

The Impact of Japanese Social Structure on Accounting and Possible Reflections of Increasing Individualism

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Abstract

Japan, a nation with a long and rich history in Asia, has emerged as the fourth largest economy in the world in the 21st century, largely attributed to its developed sense of cooperation, which stems from historical ties. The commitment of Japanese society to social principles has fostered a collective consciousness of being stakeholders in the social domain. This stakeholder consciousness has evolved alongside the principle of collectivism, where group belonging and harmony are prioritized over individualism. However, as social culture is a dynamic entity, it is plausible that shifts in the prevailing sense of togetherness within Japanese society may influence the field of accounting. It is widely acknowledged that the functioning of accounting is shaped by the identities and cultural characteristics of societies. This study first explores how Japanese society, deeply rooted in historical traditions, influences and shapes the understanding and practices of accounting. Secondly, it examines studies and indicators highlighting the rise of individualism in Japan, with the aim of analyzing how this increasing individualism may be reflected in accounting practices and evaluating the potential impact of changing social structures on the conceptualization and application of accounting.

0. Introduction

Japan, one of the most historically significant and economically influential nations in Asia, experienced a period of rapid economic growth during the latter half of the 20th century. This expansion was largely attributed to the implementation of effective economic policies, which propelled the country to become the fourth-largest economy in the world. Despite the contraction

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of the Japanese economy due to the global pandemic, official data from the World Bank indicates that its gross domestic product (GDP) in 2023 was 4,230.9 billion USD. The Japanese economy, characterized by a strong production-oriented focus, owes much of its success to its cooperative practices and advanced technological expertise.

Japan present opportunities for research across a multitude of disciplines. One such area is undoubtedly the field of accounting, which pertains to all aspects of economic activity. Accounting is not merely a technical or static phenomenon. Notwithstanding the international standards that are currently being established, the evaluation effects may vary depending on the cultural norms and environments of those who apply the criteria (Black & White, 2003:43). It is not possible to consider the functioning of accounting in isolation from the organisations and societies with which it is associated. The lifestyle of a society will inevitably influence its approach to a given phenomenon, understanding or system. The strong ties of Japanese society with the past are believed to influence the understanding and practices of accounting, as it pertains to every aspect of life (Takatera & Yamamoto, 1989:235). Consequently, a comprehensive analysis of Japan's social and cultural identity is essential to accurately understand its accounting system.

The socio-political and cultural framework of East Asia has been significantly shaped by the teachings of Confucius, resulting in a socio-political structure grounded in traditionalism. From an early age, individuals are instilled with the value of respecting their parents, elders, and rulers. The teachings of Confucius placed an emphasis on loyalty to the state, with the individual first demonstrating loyalty to their family and then to their friends within the social sphere. Additionally, respect for ancestors was also a core tenet of Confucianism. This has resulted in the emergence of economic structures centred on the family or close-knit networks, characterised by a focus on secrecy (Bloom & Solotko, 2003:31).

The commitment of Japanese society to social principles has resulted in a consciousness of being a stakeholder in social responsibility in their social and economic lives (Öz & Vural, 2005, p. 106). This stakeholder awareness is closely aligned with the principle of collectivism, where group belonging and harmony take precedence over individualism (Tomer, 1983:57). This situation manifested itself in the decision-making processes of enterprises in the field of accounting, and also helped to protect the interests of shareholders and other stakeholders through democratic developments in the process (Someya, 1989:75). Conversely, businesses have also utilised the consciousness of togetherness to achieve targeted financial values, including

competition, growth, profitability and efficiency (Takatera & Yamamoto, 1989:243).

It is widely acknowledged that a society's culture exerts a profound influence on all aspects of life. However, it should be noted that the structure of society is not static but rather a dynamic phenomenon. Cultural products, practices, and values may evolve over time, adapting to changing circumstances (Varnum & Grossmann, 2017:956).

The accounting standards of each country are based on the accounting practices that are characteristic of that country's own culture. The written rules may diverge due to the environmental or cultural context in which the relationship is established. This is influenced by factors such as business relationships, disparate legal frameworks, economic circumstances and the political climate (Young, 2013:11).

In their study, Hommerich et al. (2021) examined and analysed social change, social status, social consciousness, attitudes and values in Japan between 1989 and 2019. They highlighted that, contrary to common assumptions, social consciousness, attitudes, and values in Japan have undergone significant changes and diversification. This societal shift was termed a "silent transformation."

Since social culture is a living phenomenon, social culture affects the field of accounting as it affects all areas of life, and Japanese society is in a transformation process, if we consider these three contexts together, it is necessary to think about the possible effects of the changing social structure on the understanding of accounting in Japan. The objective of this study is to examine the impact of social structure on accounting practices in Japan and to assess the potential implications of changes in social structure for accounting understanding.

The remainder of this chapter, firstly is dedicated to an examination of the factors that have shaped the development of the Japanese accounting system and understanding. Subsequently, the requisite qualifications for becoming an accounting professional, the responsibilities of the authorised institutions, the fundamental financial statements employed and their components, the factors that shaped the country's tax system and the categories of taxes within the accounting context will be presented. Finally, an evaluation of the potential implications of the transformation in Japanese society on the understanding of accounting will be conducted.

1. Understanding of Accounting and Formation of Accounting System

The earliest Western source on the Japanese accounting system is that of François Caron, who worked in Japan between 1639 and 1641. The double-entry ledger system, which forms the basis of modern accounting, was disseminated throughout the maritime trade with Europe and subsequently reached Japan and other countries. Prior to the advent of the double-entry system, small sticks affixed to a board were employed for the same purpose in calculations (Nishikawa, 1977:25).

The fragmented political structure of Japan between 1603-1867 was also seen in the understanding of accounting. The fragmented structure of the Japanese political system resulted in the emergence of distinct local accounting systems, rather than a uniform accounting system across the entire country. A number of separate bookkeeping methods were developed by various independent economic powers, including Tomiyama, Tanabs, Nakais, Hyogos, Kondohs, Honmas, Hasegawas, Ishimotos, Onos, Kohnoikes and Mitsuis (Auyeung, 2002:11). Despite the introduction of Western bookkeeping practices to Japanese society, their use remained limited during the early transition period (Nishikawa, 1977:25-26). The process of adopting new accounting innovations was impeded by the adherence to tradition, which was informed by the teachings of Confucianism (Harrison & McKinnon, 1986:243). A further reason for the delayed adoption of innovations during this period may be attributed to the reluctance of individuals to divulge information regarding the accounting system, a consequence of the prevailing conservatism within society.

The Treasury Accounting Office, which was responsible for Japan's modern financial system, was established by the Meiji Government in Kyoto in December 1867. In 1869, a financial audit body was established with the purpose of advising and warning the government on its expenditures when necessary (BOA, 2018:6). Conversely, the adoption of the German Civil Code in 1889 facilitated the acceptance of innovations in the field of accounting following the Westernisation movements (Bloom & Solotko, 2003:34).

The modern Japanese accounting system reflects a complex interplay between domestic and foreign influences. The development of accounting thought in Japan has been shaped by different external influences over time. In the first half of the 20th century, Germany had a substantial impact, while the United States emerged as a dominant influence in the second half, particularly in areas such as taxation (Choi & Meek, 2011, p. 96).

Following World War II, investor-oriented financial reporting began in Japan, and regulations were introduced in the field of accounting and finance that are the basis of today's accounting and finance. In particular, a financial reporting system based on the US system was established. The responsibility for financial reporting was first given to the Securities and Exchange Commission, which was independent of the country's government, and then transferred to the Ministry of Finance (Gordon, 1999:5). While Japan accelerated its economic growth in the post-war 1950s, it completed its accounting law and technical infrastructure (Ergüden, 2020:157).

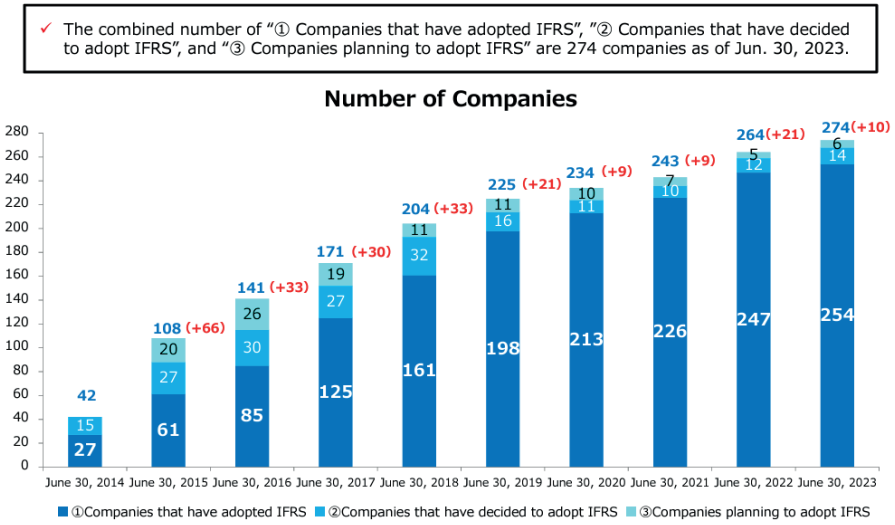
On the other hand, in contrast to the male-dominated business landscape observed in other global contexts, women have attained a significant presence in Japan, particularly in the wake of the Second World War. The interdependence that forms the basis of Japanese society has facilitated women's participation in business, which has in turn shaped economic life in a way that differs from the experience in the West. This phenomenon has also been observed in the field of accounting (Komori, 2008:508).

In the 1970s and 1980s, Japan experienced a period of rapid economic recovery, which was underpinned by a shift towards a more production-oriented economic model (Hein, 2008:448). The expansion of the economic structure based on production has facilitated the effective utilisation of cost accounting information systems. In particular, the competitive structure of the automotive industry has facilitated the advent of innovative cost accounting systems, enabling more precise measurement and control of enterprise costs in this sector (Ergüden, 2020:161). From this perspective, it can be asserted that cost accounting systems are highly sophisticated.

As Japan's economic influence grew in the early 1990s, it became necessary for the country to align its accounting and auditing standards with international norms, given the increasing integration of global financial markets. Despite the assumption that this process of harmonisation would occur at a gradual pace due to the country's robust social and cultural affiliations, a series of reforms in accounting and financial reporting commenced with remarkable swiftness in response to the financial scandals. On the other hands, this process facilitated the transformation of the contemporary role of auditors in Japan (Komori, 2008: 513).

In the late 20th century, the deepening financial crisis in Japan prompted a significant re-evaluation of reporting standards. It became imperative for organisations to align their reporting with the standards set by the International Accounting Standards Board (IFRS). Since 2001, a pivotal

harmonisation process has commenced with the establishment of the Standards Harmonisation Commission (Choi & Meek, 2011:96-98).



Graph 1 Tokyo Stock Exchange Change in the Number of Companies Adopting IFRS
Source: Tokyo Stock Exchange (JPX), Analysis of Disclosure in “Basic Policy Regarding Selection of Accounting Standards, July 24, 2023, p.6.

In 2007, Japan consented to the adoption of International Financial Reporting Standards (IFRS) in accordance with the Tokyo Consensus. Subsequently, in 2010, Japan adopted IFRS on a purely voluntary basis (Verreccia & Wang, 2011:133). In 2013, the International Financial Reporting Standards (IFRS) were revised, with the result that their application became mandatory and the dual structure was eliminated (IFRS, 2020). The number of entities eligible to apply International Financial Reporting Standards (IFRS) has increased. Consequently, all listed entities and unlisted entities are now permitted to use IFRS for consolidated financial statements (JICPA, 2024).

In summary, Japan’s transition from a feudal economy to a leading industrial power was influenced by two significant developments in its accounting structure. These changes were the adoption of the double-entry system by the Meiji Government as part of its modernisation programme and the pursuit of investor-friendly democratic policies after World War II (Someya, 1989:75). As a supporting factor for these two fundamental changes, it can be accepted that international standards are assimilated and reflected in accounting practices.

1.1. Accounting Professionals

Certified Public Accountants (CPAs) in Japan possess the expertise to pursue diverse career paths and roles within the broader societal framework. They provide businesses with counsel on various managerial domains, including the formulation of management strategies, implementation of internal controls, organizational reform, and due diligence. Furthermore, CPAs are eligible to serve as external managers and corporate auditors in publicly traded companies, as well as in other public institutions (JICPA, 2024).

The history of the accounting profession in Japan is comparatively brief in comparison to that of Western countries. The principal reason for this is the inability to establish a unified system due to the tendency of those in positions of local authority to develop their own systems (Komori, 2008:511-512). In the past, the accountancy profession and the auditing activities carried out by members of the profession were not accorded the importance they deserved. Nevertheless, in light of numerous instances, both significant and minor, attention has begun to be directed towards this matter (Yoshimi, 2002:542).

After World War II, accountants began to organise themselves as a professional group, leading to the establishment of the Japan Institute of Certified Public Accountants (JICPA) in 1949, following the enactment of the Certified Public Accountants Law. The JICPA, which originated as a voluntary organisation, subsequently became a business entity following the enactment of the CPA Law in 1966 (JICPA, 2024).

The JICPA has consistently demonstrated transparency and independence as a self-regulatory organisation for the accounting profession. The organisation is committed to serving the public interest and supporting the strengthening of the profession. It is also dedicated to maintaining the quality of services provided by members and promoting professional ethics, values and standards. All Certified Public Accountants (CPAs) in Japan are legally obliged to register with the Japan Institute of Certified Public Accountants (JICPA). As of 31 March 2021, the JICPA had a membership of over 32,000 (JICPA, 2024).

The number of CPAs in Japan is considerably smaller than the number of professional accountants in the United Kingdom and the United States of America (USA). This is attributable to the practice of lifetime employment prevalent in Japanese business organisations. Nevertheless, the concept of independent auditing has not gained traction in Japan due to its perceived

incompatibility with the cultural norms of interdependence and group consciousness. This has led to the assumption that it may indirectly influence the number of professionals in this field (Komori, 2008:512).

The social changes that have occurred in Japan since the 2000s have resulted in a series of challenges due to the incompatibility of the existing accounting system and practices with the actual social conditions of the country. Despite the implementation of numerous enhancements to the process, the discrepancy between the prevailing circumstances and the extant systems within the accounting and auditing domain has resulted in the emergence of these issues. Furthermore, the incompatibility of national accounting and auditing standards with international standards has also given rise to a number of issues as a result of the globalisation of the economy (CPAAOB, 2024). If existing standards of practice do not meet the requirements of society in the light of CPA law, new regulations are introduced without delay.

In Japan, the Certified Public Accountants and Auditing Oversight Board (CPAAOB) was established on 1 April 2004 under the Financial Services Agency (FSA) in accordance with the CPA Law. Its purpose is to provide an effective oversight and supervision mechanism for the independent audit and accountancy profession (CPAAOB, 2024). Conversely, although the JICPA is an autonomous entity, it engages in collaborative endeavours with the Ministry of Finance and the CPAAOB. One such endeavour is the administration of examinations and the facilitation of activities for prospective members of the profession (JICPA, 2024).

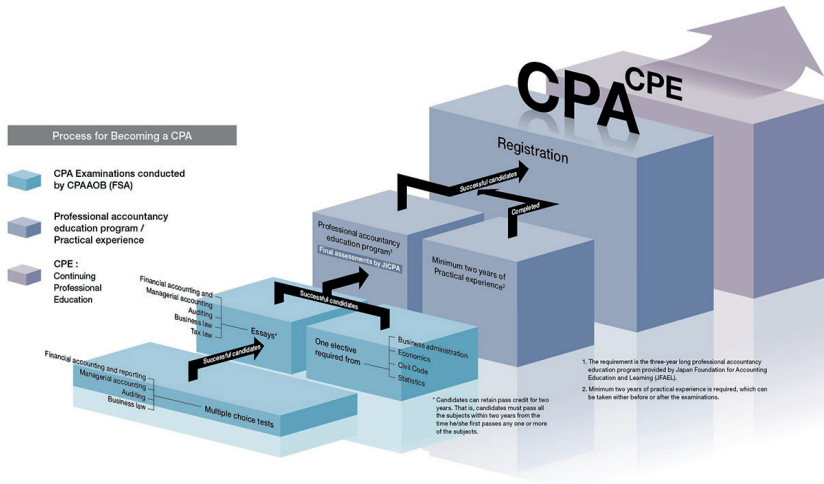


Figure 1 Requirements and Processes for Becoming an Accounting Professional in Japan

Source: The Japanese of Institute Certified Public Accountants - JICPA <https://jicpa.or.jp/english/what-we-do/profession/> [Accessed: 04/05/2024]

In order to become a Certified Public Accountant (CPA) in Japan, candidates are required to meet the stipulated qualifications and to complete the five steps set out in the relevant legislation (JICPA, 2024:8).

Step 1: The most challenging step is to pass the Certified Public Accountant (CPA) examination, which is administered by the American Institute of CPAs (AICPA) and covers a range of disciplines, including financial accounting and reporting, managerial accounting, auditing, labour law, tax law, economics, statistics, and business management. The CPA examination is composed of two components: multiple-choice tests, which are administered twice a year, and essay completion tests, which are administered once a year. Candidates who pass the multiple-choice tests are eligible to take the essay exam.

Step 2: It is obligatory for candidates to obtain relevant practical experience by working in accounting/auditing firms or industry for a minimum of two years. It is recommended that candidates gain practical work experience in accounting/auditing firms in order to develop the requisite skills.

Step 3: Those who pass the CPA examinations are required to complete a three-year professional accounting training programme provided by the Japan Foundation for Accounting Education and Learning. The curriculum is based on the requirements set out in the International Education Standards

issued by the International Accounting Education Standards Board of the International Federation of Accountants.

Step 4: Those who complete the professional accounting education programme are eligible to take final assessments in specific areas conducted annually by the JICPA.

Step 5: Those who pass the final assessments and are granted CPA qualifications by the FSA are eligible to register with the JICPA. This registration is mandated by the CPA law. The process of becoming a CPA in Japan is illustrated in the figure below.

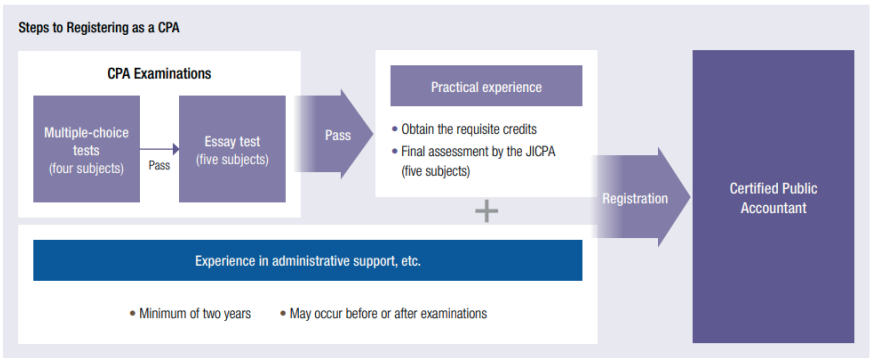


Figure 2 The process of becoming a CPA in Japan

Source: The Japanese of Institute Certified Public Accountants - JICPA <https://jicpa.or.jp/english/who-we-are/overview/> [Accessed: 15/04/2024].

1.2.Tax System

In contrast to Western societies, tax collection institutions in Japan are held in high esteem and are perceived as a reliable institution. This is due to the conviction that those in positions of authority should possess the requisite expertise and abilities that exceed the norm for the general public. Taxpayers repose unlimited trust in tax collectors. At both national and local levels, authorities are conscientious about their responsibilities and exhibit a profound sense of accountability toward the residents within their jurisdictions (Yoshimi, 2002, p. 538). Nevertheless, important to bear in mind that tax evasion and late payment are subject to steep fines in Japan, sometimes amounting up to 50% of additional taxation (Nylen, 2014:6). The notion of trust and respect for the state in Japanese society can be attributed to the teachings of Confucius. Conversely, the endeavours

undertaken by the authorities to fulfil the public's trust can be attributed to the advanced sense of accountability that pervades Japanese society.

Until the late nineteenth century, Japan lacked an established tax system. In this process, the majority of tax revenues were derived from land taxes. As a consequence of the westernisation movement that commenced with the Meiji government, developments were made to the tax system. In 1887, Japan became one of the first countries to adopt a modern income tax system. Subsequently, the tax system underwent incremental enhancements, accompanied by an escalation in taxation on income (MOF, 2010:1).

In the aftermath of the Second World War, the Shoup delegation, which conducted an audit of the Japanese tax system, put forth recommendations for a comprehensive reorganization of the national tax system. In consequence of these recommendations, the government adopted a direct taxation-oriented approach and introduced a series of tax administration reforms, including the introduction of the declaration system. In the context of the post-war period, which was characterised by social and economic upheaval, the tax system underwent numerous changes and underwent a rapid process of modernisation (BOA, 2018:305).

The post-war history of the Japanese tax system can be divided into four periods (MOF, 2010:4).

- The first period: The years 1945-49 were characterised by economic chaos.
- The second period: After period, spanning 195-59, encompassed a significant economic restructuring.
- The third period: The period between 1960-69 was characterised by economic growth.
- The fourth period: After 1970, efforts were directed towards enhancing national welfare.

Notwithstanding the aforementioned reforms, the Japanese tax system has become increasingly incompatible with the prevailing socio-economic conditions. Accordingly, a comprehensive tax reform was imperative at the advent of the new century (Ergüden, 2008:172). In the wake of the financial crisis in the 1990s, a series of tax reforms were introduced with the aim of revitalising the economy. This has resulted in Japan consistently having a higher business taxation rate compared to other advanced economic countries in Asia (Nylen, 2014:6).

Subsequently in 2009, as a consequence of deliberations concerning the necessity for tax reform under the aegis of the government, the tax commission, comprising solely of tax experts, was dissolved and a new, inclusive tax commission was constituted under the aegis of the government (MOF, 2010:19).

In Japan, taxes imposed by the government are designated as national taxes, whereas those imposed by prefectural or municipal governments are classified as local taxes. The current taxes levied by both the central and local governments are as follows are divided into three groups.

- Income taxes,
- Assets and properties,
- Consumption taxes.

Taxes are classified according to the entity that imposes them. Taxes levied by the national government are designated as national taxes, whereas those imposed by governorate or municipal governments are classified as local taxes. There are over 40 national or local taxes in total (MOF, 2023:3).

| | National Taxes | Local Taxes | | National Taxes | Local Taxes |
|----------------------|--|--|----------------------|--|--|
| Income Taxation | <ul style="list-style-type: none">• Income tax• Corporation tax• Local corporation tax• Special corporate enterprise Tax• Forest environment tax (From FY2024)• Special income tax for reconstruction | <ul style="list-style-type: none">• Inhabitant tax• Enterprise tax | Consumption Taxation | <ul style="list-style-type: none">• Consumption tax• Liquor tax• Tobacco tax• Special tobacco tax• Gasoline tax• Local gasoline tax• Liquefied petroleum gas tax• Aviation fuel tax• Petroleum and coal tax• Promotion of power resources development tax• Motor vehicle tonnage tax• International Tourist Tax• Tariffs• Tonnage tax• Special tonnage tax | <ul style="list-style-type: none">• Local consumption tax• Local tobacco tax• Golf course utilization tax• Light oil delivery tax• Automobile tax (Environmental performance excise-category base)• Light motor vehicle tax (Environmental performance excise-category base)• Mine lot tax• Hunting tax• Mine production tax• Bathing tax |
| Asset Taxation, etc. | <ul style="list-style-type: none">• Inheritance/gift tax• Registration and license tax• Stamp tax | <ul style="list-style-type: none">• Real estate acquisition tax• Fixed asset tax• City planning tax• Establishment tax• Water utility and land profit tax• Common facilities tax• Housing land development tax• Special land possession tax• Discretionary tax earmarked for general use• Discretionary tax earmarked for special use• National health insurance tax | | | |

Figure 3 Types of Taxes in Japan

Source: Ministry of Finance, Japan, “Learning More About Taxes”, July, 2023, p4.

In Japan, the consumption tax has undergone several modifications subsequent to the 2009 reform, when it was acknowledged as a fiscal instrument for social security. In 2014, the consumption tax rate was increased from 5% to 8%, and in 2019, it was increased again, this time from 8% to 10%. Conversely, the rate of income tax and the structure of corporate income tax were reorganised with the objective of ensuring income

redistribution and maintaining the vitality and international competitiveness of domestic enterprises (MOF, 2023:6).

In fiscal year 1990, national tax revenues reached approximately ¥60 trillion. However, tax revenues subsequently declined to ¥38.7 trillion in fiscal 2009, largely due to the economic downturn and the financial crisis in the US. Following a period of recovery, the increase in consumption tax led to a resumption of growth in tax revenues, resulting in tax revenues of ¥71.1 trillion by fiscal year 2022 (MOF, 2023:5).

1.3.Basic Financial Statements

The diversity in cultures and political systems around the world leads to differences in accounting systems. These differences can be explained by the inability of investors to interpret financial statements prepared in different countries using Generally Accepted Accounting Principles (GAAP) (Black & White, 2003:30).

Japan's Generally Accepted Accounting Principles (J-GAAP) are issued by the Accounting Standards Board of Japan (ASBJ) and the Financial Services Agency (FSA), and businesses are required to act in accordance with these principles. Furthermore, these principles are subject to periodic enhancements (Van Nylen, 2014:12). However, in contrast to the situation in other countries, Japan does not have a unified accounting framework. Consequently, there is no uniformity in the classification of accounts (Ergüden, 2008:280). In contrast to the calendar year observed in the West, the fiscal year in Japan extends from 1 April to 31 March of the following year. At the conclusion of a fiscal year, financial documents typically include a balance sheet, a statement of profit or loss, and a statement of changes in net corporate assets. Additionally, explanatory footnotes may be provided for these financial statements when necessary (Van Nylen, 2014:5).

Table.1 Balance Sheet Example

(In millions of yen, as of March 31, 2004)

| Items | Amount | Items | Amount |
|---------------------------------|---------|---|---------|
| Assets | | Liabilities | |
| Current Assets | 149,256 | Current Liabilities | 92,639 |
| Cash & deposits | 18,483 | Accounts payable | 40,647 |
| Notes receivable | 2,664 | Short-term borrowings | 14,343 |
| Accounts receivable | 44,269 | Bonds – current portion | 10,000 |
| Marketable securities | 28,963 | Accounts payable-other | 6,318 |
| Finished products | 16,894 | Income taxes payable | 5,640 |
| Semi-finished products | 3,954 | Consumption tax payable | 469 |
| Work in process | 1,466 | Accrued expense | 9,962 |
| Raw materials | 6,087 | Other current liabilities | 5,258 |
| Supplies | 3,477 | | |
| Accounts rec. – other | 18,090 | Long-term Liabilities | 28,852 |
| Short-term loans | 1,953 | Bonds | 10,000 |
| Deferred tax assets | 2,127 | Long-term debt | 2,000 |
| Other current assets | 837 | Employee's ret. benefits | 14,942 |
| Allowance for doubtful accounts | -16 | Directors' & statutory auditors' ret. benefits | 1,414 |
| Fixed Assets | 115,191 | Deferred tax liabilities | 344 |
| Property, plant and equipment | 62,269 | Other long-term liabilities | 150 |
| Buildings | 12,830 | Total Liabilities | 121,492 |
| Structures | 4,290 | Shareholders' Equity | |
| Machinery & equip. | 24,237 | Common stock | 23,320 |
| Vehicles | 135 | Capital surplus | 25,179 |
| Tools, furniture & fixtures | 6,070 | Capital reserve | 25,179 |
| Land | 13,194 | Retained earnings | 89,326 |
| Construction in progress | 1,510 | Profit reserve | 3,710 |
| Intangible fixed assets | 1,573 | Voluntary reserve | 45,002 |
| Software, etc. | 1,573 | Res. for special depre. | 85 |
| Investments & other assets | 51,348 | Res. for advanced depre. | 2,486 |
| Investment securities | 28,476 | Separate reserve | 42,431 |
| Investments in sub./affil. | 9,249 | Unappropriated surplus | 40,612 |
| Long-term loans | 12,944 | Net unrealized holding gains on sec. | 5,319 |
| Other investments, etc. | 1,129 | Net valuation gains on sec. | 5,319 |
| Allowance for doubtful accounts | -452 | Treasury stocks | -189 |
| | | Total Shareholders' Equity | 142,955 |
| Total Assets | 264,447 | Total Liabilities & Shareholders' Equity | 264,447 |

(Notes) 1. Accumulated depreciation on property, plant and equipment ¥200,053 million
 2. Claims to/from subsidiaries Short-term monetary claims to subs. ¥12,325 million
 Long-term monetary claims to subs. ¥11,681 million
 Short-term monetary claims from subs. ¥14,288 million
 Property, plant and equipment ¥18,053 million
 3. Assets pledged ¥789 million
 4. Export exchange notes discounted ¥2,529 million
 5. Guarantee obligations ¥5,319 million
 6. Net assets as stipulated in Article 124, Clause 3 of Enforcement Rules of Commercial Code
 7. Amounts less than ¥1 million omitted

Source: JSR Corp. https://www.jsr.co.jp/jsr_e/news_pdf/wn040602e_3.pdf [Accessed 22/05/2024]

The impact of the conservative culture in Japan is more discernible in the financial statements. This effect results in the formulation of financial statements that are more aligned with the interests of creditors, heightened

levels of tax compliance, and a greater utilisation of provisions (Black & White, 2003:31). The most illustrative example of the impact of conservatism is the utilisation of accelerated depreciation in lieu of the conventional depreciation method in financial statements (Bloom & Solotko, 2003:35).

In the statement of profit or loss, income is analysed in two distinct categories: operating income and extraordinary income. Operating income encompasses, interest income, income derived from associates and subsidiaries, and other operating income (Ergüden, 2008:285).

Table.2 Profit/Loss Statement Example

| | | (From April 1, 2003 To March 31, 2004) | |
|--|--|---|---------|
| Items | | Amount (in millions of yen) | |
| Current Profit and Loss | | | |
| Operating Profit and Loss | | | |
| Sales | | | 183,395 |
| Cost of sales | | 122,874 | |
| Selling, general & administrative expenses | | 34,208 | 157,083 |
| Operating income | | | 26,312 |
| Non-operating Profit and Loss | | | |
| Non-operating income | | | |
| Interest received | | 161 | |
| Dividend received | | 2,547 | |
| Misc. income | | 2,231 | 4,940 |
| Non-operating expenses | | | |
| Interest expenses | | 496 | |
| Misc. expenses | | 2,758 | 3,254 |
| Current income | | | 27,998 |
| Extraordinary Profit and Loss | | | |
| Extraordinary profit | | | |
| Profit on sale of fixed assets | | 5,346 | |
| Return of substituted portion of welfare pension fund | | 2,715 | |
| Reversal of allowance for doubtful accounts | | 53 | 8,115 |
| Extraordinary losses | | | |
| Lump-sum loss related to reform of retirement allowance system | | 8,175 | |
| Loss on disposal of fixed assets | | 828 | |
| Head office relocation expenses | | 378 | |
| Loss on sale of fixed assets | | 62 | |
| Loss on liquidation of affiliates | | 28 | 9,472 |
| Net income before taxes | | | 26,641 |
| Income tax, residential tax and enterprise tax | | | 8,509 |
| Adjustments of income tax | | | 432 |
| Net Income | | | 17,699 |
| Surplus brought over from previous term | | | 23,935 |
| Interim dividend | | | 1,022 |
| Unappropriated surplus for the current term | | | 40,612 |

(Notes)

1. Sales to subsidiaries ¥27,515 million; purchasing from subsidiaries ¥12,670 million; non-trade transactions with subsidiaries ¥10,633 million
2. Net profit per share ¥88.91

Source: JSR Corp. https://www.jsr.co.jp/jsr_e/news_pdf/wn040602e_3.pdf [Accessed 22/05/2024].

The statement of profit or loss presents an analysis of expenses into two categories: operating expenses and extraordinary expenses. Operating expenses encompass interest expenses, expenses from associates and subsidiaries, and other operating expenses (Ergüden, 2008:286).

2. Japan's Changing Social Structure

In the course of research conducted over the past century, psychologists, anthropologists and sociologists have sought to define the transformation of a range of psychological tendencies, behaviours and practices that have emerged in the process.

In particular, Hofstede (1984) identified the existence of four fundamental value dimensions along which differences between countries can be positioned. Subsequently, a fifth dimension, 'Long Term versus Short Term Orientation', was introduced based on the East Asia-centred research of Michael Harris Bond (1988). However, in the 2000s, research by Michael Minkov (2007) led to a recalculation of the fifth dimension and the addition of a sixth dimension. These values were based on the following responses, which were unique to each society.

- 1-) Power Distance
- 2-) Uncertainty Avoidance
- 3-) Individualism versus Collectivism
- 4-) Masculinity versus Femininity
- 5- Long-Term versus Short-Term Orientation
- 6-) Indulgence versus Restraint

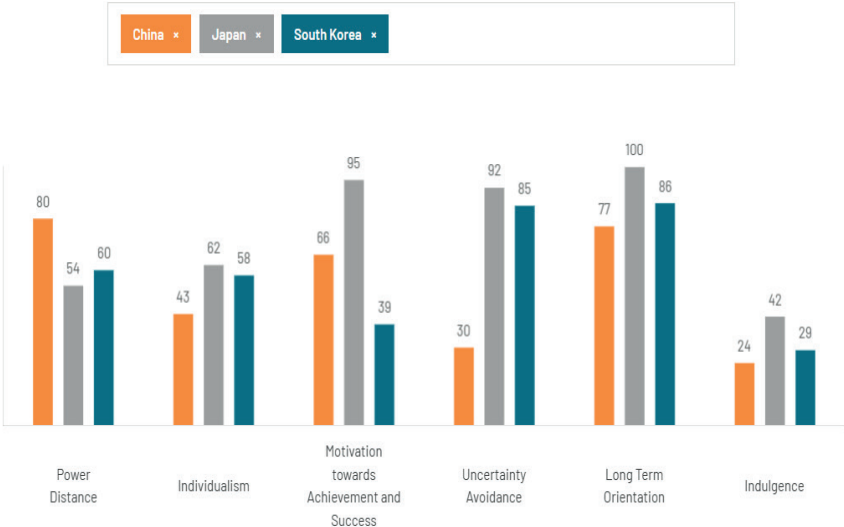
It can be reasonably assumed that alterations to these value dimensions will have a significant impact on the wider society. It would be prudent to closely monitor any changes in the collectivism-individualism approach, which is particularly relevant to Japanese society.

Japanese culture is typically regarded as collectivist rather than individualist. Consequently, the phenomenon of autonomy is often perceived as antithetical to the cultural characteristics of this society (Yamamura, 2004:97-98).

The financial crisis in Japan in the 1990s presented a challenge to the society both economically and culturally, resulting in a critical reevaluation of the national culture. In order to address these issues, efforts were made to resolve the challenges inherent in the national culture (Hein, 2008:447).

In their study, Ogihara et al. (2014) observed that, although Japanese society does not generally accept individualism, the structure has evolved towards individualism. They also stated that this developing individualism weakens interpersonal relationships. Another study demonstrates that temporal changes in the indicators of family structure in Japan between 1947 and 2015 substantiate the trend towards individualism (Ogihara, 2018:1225). Nevertheless, individualism intensifies competition, particularly in business contexts, due to a perception of autonomy and the prioritisation of individual objectives, thereby fostering self-centred behaviours (Varnum & Grossmann, 2017:958).

A comparison robot was developed by The Culter Factor Group based on Hofstede’s studies, which evaluate countries on six dimensions using data obtained from survey responses of participants. As illustrated in Graph 1, a comparison with East Asian societies, which are perceived to adhere to a collectivist structure, reveals that Japanese society has surpassed the 60-point threshold for individualism.

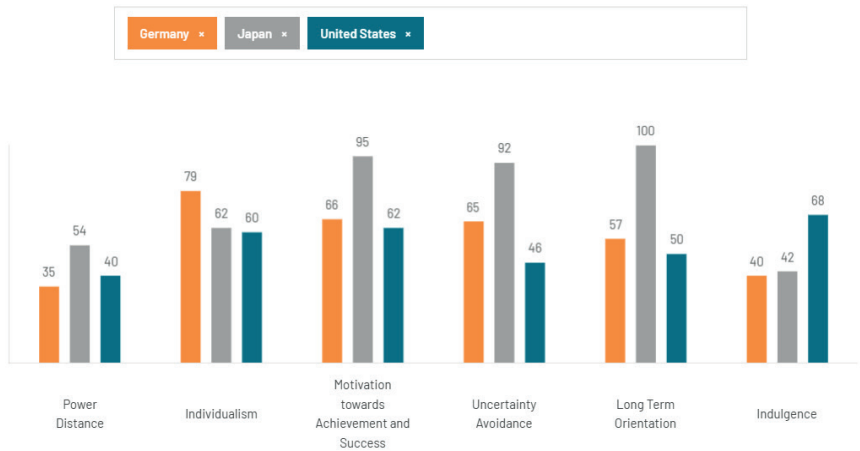


Graph 2 Comparison Results of East Asian Societies

Source: The Culter Factor Group, [Accessed: 22/06/2024] <https://www.hofstede-insights.com/country-comparison-tool>

The dimension of individualism measures the interdependence between members of a society. This measure deals with whether people define themselves as “I” or “We”. Furthermore, in comparison to the older analysis, the individualism dimension in Japan has increased from 46 to 62 (The

Culture Factor, 2024). This indicates that Japanese society is progressing towards becoming a society based on individualism (Ogihara, 2018:1219). Additionally, as illustrated in Graph 3, Japan’s social structure is becoming increasingly individualized in comparison to Western societies.



Graph 3 Comparison Results with Western Societies

Source: The Culter Factor Group, [Accessed: 22/06/2024] <https://www.hofstede-insights.com/country-comparison-tool>

3. Possible Effects of Changing Social Structure on Japan’s Accounting Approach and Environment

The effects of national culture are broad and affect even the smallest building blocks of society, so it is inevitable that it affects the understanding of accounting and its environment. These influences also affect the practices in line with the principles that accounting will establish within itself. Accounting is a discipline that encompasses much more than merely methodologies, figures and financial statements. While basic rules and standards are observed to safeguard the requirements of the accounting profession, it is also susceptible to influence from a multitude of internal and external factors (Young, 2013: 3-4). As previously stated, it is essential to examine the potential implications of a shift in the fundamental values of Japanese society on the accounting profession and its surrounding environment. In light of the above, this section will present a discussion of the potential implications of Japan’s evolving social structure.

The collectivist tendencies observed in Japanese society have facilitated the emergence and development of concepts such as hierarchy, long-term

thinking and a sense of responsibility. In light of the fact that these concepts also affect the understanding of accounting, it can be reasonably deduced that the purpose, principles, practices and interpretation of accounting will undergo a transformation should society begin to exhibit an increasing tendency towards individualism.

As a consequence of this transformation, the weakening of group consciousness, which represents the cultural norm of Japanese society, may result in a tendency for individuals to make more individual decisions, which in turn may lead to a decrease in trust in each other. This may result in a decrease in unity in business life and the emergence of conflicts.

One of the critical factors influencing business performance is the workforce—a collective entity unified by a common purpose. The group consciousness inherent in Japanese culture offers a unique advantage to Japanese enterprises by enabling the effective implementation, maintenance, and enhancement of various production methodologies and continuous improvement programs (Power et al., 2010, p. 219). Additionally, as previously noted, Japanese businesses have strategically harnessed this group consciousness to achieve targeted financial objectives (Takatera & Yamamoto, 1989, p. 243).

In particular, the constant differentiation of customer demands, increased competition and the necessity for low-cost production have contributed to the development of different accounting systems in different accounting cultures. In accordance with these requirements, the advent of strategic costing and inventory management systems, including Just In Time (JIT), Target Costing, and Kaizen in Japan, was facilitated (Ergüden, 2020:157).

The diminished sense of group identity in Japan could have a detrimental impact on the profitability of businesses, as productivity and efficiency gains may be hindered. However, as previously stated, the advent of cost management systems, which originated in Japan and subsequently became a global standard, has significantly contributed to the evolution of accounting theory and practice. The potential for the contribution of Japanese society's group consciousness to the evolution of accounting to diminish represents a significant loss for the discipline of accounting.

The findings of the Tokyo Shoko Research Investigation Report lend support to the assertion that accounting and its surrounding environment are affected by this phenomenon. As indicated in this report, instances of accounting fraud have increased in both private and public enterprises (TSR, 2016). It is hypothesised that the rise in accounting fraud may be attributable

to the aspiration of managers towards future career advancement. Although it is challenging to quantify the psychological elements of managerial behaviour, researchers have proposed that the individual aspirations of Japanese managers may contribute to the prevalence of such fraud (Nakashima, 2017:18-27). In the early 20th century, Yoshimi (2002) conducted an analysis of fraud cases, concluding that the audit culture in Japanese society was in a state of decline and that the development of solutions to address this issue was imperative. This situation can be interpreted as an indication that individual interests are being prioritised over collective interests in Japan.

The Japanese concept of group belonging and unity is also evident among members of the accounting profession. Japanese accountants make decisions by applying the collective reasoning of their colleagues when formulating applications and interpretations. In other words, the decisions of Japanese accountants are significantly shaped by the precedents set by their colleagues (Tsunogaya et al., 2013:22). Conversely, Yamamuro et al. (2004) posited in their study that Japanese accounting professionals may be influenced by shifts in the social structure, potentially leading to a shift in the understanding of group belonging or togetherness towards individualism.

As a result, with the decline of group consciousness in Japanese society, the decisions made by professionals will become increasingly independent, leading to the emergence of disparate practices. While it is appropriate for the professional to make independent decisions, this may result in a loss of unity in general practices.

In East Asian societies, there is a pervasive inclination to act with caution in order to mitigate uncertainty in accounting practices, a tendency that may be characterised as conservatism (Bloom & Solotko, 2003:31). However, as a consequence of changes in the social structure, there will be a decrease in conservatism as new regulations for financial reporting are adopted. Thus, the fight against uncertainties in financial statements may slow down and may cause greater losses to businesses as a result of not taking the necessary measures.

The transformation of Japanese society will consequently impact the country's government. The shift in the perceptions of accounting professionals, the growing individual ambitions of business managers and the reduction in conservatism in financial statements may also have a negative impact on tax revenues. Furthermore, a potential adverse consequence may emerge from the observed decline in the sense of responsibility among Japanese businesses. The termination of the lifetime employment policy by

businesses may also result in an increase in the unemployment rate within the country.

Ultimately, the comprehension, methodologies and context of accounting are inextricably linked to the cultural milieu in which it is practised. This study serves to highlight the pervasive influence of cultural factors on the development of the Japanese accounting system, which is shaped by a rich and enduring cultural heritage. Additionally, it draws attention to the potential implications of the gradual evolution of these cultural foundations on the understanding of accounting and its surrounding environment.

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