

*ASBJ Statement No.24*

# **Accounting Standard for Accounting Changes and Error Corrections**

and

*ASBJ Guidance No.24*

# **Guidance on Accounting Standard for Accounting Changes and Error Corrections**

**December 4, 2009**

**The Accounting Standards Board of Japan**

## **Remarks on the Release**

The Accounting Standards Board of Japan (ASBJ), as part of its project on the international convergence of accounting standards, has been deliberating the treatment for retrospective applications to past financial statements when changes in accounting policies, changes in presentations and corrections of prior period errors are made, as well as the treatment for changes in accounting estimates, as required in the global accounting standards.

On November 26, 2009, at the 190th meeting, the ASBJ approved ASBJ Statement No. 24(hereinafter, the “Accounting Standard”) and ASBJ Guidance No.24(hereinafter, the “Guidance”) for public release.

Prior to the publication of the Accounting Standard and the Guidance, the ASBJ published exposure drafts of each on April 10, 2009 to invite public comments broadly, and subsequently revised some parts of the drafts based on the review of the comments received.

## **Outline of the Accounting Standard and the Guidance**

### **Accounting treatment in principle**

	Accounting Treatment in principle
Accounting Changes	
Changes in Accounting Policies	Accounted for retrospectively <sup>1</sup> (Retrospective application)
Changes in Presentations	Accounted for retrospectively (Reclassification on financial statements)
Changes in Accounting Estimates	Accounted for prospectively
Corrections of Prior Period Errors	Accounted for retrospectively (Restatement)

### **Treatment for changes in accounting policies**

#### **Treatment in principle for changes in accounting policies**

(1) Changes in accounting policies with revision of accounting standards

An entity shall apply a new accounting policy retrospectively unless revised accounting standards do not include specific transitional provisions. An entity shall comply with the transitional provisions if revised accounting standards include specific transitional provisions.

(2) Changes in accounting policies based on other justified reasons than (1)

An entity shall apply a new accounting policy retrospectively.

#### **When it is impracticable to apply the treatment in principle**

(1) When it is practicable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy retrospectively to all prior periods, but it is impracticable to determine the period-specific effects for any periods presented, an entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period.

(2) When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy retrospectively to all prior periods, an entity shall apply the new accounting policy prospectively from the earliest date practicable on or before the beginning of the current period.

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<sup>1</sup> When a change in accounting policy is accounted for retrospectively, the cumulative effect of the change to past periods is adjusted to the opening balance of the current period after the retrospective application on balance sheet. Therefore, ASBJ plans to revise ASBJ Statement No.6 “Accounting Standard for Statement of Changes in Net Assets” in future, and amend the previous period ending balance of line items which is currently presented in a statement of changes in net assets to the current period beginning balance, and in addition, require an entity to present the amount separately as the cumulative effect for the current period beginning balance in the earliest period presented, when a change in accounting policy is accounted for retrospectively.

### **Disclosure about changes in accounting policies**

When a change in an accounting policy has an effect on the current period or prior periods, or might have an effect on future periods, an entity shall disclose the nature of the change in the accounting policy, the amount of the adjustment for primary presented line items on prior period financial statements affected, and others. When retrospective application to prior period presented is not made, that is treatment in case of impracticability to apply the treatment in principle, an entity shall disclose the amount of the adjustment to determine practicably in each period presented, and others. Furthermore, when an entity has not yet applied a newly issued accounting standard but not yet come into effect, it shall disclose description for the effects in case of applying the new accounting standard and others.

### **Treatment for changes in presentations**

When an entity changes a presentation on financial statements, it shall, in principle, reclassify prior period financial statements presented in accordance with new presentation, and disclose the nature of the reclassification and others.

### **Treatment for changes in accounting estimates**

#### **Treatment in principle and disclosure about changes in accounting estimates**

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. An entity also shall disclose the nature of the change, the amount of the effect and others.

In addition, a catch-up adjustment known as 'extraordinary depreciation', which has been previously permitted as of changes in useful life of fix assets, will be abolished.

#### **When it is difficult to distinguish between a change in an accounting policy and a change in an accounting estimate**

When it is difficult to distinguish between a change in an accounting policy and a change in an accounting estimate, such a change is treated the same as a change in an accounting estimate, and is not accounted for retrospectively. Even so, an entity shall disclose the nature of the change, the amount of the effect, and in addition, reasons of the change for the right purpose and others.

Methods of depreciation for tangible fixed assets and of amortization for intangible fixed assets are included in accounting policies, but those changes are treated as a case when it is difficult to distinguish between a change in an accounting policy and a change in an accounting estimate.

### **Treatment for corrections of prior period errors**

When an error on prior period financial statements is discovered, an entity shall restate those statements, and disclose the nature of the past error, the amount of the effect and others.

**Effective Date**

An entity shall apply the Accounting Standard and the Guidance to accounting changes and corrections of prior period errors which are made after the beginning of the fiscal year beginning on or after April 1, 2011. However, an entity shall apply requirements for disclosure of an impending change in accounting policy for the fiscal year beginning on or after April 1, 2011, if the entity has not yet applied a new accounting standard that has been issued but is not yet effective (paragraphs 12 of the Accounting Standard).

**Treatment in Quarterly Financial Statements**

The Accounting Standard and the Guidance prescribe accounting treatment of accounting changes and corrections of prior period errors in annual financial statements.

ASBJ is planning to continue to conduct necessary deliberations on the treatment for retrospective application and others inherent in quarterly financial statements.