

Summary of the Discussions at the 451st Board Meeting Held on February 9, 2021
Accounting Standards Board of Japan

**Incorporating the Effects of the Novel Coronavirus Pandemic
when Making Accounting Estimates under Japanese GAAP
(Updated February 10, 2021)**

On April 10, 2020, the Accounting Standards Board of Japan issued the following document as a Summary of the Discussions at the 429th Board Meeting:

(Summary of the Discussions at the 429th Board Meeting Held on April 9, 2020)

**Incorporating the Effects of the Novel Coronavirus Pandemic
when Making Accounting Estimates under Japanese GAAP**

Various accounting estimates, including the impairment of property, plant and equipment and the collectability of deferred tax assets, are required in preparing financial statements. Japanese GAAP defines accounting estimates as “determining the reasonable amount based on all available information... in cases where uncertainty exists in the amount of the asset, liability, income and expense”¹.

The novel coronavirus pandemic is an event that has far-reaching effects on the economy and business activities. Because it is difficult to predict how this pandemic will develop in the future and when it will be brought under control, it has become extremely difficult to make accounting estimates, particularly to predict future cash flows. In this situation, it is necessary to note the following points:

- (1) When “determining the reasonable amount based on all available information”, it is necessary to develop the best estimates after making certain assumptions, even though there may be high uncertainty in the event. Such event with high uncertainty includes the novel coronavirus pandemic.
- (2) In making the certain assumptions, it is desirable to use objective information based on external sources to the extent possible. However, in the context of the effects of the novel coronavirus pandemic, there is no precedent that can be used for reference to make accounting estimates, and there is no uniform view as to how the pandemic will develop in the future and when it will be brought under control. Accordingly, in most cases, objective information based on external

¹ Accounting Standard No. 24, *Disclosures of Accounting Policies, Accounting Changes and Error Corrections*, paragraph 4(3).

sources will not be available. In this situation, for the effects of the novel coronavirus pandemic, an entity will need to make the certain assumptions on its own, including how the pandemic will develop in the future and when it will be brought under control.

- (3) Unless the certain assumptions made by the entity is clearly unreasonable, estimated amounts as a result of developing the best estimates would not be considered “errors”², even when the estimated amounts turn out to be different from the subsequent results³.
- (4) The certain assumptions made regarding the effects of the novel coronavirus pandemic when developing the best estimates may differ among entities and, accordingly, the amounts estimated under identical conditions may differ. For accounting estimates made in these circumstances, it is necessary to specifically disclose information that enables users of financial statements to understand the assumptions that were made to make the accounting estimates. If such information is material, entities shall disclose “additional information” as required by the Ordinance on Financial Statements⁴.

In addition, on May 11, 2020, the Accounting Standards Board of Japan issued the Summary of the Discussions at the 432nd Board Meeting and added the following to the Summary of the Discussions at the 429th Board meeting:

As noted in (4) above, “it is necessary to specifically disclose information that enables users of financial statements to understand the assumptions that were made to make the accounting estimates”. However, based on the information disclosed thus far by companies with fiscal years ending on March 31, 2020, some have raised concerns that “additional information” will not be sufficiently disclosed in the statutory disclosure documents, even by companies in industries that are considered to be significantly affected by the novel coronavirus pandemic.

Regarding “if such information is material” in (4) above, as a result of making accounting estimates for the current year, the effects on the amounts in the financial statements for the current

² “Errors” are errors resulting from not using information that was available or from misusing information that was available, regardless of whether the underlying actions were intentional or not. “Errors” include errors in accounting estimates resulting from failing to identify facts or misunderstanding facts. (Accounting Standard No. 24, paragraph 4(8)).

³ This statement is made in reference to paragraph 55 of Accounting Standard No. 24, which states: “... if best estimates were developed based on information that was available ... differences arising from changes in accounting estimates due to changes in circumstances during the period or differences between the estimated amounts and the actual amounts when the results are finalized ... are recognized in the income statement for the period the changes in circumstances occurred or the period the results were finalized ...”

⁴ Article 8-5 of the Ordinance on Financial Statements states, “In addition to the specific note disclosures that are required under this Ordinance, if there are items that are considered necessary for interested parties to make appropriate judgements regarding the company’s financial position, financial performance and cash flows, such items shall be disclosed in the notes”.

year may be immaterial. Nevertheless, if those accounting estimates have a risk of significantly affecting the financial statements for the next year, disclosing “additional information” about the assumptions, including how the novel coronavirus pandemic will develop in the future and when it will be brought under control, would provide useful information to users of financial statements, and thus disclosures are strongly desired.

Furthermore, the Accounting Standards Board of Japan was asked to clarify how the thinking outlined in the Summaries of the Discussions at the 429th and 432nd Board meetings apply to quarterly financial reporting. As a result of the discussions, on June 26, 2020, the Board confirmed the following at the 436th Board meeting:

- (1) If the entity disclosed “additional information” related to (4) in the Summary of the Discussions at the 429th Board meeting in the annual financial statements of the previous year and made significant changes to its assumptions, including how the novel coronavirus pandemic will develop in the future and when it will be brought under control, in this quarter, such entity should describe such changes under the heading of “additional information”⁵ in the quarterly financial statements, unless they are described in other notes.
- (2) If the entity did not disclose assumptions in the annual financial statements of the previous year but circumstances have changed in this quarter and the assumptions have become material and thus should be newly disclosed, such entity should describe such changes under the heading of “additional information” in the quarterly financial statements, unless they are described in other notes.
- (3) An entity may disclose “additional information” related to (4) in the Summary of the Discussions at the 429th Board meeting in the annual financial statements of the previous year, but may not make significant changes to its assumptions, including how the novel coronavirus pandemic will develop in the future and when it will be brought under control, in this quarter. It is nevertheless desirable to disclose that significant changes were not made as “additional information” in the quarterly financial statements if it is determined that the fact that significant changes were not made provides useful information to users of financial statements.

⁵ Article 22 of the Ordinance on Quarterly Financial Statements states, “In addition to the specific note disclosures that are required under this Ordinance, if there are items that are considered necessary for interested parties to the company filing quarterly financial statements in making appropriate judgements regarding the company’s financial position, financial performance and cash flows of the fiscal year to which the quarter belongs, such items shall be disclosed in the notes”.

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Approximately 10 months have passed since the Summary of the Discussions at the 429th Board meeting was issued in April 2020. However, it continues to be difficult to predict how the novel coronavirus pandemic will develop in the future and when it will be brought under control, and it continues to be extremely difficult to make accounting estimates, particularly to predict future cash flows. Accordingly, the Board decided to continue to promote the thinking outlined in the Summaries of the Discussions issued in the past, as well as to discuss current issues and to issue the Summary of the Discussions at the 451st Board meeting by updating the Summaries of the Discussions issued in the past.

Treatment before Applying Accounting Standard No. 31, *Accounting Standard for Disclosure of Accounting Estimates*

As a result of the discussions, for the treatment of annual financial statements and quarterly financial statements before applying Accounting Standard No. 31, *Accounting Standard for Disclosure of Accounting Estimates* (hereinafter referred to as “Accounting Standard No. 31”), the Board confirmed that the thinking outlined in the Summaries of the Discussions at the 429th, 432nd and 436th Board meetings continues to apply.

Treatment after Applying Accounting Standard No. 31

The Accounting Standards Board of Japan has been asked to clarify the relationship between the thinking outlined in the Summaries of the Discussions at the 429th and 432nd Board meetings and Accounting Standard No. 31, which will be applied to consolidated and non-consolidated financial statements for fiscal years ending on or after March 31, 2021⁶. As a result of the discussions, the Board confirmed the following:

- (1) Of the thinking outlined in the Summary of the Discussions at the 429th and 432nd Board meetings, (1), (2) and (3) when making accounting estimates related to the effects of the novel coronavirus pandemic continues to apply, even after an entity applies Accounting Standard No. 31.
- (2) Accounting Standard No. 31 requires an entity to disclose, for items that the entity identified as material accounting estimates⁷, the amounts recognized in the financial statements for the current

⁶ Early application of Accounting Standard No. 31 is permitted (paragraph 10).

⁷ Paragraph 5 of Accounting Standard No. 31 prescribes the following:

In providing disclosures about accounting estimates, an entity shall identify, within the amounts in the financial statements that are based on accounting estimates, items that have a risk of significantly affecting the financial statements for the next year. Items that will be identified are, usually, assets and liabilities that are recognized in the financial statements

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year and other information about the accounting estimates that would be useful to the understanding of users of financial statements. The latter information includes, for example, how the amounts recognized in the financial statements for the current year were calculated, significant assumptions that were used in calculating the amounts recognized in the financial statements for the current year, and effects on the financial statements for the next year.

Accordingly, it is expected that, in many cases, certain assumptions (including how the novel coronavirus pandemic will develop in the future and when it will be brought under control) that otherwise would have been required to be disclosed as “additional information” if such information was material under (4) of the thinking outlined in the Summary of the Discussions at the 429th and 432nd Board meetings, would be included in the disclosures required by Accounting Standard No. 31. Together with the other disclosures referred to in the previous paragraph, it is expected that disclosures related to the effects of the novel coronavirus pandemic would be enhanced.

If the entity disclosed information outlined in the Summaries of the Discussions at the 429th and 432nd Board meetings as part of the disclosures provided in accordance with Accounting Standard No. 31, it is considered that there is no need to disclose the same information as “additional information”.

- (3) There have been cases where an entity determined that the effects of the novel coronavirus pandemic are considered to be immaterial but has nevertheless provided disclosures regarding such decision as “additional information”, with the understanding that such information would be useful to users of financial statements. Disclosures provided in accordance with Accounting Standard No. 31 relate to items that have a risk of significantly affecting the financial statements for the next year and, therefore, such information would not be included in the disclosures required by Accounting Standard No. 31. Nevertheless it is considered that disclosure of such information would be consistent with the objective of disclosing “additional information”.

(End of Document)

for the current year. In considering how the financial statements for the next year would be affected, an entity makes an overall decision taking into account both the size of the monetary amounts of the effects and their probabilities of occurrence.