather favoured the result than made it biased.

2.7 Analysis

Reflections concerning possible harmonization of Japanese and Swedish accounting have been made throughout the project. These reflections constitute a base for the analysis chapter. The Frame of reference was used as a starting point and the questionnaires were developed out of the theoretical information. Departing from the empirical data chapter the author has looked into the Japanese and Swedish views on Japanese accounting. The view on IFRS was also looked into since the framework most likely leads to increased harmonization. The results from the empirical chapter have been analyzed. Moreover, the author has especially looked into the two cases with revenues and provisions to see if the respondents' general views on accounting correspond with the recognition of revenues and provisions. From this information conclusions have been made about the situation as a whole.

The analysis chapter is based on the structure in the empirical part. The chapter will first discuss harmonization and the views on IFRS. Moreover, the Japanese interpretation of economic events will be surveyed. Furthermore, general similarities and differences between Japanese and Swedish accounting traditions will be discussed. Finally, similarities and differences between the Japanese and Swedish interpretations of economic events will be looked into. In the two last parts which deal with similarities and differences between Japan and Sweden, the author's views and experiences will be mentioned to a large extent.

2.8 Reliability and validity

Reliability is defined as measurements made in a reliable way and validity means measuring what is relevant[24]. Reliability is attained when a study is substantial and not affected by random factors. A reliable study is attained when all respondents are exposed to the same interview situation, with the interviewer asking identical questions in the same way to everyone. When the study in theory could be made again with exactly the same result, reliability is achieved. The idea of reliability is based on the assumption that the researcher treats standardized measurements and value variables in separated units, which is the case in quantitative studies. One can therefore conclude that qualitative interviews as such do not stand up to reliability criteria. The human being is an engaged and committed actor in the interview process rather than being standardized and constant. An answer to a question may differ every time the question is put. Random variables during the interview, such as changes in facial expressions and body language, are noticed and registered by the interviewer and are considered important parts of the result. Therefore, in this qualitative study, reliability will not be prioritized at the same extent as in a quantitative study.

Validity stands for measuring what is intended to measure. In a qualitative method, the researcher strives to examine what the respondent means with a word or a phenomenon, or how he or she interprets it. The general definition of for example a word is not interesting; it is the respondent's view of the word that the interviewer is interested in.[25]

Concerning the Frame of reference, the author has tried to attain validity by using researched-based academic literature developed mainly by accounting researchers. In the cases when web sources have been used they are mainly the homepages of accounting standard setters.

In this empirical chapter, the choice of respondents may affect validity. There is a risk that a respondent's view on accounting is not in congruence with the whole company's view. The language barrier may also influence validity negatively. Moreover, the questionnaires may have an incorrect focus, a risk which might lead to misleading measures. Finally, during an interview the questions may be leading and influence the answers of the respondent. However, to attain validity the respondents have been selected based on their knowledge and experience of the subject. They all work with financial information and accounting and follow the international as well as domestic debates concerning accounting. Although they have individual opinions which sometimes may diverge from the companies' general view, the author has noticed that the answers of the respondents often correspond. This indicates that the opinions are most likely representative. Concerning the language barrier, the author has tried to attain validity by choosing Japanese respondents who are fluent speakers of English. Moreover, in combination with note-taking all interviews were also recorded. Furthermore, to attain validity related to the questionnaire, the author has worked hard to shape adequate interview questions. After studying literature concerning international accounting standards, Japanese and Swedish accounting and accounting harmonization the author had quite a solid base to shape the questionnaire on. The questionnaires have three different focuses: one general part and two parts focusing more specifically on revenues and provisions. The aim is to compare the answers to the general questions with the answers of the more specific parts.

[24] http://infovoice.se/fou/, 19/2 -09
[25] Trost, 2005, pp 111-115

For example, if a respondent in the general part mentions that Japanese accounting is conservative, the author will be able to look into whether conservatism actually is practiced concerning revenue recognition and provisions. By using the two more specific parts, information from the general part will be controlled and confirmed. Finally, the author has tried to attain validity during the interviews by using open questions, which counteract influencing the answers of the respondents.

3. Frame of reference

The chapter begins with a background of global accounting and discusses why and how differences in accounting practises have evolved. There will also be a discussion concerning classification of financial reporting where Japan, Sweden and the Anglo-Saxon countries will be compared. The Anglo-Saxon countries will be discussed since IFRS was developed from the Anglo-Saxon accounting tradition. Continental as well as Anglo-Saxon accounting traditions will also be further looked into. Moreover, Japanese accounting will be presented and the background of Japanese business structure, as well as accounting tradition, will be surveyed. Furthermore, the Japanese regulatory framework and the Japanese accounting in relation to IFRS will be discussed. Secondly, the Swedish tradition of business and accounting will be discussed. The legal and regulatory framework will be looked into and IFRS in Sweden will be discussed. The chapter ends with a conclusion of the most significant characteristics of Japanese and Swedish accounting.

3.1 Background of the global accounting

3.1.1 Global harmonization and the existence of accounting differences

As was discussed previously do accounting systems and practices vary between different countries. The professors Nobes and Parker state that several factors influence accounting practices such as culture, fundamental legal systems, providers of finance, the shaping of taxation system and the accountancy/audit profession's role in the country where the company operates.[26]

Concerning culture, Nobes and Parker state that culture affects how people prefer their society to be structured. Moreover, the culture affects how individuals interact with their substructure, such as accounting. The accounting researcher Gray states that: "*the value systems of attitudes of accountants may be expected to be related to and derived from societal values with special reference to work related values. Accounting 'values' will in turn impact on accounting systems"*.[27]

Regarding the legal system, accounting practices are influenced by the general law system. In countries such as England, Ireland and the United States the legal systems rely upon a limited number of statue laws which are interpreted by courts. This system brings about a great amount of case law to complement the statutes ones. However, in countries such as Germany and Japan, the law is based on the codified Roman law. Therefore, since rules are strongly connected to ideas of justice and moral, they become doctrine. This will be discussed further in this thesis in the part related to Anglo-Saxon and Continental accounting traditions. To conclude, the way common laws are stated influences the development of accounting regulations.[28]

Concerning the providers of finance and financing structure they have influenced and developed accounting practices. Financing has been based on either shareholder financing or financing through banks and/or great single owners.[29] The professors Nobes and Parker state

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[26] Nobes, Parker, 2006, chapter 2
[27] Nobes, Parker, 2006 pp 25-27
[28] Nobes, Parker, 2006 pp 28-29
[29] Marton, Falkman, Lumsden, Pettersson, Rimmel, 2008, pp 3

that in most continental European countries and Japan the traditional shortage of external shareholders has developed a system of financial reports, which have functioned as tools for creditors and government. The creditors receive information concerning the financial situation while the government receives information in its role as tax collector and controller of the economy. To conclude, the primary purpose of the financial reports in these countries has traditionally been to inform creditors and governments about the present state of affairs. The aforementioned researchers argue that these purposes of the financial reports have lead to shortage of flexibility, judgment, fairness and experimentation in the financial reports but have also brought about precision, uniformity and stability. It is also likely that larger importance of creditors in these countries has lead to more conservative and careful accounting. The explanation for this is that creditors are primarily focused on whether they are likely to get their money back, while shareholders are interested in neutral estimations of future prospects.[30]

Whether accounting is linked to taxation or not also affects financial information[31].
The link between taxation and accounting is common in especially countries with the Continental accounting tradition[32] such as Germany, Japan[33] and Sweden[34]. As a result, this may lead to business leaders choosing financial results which are favorable in relation to taxation rather than presenting reliable accounting results. This tendency most likely affects their accounting practices.[35]

Moreover, the role of accountancy/audit firms influences accounting practices. This will be further discussed later on in this thesis, but in order to conclude this initial presentation the author wants to state that the Anglo-Saxon accounting tradition has facilitated for the accounting profession to establish a strong position. Thus, the audit firms' influence on the development of accounting practice has been greater in the Anglo-Saxon than in the Continental accounting tradition.[36]

Finally Nobes and Parker argue that accounting differences may develop although all accountants follow the same set of rules. The reason is that the rules are not prescribed down to the minutest detail and do not handle every eventuality. Moreover, professional judgments based on the accountants´ environment will influence financial results. Finally, the accounting rules themselves may differ, not just between countries but also within countries.[37]

3.1.2 Classification of countries' financial reporting

There have been several studies aimed at classifying countries according to methods of financial reporting. In 1980 the researchers Nair and Frank made a classification based on measurement practices taken from a Price Waterhouse survey which was carried out in 1973. In this study four models were developed: first the British Commonwealth accounting model including countries such as Australia, New Zealand, Singapore and the United Kingdom. The second model was the Latin American accounting model including countries such as Argentina, Brazil, India and Colombia. The third variant, which can be called the Continental

[30] Nobes, Parker, 2006, pp 29-32
[31] Marton, Falkman, Lumsden, Pettersson, Rimmel, 2008, pp 3
[32] Svensk och tysk redovisning, 1993, Stockholm Öhrlings Revko
[33] Nobes, Parker, 2006 pp 33-34
[34] Flower, 1994, chapter six
[35] Svensk och tysk redovisning, 1993, Stockholm Öhrlings Revko
[36] Smith, 2006, chapter 5
[37] Nobes, Parker, 2006, pp 4

European model, included countries such as France, Germany, Sweden and Spain. The final and fourth group, the United States model, included countries such as Canada, Japan, Mexico and the United States. However, it is worth mentioning that the data from 1973 has been criticized for being not scientifically reliable due to the occurrence of several flaws and mistakes.[38]

The researcher Gray has developed four accounting values in order to classify countries accounting practices:

1) Professionalism versus statutory control
2) Uniformity versus flexibility
3) Conservatism versus optimism
4) Secrecy versus transparency[39]

As can be seen in Table 1 in Appendix 1, statutory control is strong in Japan while professionalism dominates the Anglo-Saxon countries. Sweden, as one of the Nordic countries, is more dominated by professionalism but not at the same extent as the Anglo-Saxon countries. Concerning uniformity versus flexibility, uniformity dominates Japan. On the contrary, the accounting systems of the Anglo-Saxon countries are the opposite, heavily influenced by flexibility. The Nordic countries including Sweden are dominated by flexibility but not at the same extent as the Anglo-Saxon countries. Concerning conservatism versus optimism, it is shown in Table 2 in Appendix 1 that Japan is strongly influenced by conservatism while the Nordic countries are more influenced by optimism. The Anglo-Saxon countries are even more optimistic and are therefore the total opposite of Japan. Finally secrecy dominates Japanese accounting while the Nordic countries are more influenced by transparency. The Anglo-Saxon countries are considerably dominated by transparency. Moreover, the result differs again compared to that of Japan.[40]

3.1.3 The Continental and Anglo-Saxon traditions

As commented on previously, accounting traditions in the industrialized countries are characterized by two different accounting models: the Continental and the Anglo-Saxon traditions. The Continental model involves the Western European countries with the exception of the United Kingdom, Ireland and the Netherlands. The Anglo-Saxon tradition involves the United Kingdom, Ireland, the Netherlands and the United States. Concerning Japan, the country has, since the latter part of the 19th century, primarily been influenced by the Continental accounting tradition.[41]

The difference between the two traditions has its base in Civil Law. The Continental tradition of Civil Law was developed in the Roman Empire and is distinctly legalistic. This means that the rules are based on written and obliged law. Moreover, there is a strong connection between accounting legislation and the fiscal legislation in the Continental tradition, a fact which affects and influences financial statements. The Anglo-Saxon tradition was developed in medieval England and has only to a limited extent been influenced by written law. Instead, established practice complemented by court ruling has constituted the accounting procedure. Moreover, accounting practices have also been developed and established by the accounting profession in the respective country.[42]

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[38] Nobes, Parker, 2006, pp 60-61
[39] Radebaugh, Gray, 1997, chapter four
[40] Ibid
[41] Smith, 2006, chapter 5
[42] Ibid

As the author has discussed previously, a major reason for the different developments of accounting has been the domestic owner structure of companies. In countries where the Continental tradition is dominant, government, banks and powerful families have usually had a considerable influence of ownership. In countries with an Anglo-Saxon tradition companies have more commonly been listed on the stock exchange. Ownership has therefore been more spread. One can conclude this observation by saying that in countries which adhere to the Anglo-Saxon tradition, large domestic companies are dominated by a great many smaller shareholders that do not have access to internal information. Therefore, they have had to rely on the companies' external financial information.[43]

According to Continental legalistic tradition, correct accounting can be defined as corresponding with the law. This implies that Continental accounting has been more regulated and detailed. Concerning valuation, Civil Law has specified the highest permitted values on assets, while the tax legislation law has given the lowest permitted values.[44]

In the Anglo-Saxon tradition correct accounting has been defined as means of accounting which have brought about a "true and fair" view of the financial situation in question. In countries belonging to the Anglo-Saxon tradition there has usually not been the same link between accounting and tax legislations as in the Continental tradition. As a result of the separation between accounting and tax legislations, it has been possible to meet the market's and interest parties' demand for financial information. Especially in the United States the accounting profession has developed its own, sometimes restricted, rules for what can be called "true and fair". These rules have developed into what is today called "Generally Accepted Accounting Principles" (GAAP). To make clearer, the American accountancy/audit firms have established accounting practices which in turn have developed into a framework with detailed standards, issued by the professional organization Financial Accounting Standards Board, FASB.[45]

In the last few decades, countries belonging to the Continental accounting tradition have started to adapt parts of the Anglo-Saxon accounting tradition. This is a result of:

- the appearance of multinational companies
- an increased listing on the stock exchange markets in London and New York
- Great Britain's entry into the European Union
- an increased international standardization based on the Anglo-Saxon accounting tradition
- the establishment of new financial instruments

As a result of the British entrance into the European Union, the term "true and fair" has been raised to compose an overall principle in the European Union's accounting directives. The term "true and fair" implies that it is permitted to diverge from law and standards, if it improves the reproduction of the company's financial situation in a way which is considered "true and fair". The European Union's international accounting standardization has mainly been made within the frames of the professional organization International Accounting Standards Board, IASB, a body which develops accounting standards. IASB has, just as FASB, developed its standards within the framework of the Anglo-Saxon tradition and has to

[43] Smith, 2006, chapter 5
[44] Ibid
[45] Ibid

a large extent been influenced by FASB. However, IASB's standards are not as detailed as those of FASB.[46] IASB's predecessor IASC was established in 1973 and was reconstructed into IASB in 1991. The board of IASB consists of members from the Anglo-Saxon countries as well as representatives from Germany, France and Japan. The members of the board represent different categories such as the standard-setters, the audit profession, the companies and the interest parties of financial information.[47]

3.2 Japanese accounting

3.2.1 The background of Japanese business structure

Japan has had a strong tradition of family-based industrial-political conglomerates called Zaibatsu[48]. The zaibatsu have been powerful actors in the Japanese economy. They composed the base in the Japanese industrialization and in the form of Keiretsu they are still important to Japanese trade and industry. The structure of the zaibatsu with a limited number of powerful family-based conglomerates is essentially the same shape as the traditional business structure of France, Germany, Italy and Spain.[49] After World War II the zaibatsu were replaced by the keiretsu, though the network-based company structure and business control continued[50]. For example the Mitsui group was a powerful actor in Japanese economy involving the Mitsui bank[51], Toyota Motors, Suntory and Toshiba[52]. At present the Mitsui group is still an influential company group although several companies that were once part of the Mitsui group have become tied to other conglomerates or have gone independent.[53]

Traditionally Japanese companies have relied to a large extent on bank-provided debts rather than equity as their major source of finance. This has resulted in banks having a considerable proportion of clients' shares and situations when banks make up the largest shareholder. In contrast to the situation in the United Kingdom and the United States, Japanese companies focus less on short term earnings and more on long-term shareholding and share ownership. This as a result of the significant bank involvement mentioned above combined with the Japanese tradition of holding shares on a long-term basis. As banks usually have direct access to their client's financial information, external financial reporting is relatively redundant and of diminutive interest.[54]

3.2.2 The Japanese tradition of accounting

Japan has traditionally belonged to the Continental accounting tradition and was until the 1980s considered very traditional and conservative.[55] However, during the 1990s there was an immense fall in shares prices and assets which initiated the need for bank reorganizations and reconstructions. Moreover, this crisis led to improved openness to change and outside influences in Japanese accounting.[56] Especially since 2001 Japan has abandoned many traditional accounting features to the benefit of more international practices such as US

[46] Smith, 2006, chapter 5
[47] Artsberg, 2005, Kristina, pp 135-138
[48] Nobes, Parker, 2006, pp 245
[49] Marton, Falkman, Lumsden, Pettersson, Rimmel, 2008, pp 4
[50] Nobes, Parker, 2006, pp 245
[51] Today Sumitomo Mitsui Banking Corporation
[52] These companies are today independent and separated from the Mitsui group
[53] http://www.nationmaster.com/encyclopedia/Mitsui 14/2 -09
[54] Nobes, Parker, 2006, pp 246
[55] Matsuo, 2008, pp 17
[56] Nobes, Parker, 2006, pp 246

GAAP and IFRS.[57] The researchers Radebaugh and Gray state that although Japanese accounting standards have become more internationalized, the interests of creditors, the influence of taxation and the conservative culture still influence accounting substantially. For instance, Japanese measures of earnings are understated compared to those of the United States and especially the United Kingdom. Radebaugh and Gray present their research in The Comparative Impact of International Accounting Differences on Earnings which is shown in Table 3 in Appendix 1. The researchers use an Earnings Adjustment Index based on US GAAP where the United States make up index 100. The result shows that the United Kingdom is less conservative with an earnings adjustment index of 125. However, Japan only reports 66 percent of the American earnings and only 53 percent of the earnings of the United Kingdom. This result indicates that compared to the United Kingdom in particular but also the United States, Japanese accounting is very cautious and conservative.[58]

3.2.3 The Japanese regulatory framework

In Japan, the state has a significant influence on accounting and the domestic rule-making bodies are the Ministry of Justice, FSA (Financial Services Agency), the Tax authority and BADC (The Business Accounting Deliberation Council).[59] The Commercial Code is administrated by the Ministry of Justice and is to be followed by all Kabukishi kaisha[60]. The Japanese Commercial Code originates from the German Commercial Code which was introduced in Japan in 1890. Though, the German influences have declined over time as Japanese corrections and improvements have been made. The white-collar workers in the Ministry of Justice usually have a legal background rather than a background in accounting or business. As a result, just as in Germany, the organization and direction of the Commercial Code focuses on protecting creditors to the same extent, if not more, as shareholders. For example, in the specific accounting rules from the Commercial Code, there is a superior focus on prudent asset valuation rather than on income measurements.[61]

The Securities and Exchange Law was managed by the Ministry of Finance until 2000 when the Financial Services Agency (FSA) took over. The Securities and Exchange Law is applicable to all Kabukishi Kaisha that are publicly traded.[62] This law was implemented during the Allied administration of Japan, just after World War II. The American General McArthur adapted the Japanese accounting system to that of the American model. As a result, the organization and direction of the Japanese Ministry of Finance and now the FSA have much in common with the American Securities and Exchange Commission. Compared to the Commercial Code, the accounting measurement requirements of the Japanese Securities and Exchange Law are more extensive and specific.[63]

The FSA also issues an accounting reference document called the Business Accounting Principles. This document was first issued in 1949 and once a decade the document is revised and developed. All Kabukishi Kaisha that report under the Securities and Exchange Law are obliged to act in accordance with these principles. The principles of the FSA tend to focus

[57] Nobes, Parker, 2006, pp 258
[58] Radebaugh, Gray,1997, chapter 14
[59] Nobes, Parker, 2006, pp 246-249
[60] For explanations see definitions
[61] Nobes, Parker, 2006, pp 247
[62] Ibid
[63] Nobes, Parker, 2006, chapter 11

more on income measurement and shareholder protection than on asset valuation and creditor protection, in contrast to the Commercial Code.[64]

The Business Accounting Deliberation Council (BADC) is the advisory section of the FSA. The members are representatives from different groups such as the accountant profession, the industry, the universities and the government. Until 2001, when the Japanese Accounting Standards Board was formed, BADC published standards and "opinions" on certain issues. The BADC still develops guidelines concerning accounting and auditing.[65]

As a result of the two sources of government influences mentioned above, a publicly traded Kabukishi Kaisha must set up two versions of the financial statements. One financial report is set up for the shareholders, in accordance with the obligations of the Commercial Code. The second financial report is set up for filing, in congruence with the regulations of the Security and Exchange Law. Net income will be identical in the two financial reports. Though, in the report required from the Securities and Exchange Law, a larger number of disclosures are obligated. Concerning Japanese accounting standard-setters the professors Nobes and Parker mention that they tend to have a shortage of overall coordination and sometimes disagree in financial reporting matters.[66]

3.2.4 The link between accounting and taxation

Concerning the Tax Law*,* Japanese tax legislation exerts an important influence on financial reporting. As referred to in the background Japan, together with several Continental European countries, has a strong connection between accounting and taxation. There are particular deferrals of income and deductions for expenses that are only accepted for tax purposes if they are mentioned in the financial report under the Commercial Code, for example depreciations and allowances for bad debts. Compared to the Commercial Code, the Securities and Exchange Law and Business Accounting Principles, the Japanese Tax Law is more specific and the rules are more detailed. According to the Commercial Code current assets should be valued as costs unless their market value is "substantially lower". In the Tax Law, this is more specifically defined as a decline of 50 percent or more of the market value.[67]

3.2.5 Japan and IFRS

The Japanese Institute of Certified Public Accountants (JICPA) was established in 1948 and has approximately 14.000 members. Until 2001, the organization developed and issued recommendations on accounting matters and was supported by the FSA. However, the JICPA tended to discuss rather minor accounting matters and the main accounting issues were still covered by the Business Accounting Principles. As few of the members of the JICPA hold significant senior financial positions in the commercial and industrial business life, the accounting profession has limited influence on the preparers of the accounting and the financial information. This constitutes a contrast to the United Kingdom where many representatives of the large companies are members of the accounting profession.[68] It is worth mentioning that Japanese companies with a share capital over ¥500 million or a total liability over ¥20 billion are required to be reviewed by an independent professional auditor (CPA).[69]

[64] Nobes, Parker, 2006, pp 248
[65] Nobes, Parker, 2006, pp 248
[66] Nobes, Parker, 2006 chapter 11
[67] Nobes, Parker, 2006, pp 248
[68] Nobes, Parker, 2006, pp 249
[69] Nobes, Parker, 2006 pp 247

However, compared to the power of the government, the Japanese accounting profession has had limited influence on domestic financial reporting.[70]

Although the JICPA was a founder member of IASC, the organization had a limited influence on the Japanese financial reporting until the late 1990s. The major reason for this was that IASC focused on implementing its standards through domestic profession-accounting foundations. However, between 1993 and 1995, there was a Japanese chairman of IASC and this led to improved international influence in the Japanese accounting. Moreover, in 2001 Japan established the private-sector standard authority Financial Accounting Standard Foundation in order to convergence Japanese accounting practices towards international practices. The aim with the Financial Accounting Standard Foundation was to transfer accounting standard-setting from the public to the private sector and the organization has a supervisory Board of Governors and an Accounting Standards Board.[71] In 2007 the Accounting Standards Board made a joint declaration with IASB know as the "Tokyo Agreement". The aim with this agreement was to confirm and accelerate the convergence program announced in 2005 with the purpose to eliminate differenced between Japan GAAP[72] and IFRS.[73]

According to the professors Nobes and Parker, there are two major differences concerning provisions between the Japanese legislation and IFRS. Firstly, according to IFRS a provision cannot be accrued without an either legal or constructive obligation. In Japan however, a provision can be accrued without an obligation. Secondly, in contrast to IFRS, the Japanese legislation does not have a demand for discounting provisions. Therefore, provisions in Japanese companies are generally not discounted.[74] These two potential differences will be further discussed in the empirical chapter.

3.3 Swedish accounting

3.3.1 Background of Swedish business structure

Swedish economy has a tradition of being open to international trade and the manufacturing business started exporting goods early on. The combination of large companies and a small domestic market has consequently led to improved incentives to expand internationally. The manufacturing companies have expanded mainly through internal funds and bank credits. Moreover, the large Swedish companies have been favored by low domestic corporate taxes, obtained through liberal tax deductions. Sweden has been an exporter for several centuries and the export and its importance increased even more during the 20th century. In the 1980s there was an increased demand from the Swedish multinational companies for more strict practice of international accounting rules.[75]

3.3.2 Sweden's tradition of accounting

Swedish accounting has traditionally adhered to the Continental accounting tradition. Accounting has been regulated by law and has mostly focused on the creditors' interest as

[70] Nobes, Parker, 2006 pp 246
[71] Nobes, Parker, 2006, chapter 11
[72] Japan GAAP will be further discussed in the empirical chapter
[73] Dixon, Monk, 2009
[74] Nobes, Parker, 2006, pp 258-259
[75] Flower, 1994, chapter six

well as the governmental tax interest.[76] In the pre –World War II period, Sweden's accounting and legal systems were primarily influenced by Germany.[77]

The Swedish accounting system started to change during the 1960s when new foreign influences came from the United Kingdom and the United States. The Anglo-Saxon tradition was very different from that of Sweden and it caused difficulties as the Swedish companies were more and more dependent on external financing. In the late 1960s and early 1970s, a new legal framework for accounting was developed. This legal framework consisted of two separate laws, The Companies Act and The Accounting Act. The Accounting Act is to be followed by all enterprises, and The Companies Act applies to all corporations although certain parts are only practiced by large corporations. These two laws are the key parts of Swedish accounting legislation and provide a fundamental framework from which the Swedish standard-setting bodies develop specific rules. A different intention behind the new Accounting Act during the 1970s was to reach a definition of the concept of Good Accounting Practice which is very central in Swedish accounting.[78] Furthermore, in 1981 the Act on the Annual Accounts in Certain Forms of Business Enterprises was passed.[79]

As commented on previously there was an increased demand for the use of more international accounting rules during the 1980s. Swedish multinational companies wished to avoid the increased and unnecessary costs of setting up multiple accounting reports in order to adjust to different national stock exchange requirements. At this time the primary international source of accounting standards for Swedish companies were the rules of the United States. When the American accounting rules concerning goodwill and those of the Swedish standard setter FAR did not congruence, an intense discussion started. The recommendations from FAR did not favour Swedish companies and more favourable methods were used instead of the Swedish recommendations. Overall the Swedish companies preferred to use international rules and FAR experienced a state of accounting lawlessness. This led to the establishment of RR, Redovisningsrådet which became a link between FAR and the European standard setter IASC.[80] To facilitate for the reader the author wishes to point out that in 2006 FAR changed its name to FAR SRS[81] and Redovisningsrådet was in 2007 reorganized into Rådet för Finansiell Rapportering, RFR.[82]

3.3.3 The Swedish regulatory framework

The domestic rule-making bodies in Sweden consist of *FAR SRS* (Föreningen Auktoriserade Revisorer Svenska Revisionssamfundet,[83] The Swedish Institute of Authorized Public Accountants) *BFN* (Bokföringsnämnden, The Accounting Standards Council)[84] and *RFR* (Rådet för Finansiell Rapportering, The Swedish Financial Reporting Board).[85]

[76] Smith, 2006, chapter 5
[77] Flower, 1994, chapter six

[78] Flower, 1994, chapter six
[79] Radebaugh, Gray, 1997, pp 96-99
[80] Flower, 1994, chapter six
[81] http://www.farsrs.se/portal/page?_pageid=33,38321&_dad=portal&_schema=PORTAL, 16/5 2009
[82] Statens Offentliga Utredningar SOU 2008:80
[83] http://www.farsrs.se/portal/page?_pageid=33,38321&_dad=portal&_schema=PORTAL, 16/5 2009
[84] Flower, 1994, chapter six
[85] http://www.radetforfinansiellrapportering.se/, 16/5 2009

FAR, the precursor of FAR SRS, was established in 1923 by the Swedish CPAs.[86] At present FAR SRS consists of approximately 5400 members.[87] Since the 1960s, FAR SRS has taken a major part and been especially active in Swedish accounting standard-setting. Practically all CPAs in Sweden are members of FAR SRS and therefore FAR SRS is an influential body when declaring what is and what is not Good Accounting Practice. The membership of the CPAs brings about both expertise in accounting issues and influence over the quality of financial reports. FAR SRS's main functions are to interpret laws related to accounting and to standardize Good Accounting Practice in areas not covered elsewhere. FAR SRS usually handles matters of principle, not detail. Although FAR SRS's authority as an accounting standard-setter is relatively unchallenged the organization's recommendations have no formal legal status. However, the body exerts influence as its recommendations are often accepted in court cases. Moreover, FAR SRS exerts an indirect influence on the Swedish laws of accounting as it defines Good Accounting Practice, which is an important term in the Companies and Accounting Acts. FAR SRS's recommendations are to be followed by all public and private Swedish companies. In 1989 FAR SRS transferred most of its accounting regulation activity to the organization RFR. As a result, much of the authority and status of FAR SRS concerning new recommendations has been transferred to RFR.[88]

BFN was established in 1976 when the new Accounting Act was passed. The body is a government organization that interprets and develops accounting laws with the goal of making the laws more useful in practice. Moreover, BFN develops Good Accounting Practice, produces recommendations, identifies possible accounting issues, follows the development of accounting practices and gives advice to companies about how to implement the requirements of the legal aspects of accounting. The government selects the members of the BFN and all parts of society that are affected by accounting shall be represented. As a result, representatives of tax authorities, business sector, CPAs, trade unions, stock exchange and academics are involved in BFN. FAR SRS is also a member of BFN. The combination of being both a political and an accounting expert body has been difficult to handle for BFN. Moreover, none of the members have worked full-time for BFN, a situation which has resulted in members doing much of the work for BFN in their free time. As a consequence, those members who wanted to influence and affect the procedure had an opportunity to do so, since other members were not likely to oppose. [89]

BFN's influence on accounting has been limited compared to that of FAR SRS. The focus has been rather technical and the recommendations have mainly concerned bookkeeping aspect of accounting. This has to some extent proceeded because of an unofficial agreement between the two organizations about focusing on different tasks. FAR SRS and BFN have historically been co-operating and divided their functions with the purpose of avoiding any over-lapping activities. BFN publishes both statements and recommendations. The organization provides answers to questions relating to accounting issues and also responds to consultations from the government agencies and the courts at different levels. The recommendations are not legally binding but may facilitate the practical application of accounting laws. However, as in the situation with FAR SRS, BFN takes part in the development and interpretation of the Good Accounting Principle and is therefore indirectly influential through the legal aspects of accounting.[90]

[86] Flower, 1994, chapter six
[87] http://www.farsrs.se/portal/page?_pageid=33,38258&_dad=portal&_schema=PORTAL, 25/5 2009
[88] Flower, 1994, chapter six
[89] Ibid
[90] Ibid

RR, the precursor of RFR, was established in 1989 by the government, the business sector and FAR SRS with the aim of gathering all standard-setting functions for public companies in one body. The organization was founded in order to keep control of Swedish accounting practice, a task that the three founding members felt that they were losing. RFR consists of a board and a committee. The members of the board are selected by the three founding organizations: the business sector, the government and FAR SRS. The board then appoints nine members to the committee. The board can decide whether new recommendations are necessary, but it is the committee that performs the actual rule-issuing function. The rules and recommendations issued by RFR are to be followed by all public companies[91]. The recommendations consist of Good Accounting Practice and are, as those concerning FAR SRS and BFN, indirectly enforceable through the Accounting laws.[92]

3.3.4 The link between accounting and taxation

In Sweden there is both a strong material as well as formal link between financial reporting and taxation. The material link means that the taxable profit is based on the financial accounting profit. The formal link indicates that book expenses are required for tax deductions to be legitimate. One can conclude that accounting influences taxation and taxation affects accounting. The aim of the close links is to avoid having to set up two financial reports, which usually is expensive for companies. Moreover, the close links are also a result of the state not wishing to develop two separate regulations. Since Sweden is a relatively small country with a limited number of companies, developing one financial and one tax accounting regulation would be rather expensive given the small number of actors.[93]

3.3.5 Sweden and IFRS

As mentioned previously, Sweden has a small but internationally-oriented economy where the domestic transnational companies have considerable incentives to practice international accounting standards. The first reason is that using well-known accounting principles facilitates obtaining capital from the global investment sphere. Moreover, the internal consolidation becomes more efficient and economical if subsidiaries practice similar accounting standards.[94]

In the 1970s and 80s Sweden started to shift from the German Continental accounting tradition to the Anglo-Saxon model. During the 1980s FASB and American accounting principles became relevant to the Swedish debate. At this time, the rules of FASB were much more detailed and definitive than those of IASC, which made the framework easier to adapt. However, in the end on the 1980s, the authority of IASC increased due to a policy of reduction of accounting alternatives. Moreover, the dialogue between IASC and the European Community concerning the European harmonization project increased the interest for IASC's principles in Sweden. When RR was established in 1989 the organization's policy was to primarily turn to IASC's standards before practicing other international practices. Sweden has consciously practiced IASC's standards in order to harmonize Swedish accounting with that of IASC and indirectly with the rest of Europe.[95]

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[91] A public company is defined as a company where the shares are traded
[92] Flower, 1994, chapter six pp 195-196
[93] Flower, 1994, chapter six pp 200-201
[94] Flower, 1994, chapter six pp 203
[95] Flower, 1994, chapter six pp 205

As discussed previously, RR/RFR has primarily turned to IASC/IASB's standards before practicing other international standards. Therefore, as can be seen in Appendix 6 the Swedish legislation RR 11 just differs at four points compared to IAS 18.[96] Concerning provisions, the Swedish RR 16 convergence with IAS 37 with the exception for the point of time when the standard came into law.[97]

3.4 Summary of the Frame of reference

To conclude, both Japan and Sweden have traditionally belonged to the Continental accounting tradition and the countries have rather similar business structures and traditions. Large companies supported by government have dominated business and financial reporting has therefore been rather limited. This business structure is different from that of the Anglo-Saxon tradition where a large number of smaller shareholders have provided companies with finance, which has led to more transparent financial reporting. The Japanese accounting tradition is strongly dominated by statutory control, conservatism, uniformity and secrecy. The Swedish and especially the Anglo-Saxon accounting traditions are more influenced by the profession. Moreover is the Swedish and Anglo-Saxon accounting tradition dominated by optimism, flexibility and transparency.

During the last few decades, both Japan and Sweden have started to move more towards the Anglo-Saxon accounting tradition. Japan has been influenced by US GAAP and Sweden by IFRS. However, the governments in both countries are still taking a major part in the accounting standard setting and the link between financial reporting and taxation influences the accounting at a large extent. Concerning the adaptation of IFRS, Sweden has implemented the standards of IFRS on a large scale. Japan is, most likely, still more influenced by the standards of US GAAP.

[96] FAR SRS, 2008, RR 11 p 39
[97] FAR SRS, 2008, RR 16 p 96

4. Empirical data

This empirical chapter is divided into three parts starting with Japanese business' view on Japanese accounting. The respondents' views on IFRS, differences between traditional Japanese legislation and IFRS and the views on the specific items revenues and provisions will be discussed. The second part focuses on a Japanese CPA's view on Japanese accounting. The evolvement of Japanese accounting and its correspondence with IFRS will be discussed. Moreover, accounting principles, revenue recognition and provisions will be looked into. Finally in the third part, the Swedish view on Japanese accounting will be surveyed. Here differences between Japanese and Swedish accounting will be outlined and in addition to this revenues and provisions are discussed. In the beginning of each part the background of the respondents will be presented.

4.1 Japanese business' views on Japanese accounting

4.1.1 Backgrounds of respondents

Three respondents were interviewed for this section. They will, because of their positions in respectively company, be called CFO A, Finance & Business Support Manager A and Accounting manager A.

CFO A: works in an international industry company.

Finance & Business Support Manager A: works for an international service-oriented company.

Accounting manager A: works for an international garment company.

All the respondents' companies have their head offices in Europe and they practice IFRS as their major accounting source. The respondents are all Japanese and have experience of working both in traditional Japanese and international companies.

4.1.2 Japanese business' views on IFRS

CFO A mentions that from his point of view, there has been an ongoing discussion in Japan in the recent 15 to 20 years concerning Japanese adjustments to international accounting standards. However, CFO A believes that in the last five to ten years major adjustments have actually been carried out in order to adapt to international standards.

Finance & Business Support Manager A has also followed the Japanese discussion concerning international accounting standards. He mentions that there is an ongoing discussion about obliging listed Japanese companies to practice IFRS by the year 2015. He continues by saying that at present only a limited number of Japanese companies are allowed to practice IFRS. Finance & Business Support Manager A tells that previously US GAAP was the most dominant international accounting framework in Japan. However, since there has been an increased practice of IFRS in Europe, the interest for IFRS in Japan has grown as well. Finance & Business Support Manager A describes the current situation in Japan as IFRS coming up side by side with US GAAP. His hope is that US GAAP and IFRS will be merged and become one unified accounting framework. He also mentions that his company group has a global section which focuses on the company group's interpretation of IFRS. The global section sets financial policies and standards for when to recognize revenues, accrue provisions etc. within the company group. The motive is to attain the same interpretation in all countries.

Finance & Business Support Manager A mentions that there is a risk that IFRS will be more difficult for Japanese companies to practice than the legislation of US GAAP. The reason for this would be that US GAAP is more detailed than the principle-based IFRS. He believes that the principles of the latter system may cause confusion and create extra work for Japanese companies. Finance & Business Support Manager A believes that if implementing IFRS Japanese companies will, most likely, need external help and consultation from the large accountancy/audit firms to a further extent. He fears that the companies will have difficulties making the judgments themselves and mentions that Japanese companies are very anxious to avoid any kind of accounting problems. However, Finance & Business Support Manager A believes that since all companies will receive consultation from the audit firms, the accounting will probably become rather similar. That is, providing that the audit companies will be able to give the “correct” answers and solutions. He seems doubtful about whether the audit firms will always be able to give the ultimate judgments and solutions. Finance & Business Support Manager A concludes by saying that he believes that Japanese companies do not yet have a clear view of what IFRS actually will bring about and lead to.

In line with the previous respondent Accounting Manager A also emphasizes that until a couple years ago US GAAP was the most influential international framework in Japan. However, since the slowdown of American economy, there has been an increased interest in the European IFRS. Accounting Manager A previously worked for a company in Japan whose parent company was American. They prepared monthly reports based on US GAAP and once a year a converted report based on the Japanese Tax Law was handed in to the Japanese tax office. Since Accounting Manager A’s present company is not listed on the Japanese market, the company can choose between practicing the Japanese Company Law[98] or IFRS. As mentioned previously, Accounting Manager A’s company has chosen to practice IFRS. However, in order to get tax returns, they also prepare an adjusted report in accordance with the Japanese Tax Law. Accounting manager A believes that in general IFRS and increased international accounting regulations are favorable. However, he would also be pleased to see IFRS and US GAAP converging into one superior international accounting framework.

4.1.3 Difference between Japanese accounting and IFRS

CFO A mentions that, from his point of view, depreciation of fixed assets differs between the traditional Japanese accounting and that of IFRS. Moreover, he states that leased assets have traditionally never been included in Japanese financial reports. Furthermore, CFO A tells that in Japan, the customer has traditionally paid for transportation of the product, that is to say freight costs. This has led to an increased sales amount in financial reports as a result of added income from freight. However, the item that CFO A believes differs most is the treatment of paid vacation. He mentions that according to IFRS costs for paid vacation shall be recognized as accrued expenses. In Japan, in contrast, including accrued costs for paid vacation is not obligatory.

Finance & Business Support Manager A believes depreciations, retirement pensions and paid vacations are treated differently in the financial reports of Japanese and international companies. Concerning depreciations, Finance & Business Support Manager A mentions that

[98] The author has, after consulting two Swedish accounting specialists made the assumption that the Japanese Company Law is similar to the Commercial Code mentioned in the Frame of reference.

Japanese Tax Law has very detailed depreciation settings for fixed assets and for how many years a fixed asset can be depreciated. Companies cannot receive deductions for more than the prescribed period set by the tax office. A shorter period can still be chosen, but the easiest way is to just follow the Tax Law in order to obtain deductions. This practice will be further discussed in section 4.2.6. However, Finance & Business Support Manager A mentions that the rigid system leads to a situation where Japanese companies choose the accounting practice which is most favorable from a fiscal point of view. In Finance & Business Support Manager A's company, however, the Japanese Tax Law is not taken into consideration and depreciations are based on the expected usage period. Also CFO A agrees that the Japanese Tax Law influences accounting practices to a great extent since the companies wish to receive maximum tax deductions.

According to Accounting Manager A paid vacation is the item where the Japanese accounting and that of IFRS differs the most. The concept of paid vacation has traditionally not existed in Japan although it is implemented nowadays. As a result, Japanese companies are not obliged to accrue provisions for paid vacation. Since Accounting Manager A's company practices IFRS they are obliged to accrue provisions for paid vacation. However, according to Japanese Tax Law only provisions for bonuses and retirements are deductable. This means that Accounting Manager A's company does not get tax deductions for provisions concerning paid vacation, although the company is obliged by IFRS to accrue the expenses for paid vacation. Accounting Manager A mentions that the same situation occurs with provisions for overtime and salaries. His company is obliged by IFRS to accrue these provisions but cannot receive deductions from the Japanese tax office. He mentions that Japanese accounting has traditionally followed the Tax Law. However, IFRS does not regard domestic tax laws and as a result these legislation issues occur. Despite his considerations Accounting Manager A does not believe that the Japanese Tax Law should be changed to comply with IFRS.

4.1.4 Revenues

CFO A states that his company recognizes revenues when a product has been delivered and inspected by the client. In his branch inspection of goods is important and sometimes technically used by the customer. CFO A mentions that before an inspection the seller cannot recognize revenues and sometimes this creates problems for his company.

Finance & Business Support Manager A, whose company is involved in services, mentions that revenues are recognized according to IFRS and the standard IAS 18. He explains that the major criteria are that benefits and risks shall have been transferred from the seller to the customer. In his company this usually occurs when a service is completed and an invoice has been issued. Finance & Business Support Manager A has not experienced any uncertainties regarding the transactions concerning revenue recognition. He mentions that the traditional Japanese point in time for revenue recognition has been by the delivery. However, he believes that revenue recognition is more strictly defined in IFRS than in the Japanese accounting legislation.

Accounting Manager A states that his company recognizes revenues when a garment has been sold. He believes that the Japanese accounting legislation and that of IFRS have the same criteria. He has not experienced any difficulties or accounting questions concerning the item revenues and mentions that revenue recognition in the garment business is rather simple. However, Accounting Manager A relates to the previous company where he used to work which was involved in software. There revenue recognition was much more unclear and difficult. Therefore he concludes that the difficulty of recognizing revenues is depending on the business.

4.1.5 Provisions

CFO A mentions that Japan has no tradition of accruing provisions and he confirms that from his point of view, a provision can be made without a legal or constructive obligation.

Finance & Business Support Manager A mentions three types of provisions that are common in his company. The first one is provisions for pensions which are valuated by an external global company. The second one is provisions for inventory. The third one is provisions for bad debts, where a provision is accrued if an invoice has not been paid after 90 days.

Finance & Business Support Manager A believes that provisions have not been accrued enough traditionally in Japan and he believes that in many Japanese companies there is a huge gap between the real upcoming expenses and the amount of accrued provisions. He mentions that Japanese companies are starting to catch up with future costs but it takes time. Especially concerning provisions for retirements, the accrued provision is usually much lower than the future retirement expense. He mentions that the reason for this is the Japanese Tax Law and the difficulty to get deductions for provisions. Finance & Business Support Manager A also believes that provisions for bad debts have traditionally not been accrued to any large extent in Japan. As was mentioned previously, his company accrues a provision 90 days after the invoice has been sent. However, in Japan most companies eventually pay, although it sometimes may take considerable time. Finance & Business Support Manager A believes that this is the reason why provisions for bad debts have not been accrued much. He draws a parallel to China and states that in contrast to China there is in Japan only a small percentage of companies that do not pay their invoices at all.

In general Finance & Business Support Manager A believes that concerning provisions IFRS is more flexible that the Japanese accounting regulation. In Japan provisions are usually based on common practice. However, he ascertains that Japanese audit companies require adequate reasons for their clients accruing provisions. When it comes to discounting provisions, Finance & Business Support Manager A confirms that provisions, for example pensions, has not traditionally been discounted in Japan. However, he mentions that the larger Japanese companies have started to discount provisions for pensions. Though, changing the system costs extra money and usually only the larger companies can afford this. Therefore, provisions for pensions are still usually not discounted in smaller Japanese companies.

Accounting Manager A states that in his company provisions are accrued for returns of garment, garment shrinkage, building construction fees and pensions. The provisions for returns are accrued yearly and based on the percentage of returns. Approximately 1% of the garment usually becomes shrinkage. Concerning the construction fees, costs arise since the company is expanding in Japan. Provisions are therefore accrued for costs that are related to expansion. Concerning provisions for pensions, they are discounted in accordance with IFRS.

4.2 A Japanese CPA's view on Japanese accounting

4.2.1 The CPA's background

Certified Public Accountant, CPA A: has worked for one of the big four audit firms for more than 30 years, both in the United States and in Japan. He works within the field of industry assurance and has good knowledge of both international as well as Japanese accounting legislations.

4.2.2 How Japanese accounting evolved

CPA A states that, especially in theory, the accounting standards of Japan are very similar to those of the United States and Europe. He believes that, from an accounting legislation point of view, there is nothing that characterizes Japanese accounting in particular. He explains that with the Meiji restoration in 1868, Japanese accounting was modernized and harmonized with the accounting systems of the United States and Europe. Furthermore, after the end of World War II, Japan implemented the American accounting and tax systems which are still practiced. Japan has, over the last ten to fifteen years, continued to harmonize its accounting practices with the trends in the United States and also in the IAS area. Moreover, accounting practices that did not exist previously, such as practices concerning pensions, leasing and certain taxes have been implemented.

Concerning the level of interest and involvement of Japanese business in international accounting standards, CPA A believes that it depends on the company's size. The large Japanese multinational companies are very familiar with international accounting standards. CPA A estimates that their interest in an increased accounting harmonization is equal to that of a European or American company of the same size. He continues to state that Japanese public companies with subsidiaries overseas are now subject to IFRS for their local offices in Europe. Therefore they have an interest in looking into the IFRS legislation. However, for the Japanese domestic local store the primary legislation is still the Tax Law, and for that reason their interest in IFRS is limited. CPA A points out that from his perspective, Japanese companies are not interested in an entire adaptation of IFRS. They are more interested in bringing the Japanese accounting legislation closer to IFRS, instead of total implementation of IFRS.

CPA A mentions that currently there is an ongoing discussion in Japan which companies will be obliged to practice IFRS, which companies will be allowed to, and which companies that will not be allowed. Moreover, CPA A states that the Japanese domestic accounting legislation needs to be discussed, in particular how it will be affected by an increased practice of IFRS.

4.2.3 The Japanese accounting legislation and IFRS

Concerning the Japanese accounting legislation, CPA A gives a brief presentation of the laws that Japanese companies need to follow and his personal view on them. First there is the Tax Law which regulates how much tax a company has to pay to the government. For a family-owned business, the Tax Law is the most important legislation that concerns accounting. Second is the Company Law[99], which primarily focuses on the creditors. The law stipulates how companies should report business results to their interest parties. The third legislation is the Securities and Exchange Law which stipulates how companies shall report their operations and results to the investors. The forth legislation is the Financial Securities Law. CPA A states that depending on which level a company works the laws have different importance. For a family-owned business the Tax Law is the most important legislation. However, for a larger company with back borrowings, the Company Law is the most important. Finally, for a publicly traded company, the Securities and Exchange Law is important since the company is dependent on the investors' opinions. The fifth accounting

[99] See footnote 98 for explanation

standard in Japan is Japan GAAP which has a similar structure as US GAAP. Japan GAAP is to be followed by all Japanese companies that are required to have a CPA. Japan GAAP is not a legislated law but it is stipulated under the guidance of the Financial Service Agency, FSA.

CPA A establishes that IFRS is more principle-based compared to US GAAP. He believes that these principle-based standards are welcomed but he adds that one cannot possibly believe that Portuguese, Swedish and Japanese companies will interpret the standards similarly. However, he believes that regarding the same economic activity, similar economic benefits and obligations will be treated similarly. He mentions that, as long as the countries are able to practice the standards on an overall basis, and not too much in detail, IFRS may most likely lead to increased harmonization. CPA A mentions that in the last 20 years, lead by the United States and followed by many European countries, the accounting rules have been very prescriptive containing “cookbook-style detailed guidance”. He believes that IFRS is trying to make a shift back to more principle-based accounting.

4.2.4 Revenues

CPA A states that in general the Japanese revenue recognition criteria are very similar to those of IFRS. In Japanese accounting the criteria for revenue recognition are also based on the assumption that significant risks and rewards of the ownership are to be transferred from the seller to the buyer. However, CPA A believes that in practice different practices have evolved from these criteria. In Japan, the shipment time, that is to say when a product has been delivered, makes up the time for revenue recognition. At this point, the seller is considered to have done everything in its power to fulfill the sale. CPA A mentions that for the majority of goods and tangible assets, the shipment-based time for revenue recognition is common practice. For companies selling vehicles, the customer’s registration of the vehicle with the government is the objective timing for recognizing revenues.

In contrast to what has been mentioned by previous respondents, CPA A states that in practice and from an accounting point of view, an inspection by the customer is not necessary for revenue recognition. An inspection could be practically difficult to carry out as the seller usually neither requires nor obtains an acceptance from the customer. Moreover, there are often several carriers involved in the transport of goods from the seller to the consumer. When this is the situation, the seller usually just receives an acceptance from the closest carrier in the chain. However, according to Japanese Civil Law, the customer is not obliged to pay until the product or service has been inspected and accepted. According to the civil legislation, the ownership is transferred by the time of inspection and acceptance. CPA A concludes by saying that the legislation is rather unclear and difficult to practice in reality. Therefore he believes that other practices would be favorable. However, he adds that revenue recognition is most likely an issue for companies in other countries as well and nothing specific for Japan.

4.2.5 Accounting principles

Concerning the matching principle, CPA A defines it as matching revenues and costs. He states that the matching principle is a well-known and commonly practiced principle in Japanese business. CPA A mentions that the matching principle has the same definition in Japanese legislation as in IFRS. Moreover, he mentions that just as in IFRS the principle is adapted differently depending on the type of product or project. If for example a company has produced a desk, the cost will be accumulated throughout the cost-accounting method, which CPA A states is similar in the Western world and Japan. The cost will be inventoried and periodically considered. When the desk is sold the cost will be deferred to the revenues. When it comes to services, revenues are recognized on a percentage of completion.

Concerning the realization principle, CPA A explains that it has traditionally been practiced in Japan. Moreover, the accounting principle is very similar to that of America and Western Europe. However, the interpretation has been different since Japanese accounting to a large extent has been influenced by the Japanese Tax Law. If the similar amount is recorded both in the tax statements and the statutory book of account, deductions will be permitted. This Book-Tax conformity (the link between accounting and taxation) is overall in Japanese accounting in contrast to American legislation where only parts of the accounting have to congruence with tax statements. CPA A concludes that this Book-Tax conformity has lead to companies making business decisions based on the Tax Law. For example a desk shall according to the Tax Law be depreciated over five years. Deductions will therefore be given based on the five-year assumption. However, a company may consider the economic usage period to be three years. Then the company's yearly depreciations will be higher than the limit for tax deductions related to depreciations. Since the company's depreciations exceed the Tax Law limit, the company can still only get deductions for depreciations based on the five year calculation.

As mentioned previously, smaller domestic Japanese companies consider the Tax Law as the primary accounting law. A potential implementation of IFRS may affect tax benefits and therefore also Japanese attitudes towards IFRS. CPA A concludes that the Book-Tax conformity is a strong bias element of Japanese accounting and he mentions that Japan is trying to move away from it.

4.2.6 Provisions

Concerning provisions CPA A states that the Japanese accounting legislation has always had the concept of provisions. However, CPA A mentions that the lack of provisions is a result of the Japanese Tax Law. Provisions are usually not deductable and have therefore not been accrued to a large extent. Moreover CPA A states that there are three different levels of receiving deductions in Japan. If a company has cash expenditures, it is likely that it can receive a deduction. An invoice and a confirmed obligation is the second strongest possibility to get a deduction. If a company believes that it owes something to someone, or believes that they will not be able to collect something, that is "considered soft" from a tax point of view, and will not be deductable.

In IFRS there is a requirement for an obligation when a provisions in accrued. CPA A states that the rules are similar in the Japanese accounting legislation. He mentions that a provision has to be based on facts and past trends to be justified. However, the implementation of provisions may differ from the literal legislation but CPA A believes that this tendency is common both in Japan and Europe. He believes that the rules concerning provisions are overall rather unclear. Moreover, he mentions that smaller domestically-oriented companies do usually not accrue provisions since it is not one of their key areas of deductibility.

When it comes to discounting provisions, that is to say make adjustments for the time value, CPA A states that this has not been made historically in Japan. In the traditional Japanese business, nominal amounts have always been used and interests have only come into play when a bank account has been involved. However, CPA A is aware of that IFRS has a requirement for discounting provisions and he does not believe that, if IFRS is implemented in Japan to a larger extent, this will be a problem. He holds the opinion that the rules are rather easy to adopt, especially on a day-to-day basis.

CPA A tells that the reason why provisions traditionally have not been discounted is because of the Japanese business culture where discount is usually implied in the price. He believes that when Europeans and Americans discuss discounting and time valuing, they usually allude to sales price being cash on delivery. It means that the seller charges interest if the customer pays later than for example six weeks from delivery. In Japan, cash on delivery is not practiced. The time of payment is usually during two months following the sale and the price will the same regardless of the customer paying earlier. As a result, any discounts in the interests are already implied in the price. The Japanese business tradition is very unambiguous on this point; the price is always the same and does not depend on the time of payment. CPA A has experienced that these two different business traditions (cash on delivery or, as in Japan, a fixed price) have affected the financial reporting considerably. The interest either becomes a separate accounting event or is already included in the price.

Concerning provisions for warranties, CPA A mentions that this is a practice that the Japanese manufacturing companies are aware of and accrue provisions for. The manufacturers usually provide product warranty reserves based on past experiences of claims. CPA A states that the concept of accruing provisions for warranties is similar in Japanese and Swedish manufacturing companies. Concerning Japanese retailers, CPA A mentions that they do not usually accrue provisions for warranties. Instead they pull the damaged product back up the chain to the manufacturers. If a retailer has a service shop that does the repair, it will often be done on behalf of the manufacturer. Therefore, retailers do not usually accrue provisions for warranties.

4.3 Swedish view on Japanese accounting

4.3.1 Background of the respondents

President A: is Swedish and has lived in Japan for several decades. In total he has worked in six different international companies located in the country. At present he is the president of the Japanese branch of an international Swedish industrial company. President A has studies both engineering and business at a Swedish university.

Finance Director A: is also Swedish and has worked in Japan for approximately five years, in two different Swedish-owned international companies. At present he works for a, from the beginning Japanese, medical device company which used to be Japanese-owned but was recently purchased by a Swedish parent company. Finance Director has a bachelor's degree in business administration from a Swedish university.

4.3.2 Differences between the Japanese and Swedish accounting

President A explains that there are certain areas in which the Japanese and Swedish views on accounting differ. For example depreciation of inventory is an area in which Swedish companies usually are more detailed. He mentions that depreciations on inventory stocks have traditionally not been made in Japan to a great extent. He was surprised to notice that broken returns from customers often were recognized at the selling price value. President A states that this practice has diminished over the years but the tendency still exists. From his point of view, Sweden has a stronger tradition of accruing inventory stocks.

Furthermore, as has been expressed by respondents previously, President A believes that uncertain Japanese account receivables are usually not accrued. He himself has found this difficult to understand since many companies that he has looked into have not accrued uncertain account receivables until the customer has gone bankrupt. He believes that these unpaid long term receivables in Japanese companies can be dangerous for, for example international investors, if they are unaware of the tendency.

Finance Director A's company practices IFRS for group reporting and Japan GAAP and Tax Law for the Japanese interest parties. When if comes to differences between IFRS and traditional Japanese accounting, he mentions that provisions for pensions are treated differently in Japan and Sweden. Moreover, Finance Director A states that the Japanese accounting practice concerning pensions is not in congruence with IFRS. His company does at present not discount provisions for termination benefits (an amount which employees receive when retiring, quite equivalent to pension). In Sweden provisions for pensions are discounted and Finance Director A has discussed this difference in practice both with the Swedish parent company and CPAs. However, since Finance Director A's company is still rather small (the number of employees is below 100) he believes that the item does not influence the total finances to a large extent. Though, Finance Director A mentions that a test where these provisions are measured will soon take place. The reason why provisions for pensions have not been discounted previously is that the company used to be Japanese-based. However, since the parent company is now Swedish, there is an aspiration to congruence with the rest of the company group. Furthermore, Finance Director A mentions that leasing has traditionally not been recognized in financial statements. That is to say all leasing has been considered operational. However, Finance Director believes that the Japanese legislation concerning leasing has changed now.

The interest parties of Finance Director A's financial statements are the parent company and the Japanese tax authorities. Since the company borrows money from within the company group when needed, it has no external creditors. As the company is still rather small, Finance Director A believes that the internal focus on IFRS will increase with its growth. He believes that before the purchase, his company did not have the same expertise concerning IFRS as in larger international companies. However, since the parent company is now European, Finance Director A believes that both the practice and the knowledge of IFRS within his company will improve.

4.3.3 Revenues

Concerning Japanese revenue recognition President A believes that regulation and practice of Japan is rather sufficient. President A mentions that the traditional Japanese time for revenue recognition is when the product has been delivered and the customer has been invoiced. However, in some businesses a signed contract has sometimes been estimated as proof of revenue recognition. He states that in this perspective revenue recognition according to IFRS is stricter.

Finance Director A's business involves retail trade and to some extent revenues from by employee held seminars. Revenues from products are recognized at the shipment time, which also CPA A mentioned is common in Japan. Finance Director A believes that recognition based on the shipment time is not in exactly accordance with IFRS. However, the products usually reach the customer during the same day (with exception of deliveries to the north Japanese island Hokkaido) and Finance Director A therefore consider the revenue recognition rather trustworthy. Furthermore, he believes that the Swedish parent company also uses the shipment time as the time for revenue recognition.

4.3.4 Provisions

President A agrees with the previous respondents about the view that provisions have not traditionally been used in Japan to a great extent. Compared to the Swedish tradition he believes that Swedish companies have usually done provisions on especially inventory stocks and machines to a larger extent.

Finance Director A mentions that provisions for pensions constitute 80% of total provisions in his company. Provisions are also made for inventory, bad debts and warranty commitments. Provisions for pensions are estimated and accrued yearly. Furthermore, provisions for inventory are estimated on a monthly basis where recent defectives are considered. Finally, provisions for credit risk or bad debts are based on a percentage on the outgoing invoices.

Finance Director A mentions that he personally has had doubts concerning the proper way to accrue provisions for volume discounts which are often given to clients. The discount is based on product volumes which have already been sold and after reaching a certain volume level, clients are given discounts. Finance Director A has wondered how large the provisions shall be and how often the provision should be accrued etc. At present he accrues provisions concerning volume discounts on a monthly basis and also monthly updates the accumulated provision for volume discount. Finance Director A mentions that provisions for volume discounts are something that the company started to accrue quite recently, and a following-up has therefore not been carried out yet.

In general, no provisions in Finance Director A's company are discounted. However, he once more points out that the provision item does not affect the overall financial statements to a great extent and the differences between the non-discounted value and the discounted do most likely not differ considerably.

Overall, Finance Director A believes that the Japanese business is rather careful and when it comes to accruing provisions. He once experienced a situation where a business leader made favorable provisions in order to improve the financial results. However, the Japanese business leaders within the circle in question strongly stood up against this immoral behavior. Finance Director A believes that this situation reflects Japanese business people's conservative and careful business manners.

5. Analysis

In this chapter the empirical information will be looked into and analysed. Harmonization, the views on IFRS and Japanese interpretations of economic events will be discussed. Moreover, a comparison between accounting practices in Japan and Sweden will be made and discussed. Reflections and parallels will be drawn to the Frame of reference with the aim to constitute a foundation for the conclusion part.

5.1 Harmonization and the views on IFRS

When surveying the role of IFRS in Japan and Sweden, respectively, one must have in mind that IFRS has not been implemented to any large extent in Japan yet. Accounting Manager A mentions that companies that are not listed on the Japanese exchange can choose between practicing Company law or IFRS. The author makes the assumption that the choice only concerns international companies that are listed elsewhere, since IFRS at present is only followed by listed companies. For other Japanese companies, the practice of IFRS still seems to be rather limited. However, as several of the respondents have stated, with the increased practice of IFRS in Europe, the interest for IFRS is growing in Japan as a result of extensive trade co-operation.

In Japan at present, IFRS is coming up side by side with the already influential framework of US GAAP. All respondents from the Japanese business agree that the Japanese interest in IFRS has increased during the last five to ten years and is now challenging the practices of US GAAP. From the Japanese perspective, one can, based on the empirical part, conclude that it is irrelevant whether the international accounting standards origin from the United States or Europe. This may differ from the Swedish view. Since Sweden is a part of the European Union the country will most likely prefer a European-based accounting framework since this gives Sweden an opportunity to influence legislation to a further extent through the participation in the European Union. Japan is neither a part of the European Union nor involved in the American standard setting. The Japanese business sector is therefore primarily interested in an internationally practicable accounting framework, no matter where it origins from. Several of the respondents mention that they hope that US GAAP and IFRS will eventually develop into only one framework. The author agrees that one solitary international accounting framework would most likely favor all international companies since it would facilitate financial reporting even more.

The author believes that Finance & Business Support Manager A has a point concerning the shift from the more detailed US GAAP to the principle-based IFRS. As Finance & Business Support Manager A mentions has the Japanese business sector now grown accustomed to the more detailed legislation of the United States. A shift from the detailed US GAAP to the more principle-based IFRS may create difficulties for Japanese companies, since IFRS involves a lot of judgments. However, CPA A mentions that from his point of view the accounting rules have until now been very prescriptive and “cookbook-style” and IFRS may constitute a shift to more principle-based accounting. CPA A mentions that he is skeptical about the ability of all companies in all countries to interpret the standards of IFRS similarly. He mentions that he believes that if all countries are able to practice the standards on an overall basis, and not too detailed, harmonization will be increased. However, this is contrary to what the professors Nobes and Parker argued for when they stated that not only a mutual accounting system but also a mutual appliance of the accounting system is important. It also challenges the accounting theory concerning harmonization on a de jure as well as de facto-level. However, the author believes that CPA A is realistic and agrees with him that it is rather naive to believe that all countries in the world will interpret the same accounting standards similarly. Though, the practice and interpretation can be more or less similar.

One of the problems, seen from the author's point of view, is that companies have many incentives to make favorable decisions related to accounting. There will most likely always be dishonest company leaders and although there are strict accounting legislations, they may get away clean. The author believes that the accounting profession and the audit firms most likely have an important role to play in scrutinizing and approving financial statements on behalf of the interest parties.

5.2 Japanese interpretations of economic events

In the empirical chapter particular economic events that are treated differently in Japan compared to the framework of IFRS and also the Swedish legislation, were mentioned. They will therefore be discussed further in this section. The Japanese interpretation of the economic events leasing, depreciations on inventory stocks, costs for freight, recognition of revenues and provisions will therefore be discussed.

Concerning leasing, the item has traditionally not been recognized in Japanese financial statements. That is to say, all leasing has been considered to be operational instead of financial. It was mentioned both by CPA A and Finance Director A that the Japanese legislation concerning leasing has now changed to congruence more with the international legislation. If the tradition of recognizing operational leasing instead of financial still exist is difficult to know. However, from the author's point of view, there are in general incentives for lease takers to recognize leasing as operational. In operational leasing only a cost for rent has to be booked. With financial leasing, companies have to recognize the asset which may impair financial key ratios such as solidity, returns etc. Moreover, financial leasing is more complicated since depreciations, interest rates and amortizations have to be taken into consideration. To conclude, the author believes that there may still be a tendency in Japan to recognize leasing as operational both because of their tradition and also as operational leasing is financially more favorable. However, to what extent this tendency may exist is difficult to state.

Updated inventory stocks and depreciations on inventory do not seem to have been a part of Japanese business tradition. President A mentions that Japanese inventory stocks are usually rather defective and depreciations are not accrued to any large extent. President A mentions that although Japanese companies have become better at updating inventory stocks, the tendency still exists. The author concludes that hopefully this is a tendency that will decrease as the demand for correct financial statements increases. The practice may be repercussions of the Continental accounting tradition and as the practice of the Anglo-Saxon "true and fair view" increases the tendency may go away. To conclude, the generally conservative Japanese accounting practice may be lacking in this specific area.

Finally, it was mentioned in the empirical part that in Japan the customer usually pays for freight. The amount for freight has therefore been included in the price which has increased the sales amount. The author believes that, although this practice influences the financial reports, it does not influence the total result to any large extent since it is more a matter of booking.

5.2.1 Revenues

Concerning the Japanese accounting legislation CPA A states that the Japanese legislation is similar to that of IFRS and the transfer of risks and rewards from the seller to the buyer is central. Concerning revenue recognition for products and goods, CPA A, Finance Director A, CFO A, Accounting manager A and President A all mention that in practice, revenue recognition is based on the shipment time, or when the product has been passed over. CFO A also mentions that in his company the product shall have been inspected and the customer invoiced. Finance & Business Support Manager A mentions that revenues are usually recognized when the service is completed and the customer has been invoiced. From the author's point of view, shipment time based revenue recognition seems quite trustworthy. With the exception of possibly warranties etc, the shipment time is when risks and rewards related to a product have been passed over. Concerning the time of payment, it does not influence revenue recognition to any large extent. The seller would obviously not make a deal with the buyer it there were uncertainties whether the buyer would be able to pay or not.

In the empirical chapter President A mentions that Japanese revenue recognition is rather sufficient but adds that some businesses base revenue recognition on only a signed contract. The author believes that a signed contract is too vague to base revenue recognition on. However, the author speculates whether this tendency is typical for the Japanese business culture or a consequence of too optimistic company leaders. Overoptimistic company leaders and CEO's and CFO's using accounting in a way that favors them and the company will most likely always exist to some extent. Whether the tendency of overbooking revenues is stronger in Japan than in other countries is difficult to say, but in general Japanese accounting seems rather conservative and the author concludes that this, unfortunately but most likely, is a global problem.

There seem to be uncertainties concerning whether an inspection related to a shipment is required or not. CPA A states that according to Japanese Accounting Law an inspection of the goods is not obliged. However, CPA A also mentions that according to Japanese Civil Law, the customer is not obliged to pay until the product or service has been inspected. CFO A states that his company cannot recognize revenues until the customer has inspected the product or service. As was mentioned by the professors Nobes and Parker Japanese standard-setters sometimes disagree and lack in overall coordination. The author speculates whether this revenue recognition matter may have come up as a result of the shortage of co-operation. CPA A concludes that from his point of view, the rules concerning revenue recognition are rather unclear and he would appreciate other, more clear practices.

Finally, the author wishes to conclude that the difficulty with revenue recognition depends on the type of product or service. As was mentioned by Accounting Manager A, revenue recognition of garment is much easier than revenue recognition of software. Revenue recognition in service-related companies is in general more complicated since is it usually difficult to state what percentage of the service has actually been transferred.

5.2.2 Provisions

The author concludes that all six respondents agree that provisions have not been accrued to any large extent in Japan. This has most likely to do with the Japanese Tax Law being restrictive about accepting deductions for provisions. Finance & Business Support manager A states that he believes there is a huge gap between the real upcoming expenses and the accrued provisions, especially concerning provisions for pensions. In general, provisions for bad debts, paid vacation and pensions seem to be those items which tend to differ most between companies practicing traditional Japanese accounting legislation and those practicing IFRS. Concerning provisions for pensions the accrued provisions is usually lower that the future retirement expense, as a result of the difficulty of receiving deductions.

Concerning provisions for bad debts or adjustments in accounts receivables, Finance & Business Support Manager A mentions that provisions have usually not been accrued since most Japanese companies pay sooner or later in accordance with Japanese business culture. President A agrees and mentions that in Japanese companies, accounts receivables are usually not updated and uncertain accounts receivables are usually not accrued until the customer has gone bankrupt. The author believes that because of the global financial crisis, there is a risk that an additional number of Japanese companies will have difficulties paying their invoices. The Japanese business practice where invoices are usually paid sooner or later does most likely work rather well in a flourishing economy. However, in critical times when many companies go bankrupt, non-updated accounts receivables can become extremely misleading to interest parties and also dangerous for the company itself.

Finance and Business Support Manager A and Accounting Manager A both mention that provisions for paid vacation has traditionally not been accrued in Japan. The reason for this is that the concept of paid vacation has no tradition in the country. The author believes that although companies at present accrue provisions for paid vacation there may still be a tendency, especially as the provisions are not deductable, not to accrue these provisions entirely.

As was referred to in the Frame of reference, the empirical data confirms that in Japan there is no demand for a legal or constructive obligation when a provision is accrued. This may indicate that Japanese accounting is not altogether conservative, since accruing provisions to a large extent may be considered careful and conservative accounting. A large amount of provisions affect the profit negatively. However, since Japanese companies have not accrued provisions to a large extent, this may be one of the accounting areas where conservatism is not dominant.

Finally, there is no tradition in Japan of discounting provisions and this procedure is not obliged by law. It was mentioned in the empirical part that the amount of accrued provisions in Japanese companies is most likely lower that the actual expense. In smaller companies the difference may not affect the total financial result considerably but in larger companies the amount differing could really have an impact. CPA A tells that the concept of “cash on delivery” has not been practiced in Japan and therefore provisions have not been, and are still usually not, discounted. If Japan decides to implement IFRS to a greater extent there will probably be a demand for discounting provisions. The author believes that this is not difficult to adapt, but it takes some time before provisions concerning for example pensions are updated.

5.3 General similarities and differences between Japanese and Swedish accounting traditions

Concerning the Japanese and Swedish accounting traditions, there are both similarities and differences. Both countries have traditionally belonged to the Continental accounting tradition. This would most likely indicate that the values related to accounting would be rather similar. To some extent they are. Both countries have had influential governments which have supported domestic industries. The governmental involvement in both Japan and Sweden has influenced financial reporting.

On the other hand, there are differences between the Japanese and Swedish accounting traditions. According to the Frame of reference, Japanese accounting is dominated by conservatism, and to a large extent based on statuary law. Moreover, Japanese financial reporting is strongly influenced by uniformity and secrecy. Sweden, although not as extreme as the Anglo-Saxon countries, differs concerning all four points. Swedish accounting is more optimistic, more regulated by the profession and more dominated by flexibility and transparency. This indicates that although Japan and Sweden origin from the same accounting tradition, and have much of the Continental tradition in common, there are still several fundamental differences.

Concerning governmental influence, the governments in both Japan and Sweden are still strong and influential standard setters. In both countries the standard setters are different organizations which result in legislations not always being in accordance. The author believes that the concept of different standard setters establishing law without overall co-operating creates confusion. Especially the Tax Law seems to be very influential in both countries and tends to heavily affect financial reporting. This Tax-Book conformity most likely leads to companies making accounting decisions based on the possibility to receive tax deductions, a tendency which was also confirmed in the empirical chapter. The author believes that this tendency is problematic and there is a risk that investors become mislead. From the author's point of view there has been a debate in Sweden over separating accounting and tax statements. However, nothing tangible has been presented yet and it remains to be seen how this discussion develops.

Finally, the author wishes to point out that the Japanese and Swedish shift from the Continental accounting to the Anglo-Saxon one may be rather natural. Although the Japanese conglomerates still exist to some extent and Swedish companies are still influenced by powerful families, the number of small shareholder has increased. The demand for financial information is substantial and, as was mentioned previously, both Sweden and Japan have during the last few decades shifted towards the Anglo-Saxon accounting tradition where the "true and fair" view on financial information is more important that literally following law. From the author's point of view, the Anglo-Saxon more "investor friendly" focus may suit the business climate both in Japan and Sweden better at present.

5.4 Differences and similarities between the interpretation of economic events in Japan and Sweden

Concerning leasing it was previously discussed that Japan has traditionally recognized all leasing as operational. The author also stated that in general it is more favorable for lease takers to recognize leasing as operational. It was concluded that there may be a tendency in Japan to recognize leasing as operational. From the author's point of view the tendency to recognize leasing as operational is quite common in Sweden as well since there are strong incentives for companies to recognize operational leasing instead of financial. Concerning leasing it is therefore most likely that the practice is similar in both countries.

Concerning updated inventory stocks and depreciations on inventory it was previously discussed that it has most likely not been a part of Japanese accounting tradition. From the author's point of view, which was also confirmed by President A, Swedish companies are in general rather careful and precise when it comes to updating inventory stocks. This Japanese tendency may mislead international interest parties. However, President A mentioned that the Japanese practice has diminished over the years and hopefully this tendency will soon cease.

Concerning revenue recognition it has been mentioned that in Japan shipment-based revenue recognition is common for products and goods. In the author's experience, shipment-based revenue recognition is quite common in Sweden as well. Finance Director A confirms this and mentions that his Swedish parent company, from his point of view, also applies revenue recognition based on shipment time. The author concludes that the reliability of revenue recognition is naturally dependent on what the seller and buyer has agreed upon. However, if both sides have agreed about all risks and rewards related to the product or goods being transferred at the shipment time, the author finds the method fairly trustworthy.

As far as the author is concerned, the concept of provisions was not implemented in Sweden until the end of the 1990s. However, debts for pensions and paid vacation have traditionally been recognized, although the transactions have not been carried out in the form of provisions. Concerning provisions for pensions it has, in the author's point of view, been practiced in Sweden. Since Swedish companies can get tax deductions for accruing provisions while the employee is still working, companies have an incentive to accrue provisions. The author wishes to point out that this is a difference compared to the Japanese tax legislation where deductions are received when the pension is actually paid to the employee. Concerning discounting, the author believes that smaller Swedish companies do not usually discount their provisions. However, they are not either obliged by law to follow the legislation of IFRS.

Finance and Business Support Manager A and Accounting Manager A both mention that provisions for paid vacation has traditionally not been accrued in Japan since the concept of paid vacation has not existed previously. The author states that, in Sweden, paid vacation has traditionally been considered a short term debt instead of a provision since the amount is well-known. The cost has been recognized as running over the time that the employee works. Therefore one can conclude that transactions related to pensions have traditionally, and most likely, differed between Japan and Sweden.

Depreciations on accounts receivables have also traditionally been set in Sweden although no provisions for bad debts have been accrued. Swedish companies usually make an internal reservation and if necessary the account receivables are depreciated. Whether companies in Sweden tend to depreciate accounts receivables on a larger scale than companies in Japan is difficult to state. However, since this practice was mentioned by the Swedish respondents, this may be something that Swedish investors as well as the Japanese business sector shall be more careful of.

6. Conclusion

This chapter will focus on concluding and summarizing the previous chapters. Moreover, the research question will be discussed and answered. Finally, further research concerning this subject will be suggested.

6.1 What basic views are reflected in Japanese accounting, from an international perspective?

As was discussed in the Frame of reference, Japanese accounting is to a large extent influenced by conservatism and uniformity. These characteristics are the opposite of the Anglo-Saxon countries and also to some extent Sweden where flexibility and optimism is more dominant. Moreover, in especially the Anglo-Saxon countries but also in Sweden the accounting profession is strong while in Japan, statutory control is dominant. Finally Japanese accounting is dominated by secrecy while the Anglo-Saxon countries and Sweden is more influenced by transparency. To sum this up, the fundamental Japanese accounting characteristics differ considerably from those of especially the Anglo-Saxon countries but also of Sweden. These characteristics most likely influence domestic accounting and financial reporting and indicate that there are underlying differences.

Moreover, several factors influence the accounting such as culture, fundamental legal systems, providers of finance, the shaping of taxation system and the accountancy/audit profession's role in the country. In Japan the conservative and careful culture has most likely influenced accounting to a great extent. It has lead to companies practicing a conservative and uniform accounting which, compared to especially the Anglo-Saxon countries, usually underestimates profit. Company leaders seem less willing to take risks and prefer to carefully follow the statutory law. Moreover, the Japanese business culture where the general view is that companies are trustworthy and usually pay their invoices sooner or later has most likely lead to the lack of depreciations on accounts receivables and provisions for bad debts. From the author's point of view, this business culture could be dangerous both for investors as well as the companies themselves in unstable times and during financial crises when fewer customers are able to pay their invoices and more of them are going bankrupt.

Furthermore, Japan origins from the legalistic Roman law where rules were based on written and obliged law. As a consequence, Japanese accounting is more influenced by governmentally set law and the accounting/audit profession has just a limited influence.

In Japan, the providers of finance have traditionally been the government or the large banks which are involved in the conglomerates. Since there have not traditionally been many smaller shareholders, information in financial reporting has been rather limited. Financial statements have been more of a support for creditors as well as for the government in its role as tax collector. In general the Japanese tax authorities are very influential and most likely greatly affect accounting practices. The author wishes to point out that this Tax-Book conformity is difficult both in Japan and Sweden as it leads to companies making accounting decisions favourable from a fiscal point of view. The practice does not favour investors who prefer a true view of the company in the financial statements.

Finally, Japan has been influenced to a large extent by US GAAP which has lead to more detailed financial reporting than that of IFRS. It will be interesting to see how Japanese accounting will develop in the future. It has been mentioned that the more principle-based

IFRS is coming up side by side with the more detailed framework of US GAAP. It was expressed by the Japanese business representatives that an implementation of IFRS may cause confusion and extra work for Japanese companies. The reason is that the principle-based framework involves a lot of judgements, which Japanese companies are not used to. It was mentioned that Japanese companies will therefore most likely need external help and consultation from the accountancy/audit firms to a further extent.

Concerning accounting practices, the Japanese and Swedish respondents mention that leasing, depreciations, provisions for paid vacation and provisions for pensions are those accounting items that differ between the traditional Japanese accounting and that of IFRS. Moreover, Japanese provisions are, in contrast to the legislation of IFRS, usually not discounted and no legal or constructive obligations are obliged related to provisions. Concerning leasing it has traditionally in Japan been recognized as operational instead of financial. Since there are general incentives for lease takers to recognize leasing as operational, there are reasons to believe that the Japanese tendency of recognizing leasing as operational still exists. Concerning depreciations they are to a great extent influenced by the Japanese Tax Law. As companies wish to receive deductions for their depreciations, they tend to strictly follow the tax regulations concerning economic usage for assets. Although a company estimates that their economic usage period for an asset is three years, it is still more favorable to follow the Tax Law and depreciate it over the period that they suggest in order to receive the highest possible amount for deductions. Finally, provisions in Japan have in general not been accrued to a great extent also as a result of the difficulty of receiving tax deductions. This will be discussed further but to conclude, provisions for paid vacation and retirements have not been accrued much.

One of the Swedish respondents also mention that compared to Sweden, Japanese depreciations on accounts receivables and inventory stocks are not practiced at the same extent as in Sweden. To sum up, there is a risk that Japanese inventory stocks are overvalued. This tendency is in contrast to the usually conservative Japanese accounting and may indicate that conservatism is not wholly practiced in Japanese accounting.

6.1.2 Revenues

Is has been confirmed in the empirical part that revenues in Japan are recognized when risks and rewards related to the product or service in question have been transferred from the seller to the buyer. This practice is in accordance with both IFRS and the Swedish accounting legislation. In Japan, tangible assets and goods are usually recognized by the shipment time. Services are usually recognized when the service is completed or when an agreed percentage of completion can be identified. From the author's point of view the Japanese revenue recognition seems rather similar to that of Sweden and in accordance with IFRS.

6.1.3 Provisions

Since the Japanese Tax Law is restricted concerning accepting deductions for provisions there is in Japan no tradition of accruing provisions. As referred to in the empirical chapter there is most likely a large gap between real upcoming expenses and accrued provisions. Especially provisions for bad debts, pensions and paid vacation are most likely lower than upcoming expenses.

Finally, from the author's point of view it would be favourable for all international companies if US GAAP and IFRS could unite into one global framework. This was also expressed by the Japanese business representatives. It remains to be seen what will happen, but it is obvious that the larger Japanese companies are interested in taking part in the work to increase global accounting harmonization.

6.3 Suggestions for further research

As mentioned previously, all countries have their own domestic views on accounting and therefore a thesis of this subject could most likely be written about every country in the world with a different result. However, the author believes that doing interviews in Sweden concerning this subject would be very interesting. Moreover, a comparison between other countries in other parts of the world would be appealing to look into. During the work with this thesis the author has experienced that there is a great interest in this subject among the Japanese as well as Swedish business circles, in the accounting profession as well as in the academic world. Since IFRS is developing and the international companies are expanding even more, the author estimates that the interest most likely will increase even more.

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Appendix 1:

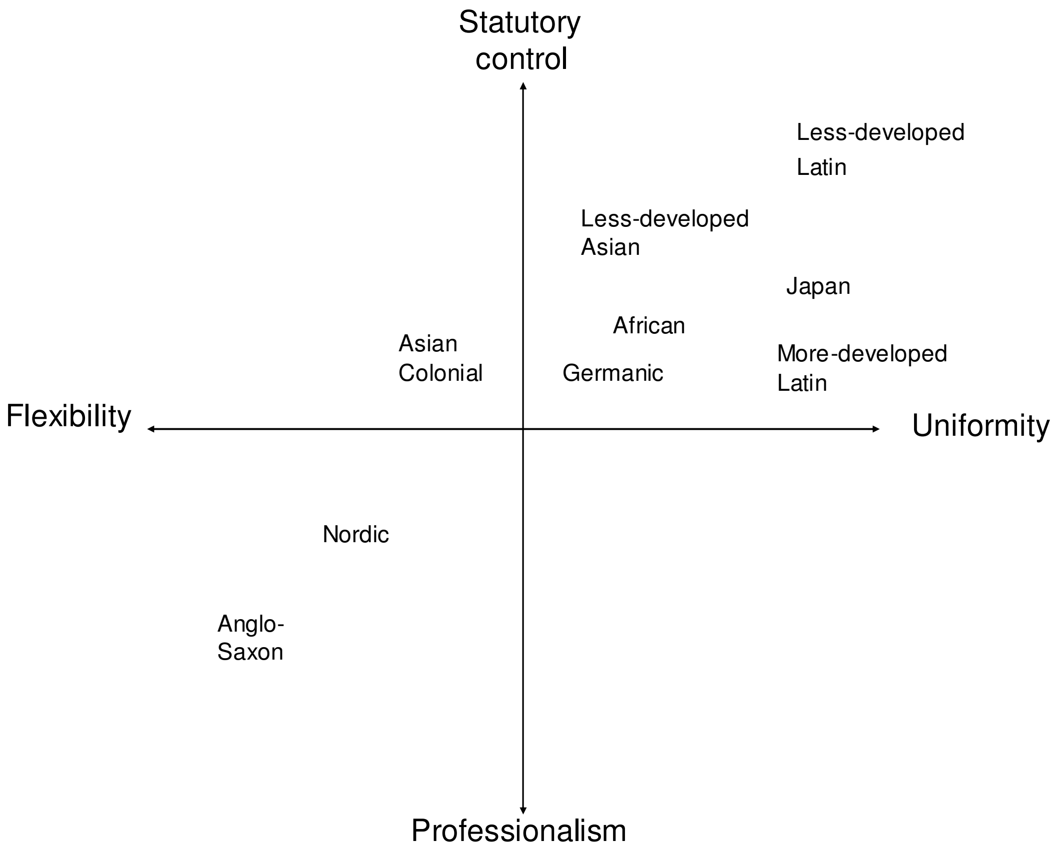

Table 1, Accounting Systems[100]

[100] Radebaugh, Gray, 1997, chapter four

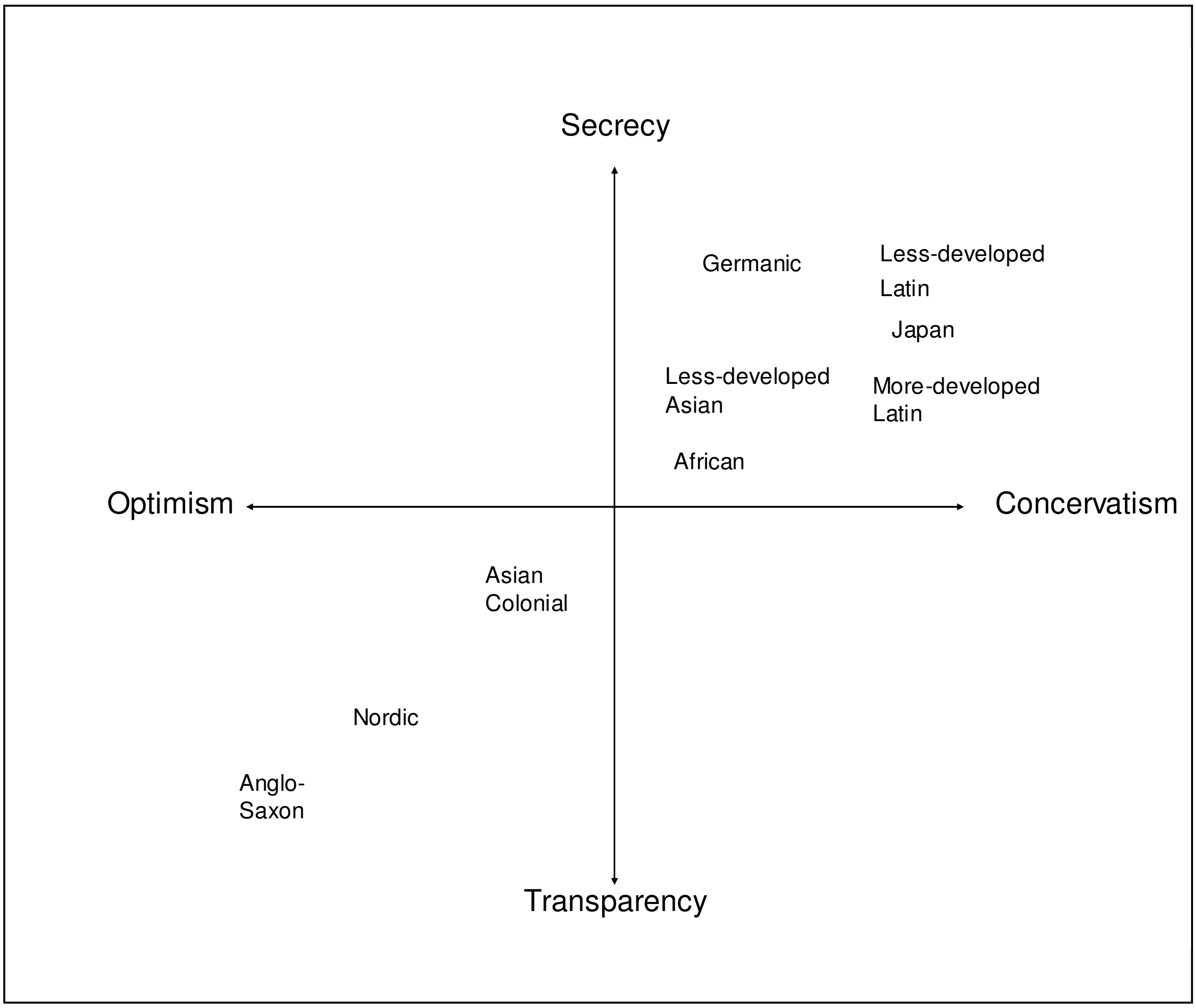

Table 2, Accounting Systems[101]

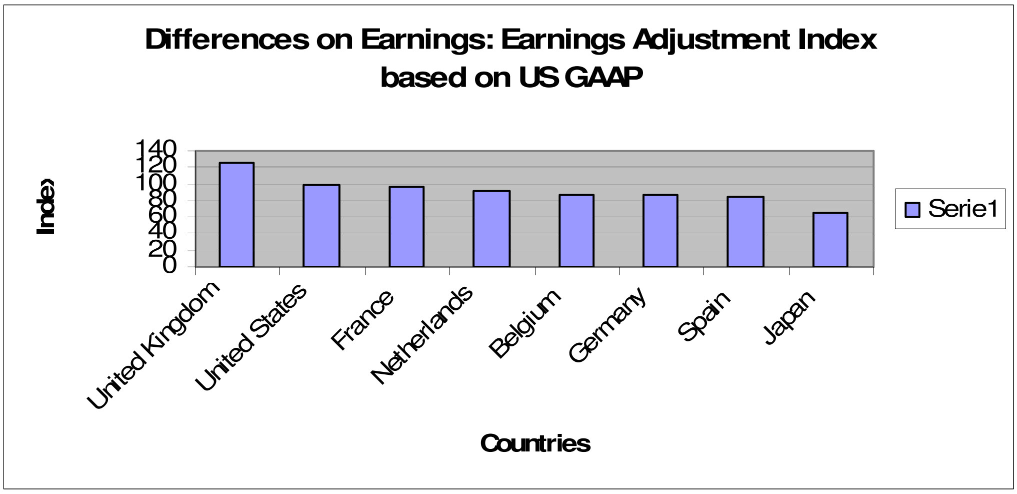

Table 3, the Comparative Impact of International Accounting[102]

[101] Radebaugh, Gray, 1997, chapter four
[102] Radebaugh, Gray, 1997, chapter 14

Appendix 2

Questionnaire to the business in Japan

General questions:

1. Which accounting legislations does your company follow?
2. Does your company have any experience of the international accounting framework IRFS?
3. If the answer is yes to question number two, have you experienced that there are any differences between the traditional Japanese accounting and IFRS?
4. Who are the major interest parties in your company's financial report? The creditors, the investors, others?
5. Does the Japanese connection between accounting and taxation affect your company's accounting?
6. What is your company's opinion concerning the increased international accounting legislation?
7. Which are your major accounting principles?

Questions concerning revenues

8. Where do the majority of your revenues come from?
9. When is an income considered as revenue?
10. Which criteria does your company have for recognition of revenues?
11. What types of transactions does your company have related to revenues?
12. Are there any accounting questions that arise in connection to these transactions?
13. Can you describe how your company discussed and resonated last time a question concerning transactions related to revenues arouse?
14. How did your company think and why did you come up with the solution and conclusion that you did?

Questions concerning provisions

15. What do the majority of your provisions come from?
16. What type of transactions does your company have related to provisions?
17. Is there any accounting questions that arise in connection to transactions related to provisions?
18. Can you describe how your company discussed and reasoned last time a question concerning transactions related to provisions arouse?
19. How did your company think and why did you come up with the solution and conclusion that you did?
20. Does your company discount your provisions?
21. If the answer is yes in question number 11, can you motivate your answer?
22. In Japan a provision can be made without an obligation. How do you believe this affect the financial reporting?
23. According to IFRS a provision cannot be made without an obligation. What is your view on that?

Appendix 3

Questionnaire to the CPA

General questions:

24. Which are the domestic Japanese accounting frameworks and laws?
25. Which are the major differences between the Japanese accounting legislation and IFRS?
26. What characterizes the traditional Japanese accounting and how has it developed?
27. Who are the major interest parties in the Japanese financial reports? The creditors, the investors, others?
28. How does the connection between accounting and taxation affect the Japanese financial reports?
29. What is Japan's general opinion concerning IASB and FASB's harmonization projects?
30. Is there a desire from the international companies in Japan to increase the use of international accounting rules?
31. How active is the Japanese government in the international accounting harmonization projects?
32. How have the Japanese companies responded to the increased implementation of IFRS?

Questions concerning revenues

33. What is the Japanese interpretation of the matching principle? How is this principle practiced in the revenue recognition?
34. What is the Japanese interpretation of the realization principle? How is this principle practiced in the revenue recognition?
35. When it comes to revenues, are there any accounting differences between the Japanese legislation and IFRS?
36. What are the Japanese criteria for practicing revenue recognition? Are they similar to those of IFRS?
37. When would an income resulting from sales of goods be recognized as revenue? Are the criteria similar /different from IFRS?
38. When would an income resulting from services made by the company be recognized as revenue?

Questions concerning provisions

39. What are the Japanese traditional criteria for recognizing a provision? How are they compared to IFRS?
40. How common is it with guarantees, the right to return an item etcetera in Japan? How does this affect the recognition of provisions?
41. Is there a reason why Japanese provisions are not discounted?
42. In Japan a provision can be made without an obligation. How does this affect the financial reporting?
43. According to IFRS a provision can not be made without an obligation. What is the Japanese view on that?

Appendix 4

Revenues according to IFRS

The primary question in accounting for revenues is to determine when the revenue shall be recognized in the profit and loss account. According to IFRS revenues shall be recognized when it is likely that future economic benefits will accrue to the company and these benefits can be measured in a reliable way. IAS 18 identifies the circumstances in which the criteria are fulfilled, and, by that, when revenue shall be recognized. The standard therefore provides the user with practical guidance on the application of these criteria.[103]

IAS 18 is applicable when revenues arise from the following transactions and events:

a) The sale of goods
b) The rendering of services
c) The use by others of entity assets yielding interest, royalties and dividends.[104]

Revenue is defined as the gross inflow of economic benefits during the period arising in the course of the company's ordinary activity. These gross inflows should result in enlargements in equity with the exception of enlargements relating to contributions from shareholders.[105] Revenue should be esteemed at the fair value of the consideration received or receivable. Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between well-informed willing parties in a businesslike transaction.[106] Moreover IAS 18 states that when goods or services are exchanged to other goods and services of a similar nature and value, the exchange is not considered a transaction that generates revenue. On the other hand, exchanges for dissimilar objects are considered to generate revenue.[107]

Revenues arising from the ***sales of goods*** should be recognized when all the following conditions have been complied with:

a. The company has transferred to the buyer all the significant risks and rewards of ownership of the goods
b. The company retains neither continuing managerial involvement to the extent normally associated with ownership nor actual control over the goods sold
c. The amount of revenue can be measured in a reliable way
d. It is likely that the economic benefits associated with the transaction will accrue to the company
e. The costs incurred or to be incurred as a result of the transaction can be measured in a reliable way.[108]

When revenues arising from ***rendering of services*** can be measures reliably, the revenues shall be recognized by reference to the stage of completion of the transaction at the balance sheet day. The outcome of the transaction can be measured reliably when all following criteria are satisfied:

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[103] IAS 18, See Purpose
[104] IAS 18, p 1
[105] IAS 18, p 7
[106] IAS 18, p 7-9
[107] IAS 18, p 12
[108] IAS 18 p 14

a. The amount of revenue can be measured in a reliable way
b. It is likely that the economic benefits associated with the transaction will accrue to the company
c. The state of completion of the transaction at the balance sheet day can be measured in a reliable way
d. The costs that arise from the transaction and the costs to complete the transaction can be measured in a reliable way.[109]

The recognition of revenues is based on the stage of completion of a transaction. The revenues are recognized in the period in which the services are rendered. When the services constitute of an indefinite number of activities during a specific period of time the revenues are, for practical reasons, recognized linearly over the specific period. That is to say if no other method better can reflect the stage of completion. If the outcome of a transaction involving the rendering of services cannot be estimated in a reliable way, the revenue shall be recognized barely to the extent of the expenses recognized that are recoverable.[110]

Concerning interests, royalties and dividends they shall be recognized as revenues when it is probable that the economic benefits of the transaction will accrue to the company. Moreover the revenue must be reliably measurable. However, the interests, royalties and dividends must also satisfy certain criteria specifically:

a. Interests shall be recognized using a effective interest method which is more specified in IAS 39 concerning financial instruments
b. Royalties shall be recognized on a accumulated basis in accordance with the substance of the relevant economic agreement
c. Dividends shall be recognized when the shareholder's right to receive payment is set.[111]

[109] IAS 18 p 20
[110] IAS 18 p 21, 25, 26
[111] IAS 18 p 29, 30

Appendix 5

Provisions according to IFRS

Recognition and disclosures concerning provisions, contingent liabilities and contingent assets are treated in IAS 37. In the standard, provisions are defined as liabilities of uncertain timing or amount. A provision shall be recognized in the balance sheet only when:

a. A company has a present obligation (legal or constructive) as a consequence of a past event
b. It is probable (that is to say more likely than not) that an outflow of resources involving economic benefits will be required to settle the obligation, and
c. It is possible to make a reliable estimation of the amount of the obligation. The standard remarks that it is only in especially rare situations that a reliable estimation will not be achievable. [112]

A legal obligation is defined as an obligation originating from:

a. A contract (through its expressed or tacitly understood terms)
b. Legislation, or
c. Other legal foundation[113]

A constructive obligation is defined as an obligation originating from a company's actions as a result of:

a. An established custom, publicly announced guidelines or if the company by timely pronouncements has shown external parties that the company will take on certain obligations, moreover
b. That the company, through the actions in a, has created well-founded expectations that it will carry out its obligations. [114]

Concerning ***contingent liabilities*** they are defined as:

a. A possible obligation that arises from past events and whose existence is depending on whether some uncertain future events occur or not, or
b. A present obligation that arises from past but is not recognized as a liability or provision because:
    (i) It is not likely that an outflow of resources embodying economic benefits will be necessary to settle the obligations, or
    (ii) The measure of the obligation cannot be estimated with sufficient reliability

A company shall not recognize a contingent liability as a provision in the balance sheet. However, a company shall disclose a contingent liability, unless the possibility of an outflow of resources related to economic benefits is extremely small.[115]

When it comes to ***contingent assets*** IAS 37 define them as:

- Possible assets that originate from past events, and
- Whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company[116]

[112] IAS 37, IN 1, IN 2

[114] IAS 37, p 10
[115] IAS 37, IN 18, IN 19
[116] IAS 37 p 10

A company shall not recognize contingent assets in the balance sheet. Though, contingent assets are disclosed when an inflow of resources is likeable.[117]

[117] IAS 37, p 31-34

Appendix 6

Differences between IAS 18 and the Swedish RR 11

First of all, RR permits a deviation from RR 11/IAS 18 for juridical persons. RR states that for juridical persons, revenues arising from rendering of services can be recognized in accordance with the Swedish municipality Tax Law instead of RR 11/IAS 18. Moreover, RR 11 point 38 states that the practice of RR 11/IAS 18 may denote a shift in accounting principles. If a shift arises, RR 5 shall be practiced. Point number 38 in RR 11 does not have a counterpart in IAS 18. Furthermore, IAS 18 point 36 demands additional disclosures for such potential profits or losses not possible to estimate until the result of future events is known. There is today no counterpart to IAS 18 point 36 in RR 11. Finally, IAS 18 passed into law in 1995 while RR 11 started to come into force in 2001.[118]

[118] FAR SRS, 2008, RR 11 p 36-39