Characteristics of Accounting Standards for Independent Administrative Institutions

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1. Introduction

Until recently, the term "Independent Administrative Institution" has rarely been heard by the general public. The general public initially came to know the term when discussions concerning the reform of state universities into independent administrative institutions began. The Independent Administrative Institution system has been operating since April 2001. Fifty-seven Independent Administrative Institutions for national museums, etc. have been established to date. In February 2000, accounting standards for Independent Administrative Institutions were established. This paper seeks to examine the accounting standards for Independent Administrative Institutions and to clarify their characteristics. In most of such examinations, these accounting standards are compared with business accounting principles, because the accounting standards for Independent Administrative Institutions are established based on business accounting principles.

2. Accounting standards and accounting systems for Independent Administrative Institutions

Before clarifying the characteristics of the accounting standards for Independent Administrative Institutions, it is necessary to briefly mention how these accounting standards were established and present an outline of the Independent Administrative Institution system.

(1) Background of the establishment of the accounting standards for Independent Administrative Institutions

The Independent Administrative Institution system was established as part of administrative reforms. Article 36 of the Basic Law for Reorganization of Central Government, Ministries, and Agencies (hereafter referred to as "the Basic Law"), which was enacted in June 1998, defines Independent Administrative Institutions as follows:

"Those autonomous, self-motivated and transparent institutions that can efficiently and effectively implement such services and projects that should be implemented with certainty to meet public needs, such as stabilization of people's livelihood, society and economy, and that need not necessarily be implemented by the central government itself but may not always be implemented by the private sector, even if this sector is so requested by the central government, or should be implemented by an exclusive institution."

In April 1999, the Ministry Reform Promotion Office finalized the "Guidelines for Promoting the Reform of Ministries, etc." In July 1999, the "General Provisions for Independent Administrative Institutions" (hereafter referred to as the "General Provisions"; the term "Independent Administrative Institution" is hereafter referred to as "Agency" in this paper), in which the basic conditions for operating Agencies and other common matters are established, were enacted. Although the General Provisions clarified basic issues related to finance and accounting, they were not sufficient. Therefore, it was necessary to enact "individual laws" to define the names, objectives, and the scope of operations of Agencies. Now, the agency system is controlled by the General Provisions and by

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individual laws.

Article 38 of the Basic Law and Article 37 of the General Provisions provide that “corporate accounting principles apply in principle to Agencies.” This definition only clarifies the framework of the accounting system. The details of the accounting standards had not been finalized yet. Therefore, the Management and Coordination Agency (now renamed as the Ministry of Public Management, Home Affairs, Posts and Telecommunications) organized a “Study Group on the Accounting Standards for Agencies” to study the content of the accounting standards to be used. The conclusions of this Study Group are reflected in the “Accounting Standards for Agencies,” announced in February 2000.

(2) Outline of the Accounting System for Agencies

The differences between the Accounting System for Agencies and the corporate accounting system are shown in Figure 1.

Financial statements are the means to convey accounting information. To improve the reliability of financial statements, audits by accounting experts (certified public accountants and audit corporations) are needed. Corporate accounting principles are generally accepted accounting standards based on which financial statements are prepared. The financial statements of Agencies are prepared in accordance with the Accounting Standards for Agencies.

Agencies are those organizations of the central government that have become independent. Since the main revenue source for Agencies is tax, the primary users of their financial statements are the general public. In the case of private companies, the primary users of their financial statements are shareholders.

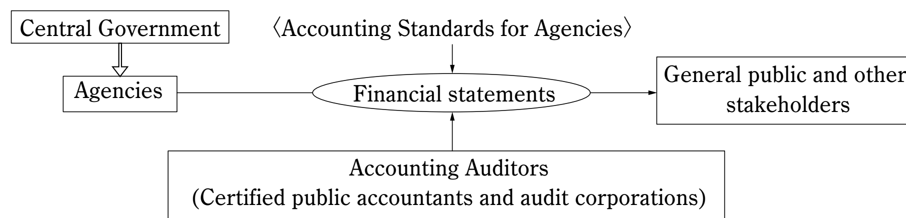
Under the Agency system, it is important to note the relationship between the central government and Agencies. The central government performs a planning function, and Agencies carry out an implementation function. When a government organization is changed into an Agency, prior control will be changed to after-the-fact checks. Since the independency of Agencies is respected, post-evaluation of results will be needed.

Agencies have characteristics as follows: 1) they are public organizations; 2) their primary objective is not to earn profits; and 3) they are not required to operate on a self-supporting basis. That their primary objective is not to earn profits means that they are different from private companies, which, in general, pursue profits. That they are not required to operate on a self-supporting basis means that they are provided with financial resources.

The Accounting System for Agencies superficially appears to be similar to the corporate accounting system. However, Agencies are not completely independent from the central government, and the government imposes various restrictions on them. In this respect, Agencies are fundamentally different from private companies. It should again be noted that Agencies are non-profit organizations and private companies are profit-making organizations.

Figure 1. The Accounting System for Agencies and the corporate accounting system

Accounting System for Agencies:



Corporate accounting system:

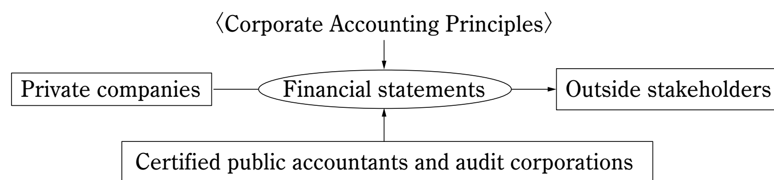


Table 2. Comparison of government accounting, Agency accounting, and corporate accounting

Government accounting	Agency accounting	Corporate accounting
Single-entry bookkeeping	Double-entry bookkeeping	Double-entry bookkeeping
Cash basis accounting	Accrual basis accounting	Accrual basis accounting
Single year basis	Computation of periodic profit or loss on a medium-term (3~5 years) basis	Computation of periodic profit or loss on the assumption that a company is a going concern
Budget-driven	Financial results-driven	Financial results-driven

The basic characteristics of Agency accounting can be clarified by comparing government and corporate accounting. These three accounting systems have both common and differing elements as shown in Table 2.

In the case of government accounting, single-entry bookkeeping and cash basis accounting are adopted and the single year accounting system, under which cash receipts and disbursements in a fiscal year are important, is utilized. Therefore, budgets play an important role. On the other hand, in the case of corporate accounting, double-entry bookkeeping and accrual basis accounting are adopted and periodic profit or loss, on the assumption that a company is a going concern, is computed. Here, therefore, financial results will be most important.

In the case of Agency accounting, double-entry bookkeeping and accrual basis accounting are adopted, and periodic profit or loss on a medium-term (3~5 years) basis is computed. Although more materiality is attached to financial results than to budgets, budgets are still important. Thus, it may be safely said that Agency accounting is situated between government accounting and corporate accounting.

3. Characteristics of general principles

(1) The Accounting Standards for Agencies and their general principles

The structure of the Accounting Standards for Agencies, established in 2000, and of the Corporate Accounting Principles, established in 1949, is shown in Table 3.

So far, the Corporate Accounting Principles have been revised four times, namely, in 1954, 1963, 1974, and 1982. No amendments have been made during the 20 years since 1982. Therefore, some of their stipulations are not practical today. To resolve this problem, various supplementary accounting standards, such as the principles for consolidated financial statements, the standards for preparing consolidated cash flow statements, etc., have

Table 3. The structure of the Accounting Standards for Agencies and Corporate Accounting Principles

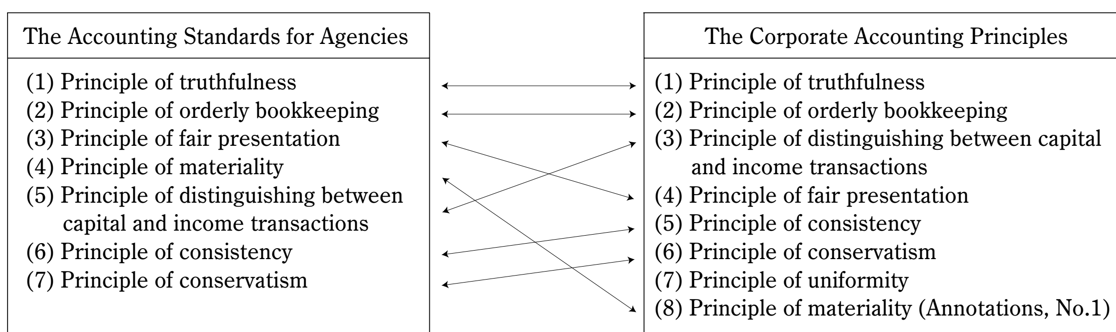
Accounting Standards for Agencies	Corporate Accounting Principles
Preamble Chapter 1. General principles Chapter 2. Concept Chapter 3. Recognition and measurement Chapter 4. Organization of financial statements Chapter 5. Balance sheet Chapter 6. Income statement Chapter 7. Cash flow statement Chapter 8. Document concerning profit appropriation or loss disposition Chapter 9. Statement of costs for implementing administrative services Chapter 10. Attached schedules and notes Chapter 11. Accounting treatment specific to Agencies Annotations to the Accounting Standards for Agencies (40 items in total)	Preamble Chapter 1. General principles Chapter 2. Principles for income statement Chapter 3. Principles for balance sheet Annotations to the Corporate Accounting Principles (25 items in total)

been established separately. When referring to the entire body of accounting standards, we can use the term, “corporate accounting principles in their broad sense.” Thus, we must understand that the “corporate accounting principles” mentioned in the General Provisions refer to the Corporate Accounting Principles in their broad sense.

The Accounting Standards for Agencies have detailed and sophisticated stipulations of a practical nature. Their advantage is that assets, liabilities, capital, revenue, and expenses—as basic concepts—are clearly defined. As a financial statement specific to Agencies, a statement of costs for implementing administrative services is included. Detailed explanations are made for special accounting treatments.

Table 4 details the general principles of the Accounting Standards for Agencies and of the Corporate Accounting Principles.

Table 4. General principles of the Accounting Standards for Agencies and of the Corporate Accounting Principles



The Accounting Standards for Agencies	The Corporate Accounting Principles
(1) Principle of truthfulness	(1) Principle of truthfulness
(2) Principle of orderly bookkeeping	(2) Principle of orderly bookkeeping
(3) Principle of fair presentation	(3) Principle of distinguishing between capital and income transactions
(4) Principle of materiality	(4) Principle of fair presentation
(5) Principle of distinguishing between capital and income transactions	(5) Principle of consistency
(6) Principle of consistency	(6) Principle of conservatism
(7) Principle of conservatism	(7) Principle of uniformity
	(8) Principle of materiality (Annotations, No.1)

The Accounting Standards for Agencies have seven principles, while the Corporate Accounting Principles have eight. The eighth general principle of the Corporate Accounting Principles is discussed in Annotations No. 1. The principle of uniformity is absent from the Accounting Standards for Agencies. This is because the preparation of financial statements in different forms is not assumed for Agencies.

Firstly, let us focus on the order of the various principles before examining their contents. In the Accounting Standards for Agencies, the principles of fair presentation and materiality are placed before the principles of consistency and conservatism. The position of the principle distinguishing between capital and income transactions in the Accounting Standards for Agencies (5) is lower than its equivalent position in the Corporate Accounting Principles (3).

(2) Principle of truthfulness and principle of orderly bookkeeping

For the principle of truthfulness, the following stipulations are made:

Accounting for Agencies must provide a true picture of their financial and operational conditions.

Accounting for corporations must provide a true picture of their financial conditions and management performance.

The stipulations in the upper row are for the Accounting Standards for Agencies, and the stipulations in the lower row are for the Corporate Accounting Principles. (The underline is added by the writer to emphasize particular points.) The main point is that the term “management performance” is replaced by the term “operational conditions.” Agencies are non-profit organizations without the objective of earning profits. This may be the reason that the term “operational conditions” is used. Agencies are required to provide a true picture of their financial and operational conditions from “the viewpoints of accountability and the proper evaluation of performance” (the Accounting Standards for Agencies: Annotations, No. 1-3).

For the principle of orderly bookkeeping, the following stipulations are made:

> 1. In accounting for Agencies, all transactions and events that affect their financial and operational conditions must be systematically recorded using double-entry bookkeeping, and account books containing accurate information must be prepared.
> 2. The account books must contain all transactions and events that affect Agencies' financial and operational conditions, and this information must be exhaustive and verifiable.
> 3. The financial statements of Agencies must be prepared based on account books containing accurate information, and such financial statements and account books should not contain contradictory information.
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> In corporate accounting, account books containing accurate information for all transactions must be prepared in accordance with the principles of orderly bookkeeping.

In the Corporate Accounting Principles, the term "orderly bookkeeping," which has a wider meaning than simple double-entry bookkeeping, is used. In this respect, the Accounting Standards for Agencies have a clearer definition. Information contained in account books must be "exhaustive and verifiable." The financial statements of Agencies must be prepared based on account books, and "financial statements and account books should not contain contradictory information." However, the statement of costs for implementing administrative services is an exception. In the case of this statement, "some data are prepared based not on account books but on the computations of assumed opportunity costs" (Annotations, No. 3-2). In the case of corporate accounting, however, computation is made based on actual figures, and figures based on the assumed computations are never used.

(3) Principle of fair presentation and principle of materiality

For the principle of fair presentation, the following stipulations are made:

> Agencies must clearly provide necessary accounting information to the general public and other stakeholders through financial statements, in order that these stakeholders may not misunderstand their actual conditions.
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> Corporations must clearly provide necessary accounting information to stakeholders through financial statements so that these stakeholders may not misunderstand their actual conditions.

If accounting treatment is properly made but accounting information lacks clarity, users of such accounting information may not correctly understand the actual conditions of the organizations. That is the reason why fair presentation is required. In the Accounting Standards for Agencies, an emphasis is placed on "the general public" as users of accounting information. Since Agencies are organizations that provide administrative services, it is natural that an emphasis is placed on the general public. Although it may be difficult to prepare financial statements that can be easily understood by all citizens, it is desirable that the financial statements of Agencies be easier to understand than those of corporations.

For the principle of materiality, the following stipulations are made:

> 1. In accounting for Agencies, proper recording, computation and presentation must be made in consideration of the materiality of both financial and quality aspects of transactions and events so that the general public and other stakeholders may not misunderstand the actual conditions of Agencies.
> 2. As for the quality aspect, careful consideration must be given not only from the viewpoint of Agency accounting but also from the viewpoint that Agencies have a public nature.
> 3. For transactions of less materiality, a simplified method rather than the exhaustive method may be used. This simplified method is considered also to be a method that conforms to the principles of orderly bookkeeping and fair presentation.
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> In accounting for corporations, precise computations must be made in accordance with the predetermined method of accounting treatment. The objective of the Corporate Accounting Principles is to clarify the financial conditions of corporations so that stakeholders may not misunderstand their actual conditions. For transactions of less materiality, therefore, the use of a simplified method rather than the exhaustive method is considered to conform to the principle of orderly bookkeeping.
> (Remainder omitted.)

It is said that the principle of materiality was established for practical reasons. If certain transactions do not affect the decision making of users of financial statements, a simplified accounting method may be used. Whether certain transactions are of a material nature or not is determined in consideration of “both financial and quality aspects.” This approach is also taken in corporate accounting. In the Accounting Standards for Agencies, their “public nature” is also considered. The principle of materiality applies not only to the method of accounting treatment but also to the method of presentation.

(4) Principle of distinguishing between capital and income transactions

This general principle is placed fifth in the Accounting Standards for Agencies but third in the Corporate Accounting Principles. This means that this principle is placed at a lower position in the Accounting Standards for Agencies than in the Corporate Accounting Principles. The principle of distinguishing between capital and income transactions is stipulated as follows:

In the Accounting Standards for Agencies, capital and income transactions must be clearly separated from each other.
In the Corporate Accounting Principles, capital and income transactions must be clearly separated from each other, and in particular, capital and earned surpluses must not be confused.

It seems that the differences between the Accounting Standards for Agencies and the Corporate Accounting Principles are very small. However, there exists a remarkable difference between them because the contents of capital and income transactions in the Accounting Standards for Agencies are different from those in the Corporate Accounting Principles.

In the Corporate Accounting Principles, there are stipulations as follows (Annotations, No. 2(1)):

“Capital surplus derives from capital transactions, while earned surplus derives from income transactions and therefore represents retained earnings. If capital and earned surpluses are mixed up, the financial conditions and management performance of a corporation cannot be represented properly.”

Capital surplus derives from capital transactions, while earned surplus derives from income transactions. However, the contents of capital and income transactions are not explained.

Kiyomitsu Arai states as follows:

“Capital transactions in a narrow sense mean: 1) such transactions that increase or decrease shareholders’ paid-in capital (capital and capital reserve). However, some persons believe that capital transactions further mean: 2) increases in equity due to the revaluation of assets when monetary values fluctuate wildly or due to the generation of gains on insurance claims (increase or decrease in appraisal capital); and 3) increases in equity due to the receipt of government subsidies or payments for public works by a beneficiary (increase or decrease in donated capital.)”[1)]

The narrow-sense theory regards only 1) as capital transactions, but the broad-sense theory regards 1) through 3) as capital transactions. Naturally, the scope of income transactions in the narrow-sense theory is larger than that in the broad-sense theory. The Corporate Accounting Principles are based on the broad-sense theory, while the Commercial Law and the Corporation Tax Law are based on the narrow-sense theory. In practice, therefore, accounting treatment is made based on the narrow-sense theory.

In the Accounting Standards for Agencies, views that are different from both the narrow-sense and broad-sense theories are indicated. For example, Annotations No.6-1 to the Accounting Standards for Agencies states as follows:

“As the national government establishes policies, Agencies cannot make decisions for some activities at their own discretion. In these cases, it is not reasonable to include the expenses for these activities in computations of profit or loss as a means of evaluating the performances of Agencies. Therefore, the expenses for these activities should not be included in the computations of profit or loss for Agencies.”

In short, such items that are naturally included in the computations of profit or loss in corporate accounting are excluded from computations of profit or loss in the Accounting Standards for Agencies, if expenditure on such

1) Kiyomitsu Arai, “New Financial Accounting (the 3rd edition),” Chuo Keizaisha, 1996, p.42.

items cannot be determined by the sole discretion of Agencies. One example is "the depreciation amount that is not included in the computation of profit or loss."

In corporate accounting, the computation of profit or loss is made to determine management performance. In the Accounting Standards for Agencies, the computation of profit or loss is made to determine operational conditions. Agencies may exclude from the computation of profit or loss such transactions that cannot be made at their own discretion. Thus, the contents of computations of profit or loss, and capital and income transactions in the Corporate Accounting Principles are different from those in the Accounting Standards for Agencies.

(5) Principle of consistency and principle of conservatism

For the principle of consistency, the following stipulations are made in the Accounting Standards for Agencies and the Corporate Accounting Principles:

Agencies must use the same principles and methods of accounting treatment in each fiscal year, and should not change these principles or methods without reasonable cause.
Corporations must use the same principles and methods of accounting treatment in each fiscal year, and should not change these principles or methods without reasonable cause.

The principle of consistency will be important, "when either of two or more alternative principles or methods of accounting treatment may be adopted for the same transaction" (Annotations to the Corporate Accounting Principles, No. 3). The principle of consistency is an extremely important one in the Corporate Accounting Principles. The objective of the principle of consistency in the Accounting Standards for Agencies is similar to that in the Corporate Accounting Principles. However, the scope of alternative principles or methods of accounting treatment in the Accounting Standards for Agencies is smaller than that in the Corporate Accounting Principles. In the Accounting Standards for Agencies, for example, only straight-line depreciation is permitted for the depreciation of tangible fixed assets. Thus, the number of transactions to which the principle of consistency applies is comparatively small, and the importance of this principle is lower than in the Corporate Accounting Principles.

For the principle of conservatism, the following stipulations are made:

1. Agencies must conduct accounting treatment based on conservative judgments in preparation for predicted future risks. 2. Agencies must not distort their true financial and operational conditions by conducting excessively conservative accounting treatment.
If there is a possibility that their financial conditions may be adversely affected by some phenomena, corporations must conduct proper and sound accounting treatment in preparation for such a situation.

The principle of conservatism controls accounting treatment. Accounting treatment based on "conservative judgment" usually means a method to undervalue profit. Only those revenues that seem to be certain are recorded, and all sorts of expenses are recorded. Or, assets are undervalued and all sorts of liabilities are recorded. Through these treatments, profits are undervalued. As mentioned earlier, the scope of selecting alternative principles or methods of accounting treatment is limited for Agencies. Therefore, the importance of the principle of conservatism in the Accounting Standards for Agencies is less than in the Corporate Accounting Principles.

4. Characteristics of financial statements

(1) Organization of financial statements

The organization of financial statements in the Accounting Standards for Agencies is different from that in the Corporate Accounting Principles. Table 5 shows the organization of financial statements for both cases.

A cash flow statement was not included in the original Corporate Accounting Principles. A cash flow statement was included in the financial statements of corporations after the "Standards for Preparing Consolidated Cash Flow Statements, etc." were established in March 1998.

The most significant feature of the Accounting Standards for Agencies is that a statement of costs for

implementing administrative services is included in financial statements. Although other financial statements in both cases have the same titles, they have a little different contents. The writer would like to discuss a balance sheet, an income statement, a statement of costs for implementing administrative services, and other financial statements in the following sections.

Table 5. Organization of financial statements in the Accounting Standards for Agencies and the Corporate Accounting Principles

The Accounting Standards for Agencies	The Corporate Accounting Principles
(1) Balance sheet (2) Income statement (3) Cash flow statement (4) Document concerning profit appropriation or loss disposition (5) Statement of costs for implementing administrative services (6) Attached schedules	(1) Income statement (2) Balance sheet (3) Cash flow statement (4) Schedules of financial statements (5) Appropriation statement

(2) Balance Sheet

The balance sheet shows the financial condition of an organization in terms of assets, liabilities, and capital. In the Corporate Accounting Principles, assets, liabilities, and capital are not actually defined. In the Accounting Standards for Agencies, however, these items are defined as follows (8-1, 14-1, and 18-1).

“The assets of an Agency mean the resources controlled by the Agency as a result of past transactions or events, by which the Agency can expect to provide services and earn economic benefits in the future.”

“The liabilities of an Agency mean the current obligations derived from past transactions or events, the performance of which decreases the Agency’s capability of providing services or earning economic benefits in the future.”

“The capital of an Agency consists of the financial base provided to the Agency so that it can implement operations without fail and of the surplus generated from such operations. Capital is equivalent to the difference between assets and liabilities.”

An important feature of the Accounting Standards for Agencies is that deferred assets cannot be recorded. The main reason is that “required funds are procured in every fiscal year” (Note 8). Although it is an expense, a deferred asset is usually recorded as an asset, because the effect of the expense will be generated in the future. In the case of Agencies, however, these conditions are not assumed, and therefore, expenses cannot be deferred.

In the Accounting Standards for Agencies, only the lower of cost or market method is admitted for the valuation of inventories (27-2). In the case of corporate accounting, corporations can select either the lower of cost or market method or the cost method. This may be because the lower number of accounting treatment methods is preferable and the principle of conservatism is more emphasized in the Accounting Standards for Agencies.

In the Accounting Standards for Agencies, only the lower of cost or market method is permitted for the valuation of securities that are traded in stock markets (28). The mark-to-market method, which has been recently introduced for securities held for trading purpose in the Corporate Accounting Principles, is not permitted. Since the capability of Agencies to acquire securities is restricted, it is not necessary to introduce the mark-to-market method for Agencies.

Only the straight-line method is permitted for the depreciation of both tangible and intangible fixed assets (32-2). This is because if more than one depreciation rule is permitted, comparisons will be impossible.

As for provisions, the following stipulations are made (17-2).

“If it is objectively clear in view of laws, regulations, medium-term plans, etc. that funds for future expenditure will be certainly procured, no provisions shall be appropriated.”

For example, these stipulations apply to retirement benefit for which funds will be procured. If an Agency is not required to pay retirement benefits from its own resources, the appropriation of provisions is unnecessary.

Liabilities are divided into current and fixed liabilities (14-3). Both current and fixed liabilities contain items specific to Agencies. Agency-specific items in current liabilities include debts for operation grants, facility expenses received and donations received (to be used within one year). Agency-specific items in fixed liabilities include asset-counterpart liabilities and donations received (to be used for a period exceeding one year). These items are only related to Agency-specific accounting treatments.

Capital is divided into capital, capital surplus, and earned surplus (18-2). Capital surplus is defined as "such resources other than capital or earned surplus that include donated capital and appraisal capital" (19-2). This definition is based on the broad-sense theory for capital transactions, and reflects the concepts behind the Corporate Accounting Principles. In the actual corporate accounting, however, the narrow-sense theory is adopted as mentioned earlier. The Accounting Standards for Agencies stipulate that capital surplus accrues in the following four cases (11-2):

(1) When an Agency acquires non-depreciable assets, or depreciable assets for which "the accounting treatment for the depreciation of specified depreciable assets is required (77)," using facility charge provided from the central government;

(2) When an Agency acquires fixed assets using the "surplus" mentioned in a medium-term plan;

(3) When an Agency acquires non-depreciable assets using operational grants within the limits assumed in a medium-term plan;

(4) When an Agency acquires non-depreciable assets using donations in accordance with the intention of the donor or a pre-determined Agency plan, within the limit assumed in a medium-term plan.

Since the contents of these cases are related to Agency-specific accounting treatment, the writer will discuss them later.

(3) Income statement

The income statement indicates management performance in terms of revenue, expenses, and net profit. In the Corporate Accounting Principles, revenues and expenses are not defined. In the Accounting Standards for Agencies, the following stipulations are made (20 and 21):

"The expenses of an Agency mean a decrease in economic benefits that leads to a decrease in assets or an increase in liabilities (or both) in connection with the provision of services, the delivery or production of goods, or other operations of the Agency. A decrease in economic benefits deriving from capital transactions that decrease the Agency's financial base is excluded."

"The revenue of an Agency means an increase in economic benefits that leads to an increase in assets or a decrease in liabilities (or both) in connection with the provision of services, the delivery or production of goods, or other operations of the Agency. An increase in economic benefits deriving from capital transactions that increase the Agency's financial base is excluded."

It is said that the income statement of an Agency does not indicate management performance unlike in corporate accounting, but indicates operational conditions. In addition, the priority is placed not on revenues but on expenses. In other words, the top priority is placed on the expenses needed to implement specified operations, and less priority is placed on revenues needed to pay the expenses. In the income statement of an Agency, ordinary profit is computed by deducting ordinary revenues from ordinary expenses, and net profit is computed by adjusting extraordinary profit or loss. Then, reversals for specific retained earnings, etc. are entered, and gross net profit is indicated in the bottom line.

Expenses are recorded on an accrual basis. Therefore, depreciation is admitted for fixed assets. In corporate accounting, all depreciation charges are recorded as expenses. In the Accounting Standards for Agencies, however, not all depreciation charges are recorded as expenses. For example, depreciation charges for those fixed assets that were acquired with facility expenses are not recorded as expenses. Facility expenses are used to establish the financial base of an Agency, such as buildings. Depreciation charges for such a base cannot be financed by operational grants.

Operational grants are financial resources for ordinary operations. They are recorded as liabilities when received, and are "gradually transferred to revenue as operations progress" (Note 34). It is said that there are four

procedures for this accounting treatment: performance type, period type, expense type, and finance type.[2] In this accounting treatment, the amount of operational grants that reflects the recorded expenses is gradually transferred to revenue in accordance with the progress of operations. Therefore, if operational grants are properly used, expenses and revenue will be balanced. In other words, profit or loss will not accrue at all. This is not the case with corporate accounting.

(4) Statement of costs for implementing administrative services

The statement of costs for implementing administrative services is a financial statement unique to Agencies. This is a statement "to indicate all information on costs for implementing administrative services provided by an Agency in a fiscal year" (40). The costs for implementing administrative services mean those costs of Agencies' operations that are borne by the general public (23). These costs include the following (24):

(1) The amount obtained by deducting revenue other than revenue deriving from operational grants from the expenses of Agencies;

(2) Depreciation charges for depreciable assets for which "the accounting treatment for the depreciation of specified depreciable assets is required (77)";

(3) The estimated increase in retirement allowances in the case that provisions are not recorded in accordance with "the accounting treatment for retirement allowances (78)";

(4) Opportunity costs that accrue when assets of the central government are used:

1) Opportunity costs that accrue when public property is used;

2) Opportunity costs that accrue when the central government provides funds.

The amount mentioned in (1) is computed by deducting own revenues from the total of ordinary and extraordinary expenses.[3] The amount mentioned in (2) represents those depreciation charges that are not recorded in an income statement, and refers to off-income-statement depreciation charges. The amount mentioned in (3) represents the estimated increase in retirement allowances for which provisions are not recorded. The amount mentioned in (4) is based on an assumptive calculation, and therefore is not based on the account books. The total of these amounts mentioned in the above items of the statement of costs for implementing administrative services represents the amount to be borne by the general public.

(5) Other financial statements

Financial statements, other than a balance sheet, an income statement and a statement of costs for implementing administrative services, are a cash flow statement, a document concerning profit appropriation or loss disposition, and attached schedules.

The funds that are covered by a cash flow statement of an Agency include cash on hand and demand deposits (22). The scope of the funds for Agencies is smaller than that for corporations, as funds include cash and cash equivalents in corporate accounting.

The document concerning profit appropriation for agencies is very different from the appropriation statement in corporate accounting. The appropriation statement for corporations mainly indicates dividends and bonuses for directors. However, the document concerning profit appropriation for agencies is not assumed to indicate such information. The document concerning profit appropriation for agencies mainly indicates retained earnings and reversals for retained earnings.

For the following items, attached schedules must be prepared (71):

(1) Details of acquisition/disposition of fixed assets and of depreciation charges (including off-income-statement depreciation charge in accordance with "the accounting treatment for the depreciation of specified depreciable assets (77)";

(2) Details of inventories;

(3) Details of securities;

2) Ohta Showa Century Audit Corporation, "The Accounting Standards for Agencies – Detailed Explanations," Hakuto Shobo, 2001, pp.168–172.

3) Ibid., p.274.

(4) Details and changes of capital and capital surplus;
(5) Details of reversal of specific retained earnings;
(6) Details of debt and revenue of operational grants;
(7) Details of salaries for officers and staff;
(8) Segment information to be disclosed;
(9) Details of other major assets, debts, expenses and revenues.

The reason why attached schedules for fixed assets are taken up first is because the accounting treatment is complicated.

5. Characteristics of accounting treatment

The financial resources of Agencies consist of operational grants, facility expenses, donations, and their own revenue. Operational grants and facility expense are provided by the central government. Since operational grants are financial resources for ordinary operations, they are provided by the central government every year. Since facility expenses are financial resources for acquiring fixed assets, they are provided by the central government as necessary.

(1) Accounting treatment of operational grants

When operational grants are received, they are recorded as debts.

Example-1 An operational grant of ¥4,000,000 was received in cash.

(Debit)	(Cash)	4,000,000	(Credit) (Debt of operational grants)	4,000,000

When an operational grant is used for items other than fixed assets, the debt of the operational grant is transferred to revenue.

Example-2 Salary of ¥200,000 was paid using operational grants.

(Debit)	(Salary)	200,000	(Credit) (Cash)	200,000
	(Debt of operational grants)	200,000	(Revenue of operational grants)	200,000①

When a non-depreciable fixed asset is acquired within the scope of a medium-term plan, the debt of the operational grant is transferred to capital surplus.

Example-3 Land was acquired using an operational grant of ¥1,500,000.

(Debit)	(Land)	1,500,000	(Credit) (Cash)	1,500,000
	(Debt of operational grants)	1,500,000	(Capital surplus)	1,500,000②

When a non-depreciable fixed asset other than above, or a depreciable fixed asset is acquired, the debt of the operational grant is transferred to asset-counterpart operational grants.

Example-4 Equipment was acquired using an operational grant of ¥800,000.

(Debit)	(Equipment)	800,000	(Credit) (Cash)	800,000
	(Debt of operational grants)	800,000	(Asset-counterpart operational grants)	800,000③

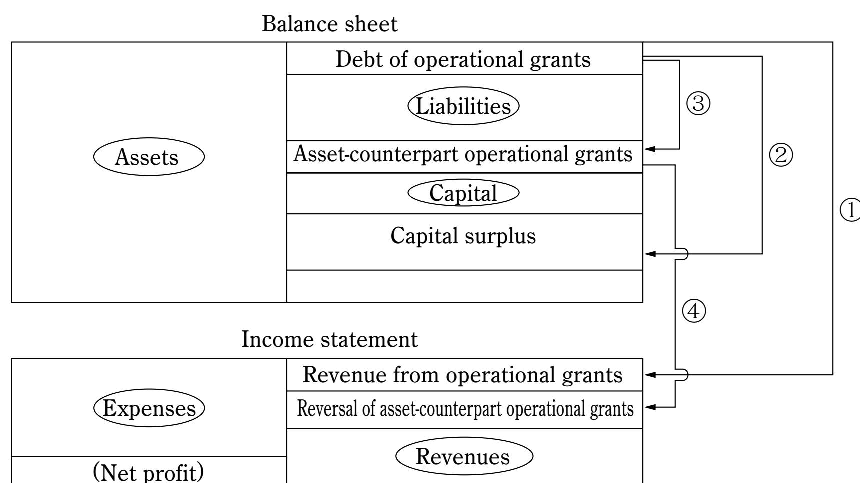
When a depreciation charge is recorded for a depreciable asset, the asset-counterpart operational grant is transferred to revenue.

Example-5 Depreciation of ¥120,000 was recorded for the above equipment.

(Debit)	(Depreciation charge)	120,000	(Credit)(Accumulated depreciation charges)	120,000
	(Asset-counterpart operational grants)	120,000	(Reversal of asset-counterpart operational grants)	120,000④

Journal entries for①～④are shown in Figure 6.

Figure 6. Accounting treatment for operational grants



(2) Accounting treatment of facility expenses

When facility expenses are received, they are recorded as liabilities.

Example-6 Facility expense of ¥5,000,000 was received in cash.

(Debit) (Cash)	5,000,000	(Credit) (Facility expense received)	5,000,000

When a fixed asset is acquired using facility expenses, the facility expenses received are transferred to capital surplus.

Example-7 Building was acquired using facility expenses of ¥5,000,000.

(Debit) (Building)	5,000,000	(Credit) (Cash)	5,000,000
(Facility expense received)	5,000,000	(Capital surplus)	5,000,000

When a depreciation charge is recorded for a depreciable asset, the depreciation charge is recorded as off-income-statement accumulated depreciation charge.

Example-8 Depreciation charge of ¥225,000 was recorded for the above-mentioned building.

(Debit) (Off-income-statement accumulated depreciation charge)	225,000
(Credit) (Accumulated depreciation charge)	225,000

The accumulated depreciation charge is recorded in the deduction account for buildings, while the off-income-statement accumulated depreciation charge is recorded in the deduction account for capital surplus. Therefore, these transactions are recorded in a balance sheet as follows.

Balance sheet

Building	5,000,000		Capital surplus	5,000,000	
Accumulated depreciation charge	225,000	4,775,000	Off-income-statement accumulated depreciation charge	225,000	4,775,000

(3) Accounting treatment for donations

When a donation is received, it is recorded as a “donation received” in the liability account. If the use of the donation is specified, accounting treatment is conducted as follows (75).

When the donation received is used for acquiring items other than fixed assets, it is transferred to “donation revenue.”

When the donation received is used for acquiring a non-depreciable fixed asset and this acquisition is detailed in a medium-term plan, it is transferred to “capital surplus.”

When the donation received is used for acquiring a non-depreciable fixed asset and this acquisition is not detailed

in a medium-term plan, or when it is used for acquiring a depreciable fixed asset, it is transferred to "asset-counterpart donations." When a depreciation charge is recorded for a depreciable asset, the asset-counterpart donation is transferred to "reversal of asset-counterpart donations."

If the use of the donation is not specified, it is recorded as revenue in the fiscal year when the donation was received.

The accounting treatment for operational grants, facility expenses, and donations is different from that in corporate accounting. This accounting treatment reflects the special characteristics of Agencies. The accounting treatment for fixed assets, in particular, is extremely complicated because different treatments are required for different financial resources.

Agencies' own revenues are recorded as profit in accordance with the realization principle in corporate accounting.

6. Concluding remarks

The Accounting Standards for Agencies were established based on the Corporate Accounting Principles as a model, and the concepts of the Corporate Accounting Principles are adopted as far as possible. However, Agencies are non-profit organizations, while corporations are profit-making organizations. Even if the General Provisions state that the Corporate Accounting Principles are adopted in principle, it is impossible to apply all Corporate Accounting Principles to Agencies. It may be safely said that revisions based on "the Public Enterprise Accounting Principles" will be needed in the future.[4)]

At the same time, it will be necessary to study how to reflect the characteristics of the Accounting Standards for Agencies in the "Public Enterprise Accounting Principles." As the writer has covered almost all characteristics of the Accounting Standards for Agencies in this paper, detailed explanations for particular characteristics seem to be insufficient. Some characteristics may have been omitted. Since the Accounting Standards for Agencies have only recently been implemented, it will be necessary to continue to develop them.

4) Yoshiro Okamoto, Mikio Kajikawa, Koji Hashimoto, and Hiromichi Hanabusa, "Agency Accounting," Toyo Keizai Shinposha, 2001, p.36.