

Summary of the Discussions at the 436th Board Meeting Held on June 26, 2020
Accounting Standards Board of Japan

**Incorporating the Effects of the Novel Coronavirus Pandemic
when Making Accounting Estimates under Japanese GAAP
(Updated June 26, 2020)**

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

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

cases, objective information based on external 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.

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 Statement No. 24, paragraph 4(8)).

³ This statement is made in reference to paragraph 55 of ASBJ 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”.

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 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.

The Accounting Standards Board of Japan has been 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, the Board confirmed the following:

- (1) If the entity disclosed information related to (4) in the summary of the discussions at the 429th Board meeting under the heading of “additional information” 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 information related to (4) in the summary of the discussions at the 429th Board meeting under the heading of “additional information” 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 under the heading of “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.

(End of Document)

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”.