



Government of Japan

Accrual Accounting Development in Japan - The Japanese perspective

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Overview

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I . Financial Reporting System in JAPAN



1. Background

-History of Government Financial Statements-

2000: The Japanese Government Balance Sheet (Primary Trial)
was prepared

2003: Financial Statements of Special accounts were prepared

2004: Financial Statements of each ministry were prepared

2005: Japanese Government Financial Statements were prepared

2011: Policy Unit Cost Information was prepared
— 135 policy units cover all organizations of the central government



1. Background

-Our budget accounts and Government organizations-

Budget accounts

General accounts

18 special accounts

- | | | |
|--------------------------------------|---------------------------|------------------------------|
| ◇ Local Allocation Tax | ◇ Labor Insurance | ◇ Fishery mutual aid |
| ◇ Earthquake reinsurance | ◇ Pensions | ◇ External Trade reinsurance |
| ◇ Government Debt Consolidation Fund | ◇ Stable Food supply | ◇ Patent |
| ◇ Fiscal Investment and Loan Program | ◇ Agricultural mutual aid | ◇ Infrastructure |
| ◇ Foreign Exchange Fund | ◇ Forestry insurance | ◇ Car security |
| ◇ Energy Policy | ◇ National Forest service | ◇ Reconstruction |

18 organizations (reporting entities)

- | | |
|---|--|
| ◇ Imperial household | ◇ Ministry of Education, Culture, Sports, Science and Technology |
| ◇ Diet | ◇ Ministry of Health, Labor and Welfare |
| ◇ Court | ◇ Ministry of Agriculture, Forestry and Fisheries |
| ◇ Board of audit | ◇ Ministry of Economy, Trade and Industry |
| ◇ Cabinet | ◇ Ministry of Land, Infrastructure and Transport |
| ◇ Cabinet office | ◇ Ministry of Environment |
| ◇ Ministry of Public Management, Home Affairs, Posts and Telecommunications | |
| ◇ Ministry of Justice | |
| ◇ Ministry of Foreign Affairs | ◇ Ministry of Defense |
| ◇ Ministry of Finance | ◇ Reconstruction Agency |



2. Cash-basis budgeting and final accounts

- The Public Finance Law requires cash-basis budgeting and accounting.
 - ◆ Cash basis budgeting has advantages in terms of certainty, objectivity, and accessibility where properly managed.
 - ◆ National budget and final accounts are subject to the diet's approval.
 - ◆ It is necessary to show the amounts of tax revenues and distribution in a comprehensible way to the general public.
- **However**, we also acknowledge the benefits of accrual basis accounting;
 - It is useful in evaluating government's full service costs.
 - It shows the financial position and its changes



3. Accrual Financial Statements

- Introduction -

- Financial statements under accrual basis accounting since FY2003
 - To provide the Diet and the Japanese People with a comprehensive view of the Government's finance, i.e., its financial position, its revenue and costs.
 - To evaluate a government's performance.
- Our financial statements are prepared using national public accounting standards, which were formulated by Fiscal System Council.
- National public accounting standards are based on the Japanese corporate accounting standards, adjusted for public sector.



3. Accrual Financial Statements

- Composition of Financial Statements-

Japanese Government Financial Statements

Japanese government financial statements covering all ministries (reporting entities) is published by Ministry of Finance as part of information disclosure.

Consolidated financial statements are also prepared by Ministry of Finance.

-Consolidated entities: incorporated administrative agency, etc., whose operations are related to businesses of the government.

Financial Statements of each ministry

Each ministry (reporting entity) prepares its financial statements which consist of a statement of general and special account under its jurisdiction, and consolidated statement with incorporated administrative agency, etc.

Financial Statements of each account

Special accounts' financial statements are required to submit to the diet by the special account Act.

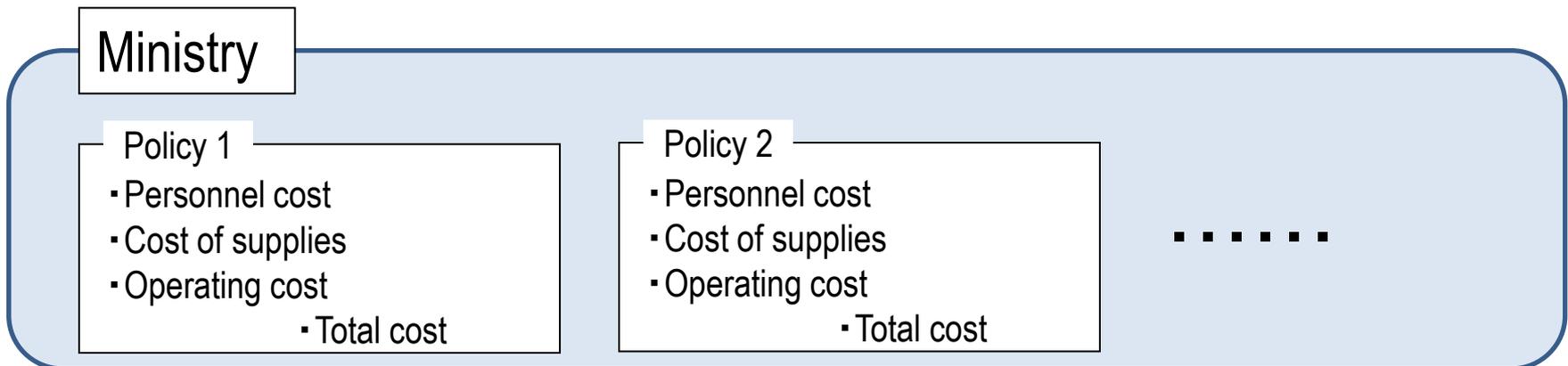
General account financial statement are published by Ministry of Finance as part of information disclosure to people.

All statement available on web site (www.mof.go.jp) but only in Japanese now.



4. Policy Unit Cost Information

- Each Ministry prepares “Policy Unit Cost Information” for each of its policy units. (Usually a ministry has 5-15 policy units. 135 units in total across the government)
- PUCI is accrual-basis segmented information, which indicates operating costs of each policy unit.
- Purpose of PUCI is to facilitate annual policy evaluation.
 - transparent and efficient allocation of resource
 - monitoring of the amount of accrual basis cost



5. Accrual Financial Statements of local public entities



Government of Japan

- Many of local public entities prepare their financial statements under accrual basis accounting .

- ◆ For example, Tokyo Metropolitan Government implemented the use of accrual basis accounting in April 2006 and prepares their Financial Statements.
- ◆ 1,313 of 1,789 local public entities prepared their Financial Statements for FY2010.(as of March 2012)



II. Work in Progress

▪ Improving accessibility of Financial Statements

▪ Explanatory booklets on the government financial statements

- easy to understand the overall financial status of the whole government
- analysis of year-on-year comparison and 5-year trend

(issued in Jan, 2013)

▪ Ministry-level explanatory booklet

- easy to understand the overall financial status of the ministry
- analysis of the costs with “Policy Unit Cost Information”

(will be issued by each ministry in Mar, 2013)



**If any question,
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