

New Japanese Accounting Standard causes lack of transparency in financial statements

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Speedread

The new JAS, which apply to annual financial statements ending on 31 March 2009, alter the rules for the treatment of non-transfer of ownership finance lease agreements (NTLAs) included in financial statements. The new rules are being criticised as they provide the potential for inconsistencies, which will reduce the transparency of such accounts to investors.

Sometimes, the cure can be worse than the cold. Indeed, this seems to be the case with the new Japanese Accounting Standards (JAS) (*JAS; Statement No. 13 and Guidance No. 16*) which was released by the Accounting Standards Board of Japan (ASBJ) and applies to annual financial statements for the fiscal year ending 31 March 2009.

One of the major changes to the JAS has been the treatment of non-transfer of ownership finance lease agreements (NTLAs) included in financial statements. Under previous accounting standards, NTLAs were not treated as sales transactions and therefore the asset leased did not form part of the reportable liabilities of the lessee company. The lease payments made by the lessee company were reported merely as expenses in respect of the reporting year.

However, there was some concern at the way in which the above treatment distorted the picture as to assets and liabilities of a company that was lessee in such a NTLA. The new JAS requires such a company to report the lease payments as liabilities (rent payable multiplied by the number of years in the remaining term of the lease) in an attempt to improve transparency of financial statements.

Notwithstanding this, there can be inconsistencies in the way different lessee companies report such NTLAs. This is because a company may apply the former JAS to NTLAs entered into before 1 April 2008. Many companies opt to apply the former JAS to such NTLAs which makes it difficult for investors to compare the liability profiles of different companies.

Some critics have recently identified this issue as something requiring change to promote transparency. At best, it appears that the new JAS will be in a state of flux over this issue for some time to come.

To view the ASBJ's release, [click here](#).

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