

**Comparative studies of  
IPSASs and Japanese governmental accounting standards**

**Introduction and IPSAS 1 Presentation of Financial Statements**

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August 2016

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## Preface

This paper has two major objectives:

- The first objective is to explain Japanese governmental accounting standards in English. The Japanese national government and many local governments already apply accrual basis accounting standards. However, most Financial Statements of such governments and the underlying accrual accounting standards, are prepared and presented in Japanese only. Therefore the intent is to share information related to the Japanese governmental accounting practices in English.
- The second objective is to compare International Public Sector Accounting Standards (IPSASs) with Japanese governmental accounting standards. The intent is to provide information on the substantive differences between IPSASs and Japanese standards.

The paper is structured as follows:

- Chapter 1 to 3: Introduction (common issues)
- Chapter 4 to 7: IPSAS 1, *Presentation of Financial Statements* and the respective Japanese governmental accounting standards summary. IPSAS 1 is the most important and basic IPSAS<sup>1</sup>.

## Acknowledgements

I would like to thank IPSASB staff, Members and Technical Advisors for their support in editing this study and making it available on the IPSASB website. I am additionally grateful to JAGA (Japanese association of governmental accounting) for also making this document available on its website.

## Abbreviations

|          |  |
|----------|--|
| IPSAS(s) | International Public Sector Accounting Standard(s) |
| MOF      | Ministry of Finance                                |
| MIC      | Ministry of Internal affairs and Communications    |

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<sup>1</sup> This study is based on the IPSAS1 (IPSASB's 2016 handbook edition) and Japanese standards (issued as of July 2016).

## **1. Preparers and the Scope of Japanese governmental financial statements**

### **1.1. Japanese national government**

#### **1.1.1. Overview**

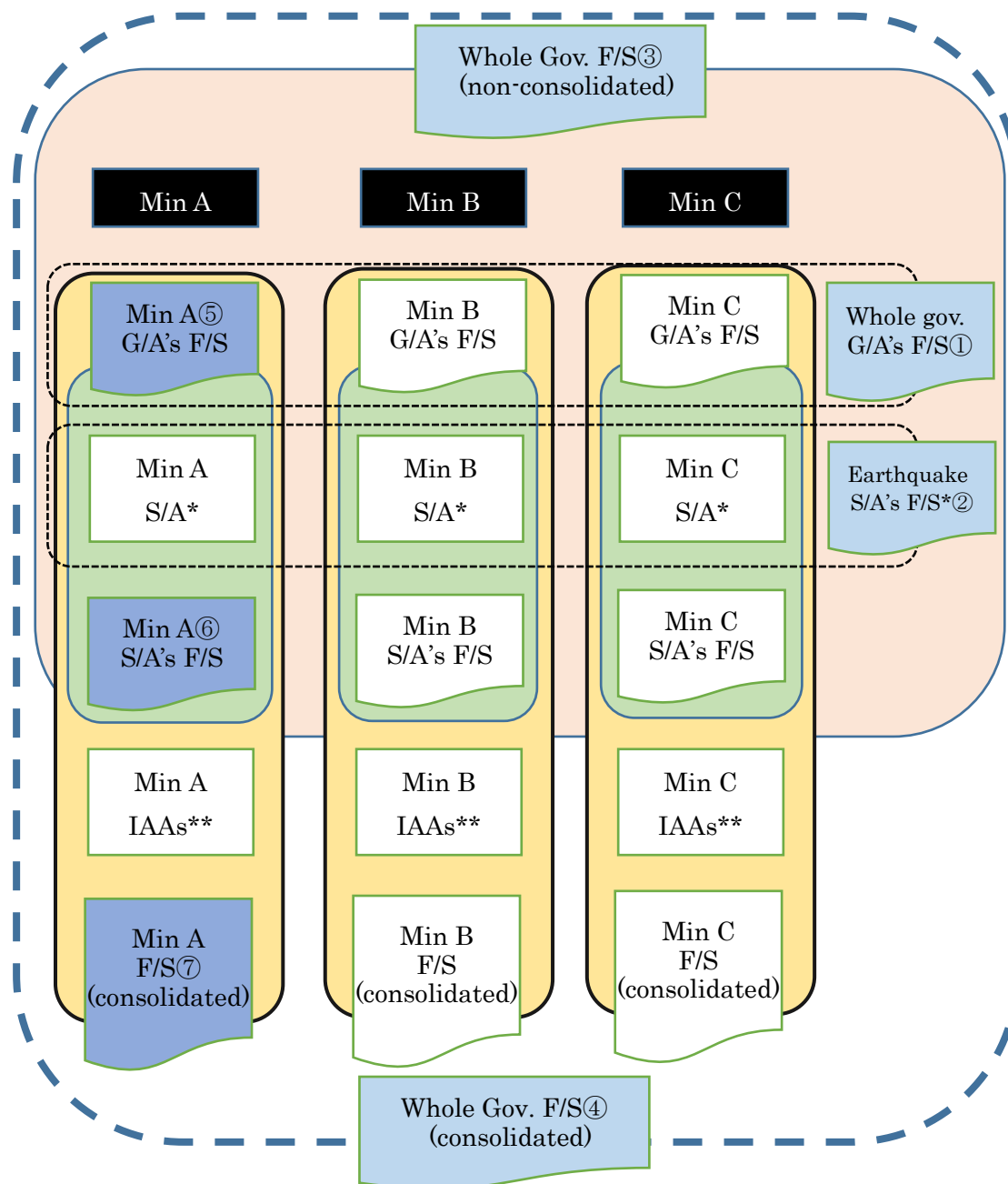
There are many different reporting entities, which prepare financial statements, as follows:

- Individual ministries;
- The Japanese national government; and
- The whole of government consolidated level.

The diagram below is from the Japanese Ministry of Finance (MOF), and provides an overview of various reporting entities of the national governmental financial statements<sup>2</sup>.

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<sup>2</sup> Please note this is not an official translation.



\* Special account for “The reconstruction budget of the great east Japan earthquake”.

Other special accounts' F/S are prepared as each ministries' F/Ss.

\*\* Incorporated Administrative Agencies and National Universities

Two different shades of blue are used to distinguish the different financial statements. Those shaded in light blue are whole governmental level financial statements, and those shaded in dark blue are ministry level financial statements.

### 1.1.2. Whole government level

The financial statements of the Japanese national government are prepared and issued by the MOF<sup>3</sup>.

There are four sets of the financial statements of the national government shaded “light blue” in the diagram included in 1.1.1.

|   | National level Financial Statements                          | Standard                               | Law |
|---|--|--|-----|
| ① | General accounts   | △ (refer to ministry level’s standard) |     |
| ② | Earthquake Special accounts                                  | △ (ditto)                              | ○   |
| ③ | Whole (non-consolidated)<br>= ① + ② + other special accounts | △ (ditto)                              |     |
| ④ | Whole (consolidated)   | △ (ditto)                              |     |

The MOF prepares the national financial statements based on the each ministry’s financial statements. There is not a specialized accounting standard required for all national level financial statements. Only the ②Special Account’s financial statements are required by law. The MOF aggregates all ministries’ financial statements, and sets off the material internal items and transactions. The consolidation process with IAAs is done at ministry level, and national level process is not a full consolidation, but an aggregation process<sup>4</sup>. As a result of this process, the structure of the national financial statements is similar to the each ministry’s financial statements.

In addition to the financial statements prepared on an accrual basis of accounting, the MOF prepares and presents cash basis financial statements<sup>5</sup>.

<sup>3</sup> [https://www.mof.go.jp/budget/report/public\\_finance\\_fact\\_sheet/index.htm](https://www.mof.go.jp/budget/report/public_finance_fact_sheet/index.htm)

<sup>4</sup> This aggregation process is not so complicated. Practically, consolidation process is almost completed at each ministry’s level. Adding to that, most of Japanese IAAs do not have minor interests (fully owned by national government), and there is no ultimate controlling entity at this aggregating process.

<sup>5</sup> Prepared in accordance with budgetary legislation, which are approved by parliament.

### 1.1.3. Ministry level

The financial statements of each ministry are prepared by cabinet.

There are three sets of financial statements for the Ministry level shaded “dark blue color” in the diagram included in 1.1.1.

|   | Ministry level Financial Statements | Standard                                     | Law |
|---|-------------------------------------|--|-----|
| ⑤ | <b>General accounts</b>             | ○ <b>This study focuses on this standard</b> |     |
| ⑥ | Each Special account                | ○  | ○   |
| ⑦ | Consolidated                        | ○  |     |

There are three accounting standards corresponding to each of those financial statements<sup>6</sup>, for general account’s financial statements, for special account’s financial statements, and for consolidated financial statements. Each ministry uses all of these common standards<sup>7</sup> to make their financial statements. These standards were issued in June 2004 and applied for the financial statements as of March 2004. These standards were set by the standard-setting advisory boards and study groups formed by the MOF.

The focus of this study is the ministry’s accounting standards as follows:

- “⑤General account’s financial statement”; and
- “③Whole governmental level (not-consolidated)”.

The standard for ⑥ the special account is similar to that of the general account.

Incorporated Administrative Agencies (IAAs) are specific entities defined in general law which includes national research institutions, universities, and other public entities. IAAs have their own specific accounting standards, based on the private sector accounting standards, with additional guidance included for public sector issues. Some of the additional guidance is based on the IPSASs, such as requirements under IPSAS 21, *Impairment of Non-Cash-Generating Assets*.

The financial statements for Special Accounts’ are prepared in accordance with legislation, which also requires they are submitted to the parliament. The Consolidated financial statements and General Account’s financial statements are prepared and presented by direction of the MOF.

<sup>6</sup> [https://www.mof.go.jp/budget/report/public\\_finance\\_fact\\_sheet/ministry/20111031/index.htm](https://www.mof.go.jp/budget/report/public_finance_fact_sheet/ministry/20111031/index.htm)

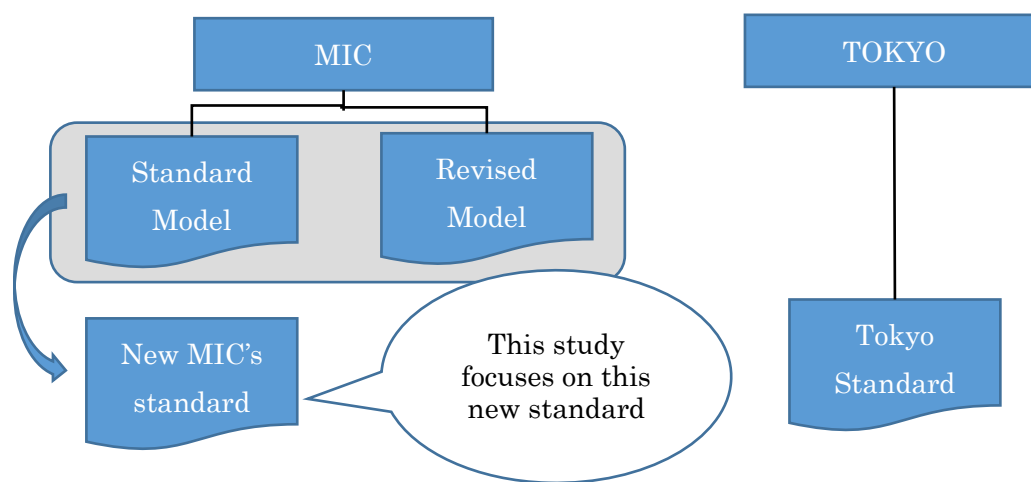
<sup>7</sup> The standard which applies is based on that ministry’s structure. Usually, each ministry makes three sets of financial statement. Ministries that do not have its IAAs do not use the consolidation standard. And ministries that do not have its Special Account do not use the special account standard.

## 1.2. Japanese local governments

Japanese local governments are referred to as “Local Public Bodies”. They are largely classified in two tiers, as follows:

- Tier 1 includes the 47 prefectures of Japan, which are similar to provinces or states.
- Tier 2 includes 1738 local governments, which are usually individual cities, towns or villages.

In January 2015, Ministry of Internal Affairs and Communications (MIC) introduced a new standard requiring local governments to prepare financial statements as of March 2018 based on this new standard<sup>8</sup>. MIC’s new standard was developed by a study group under MIC<sup>9</sup>.



There are now three standards, two of which were developed by the MIC. The MIC intends to combine its two standards into the single standard. The remaining standards is referred to as the “Tokyo Standard”. The Tokyo Standard is applied by 12 local governments including two large prefectures<sup>10</sup>. A summary of the Tokyo metropolitan government’s financial statements are available on its website<sup>11</sup>.

<sup>8</sup> [http://www.soumu.go.jp/menu\\_news/s-news/01zaisei07\\_02000110.html](http://www.soumu.go.jp/menu_news/s-news/01zaisei07_02000110.html)

<sup>9</sup> [http://www.soumu.go.jp/main\\_sosiki/kenkyu/chikousuiken/houkokusyo.html](http://www.soumu.go.jp/main_sosiki/kenkyu/chikousuiken/houkokusyo.html)

<sup>10</sup> Tokyo (Capital) and Osaka

<sup>11</sup> [http://www.kaikeikanri.metro.tokyo.jp/kessan\(english\).html](http://www.kaikeikanri.metro.tokyo.jp/kessan(english).html)



There are some important differences between MIC’s new standard and the Tokyo Standard. The Tokyo Standard is more detailed and closer to IPSASs.

|                          | MIC’s new standard   | Tokyo standard  |
|--------------------------|--|---|
| Timing of entry          | Daily/ Year end  | Daily   |
| PPE: initial measurement | Historical cost<br><br>Replacement value <sup>12</sup><br><br>Land for roads, rivers and water channels: Acquired before 1984, uncertain of historical cost, or transferred with no consideration: 1 yen | Historical cost<br><br>Received through an exchange transaction or transfer: Fair value |
| Tax revenue              | Presented as a “financial resource” on the face of the “Statement of Changes in Net Assets”  | Presented as revenue on the face of the “Administrative Cost Statement”                 |

Other local governments will be required to apply the MIC’s new standard, therefore there will be two standards for local governments after 2018.

There are three sets of the financial statements based on the MIC’s new standard.

|   | Local governments’ financial statements                                | Standard | Law |
|---|--|----------|-----|
| ⑧ | General accounts (Non-consolidated)<br>Including some special accounts | ○        |     |
| ⑨ | Whole government (Non-consolidated)                                    |          |     |
| ⑩ | Consolidated   |          |     |

This study focuses on the MIC’s new standard, because a large proportion of local governments are applying the MIC’s new standard. It is uncertain whether Tokyo is also going to prepare its financial statements in accordance with the MIC’s new standard.

<sup>12</sup> Replacement cost basis is used when historical cost is not available.

### 1.3. IPSASs

IPSASs are issued by International Public Sector Accounting Standard Board (IPSASB) <sup>13</sup>under the auspices of the International Federation of Accountants (IFAC). IPSASs are adopted and implemented in many jurisdictions around the world as well as by a number of international organizations.

The IPSASB issued “The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework)” in 2014, and is in the process of using the Conceptual Framework in the development of standards<sup>14</sup>.

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<sup>13</sup> <http://www.ipsasb.org/>

<sup>14</sup> The IPSASB also is considering the impact of the Conceptual Framework on existing suite of standards.

## 2. Components of Financial Statements

The figure below highlights the required financial statements required by IPSAS 1, the Japanese National government and the Local government.

| IPSAS 1   | National government<br>(ministry level)                             | Local government<br>(MIC's new standard) |
|---|---|--|
| A statement of financial position   | A balance sheet   | A balance sheet                          |
| A statement of financial performance  | An operating cost statement   | An administrative cost statement         |
| A statement of changes in net assets/equity   | A statement of changes in difference between assets and liabilities | A statement of changes in net assets     |
| A cash flow statement   | An income and expenditure statement                                 | A fund income and expenditure statement  |
| Notes, comprising a summary of significant accounting policies and other explanatory notes. | Notes and Supplementary statements.                                 | Notes and Supplementary statements       |

IPSAS 1 also requires<sup>15</sup> that when an entity makes its approved budget publicly available that it must include a comparison of budget and to actual amounts, either as a separate additional financial statement or as a budget column in the financial statements.

Japanese governments do not prepare a corresponding statement as a part of the accrual based financial statements. The budget statement presents line items in accordance with budgetary requirements, which generally differ from the requirements of accounting standards. This is a substantive difference. Implementation of accrual budgeting would increase transparency in the financial reporting.

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<sup>15</sup> See IPSAS 1 par.21.

### 3. Accounting adjustment term

The concept in Japanese governmental accounting of the “Accounting adjustment term” is one of the biggest differences compared to IPSASs. This adjustment term, allows for adjustments for two months<sup>16</sup> after the year end. During this period an entity can account for cash inflows/outflows (resulting from collections and disbursements related to accounts receivable/payable which existed at the year-end), because these transactions occurred within the reporting period. As a result of this adjustment, cash balances at year end may be considerably different from the amount presented on the Balance Sheet.

This treatment is established by laws, and appears to be as a result of the Japanese governmental accounting laws still being focused on budgetary information.

#### Example

|                    | Exact amount<br>of year end | Cash in/out<br>within adj term | Adjusted<br>amount (F/S) |
|--------------------|-----------------------------|--------------------------------|--------------------------|
| Cash               | 100                         | − 50                           | 50                       |
| Account receivable | 200                         | + 150                          | 50                       |
| Account payable    | 300                         | − 200                          | 100                      |

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<sup>16</sup> The National government has two months (April and May) for its adjustment term, and local governments have one month (April).

## 4. Statement of financial position

### 4.1. Corresponding statements

The Japanese ministry's and local government's balance sheets both correspond to the IPSAS "Statement of Financial Position".

### 4.2. Current and non-current distinction

IPSAS 1 requires classification as current and non-current assets, and current and non-current liabilities, on the face of the statement of financial position<sup>17</sup>.

The Ministry's balance sheet does not distinguish between current and non-current assets or current and non-current liabilities. It presents assets and liabilities as line items based on the order of liquidity on the face of the balance sheet.

The Local government's balance sheet uses a similar distinction to current and non-current assets/liabilities. However, is categorized as either "liquid" or "fixed"<sup>18</sup> as opposed to "current" or "non-current".

### 4.3. Definition of Assets

|                 |  |
|-----------------|--|
| IPSAS 1 (par.7) | Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.  |
| National gov.   | General account's resources attributed to each ministry as a result of past transactions and events, and from which future service potential or economic benefits are expected.<br><br>➤ This definition is broadly similar to IPSAS's definition, and the main difference is the omission of the notion of "control" or not.              |
| Local gov.      | The account's resources controlled by certain entity as a result of past events, and from which future economic benefits are expected to flow to the entity, or is accompanied with service potential that contribute to the entity's objective directly or indirectly.<br><br>➤ This definition is broadly similar to IPSAS's definition. |

<sup>17</sup> See IPSAS 1 par.70.

<sup>18</sup> The distinction between liquid and fixed is generally based on the expected term the assets/liabilities will be held by the entity, similar to the current and non-current distinction, current and liquid items are expected to be held for a year or less, non-current or fixed are expected to be held for longer than one year.

#### 4.4. Definition of Liabilities

|                 |   |
|-----------------|---|
| IPSAS 1 (par.7) | Present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.  |
| National gov.   | General account's present obligation arising from past transactions and events, and the settlement of which is expected to result in a reduction of future service potential or economic benefits.<br><br>➤ This definition is broadly similar to IPSAS's definition.   |
| Local gov.      | The certain entity's present obligation as a result of past events, and the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential that contribute the entity's objective directly or indirectly.<br><br>➤ This definition is broadly similar to IPSAS's definition. |

#### 4.5. Definition of Net assets/equity

|                 |  |
|-----------------|--|
| IPSAS 1 (par.7) | The residual interest in the assets of the entity after deducting all its liabilities.   |
| National gov.   | No definition<br><br>➤ The National government standard does not provide an explicit definition of "net assets/equity". However, it does indirectly explain it as the difference between assets and liabilities.   |
| Local gov.      | The net asset after deducting liabilities from assets, and which means cumulative balance of the contribution of taxes and the surplus or deficit obtained through the activities of that accounting entity.<br><br>➤ This definition is largely similar to IPSAS, and adding more positive meaning as "cumulative balance of the contribution of taxes and the surplus or deficit". |

#### 4.6. The form illustrated in IPSAS 1

The statement of financial position provided in the Implementation Guidance of IPSAS 1 is as follows.

##### Public Sector Entity—Statement of Financial Position

As at December 31, 20X2

(in thousands of currency units)

|  | 20X2     | 20X1     |
|--|----------|----------|
| <b>ASSETS</b>                                    |          |          |
| <b>Current assets</b>                            |          |          |
| Cash and cash equivalents                        | x        | x        |
| Receivables                                      | x        | x        |
| Inventories                                      | x        | x        |
| Prepayments                                      | x        | x        |
| Other current assets                             | x        | x        |
|  | <u>x</u> | <u>x</u> |
| <b>Non-current assets</b>                        |          |          |
| Receivables                                      | x        | x        |
| Investments in associates                        | x        | x        |
| Other financial assets                           | x        | x        |
| Infrastructure, plant and equipment              | x        | x        |
| Land and buildings                               | x        | x        |
| Intangible assets                                | x        | x        |
| Other non-financial assets                       | x        | x        |
|  | <u>x</u> | <u>x</u> |
| <b>Total assets</b>                              | <u>x</u> | <u>x</u> |
| <b>LIABILITIES</b>                               |          |          |
| <b>Current liabilities</b>                       |          |          |
| Payables   | x        | x        |
| Short-term borrowings                            | x        | x        |
| Current portion of long-term borrowings          | x        | x        |
| Short-term provisions                            | x        | x        |
| Employee benefits                                | x        | x        |
| Superannuation                                   | x        | x        |
|  | <u>x</u> | <u>x</u> |
| <b>Non-current liabilities</b>                   |          |          |
| Payables   | x        | x        |
| Long-term borrowings                             | x        | x        |
| Long-term provisions                             | x        | x        |
| Employee benefits                                | x        | x        |
| Superannuation                                   | x        | x        |
|  | <u>x</u> | <u>x</u> |
| <b>Total liabilities</b>                         | <u>x</u> | <u>x</u> |
| <b>Net assets</b>                                | <u>x</u> | <u>x</u> |
| <b>NET ASSETS/EQUITY</b>                         |          |          |
| Capital contributed by Other government entities | x        | x        |
| Reserves   | x        | x        |
| Accumulated surpluses/(deficits)                 | x        | x        |
| Non-controlling interest                         | x        | x        |
| <b>Total net assets/liabilities</b>              | <u>x</u> | <u>x</u> |

#### 4.7. The Balance sheet of Japanese national government

The English version of the Balance sheet of national government is publicly available on the website of MOF<sup>19</sup>. It is included as “Appendices” of the “Annual debt management report”.

##### (15) Balance Sheet of Japanese Government (General Account and Special Accounts) (as of the end of FY2013)

(Unit: million yen)

|  | FY2012<br>(as of March 31, 2013) | FY2013<br>(as of March 31, 2014) |  | FY2012<br>(as of March 31, 2013) | FY2013<br>(as of March 31, 2014) |
|--|----------------------------------|----------------------------------|--|----------------------------------|----------------------------------|
| <Assets>   |                                  |                                  | <Liabilities>  |                                  |                                  |
| Cash and deposits  | 21,987,644                       | 18,618,962                       | Accounts payable   | 9,647,377                        | 9,476,839                        |
| Securities   | 110,802,695                      | 129,318,961                      | Reserves claims  | 348,285                          | 324,410                          |
| Inventories  | 2,657,387                        | 3,927,617                        | Accrued liabilities  | 1,336,431                        | 1,357,425                        |
| Accounts receivable  | 6,559,978                        | 6,227,384                        | Money in custody   | 702,755                          | 660,957                          |
| Accrued income   | 850,426                          | 821,355                          | Advance received   | 65,921                           | 58,283                           |
| Accrued insurance premiums<br>(Accrued reinsurance premiums) | 4,956,280                        | 4,851,356                        | Deferred revenues  | 3,872                            | 1,861                            |
| Prepaid expenses   | 2,769,198                        | 1,313,871                        | Prepaid insurance premiums<br>(Prepaid reinsurance premiums)           | 92,125                           | 99,788                           |
| Loans  | 139,539,542                      | 137,940,309                      | Allowance for bonus payment  | 253,868                          | 279,385                          |
| Money in trust   | 106,742,013                      | 104,769,423                      | Financing bills  | 101,696,923                      | 101,597,195                      |
| Other credits  | 3,093,777                        | 2,949,829                        | Government bonds   | 827,236,702                      | 855,760,998                      |
| Allowance for doubtful                                       | -2,580,108                       | -2,331,897                       | Borrowings   | 26,841,393                       | 28,411,277                       |
| Tangible fixed assets  | 180,344,135                      | 177,728,626                      | Money on deposit   | 7,254,568                        | 6,979,845                        |
| National property  | 32,747,543                       | 29,059,626                       | Liability reserves   | 9,227,334                        | 9,441,829                        |
| Land   | 16,242,637                       | 16,841,295                       | Deposit reserved for the public pension                                | 114,645,147                      | 112,232,671                      |
| Unfilled timber  | 7,025,749                        | 2,913,672                        | Allowance for retirement benefits                                      | 9,835,794                        | 8,798,046                        |
| Buildings  | 3,484,594                        | 3,451,920                        | Other liabilities  | 7,965,364                        | 7,575,612                        |
| Structures   | 3,247,356                        | 3,111,144                        |  |                                  |                                  |
| Machinery and Equipment                                      | 0                                | 0                                |  |                                  |                                  |
| Ships  | 1,404,113                        | 1,403,849                        |  |                                  |                                  |
| Aircraft   | 662,999                          | 617,135                          |  |                                  |                                  |
| Construction in progress                                     | 680,092                          | 720,607                          |  |                                  |                                  |
| Public service property                                      | 145,314,079                      | 146,356,836                      |  |                                  |                                  |
| Property for public use (land)                               | 38,559,357                       | 38,897,073                       |  |                                  |                                  |
| Property for public use (facilities)                         | 106,430,371                      | 107,082,242                      |  |                                  |                                  |
| Construction in progress                                     | 324,351                          | 377,520                          |  |                                  |                                  |
| Commodities  | 2,246,856                        | 2,282,908                        |  |                                  |                                  |
| Other tangible assets  | 35,656                           | 29,255                           | <b>Total liabilities</b>   | <b>1,117,153,867</b>             | <b>1,143,056,428</b>             |
| Intangible fixed assets                                      | 236,197                          | 226,720                          | <Difference between assets and liabilities>                            |                                  |                                  |
| Investments  | 62,216,449                       | 66,318,184                       | Difference between assets and liabilities                              | -476,978,246                     | -490,375,722                     |
| <b>Total assets</b>  | <b>640,175,620</b>               | <b>652,680,706</b>               | <b>Total liabilities and difference between assets and liabilities</b> | <b>640,175,620</b>               | <b>652,680,706</b>               |

Note.1: Cash and deposits (18.6 trillion yen at the end of FY2013) take into account receipts and disbursements of cash during the "accounting adjustment term" (As of the end of FY2013, the actual balance of government deposits in the Treasury was 1.7 trillion yen and foreign currency deposits was 0.8 trillion yen).

Note.2: Assets held by the government is larger to provide administrative service such as public service property, and basically not to sell and change into cash.

Note.3: Government bonds in the liabilities (855.8 trillion yen at the end of FY2013) include government bond balance such as in Special Account for Fiscal Investment and Loan Program besides general bonds (746.3 trillion yen) and cancel out bonds internally held by the government.

<sup>19</sup> [https://www.mof.go.jp/english/jgbs/publication/debt\\_management\\_report/2015/saimu3-4-1.pdf](https://www.mof.go.jp/english/jgbs/publication/debt_management_report/2015/saimu3-4-1.pdf)



#### 4.8. The Balance sheet of Japanese local government

The form of the Balance sheet of local government is provided in the standard<sup>20</sup>. It is written in Japanese only. Please note that the form below is not officially translated.

#### Balance sheet

(As of FY201x)

(Unit: )

| Line items                       | amount | Line items                      | amount |
|----------------------------------|--------|---------------------------------|--------|
| <b>【Assets】</b>                  |        | <b>【Liabilities】</b>            |        |
| Fixed assets                     |        | Fixed liabilities               |        |
| Tangible fixed assets            |        | Local bonds                     |        |
| Operationalized assets           |        | Long-term account payable       |        |
| Land                             |        | Retirement allowance            |        |
| Unfilled timber                  |        | Allowance for loss compensation |        |
| Buildings                        |        | Others                          |        |
| Accumulated depreciation         |        | Liquid liabilities              |        |
| Structures                       |        | Current portion of local bonds  |        |
| Accumulated depreciation         |        | Account payable                 |        |
| Ships                            |        | Accrued expenses                |        |
| Accumulated depreciation         |        | Advance received                |        |
| Buoys                            |        | Differed income                 |        |
| Accumulated depreciation         |        | Provision for bonuses           |        |
| Aircraft                         |        | Deposits                        |        |
| Accumulated depreciation         |        | Others                          |        |
| Others                           |        |                                 |        |
| Accumulated depreciation         |        |                                 |        |
| Construction in progress         |        | Total liabilities               |        |
| Infrastructure assets            |        |                                 |        |
| Land                             |        | <b>【Net assets】</b>             |        |
| Unfilled timber                  |        | Fixed assets equivalent         |        |
| Buildings                        |        | Surplus/Deficits                |        |
| Accumulated depreciation         |        |                                 |        |
| Structures                       |        |                                 |        |
| Accumulated depreciation         |        |                                 |        |
| Others                           |        |                                 |        |
| Accumulated depreciation         |        |                                 |        |
| Construction in progress         |        |                                 |        |
| Commodities                      |        |                                 |        |
| Accumulated depreciation         |        |                                 |        |
| Intangible fixed assets          |        |                                 |        |
| Software                         |        |                                 |        |
| Others                           |        |                                 |        |
| Investments and other assets     |        |                                 |        |
| Investments and Contributions    |        |                                 |        |
| Securities                       |        |                                 |        |
| Contributions                    |        |                                 |        |
| Others                           |        |                                 |        |
| Allowance for investment loss    |        |                                 |        |
| Long-term bad loan               |        |                                 |        |
| Long-term loan                   |        |                                 |        |
| Fund                             |        |                                 |        |
| Sinking fund                     |        |                                 |        |
| Others                           |        |                                 |        |
| Others                           |        |                                 |        |
| Allowance for bad debts          |        |                                 |        |
| Liquid assets                    |        |                                 |        |
| Cash and deposits                |        |                                 |        |
| Account receivables              |        |                                 |        |
| Short-term loan                  |        |                                 |        |
| Funds                            |        |                                 |        |
| Finance adjustment reserve funds |        |                                 |        |
| Sinking funds                    |        |                                 |        |
| Inventories                      |        |                                 |        |
| Others                           |        |                                 |        |
| Allowance for bad debts          |        |                                 |        |
| Total assets                     |        | Total assets                    |        |

<sup>20</sup> [http://www.soumu.go.jp/main\\_content/000287808.pdf](http://www.soumu.go.jp/main_content/000287808.pdf)

#### 4.9. Important line items included in Statement of Financial position

The most important line items are PPE, Securities, Governmental Bonds, and Liabilities about social benefits. This figure is a summary of accounting policies of these line items.

|                          | National government  | Local government   |
|--------------------------|--|--|
| PPE                      | National property<br>: revalued amounts<br><br>Public service property<br>: assumed amounts<br>(cumulative amount using<br>historical cost of land or<br>operating cost) depreciated | Operationalized assets/<br>Infrastructure assets<br>: historical cost (or<br>replacement value)<br>depreciated     |
| Securities               | Market price   | Market price   |
| Governmental Bonds       | Face value (adjusted bond<br>issue discounts/premiums:<br>amortized over life time)  | Face value (adjusted bond<br>issue discounts/premiums)<br><br>The way of amortization is<br>not clearly explained. |
| Social benefit (pension) | Pay-as-you-go system,<br>Not recognize any defined<br>benefit liability,<br>Recognize pension deposit as<br>liability.   | N/A  |

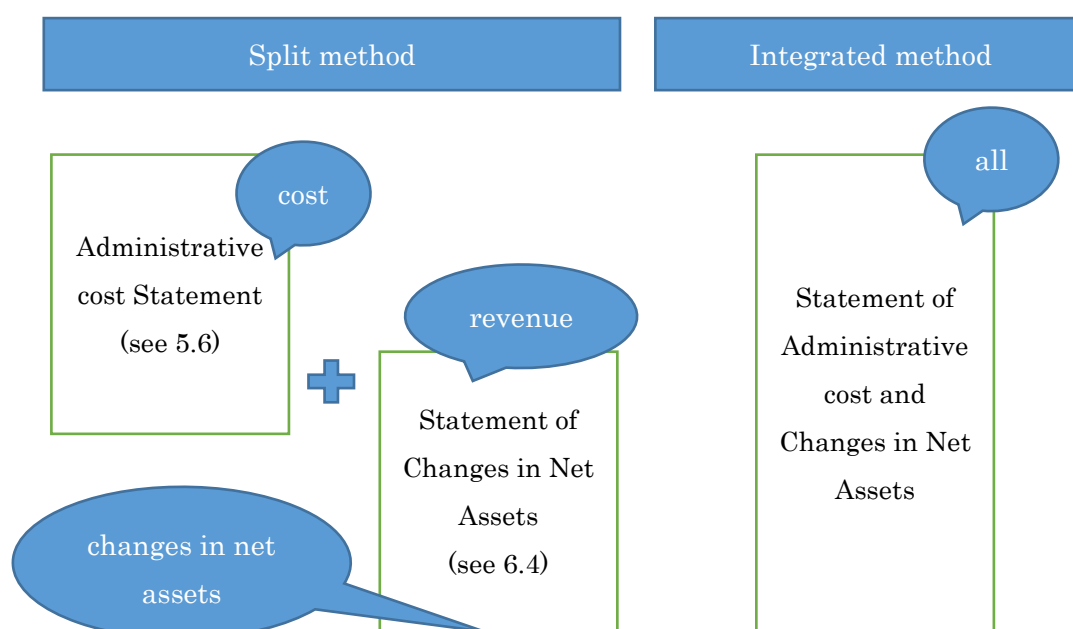
## 5. Statement of financial performance

### 5.1. Corresponding statements

IPSAS1 requires all items of revenue and expense to be presented on the face of the Statement of Financial Performance, and those items which impact net assets are required to be presented on the face of the Statement of Changes in Net Assets/Equity.

The Japanese ministry's Operating Cost Statement presents only operating cost items. Revenue items are presented on the face of a Statement of Changes in Difference between Assets and Liabilities as financial resource items. Therefore the financial statements that present revenue items and expense items are split in the Japanese ministry's financial statements.

The Japanese local government's accounting standard provides two alternatives for presenting revenue and expense items.



Alternative 1: Present both an Administrative Cost Statement and a Statement of Changes in Net Assets. All cost items and some revenue items are presented on the Administrative Cost Statement, and tax revenue and subsidies from the national government are presented on the Statement of Changes in Net Assets. Therefore revenue items are presented in two separate financial statements.

Alternative 2: Presents all expense and revenue items in a single statement "a Statement of Administrative Cost and Changes in Net Assets". This alternative presents items relating to changes of net assets and expense/revenue items on the same statement.

## 5.2. Definition of Revenue

|                 |   |
|-----------------|---|
| IPSAS 1 (par.7) | The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increase relating to contributions from owners.  |
| National gov.   | <p>No definition.</p> <ul style="list-style-type: none"> <li>➤ The Ministry’s accounting standard (of general account) does not define revenue explicitly. It uses the term “Financial resources”. Substantially, “Financial resources” means revenue and it contains tax revenue, fees, and transfers. The “financial resources” is presented on the face of a “Statement of Changes in Difference between Assets and Liabilities” which is separated from “Operating Cost Statement”..</li> </ul> |
| Local gov.      | <p>The increase of economic benefits or service potential that causes an increase of net assets, in the form of inflow/increase of assets or decrease of liability as a result of activities during the reporting period.</p> <ul style="list-style-type: none"> <li>➤ This definition is broadly similar to IPSAS’s definition. It does not mention about “contributions from owners”, because this is the standard of government itself.</li> </ul>   |

## 5.3. Definition of Expense

|                 |   |
|-----------------|---|
| IPSAS 1 (par.7) | Decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or increases of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.   |
| National gov.   | <p>No definition.</p> <ul style="list-style-type: none"> <li>➤ Ministry’s accounting standard (of general account) does not define expense explicitly.</li> </ul>   |
| Local gov.      | <p>The decrease of economic benefits or service potential that causes a decrease of net assets, in the form of outflow/decrease of assets or occurrence of liability consumed for the activities during the reporting period.</p> <ul style="list-style-type: none"> <li>➤ This definition is similar to IPSASB’s definition. It does not mention about “distributions for owners”, because this is the standard of government itself.</li> </ul> |

#### 5.4. The form illustrated in IPSAS 1

There are two types of “Statement of financial performance” provided in Implementation Guidance of IPSAS 1. The form below illustrates classification of expenses by nature<sup>21</sup> because the Japanese governments’ statements classify expense items by nature.

**Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2**

(in thousands of currency units)

|   | 20X2       | 20X1       |
|---|------------|------------|
| <b>Revenue</b>                              |            |            |
| Taxes                                       | x          | x          |
| Fees, fines, penalties, and licenses        | x          | x          |
| Revenue from exchange transactions          | x          | x          |
| Transfers from other government entities    | x          | x          |
| Other revenue                               | x          | x          |
| <b>Total Revenue</b>                        | <u>x</u>   | <u>x</u>   |
| <b>Expenses</b>                             |            |            |
| Wages, salaries, and employee benefits      | (x)        | (x)        |
| Grants and other transfer payments          | (x)        | (x)        |
| Supplies and consumables used               | (x)        | (x)        |
| Depreciation and amortization expense       | (x)        | (x)        |
| Impairment of property, plant and equipment | (x)        | (x)        |
| Other expenses                              | (x)        | (x)        |
| Finance costs                               | (x)        | (x)        |
| <b>Total Expenses</b>                       | <u>(x)</u> | <u>(x)</u> |
| Share of surplus of associates              | x          | x          |
| <b>Surplus/(deficit) for the period</b>     | <u>(x)</u> | <u>x</u>   |
| <b>Attributable to:</b>                     |            |            |
| Owners of the controlling entity            | (x)        | x          |
| Non-controlling interest                    | (x)        | x          |
|   | <u>(x)</u> | <u>x</u>   |

<sup>21</sup> IPSAS 1 discussed requirements for presentation of the statement of financial performance by either nature or function in paragraphs 111-116.

## 5.5. The Operating Cost Statement of the Japanese national government

The form of the Operating Cost Statement for each ministry is set out in the standard<sup>22</sup>.

Below is the translated Operating Cost Statement of the Japanese national government (general account and special account). It corresponds with the Statement of financial position, introduced in section 4.7<sup>23</sup>.

### Operating Cost Statement

(Unit: million yen)

|  | FY2012             | FY2013             |
|--|--------------------|--------------------|
| Personnel Cost                               | 4,174,306          | 4,157,671          |
| Provision for bonuses                        | 253,150            | 281,258            |
| Provision for retirement                     | 299,598            | 301,758            |
| Cost of universal pension                    | 18,468,922         | 19,402,124         |
| Cost of national pension                     | 1,039,218          | 921,568            |
| Cost of employee's pension                   | 23,748,807         | 23,561,267         |
| Grant of insurance fee                       | 7,905,819          | 8,245,731          |
| Cost of unemployment benefits                | 1,571,697          | 1,476,739          |
| Other social securities' fee                 | 1,211,711          | 1,100,922          |
| Reinsurance fee                              | 23,752             | 53,105             |
| Facility (for public use) maintenance fee    | 104,045            | 110,252            |
| Subsidies                                    | 31,045,771         | 32,301,952         |
| Outsourcing expense                          | 2,777,591          | 2,638,290          |
| Local allocation tax                         | 20,688,773         | 20,279,817         |
| Grant of financial assistance                | 1,567,700          | 1,455,700          |
| Operating support funds                      | 2,944,521          | 2,852,428          |
| Unit cost                                    | 2,720,475          | 2,979,213          |
| Office expense of public bond                | 26,478             | 27,822             |
| Other expense                                | 966,324            | 1,049,697          |
| Depreciation expense                         | 5,221,891          | 5,251,474          |
| Provision of the policy reserve              | △360               | 214,494            |
| Provision of allowance for doubtful accounts | 1,044,805          | 908,794            |
| Interest expense                             | 9,396,811          | 9,414,187          |
| Exchange gain/loss                           | △3,071             | △344               |
| Redemption gain/loss of public bond          | 34,095             | 41,824             |
| Asset disposal gain/loss                     | 300,308            | 285,421            |
| Valuation loss of investment                 | 344,035            | 242,105            |
| <b>Total cost</b>                            | <b>137,877,186</b> | <b>139,555,282</b> |

<sup>22</sup> This statement is available in Japanese only.

<sup>23</sup> Please note this is not an official translation.

## 5.6. The Administrative Cost Statement of Japanese local government

The form of the Operating Cost Statement for local governments is set out in the MIC's standard<sup>24</sup>. Below is the translated Operating Cost Statement<sup>25</sup>. As mentioned in 5.1, there are two types of financial statements which may include revenue and expense items. Below is an example of split type financial statement rather than the integrated statement.

### Administrative Cost Statement

From xxxx to xxxx

(Unit: million yen)

| items                                       | amount |
|---|--------|
| Ordinary expenses                           | 620    |
| Operating expenses                          | 620    |
| Personnel cost                              | 600    |
| Wages, salaries                             | 150    |
| Increase of provisions for bonuses          | 200    |
| Increase of retirement allowance            | 250    |
| Others                                      | -      |
| Cost of equipment                           | 20     |
| Cost of equipment                           | 20     |
| Maintenance fee                             | -      |
| Depreciation expense                        | -      |
| Others                                      | -      |
| Other operating expenses                    | -      |
| Interest expenses                           | -      |
| Increase of allowance for doubtful accounts | -      |
| Others                                      | -      |
| Transfers                                   | -      |
| Subsidies                                   | -      |
| Social security benefits                    | -      |
| Transfer to other accounts                  | -      |
| Others                                      | -      |
| Ordinary revenue                            | 50     |
| Rent and Fees                               | 50     |
| Others                                      | -      |
| Net ordinary administrative cost            | △570   |
| Extraordinary loss                          | -      |
| Disaster restoration operating cost         | -      |
| Loss on sales and retirement of assets      | -      |
| Provision for investment loss               | -      |
| Provision for loss compensation             | -      |
| Others                                      | -      |
| Extraordinary profit                        | -      |
| Profit on sales of assets                   | -      |
| Others                                      | -      |
| Net administrative cost                     | △570   |

<sup>24</sup> This statement is available in Japanese only.

<sup>25</sup> Please note this is not an official translation.

## **6. The statement of changes in net assets/equity**

### **6.1. Corresponding statements**

IPSAS1 requires a Statement of Changes in Net Assets/Equity. It requires the following information to be presented;

- (a) Surplus or deficit for the period (it is drawn from the statement of financial performance);
- (b) Each item of revenue and expense for the period that, as required by other Standards, is recognized directly in net assets/equity, and the total of these items;
- (c) Total revenue and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to owners of the controlling entity and to minority interest; and
- (d) For each component of net assets/equity separately disclosed, the effects of changes in accounting policies and corrections of errors recognized in accordance with IPSAS 3.

The Japanese ministry's "Statement of Changes in Difference between Assets and Liabilities" presents tax revenue and transferred revenue on the face of it, as part of "financial resources".

The Japanese local government's accounting standard provides two alternatives of presenting revenue and expense items as It is mentioned in 5.1. Both result in tax revenue and transferred revenue being presented on the face of the statement, which presents changes in net assets.



## 6.2. The form illustrated in IPSAS 1

The Statement of Changes in Net Assets/Equity provided in Implementation Guidance of IPSAS 1.

### Public Sector Entity—

#### Statement of Changes in Net Assets/Equity for the Year Ended December 31, 20X1

(in thousands of currency units)

|  | Attributable to owners of the controlling entity |                |                     |                                   |       | Non-controlling interest | Total net assets/equity |
|--|--|----------------|---------------------|-----------------------------------|-------|--------------------------|-------------------------|
|  | Contributed Capital                              | Other Reserves | Translation Reserve | Accumulated Surpluses/ (Deficits) | Total |                          |                         |
| Balance at December 31, 20X0                               | X  | X              | (X)                 | X                                 | X     | X                        | X                       |
| Changes in accounting policy                               |  |                |                     | (X)                               | (X)   | (X)                      | (X)                     |
| Restated balance   | X  | X              | (X)                 | X                                 | X     | X                        | X                       |
| <b>Changes in net assets/equity for 20X1</b>               |  |                |                     |                                   |       |                          |                         |
| Gain on property revaluation                               |  | X              |                     |                                   | X     | X                        | X                       |
| Loss on revaluation of investments                         |  | (X)            |                     |                                   | (X)   | (X)                      | (X)                     |
| Exchange differences on translating foreign operations     |  |                | (X)                 |                                   | (X)   | (X)                      | (X)                     |
| Net revenue recognized directly in net assets/equity       |  | X              | (X)                 |                                   | X     | X                        | X                       |
| Surplus for the period                                     |  |                |                     | X                                 | X     | X                        | X                       |
| <b>Total recognized revenue and expense for the period</b> |  | X              | (X)                 | X                                 | X     | X                        | X                       |
| <b>Balance at December 31, 20X1 carried forward</b>        | X  | X              | (X)                 | X                                 | X     | X                        | X                       |
| <b>Balance at December 31, 20X1 brought forward</b>        | X  | X              | (X)                 | X                                 | X     | X                        | X                       |
| <b>Changes in net assets/equity for 20X2</b>               |  |                |                     |                                   |       |                          |                         |
| Loss on property revaluation                               |  | (X)            |                     |                                   | (X)   | (X)                      | (X)                     |
| Gain on revaluation of investments                         |  | X              |                     |                                   | X     | X                        | X                       |
| Exchange differences on translating foreign operations     |  |                | (X)                 |                                   | (X)   | (X)                      | (X)                     |
| Net revenue recognized directly in net assets/equity       |  | (X)            | (X)                 |                                   | (X)   | (X)                      | (X)                     |
| Deficit for the period                                     |  |                |                     | (X)                               | (X)   | (X)                      | (X)                     |
| <b>Total recognized revenue and expense for the period</b> |  | (X)            | (X)                 | (X)                               | (X)   | (X)                      | (X)                     |
| <b>Balance at December 31, 20X2</b>                        | X  | X              | (X)                 | X                                 | X     | X                        | X                       |

### 6.3. The Statement of Changes in difference between assets and liabilities of Japanese national government

The form of the Statement of Changes in Difference between Assets and Liabilities of each ministry is set out in the standard.

Below is the Statement of Changes in Difference between Assets and Liabilities of Japanese national government (general account and special account)<sup>26</sup>. It corresponds with the Statement of financial position introduced in section 4.7<sup>27</sup>.

#### Statement of Changes in difference between assets and liabilities

(Unit: million yen)

|  | FY2012       | FY2013       |
|--|--------------|--------------|
| I Balance of Prior Year  | △459,311,013 | △476,978,246 |
| II Total operating cost of current year  | △137,877,186 | △139,555,282 |
| III Financial Resources  | 98,348,593   | 105,146,589  |
| Financial Resources including taxes  | 47,049,241   | 51,227,437   |
| Other financial resources  | 51,299,351   | 53,919,151   |
| IV Gain or loss of assets revaluation  | 2,599,378    | △1,225,446   |
| V Exchange gain/loss   | 13,873,141   | 17,521,180   |
| VI Change accompanied by the change of deposit reserved for the public pension | 3,886,677    | 2,412,476    |
| VII Others   | 1,502,161    | 2,303,007    |
| VIII Balance of current year   | △476,978,246 | △490,375,722 |

<sup>26</sup> This statement is available in Japanese only.

<sup>27</sup> Please note this is not an official translation.

#### 6.4. The Statement of Changes in Net Assets of Japanese local government

The form of the Statement of Changes in Net Assets of local governments is set out in the MIC's standard<sup>28</sup>. As mentioned at 5.1, there are two types of financial statements which include revenue and expense items<sup>29</sup>. Below presents the split type financial statement corresponding to figure in 5.6.

#### Statement of Changes in Net Assets

(Unit: million yen)

| Items  | Total |                                  |  |
|--|-------|----------------------------------|--|
|  |       | Corresponding to<br>fixed assets | Corresponding to<br>Surplus/(Deficits) |
| Balance of prior year                                | —     | —                                | —                                      |
| Net administration cost (△)                          | △570  |                                  | △570                                   |
| Financial resources                                  | 600   |                                  | 600                                    |
| Tax revenues   | 500   |                                  | 500                                    |
| Subsidies from national government or<br>prefectures | 100   |                                  | 100                                    |
| The difference for the period                        | 30    |                                  | 30                                     |
| Changes in fixed assets (internal)                   |       | 600                              | △600                                   |
| Increase of fixed assets                             |       | 500                              | △500                                   |
| Decrease of fixed assets                             |       | —                                | —                                      |
| Increase of loan and funds                           |       | 100                              | △100                                   |
| Decrease of loan and funds                           |       | —                                | —                                      |
| Revaluation of assets                                |       | —                                | —                                      |
| Transfer from others with no consideration           | —     | —                                |  |
| Others   | —     | —                                |  |
| Total changes in net assets for the period           | 30    | 600                              | △570                                   |
| Balance of current year                              | 30    | 600                              | △570                                   |

#### 7. Cash flow Statement and Notes

Cash flow statement is treated in IPSAS 2, and accounting policy is treated in IPSAS 1 and IPSAS 3. Therefore those other matters would be introduced in the sequel studies.

<sup>28</sup> This statement is available in Japanese only.

<sup>29</sup> Please note this is not an official translation.

## 8. Comparative summary

This Chapter summarizes the gaps of each of the Japanese financial statements compared to IPSAS 1.

### 8.1. Fundamental difference

As noted in chapter 3, the “accounting adjustment term” is a substantive difference. As a result of this difference the Japanese national and local governmental financial statements appear to be prepared on a modified accrual basis of accounting, rather than pure accrual basis accounting. This adjustment is required by accounting law and therefore, may require legal changes to close this gap with IPSASs.

### 8.2. National government (Ministry level)

| Types of F/S  | Explanation of significant gaps   |
|---|---|
| Balance sheet   | <ul style="list-style-type: none"><li>• Cash and account receivable/payable is netted (see 8.1)</li><li>• Current and non-current items are not distinguished.</li></ul>  |
| Operating cost statement  | <ul style="list-style-type: none"><li>• “Operating Cost statement” presents only cost items.</li></ul>  |
| Statement of changes in difference between assets and liabilities | <ul style="list-style-type: none"><li>• “Statement of Changes in Difference between Assets and Liabilities” presents tax and other incomes as “financial resources” that is not defined as revenue in the standard.</li></ul> |

There are some large gaps between the national level accounting standard and IPSAS 1. Revenue is not explicitly defined, and that fact causes the split statements of revenue and expense.

### 8.3. Local government (MIC’s new standard)

| Types of F/S (IPSAS)               | Explanation of significant gaps   |
|------------------------------------|---|
| Balance sheet                      | <ul style="list-style-type: none"><li>• Cash and account receivable/payable is netted (see 8.1)</li></ul>   |
| Administrative cost statement      | <ul style="list-style-type: none"><li>• “Administrative cost statements” presents only cost items (when applying split method), or presents changes in net assets/equity on the same statement (when applying integrated method).</li></ul> |
| Statement of changes in net assets | <ul style="list-style-type: none"><li>• “Statement of Changes in net Assets” presents tax and other incomes as “financial resources”.</li></ul>   |

Local governmental accounting standard defines revenue, and treat tax income as a group of revenue, therefore it is close to IPSAS 1 relatively.