

*ASBJ Statement No. 12*

**Accounting Standard for quarterly financial statements**

*ASBJ Guidance No. 14*

**Implementation Guidance for accounting standards for quarterly financial statements**

March 14, 2007

Accounting Standards Board of Japan

**Remarks on the release**

The Accounting Standards Board of Japan (hereinafter, the ASBJ) has been developing standards in preparation for quarterly financial statements which will be required to be disclosed by listed companies, etc., for annual periods beginning on or after April 1, 2008, in response to the introduction of a quarterly financial report system required by enactment of the Financial Instruments and Exchange Law.

The ASBJ published for public comment the exposure drafts of the Accounting Standards and its Implementation Guidance on November 1, 2006. The ASBJ reviewed the comments received, revised the exposure drafts, and approved ASBJ Statement No. 12 (hereinafter, the Accounting Standard) and ASBJ Guidance No. 14 (hereinafter, the Implementation Guidance) for public release at the 124th ASBJ meeting of March 6, 2007.

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

### **Objective**

The objective of this Accounting Standard and its Implementation Guidance is to prescribe the accounting and disclosure of quarterly consolidated financial statements and quarterly non-consolidated financial statements (the “quarterly financial statements”).

### **Components of the quarterly financial statements**

Financial statements to be included in quarterly financial reports consist of the quarterly balance sheets, the quarterly statements of income and the quarterly statements of cash flow. This Accounting Standard and its Implementation Guidance do not require the disclosure of the quarterly statements of changes in owners’ equity and other net assets, considering the situation that it is not required in the U.S. where the quarterly disclosure system is well-established and that an entity is required to disclose the quarterly financial statements swiftly by financial reporting system. When there are significant changes in owners’ equity, an entity shall disclose outline of the changes in notes (refer to the Accounting Standard, paragraphs 5, 6, 19(13), 25(11) and 36).

An entity which prepares quarterly consolidated financial statements is not required to prepare quarterly non-consolidated financial statements, taking into consideration provisions of the quarterly financial report system (refer to the Accounting Standard, paragraph6).

### **Periods for which Quarterly Financial Statements are required to be disclosed**

An entity shall disclose the quarterly financial statements for the following periods (refer to the Accounting Standard, paragraph7):

- 1) Quarterly balance sheets as of the end of the current quarterly period and condensed balance sheets as of the end of the immediately preceding financial year.
- 2) Quarterly statements of income for the current quarterly period (that is, three months) and cumulatively for the current financial year to date, with quarterly statements of income for the comparable quarterly periods (current and year-to-date) of the immediately preceding financial year.

- 3) Quarterly statements of cash flow cumulatively for the current financial year to date, with quarterly statements of cash flow for the immediately preceding financial year to date.

### **Accounting of quarterly financial statements**

An entity shall, in principle, apply the same accounting principles and procedures in its quarterly financial statements as are applied in its annual financial statements, except for special accounting methods for quarterly financial statements. However, an entity may apply simplified accounting methods unless they mislead users of quarterly financial statements (refer to the Accounting Standard, paragraphs 9 and 20).

Special accounting methods for quarterly financial statements include deferral accounting of manufacturing cost variances, the adjustment method of cost of sales using the last-in first-out method and the accounting for income taxes (refer to the Accounting Standard, paragraphs 11-14, 22, the Implementation Guidance, paragraphs 10, 18, 19, 22, 23).

This Accounting Standards and the Implementation Guidance provide simplified accounting methods for quarterly financial statements including simplified accounting methods allowed for semi-annual financial statements, the method of estimating future credit losses of normal receivables, the allocation method of manufacturing cost variances, the use of the budget system for determination of depreciation charge and the calculation method of income taxes (refer to the Accounting Standard's Implementation Guidance, paragraphs 3, 6, 8, 9, 11-13, 15-17, 20, 27-30).

### **Disclosure of quarterly financial statements**

- (1) Line items to be presented in quarterly financial statements

A line item of quarterly financial statements may be aggregated with other items unless they mislead users of quarterly financial statements (refer to the Accounting Standard, paragraphs 17 and 23).

A line item to be presented and the section in which the line item should be presented in quarterly financial statements must be consistent with those of annual

financial statements (refer to the Accounting Standard, paragraphs 18, 24).

(2) Notes to quarterly financial statements

Notes to quarterly financial statements to be disclosed are significant items which users need in order to understand quarterly financial statements (ie., items which have significantly changed since the last annual reporting date). Items and contents of the notes to quarterly financial statements should be more simplified compared with those of semi-annual financial statements because quarterly financial statements are required to be disclosed in a shorter period of time than an annual or semi-annual financial statements (refer to the Accounting Standard, paragraph 55).

This Accounting Standards and its Implementation Guidance provide the items to be presented in notes as follows: items which should be always presented include segment information and quarterly earnings per share, etc., while the items which should be presented in notes only when a specific event or situation occurs include changes in significant accounting principles and procedures, significant changes in owners' equity, occurrence of an event or situation which creates doubt about the going concern, significant business combinations or divestiture, existing significant contingent liabilities or occurrence of subsequent events and the others (refer to the accounting standard, paragraphs 19, 25, the Accounting Standard's Implementation, paragraphs 33 - 80).

An entity may disclose more items than what this Accounting Standard and its Implementation Guidance provide, considering its business and structure. The items the Accounting Standards and its Implementation Guidance provide are presented as minimum requirements (refer to the Accounting Standard, paragraph 55).

**Effective date**

An entity shall apply this Accounting Standards and its Implementation Guidance for annual periods beginning on or after April 1, 2008, which is the same as the timing of introduction of the quarterly financial report system. In the initial year, quarterly statements of income for the current quarterly period (that is, three months) and

cumulatively for the current financial year to date are not required to be disclosed (refer to the Accounting Standard, paragraphs 26, 27).