

ASBJ Statement No. 5

Accounting Standard for Presentation of Net Assets in the Balance Sheet

ASBJ Guidance No. 8

Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet

December 9, 2005

Accounting Standards Board of Japan

Remarks on the Release

In view of changes in the understanding of the section on equity and the establishment of a category between liabilities and equity in recent years, the Accounting Standards Board of Japan (ASBJ) has deliberated balance sheet presentation related to the existing section on equity, occasioned by the proposal in ASBJ Exposure Draft No. 3 Accounting Standard for Share-based Payment of December 2004 on the presentation of the stock options in balance sheet.

Exposure drafts of the accounting standard were released on August 10, 2005, and comments were widely sought. The ASBJ reviewed the comments received, revised the exposure drafts, and approved ASBJ Statement No. 5 and ASBJ Guidance No. 8 (hereinafter, the accounting standards) for public release at the 94th ASBJ meeting of December 2, 2005.

Outline of the Accounting Standard

Presentation of the section on net assets

The balance sheet is divided into sections on assets, liabilities, and net assets, and the section on net assets is divided into owners' equity and items other than owners' equity. Owners' equity is divided into paid-in capital, capital surplus, and earned surplus.

Non-consolidated balance sheet

- Capital surplus is divided further into capital legal reserve and other capital surplus.
- Earned surplus is divided further into earned legal reserve and other earned surplus.
- Items other than owners' equity are valuation and translation adjustments, and subscription rights to shares.

Consolidated balance sheet

- Items other than owners' equity are valuation and translation adjustments, subscription rights to shares, and minority interest.

Non-consolidated Balance Sheet	Consolidated Balance Sheet
Net assets	Net assets
I. Owners' equity	I. Owners' equity
1. Paid-in capital	1. Paid-in capital
2. Deposit for subscriptions to shares	2. Deposit for subscriptions to shares
3. Capital surplus	3. Capital surplus
(1) Capital legal reserve	
(2) Other capital surplus	
Total capital surplus	
4. Earned surplus	4. Earned surplus
(1) Earned legal reserve	
(2) Other earned surplus	
Reserve for xxx	
Earned surplus brought / carried forward	
Total earned surplus	
5. Treasury stock	5. Treasury stock
6. Deposit for subscriptions to treasury stock	6. Deposit for subscriptions to treasury stock

Total owners' equity	Owners' equity total
II. Valuation and translation adjustments	II. Valuation and translation adjustments*
1. Valuation difference on available-for-sale securities	1. Valuation difference on available-for-sale securities
2. Deferred gains or losses on hedges	2. Deferred gains or losses on hedges
3. Revaluation difference on land	3. Revaluation difference on land
	4. Translation adjustments
Total valuation and translation adjustments	Total valuation and translation adjustments
III. Subscription rights to shares	III. Subscription rights to shares
	IV. Minority interest
Total net assets	Total net assets

*In the consolidated balance sheet, valuation and translation adjustments that are directly recorded in the net assets sections of the non-consolidated balance sheets of consolidated subsidiaries are divided proportionally into the parents' ownership interests and the minority interests portion based on the equity holding ratio. The parents' ownership interests portion is then included in the corresponding items and the minority interests portion is included in the minority interests in the consolidated balance sheet respectively.

Application of tax-effect accounting

With respect to valuation and translation adjustments, amounts are recorded after deducting related deferred tax assets or deferred tax liabilities.

Equity of subsidiary eliminated against parent's investment in the consolidation procedure and equity of investee under equity-method

In preparing the consolidated balance sheet, the equity of subsidiary that is eliminated against the parent's investment in the subsidiary in the consolidation procedure is the sum of the following items as before (in all cases, amounts should reflect the application of tax-effect accounting).

- Owners' equity in the net assets section of the subsidiary's non-consolidated balance sheet (following the unification of accounting between the parent and subsidiary and other adjustments arising from the revision of non-consolidated financial statements)
- Valuation and translation adjustments in the net assets section of the subsidiary's non-consolidated balance sheet
- Difference between the fair value of the subsidiary's assets and liabilities and their amounts recorded in the non-consolidated balance sheet (valuation difference)

In the application of the equity method, the equity of investee is treated in the same way as the equity of subsidiary as recorded above and as before.

Translation of net assets of foreign subsidiaries

In the preparation of consolidated financial statements and the application of the equity method, the following method shall be used in the translation of financial statement items of foreign subsidiaries or affiliated companies stated in foreign currencies that are related to net assets (including valuation differences in what is determined to be the equity of subsidiary or the equity of investee in the preparation of consolidated balance sheet or the application of the equity method).

- Owners' equity, valuation and translation adjustments, and valuation differences in the assets and liabilities of subsidiaries at the time of acquisition of shares by the parent company are translated into yen at the prevailing exchange rate at the time of acquisition of shares by the parent company.
- Owners' equity changed after the acquisition of shares by the parent company are translated into yen at the prevailing exchange rate at the time of transaction. Valuation and translation adjustments arising after the acquisition of shares by the parent company are translated into yen at the prevailing exchange rate on the balance sheet date.
- Subscription rights to shares are translated into yen at the prevailing exchange rate at the time of transaction. However, translation adjustments related to subscription rights to shares are included in the account of subscription rights to shares.
- Minority interest is as before translated into yen at the prevailing exchange rate on the balance sheet date.

Effective date

- These accounting standards are applicable in the preparation of consolidated and non-consolidated interim financial statements for consolidated and non-consolidated interim periods ending after the date the Corporate Law takes effect and in the preparation of consolidated and non-consolidated financial statements for consolidated and non-consolidated fiscal years ending after the date the Corporate Law takes effect.
- In the first fiscal year of application, the amount corresponding to the sum of the section on equity under previous standards should be stated in the note of financial statements.

Supplement: Major Differences with Current Accounting Standards

	Current accounting standards	New accounting standards
Balance sheet Non-consolidated	Divided into sections on assets, liabilities, and equity	Divided into sections on assets, liabilities, and net assets
Consolidated	Divided into sections on assets, liabilities, minority interest, and equity	Same as above
Net assets section (shareholders' equity section) of the balance sheet Non-consolidated	The equity section is divided into paid-in capital, capital surplus, earned surplus, and other items	The net assets section is divided into owners' equity, valuation and translation adjustments, and subscription rights to shares
Consolidated	Same as above	The net assets section is divided into owners' equity, valuation and translation adjustments, subscription rights to shares, and minority interests
Other capital surplus in the non-consolidated balance sheet	Stated through such sub-items as decrease of paid-in capital and capital legal reserve or gain on the disposal of treasury stock	No itemized presentation
Earned surplus in the non-consolidated balance sheet	Divided into earned legal reserve, voluntary reserve, and unappropriated retained earnings (undisposed accumulated losses)	Divided into earned legal reserve and other earned surplus. Under other earned surplus, each voluntary reserve established by resolution of the general meeting of shareholders or the board of directors are presented as sub-items and other amounts are included in earned surplus brought / carried forward.
Deferred gains or losses on hedges		

Presentation	Assets section or liabilities section	Valuation and translation adjustments in the net assets section
Tax effects	Not adjusted for tax effects	Adjusted for tax effects
Elimination in the consolidation procedure	Not included in the equity of a subsidiary eliminated against the parent's investment in the subsidiary	Included in the equity of a subsidiary eliminated against the parent's investment in the subsidiary
Presentation of subscription rights to shares	Liabilities section	Net assets section
Presentation of minority interests	Independent item between the liabilities section and equity section	Net assets section