Yoshitaka Fukui¹

Ijiri and His Influence in Japan

¹ Graduate School of International Management, Aoyama Gakuin University, 4-4-25 Shibuya, Shibuya-ku, Tokyo, Japan, E-mail: fukui@gsim.aoyama.ac.jp

Abstract:

I shall examine Yuji Ijiri's influence on practice of accounting in Japan. His ground-breaking contribution to accounting scholarship is all the more important today because he stayed true to his beliefs - his ultimate quest for truth was never compromised by academic fad or fashion. We can and must learn from his legacy and uncompromising values whether we do research in Japan, the United States or elsewhere in the world.

Keywords: accounting conceptual framework, ASBJ, historical cost, Yuji Ijiri

DOI: 10.1515/ael-2017-0048

Table of Contents

- 1 Uncompromising quest for truth against the tide
- 2 Ijiri's influence on the Japanese accounting conceptual framework
- 3 Ijiri's legacy and its development in Japan
- 4 Rediscovery of decision-usefulness of historical cost
- References

Memorial Symposium for Professor Yuji Ijiri

1. "An Introduction to Corporate Accounting Standards: A Review" by Yuji Ijiri, <https://doi.org/10.1515/ael-2017-0058>
2. "Axioms and Structures of Conventional Accounting Measurement" by Yuji Ijiri, <https://doi.org/10.1515/ael-2017-0057>
3. "Yuji Ijiri: Accounting for a Better Society" by Shyam Sunder, <https://doi.org/10.1515/ael-2017-0045>
4. "Yuji Ijiri: On Accountability" by Jonathan Glover, <https://doi.org/10.1515/ael-2018.0004>
5. "Ijiri and His Influence in Japan" by Yoshitaka Fukui, <https://doi.org/10.1515/ael-2017.0048>
6. "The Double Entry System of Accounting" by John Fellingham, <https://doi.org/10.1515/ael-2018.0001>
7. "An Interdisciplinary Journey with Professor Yuji Ijiri" by Haijin Lin, <https://doi.org/10.1515/ael-2017.0056>

1 Uncompromising quest for truth against the tide

Professor Yuji Ijiri introduced me to accounting research and made me the accounting teacher and scholar that I am. For that, I remain ever grateful.

Ijiri's quest for truth was never compromised by fad or fashion. His determination to stand behind his findings, and break new ground when necessary, is even more important today.

This article shall examine his influence on accounting policy in Japan. Because he was born and raised in Japan, the Japanese regard him as a Japanese scholar who lived in the United States; however, he left Japan in his twenties as a newly-minted CPA, and became a scholar of accounting in the U.S. He lived here ever since and made frequent visits to Japan and its universities. So one might say instead that he is an American scholar fluent in Japanese and knowledgeable about Japan. More importantly, his thoughts and theories are universal; they are no more Japanese than the works of Shyam Sunder (another teacher of mine) are Indian.

Yoshitaka Fukui is the corresponding author.

© 2018 Walter de Gruyter GmbH, Berlin/Boston.

This content is free.

Ijiri was respected as a distinguished scholar in Japan, especially in his later years. But, that does not necessarily mean that his ideas were widely accepted and followed in Japan. In fact, current value-based accounting measurement, the so-called “fair value” accounting, has received increasing support in the Japanese accounting community since the 1990s. Historical cost accounting that Ijiri tirelessly advocated throughout his career has often been characterized as being outdated and irrelevant for decision-making.¹

In spite of this adverse development, his significant (and in all likelihood, more lasting) influence on accounting theory and practice in Japan is readily recognizable. In 2006, the Accounting Standards Board of Japan (ASBJ), the counterpart to the U.S. Financial Accounting Standards Board (FASB), issued “*The Discussion Paper: Conceptual Framework of Financial Accounting*.” This document, oriented towards historical cost and not current value accounting, has remained the theoretical guidepost for accounting standards in Japan since then in spite of the reluctance of the Japanese government (Financial Services Agency) to endorse the proposed draft.² The government’s attempts to cope politically with the international push towards current values only prevented the ASBJ from issuing the document as the official Japanese conceptual framework; consequently, it was published as a discussion paper.

2 Ijiri’s influence on the Japanese accounting conceptual framework

The wording of the Japanese conceptual framework (ASBJ 2006, pp. 26, 28 and 47)³ is consistent with Ijiri’s own writing (Ijiri 1981, pp. 10, 48–50 and 81)⁴ in his monograph on historical cost accounting (Table 1).

Table 1: The Japanese conceptual framework ASBJ (2006) and Ijiri (1981).

Japanese conceptual framework	Ijiri (1981)
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. Expenses/losses are recognized when the funds invested are released from the risks of the investments.	The key point is that the term historical cost is also a misnomer. Perhaps a better name is “actual cost” cost actually incurred or committed by the entity. The emphasis should be on cost being “actual to the entity”. Business runs on a cash-to-cash cycle. The key is the transfer of risk as the cycle is completed.
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.	[One of the criteria for income recognition is] a substantial reduction in uncertainty that the cash-to-cash cycle will be completed.
The notion of “realized” or “realizable” is similar to the notion of “release from risks of investments.”	[Historical cost income is] income determined on the basis of historical cost, supplemented by the realization principle.
“Realized results” in this sense are considered to be “results released from risks of investments” in this Conceptual Framework.	In determining historical cost income, the realization principle plays a crucial role.

According to Ijiri, “The key point is that the term historical cost is also a misnomer”, and “a better name is ‘actual cost’”. “The emphasis should be on cost being ‘actual to the entity’”, while the Japanese framework states “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.”

Ijiri maintains that “business runs on a cash-to-cash cycle” and “the key is the transfer of risk as the cycle is completed.” Therefore one of the criteria for income recognition is “a substantial reduction in uncertainty that the cash-to-cash cycle will be completed”, while the Japanese framework states that “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.”

Historical cost income as understood by Ijiri is “income determined on the basis of historical cost, supplemented by the realization principle.” Ijiri wrote that “in determining historical cost income, the realization principle plays a crucial role”, while the Japanese framework states that “the notion of ‘realized’ or ‘realizable’

is similar to the notion of ‘release from risks of investments’ and “‘realized results’ in this sense are considered to be ‘results released from risks of investments’.”

In order to head off avoidable confrontation with the “globalists” and the ambiguity of age-old terminology, the Japanese accounting standard-setter avoided the explicit use of such traditional concepts as “historical cost” and “realization principle.” Instead, as clearly seen from the above comparisons, Ijiri’s life-long advocacy of “income determined on the basis of historical cost, supplemented by the realization principle” is clearly incorporated into the Japanese framework under the newly-devised “release from risks of investments” concept.

3 Ijiri’s legacy and its development in Japan

Why could and did the Japanese standard-setter align itself with Ijiri’s thought and against the international tide and the unsupportive Japanese government?

While teaching at the University of Tokyo in 1967–1968, Ijiri had a lasting influence on one of his graduate students, Shizuki Saito,⁵ who later became the first chairman of the ASBJ. Under his leadership, the Japanese accounting standard-setter issued the conceptual framework inspired by Ijiri’s view of accounting. Needless to say, this was not the outcome of acolytes blindly following the master. That was not Ijiri’s way – as a teacher and researcher, he encouraged free and independent thinking rather than mindless adherence to dogma. This Japanese framework generalized and advanced his ideas beyond where he left off.

Ijiri thought that appreciation in marketable securities recognized without waiting for actual sale is an exception to the rule of historical cost-based accounting measurement (Ijiri and Saito 1999).⁶ Under the Japanese framework, changes in the value of financial investments held in expectation of capital appreciation fall under the results of the investments released from risks even if not realized through actual transactions for a long time. Therefore this type of 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.

4 Rediscovery of decision-usefulness of historical cost

While Ijiri never stopped defending the concept of historical cost accounting based on the accountability-oriented view in contrast to the now prevailing decision-oriented view (according to which current value is superior to historical cost), he seemed to acquiesce a little on the relative advantage of current value over historical cost on decision-usefulness (Ijiri 1975, p. 88).⁷ But some recent empirical research of financial markets has shown that Ijiri might have been prematurely defensive. Accounting numbers largely based on historical cost are likely to be more decision-useful than those based on current value after all. Now we know stock prices mean-revert. Professor John Cochrane stated in his Presidential Address (Cochrane 2011, p. 1088)⁸ to the American Finance Association in 2011:

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.

More concretely, there are some “natural” anchors determined by price-to-earnings and/or book-market ratios. This empirical regularity suggests that the difference between historical cost-based book-value and current price carries crucially important information on financial investment risks.⁹

Professor Stephen Penman (Penman 2016)¹⁰ emphasizes the informational value contained in the difference between stock price and book value. He and Professor Richard Barker (Barker and Penman 2017)¹¹ have recently advocated the accounting measurement under which the income statement activates on the resolution of uncertainty. Its similarity to the Ijiri-inspired Japanese accounting conceptual framework is undeniable and acknowledged by Professor Penman.¹²

We can and must learn from Ijiri’s legacy and uncompromising values whether we conduct research in Japan, the United States or elsewhere in the world.

Funding

This work was supported by JSPS KAKENHI Grant Number JP15K13058.

Notes

- 1 See Tsunogaya, Okada, and Patel (2011) for details.
- 2 When the draft was issued, the EU's equivalence assessment of Japanese standards was being conducted. The Japanese government and business community were concerned that the official endorsement of the draft would have negatively influenced the assessment (Saito, 2016, p. 244). Also see Saito (2013).
- 3 ASBJ (2006, pp. 26, 28 and 47).
- 4 Ijiri (1981), pp. 10, 48–50 and 81).
- 5 Subsequently a professor at the University of Tokyo and a president of the Japanese Accounting Association.
- 6 Ijiri and Saito (1999).
- 7 Ijiri (1975), p. 88).
- 8 Cochrane (2011), p. 1088).
- 9 Moreover markets could not function properly without accounting as an institutional framework. I thank Yuri Biondi for directing my attention to this complementary perspective on the crucial importance of accounting for market transactions
- 10 Penman (2016).
- 11 Barker and Penman (2017).
- 12 Personal communication (e-mail to Professor Saito and me dated February 27, 2017). Also see Saito and Fukui (2016) for reconsideration of the concept of income.

References

- ASBJ. (2006). *The discussion paper: Conceptual framework of financial accounting*. Tokyo, Japan: Accounting Standards Board of Japan.
- Barker, R., & Penman, S. 2017. Moving the conceptual framework forward: Accounting for uncertainty. CEASA Occasional Paper, Columbia Business School.
- Cochrane, J. H. (2011). Presidential address: Discount rates. *Journal of Finance*, 66(4), 1047–1108.
- Ijiri, Y. (1975). *Theory of accounting measurement*. Sarasota, USA: American Accounting Association.
- Ijiri, Y. (1981). *Historical cost accounting and its rationality*. Vancouver, Canada: Canadian Certified General Accountants' Research Foundation.
- Ijiri, Y., & Saito, S. (1999). Trends in financial reporting: historical cost vs. current cost (in Japanese). *Kigyo Kaikei*, 51(10), 62–81.
- Penman, S. (2016). Conservatism as a defining principle for accounting. *Japanese Accounting Review*, 6, 1–16.
- Saito, S. (2013). The international politics of IFRS harmonization: A comment. *Accounting, Economics, and Law: A Convivium*, 3(2), 47–52.
- Saito, S. (2016). *Introduction to corporate accounting* (Revised Edition). Tokyo, Japan: Yuhikaku. (in Japanese)
- Saito, S., & Fukui, Y. (2016). Whither the concept of income? *Accounting, Economics, and Law: A Convivium* doi.org/10.1515/acl-2016-0013.
- Tsunogaya, N., Okada, H., & Patel, C. (2011). The case for economic and accounting dualism: towards reconciling the Japanese accounting system with the global trend of fair value accounting. *Accounting, Economics, and Law: A Convivium*, 1(2), Article 5.