

Ijiri and His Influence in Japan

Yoshitaka Fukui

Aoyama Gakuin University

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Yuji's research is universal rather than either Japanese or American

His way of research is foundational and he strove for accounting theory universally applicable to human society.

His scholarship is no more Japanese than that of Professor Shyam Sunder is Indian.

Tide against historical cost accounting, the hallmark of Yuji's research

Current value-based accounting measurement, the so-called fair value accounting, has become Zeitgeist in Japanese accounting community since the 1990s.

Historical cost accounting, for which Yuji tirelessly advocated for life, has been out of favor and considered useless for decision making.

Yuji and Japanese accounting conceptual framework

The Accounting Standards Board of Japan (ASBJ), the equivalent to the Financial Accounting Standards Board (FASB) in the United States, issued “The Discussion Paper: Conceptual Framework of Financial Accounting” in 2006.

This document has been the theoretical guidepost for accounting standards in Japan since then.

Japanese framework	Yuji's remarks
<p>For assets that are subject to constraints for business purposes, revenues/gains should not be recognized based on hypothetical disposal transactions and fictitious cash inflows.</p>	<p>The key point is that the term historical cost is also a misnomer. A better name is “actual cost”. The emphasis should be on cost being “actual to the entity”.</p>

Japanese framework	Yuji's remarks
<p>This Conceptual Framework uses the term “released from risks of investments” when defining net income. Since risks of investments are uncertainty of the results of investments, the results of investments are released from risks when they become facts.</p>	<p>Business runs on a cash-to-cash cycle. The key is the transfer of risk as the cycle is completed. A criterion for income recognition: A substantial reduction in uncertainty that the cash-to-cash cycle will be completed.</p>

Japanese framework	Yuji's remarks
<p>The notion of “realized” or “realizable” is similar to the notion of “release from risks of investments.”</p> <p>“Realized results” in this sense are considered to be “results released from risks of investments” in this Conceptual Framework.</p>	<p>Historical cost income: Income determined on the basis of historical cost, supplemented by the realization principle.</p> <p>In determining historical cost income, the realization principle plays a crucial role.</p>

Yuji's idea is incorporated in Japanese framework

Yuji's life-long advocacy of “income determined on the basis of historical cost, supplemented by the realization principle” is incorporated in the Japanese conceptual framework with the newly constructed “release from risks of investments” concept.

Why could and did the Japanese standard setter go against the tide?

When Yuji taught at the University of Tokyo from 1967 to 1968, he has exerted a lasting influence on one of the graduate students.

This student, Shizuki Saito, later became professor there and was appointed as the first ASBJ chairman.

Under his leadership, the ASBJ issued the conceptual framework inspired by Yuji's view of accounting.

At the time of a dialogue on financial reporting in Tokyo, 1999



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Japanese framework has developed and generalized Yuji's idea

Under the Japanese framework, if held in expectation of capital appreciation, capital gain recognition is not considered an exception but an instance derivable from the release from risks concept, which is an elaboration of the historical cost-based realization principle.

Is current value more decision-useful than historical cost?

Yuji seemed to acquiesce in the advantage of current value over historical cost in terms of decision-usefulness.

Recent empirical research of financial markets has shown that Yuji might have been too defensive.

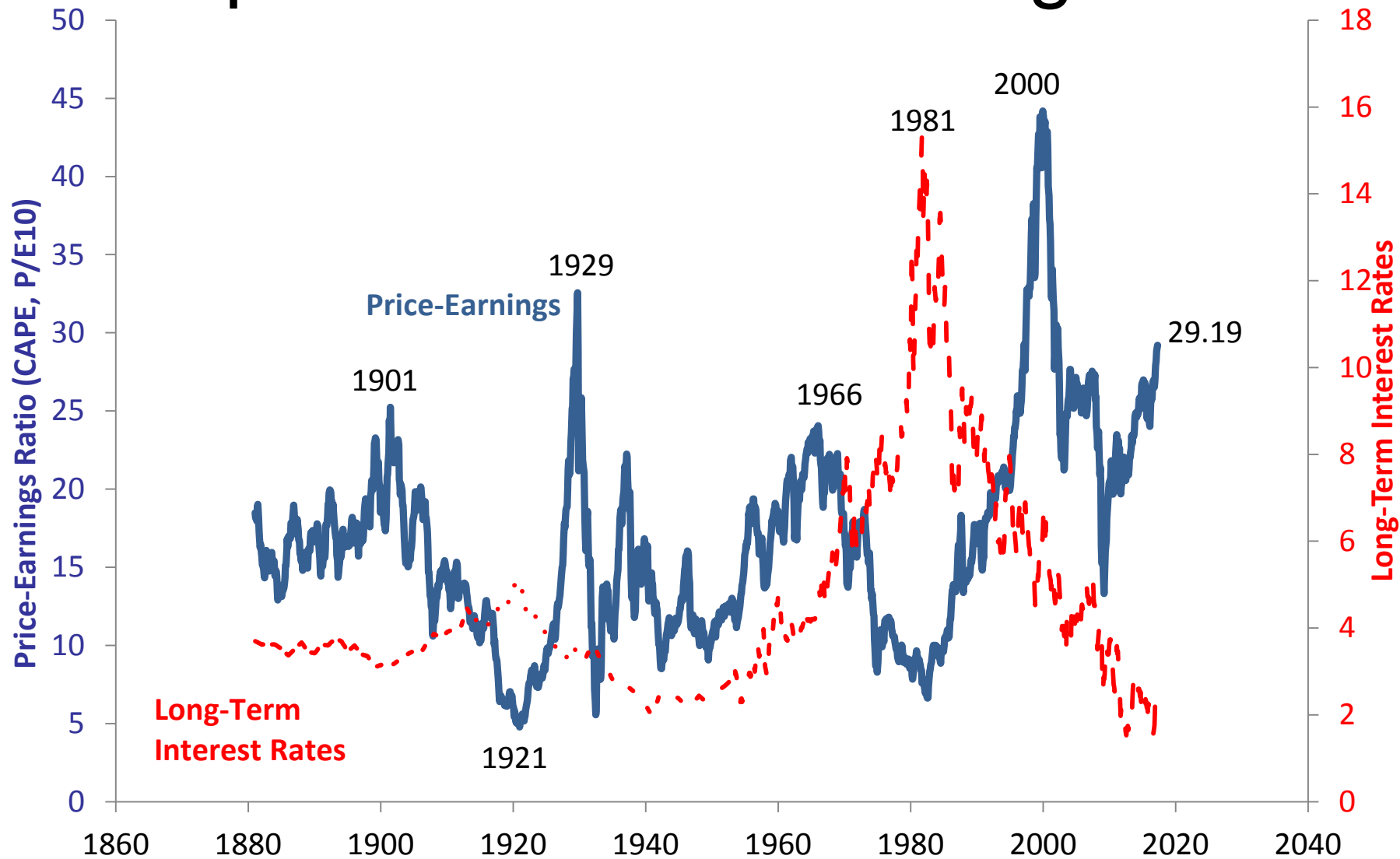
Now we know prices mean-revert

Perhaps banks' complaint that low asset prices represent "illiquidity" or "temporarily depressed valuations" rather than insolvency ...makes some sense....

Perhaps "hold to maturity" accounting is not as silly as it sounds.

From Professor John Cochrane's
AFA Presidential Address in 2011

Stock prices have accounting anchors



Yuji's accountability-oriented view is more decision-useful than he thought

More concretely, there are some "natural" anchors determined by price to earnings and book ratios.

This empirical regularity suggests that the difference between historical cost-based book value and current price has crucially important information on risks of financial investment.

Recent accounting research and Yuji-inspired Japanese framework

Professor Stephen Penman emphasizes the informational value contained in the difference between stock price and book value.

He and Professor Richard Barker have recently advocated the accounting measurement under which the income statement activates on the resolution of uncertainty. Its similarity to the Yuji-inspired Japanese accounting conceptual framework is undeniable.

We can and must learn from Yuji
wherever we do research

Yuji's contribution to accounting scholarship is all the more relevant today because his quest for the truth was beyond academic fads and fashions in the last half century.

We can and must learn from Yuji, whether we do research in Japan, the United States or anywhere else.