

Introduction to Japanese Corporate Accounting



Riaison International Corporation

1. Purposes of Accounting and Bookkeeping

- Manage operations and assets of enterprise
- Measure operational results of enterprise
- Watch financial activities/balances of enterprise
- Report above all to stakeholders



2. Five Elements and Accounting Equation

Asset

Liability

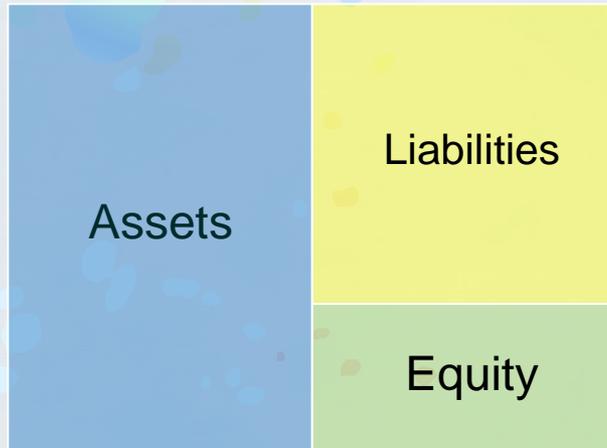
Equity

Revenue

Expense

Assets = Liabilities + Equity

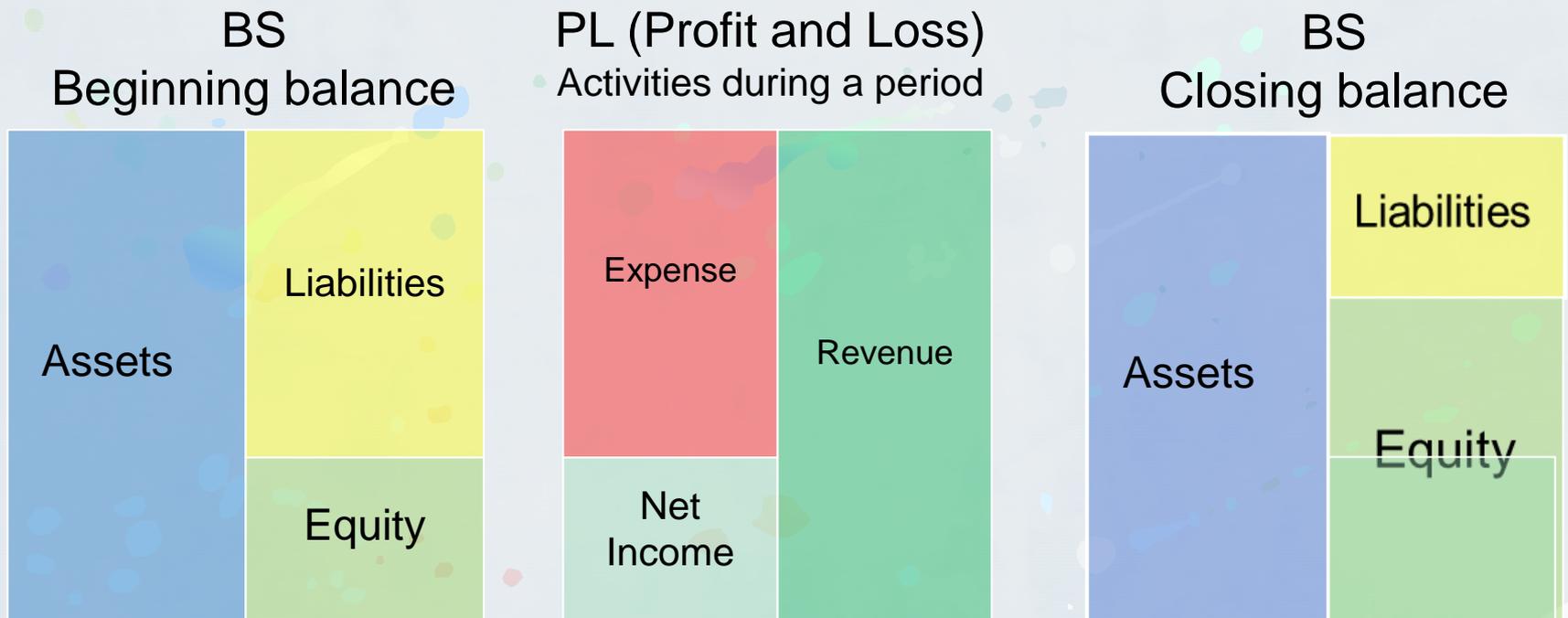
Revenue - Expense = Net Income
(Net Loss)



3. Balance Sheet and Income Statement

Balance Sheet (BS) shows the financial balances of a business entity as of a single point in time.

Income Statement (PL) shows the results of the business activities of an entity for a specific period.



4. Balance Sheet Items and Income Statement Items

Balance Sheet Items, selected

Income Statement Items, selected

Element	Account name	勘定科目	Kanjo-kamoku
Assets	Cash	現金	Genkin
	Bank	預金	Yokin
	Accounts receivable	売掛金 未収金	Urikakekin Mishukin
	Inventory	商品 製品	Shohin Seihin
Liabilities	Accounts payable	買掛金 未払金	Kaikakekin mibaraikin
	Loans	借入金	Kariirekin
	Withholdings	預り金	Azucarikin
Equity	Common stock	資本金	Shihonkin
	Retained earnings	利益剰余金	Rieki-joyokin

Element	Account name	勘定科目	Kanjo-kamoku
Revenue	Sales	売上	Uriage
Expense	Cost of goods sold(COGS)	売上原価	Uriagegenka
	Salaries	給与手当	kyuyoteate
	Travel	旅費交通費	Ryohikotsuhi
	Communication	通信費	Tsushinhi
	Legal welfare	法定福利費	Houteifukurihi
	Professional fees	支払報酬	Shiharai-Hoshu
Net income	Net income	当期 (純) 利益	Toki(jun)rieki
	Net loss	当期 (純) 損失	Toki(jun)sonshitu

5. Bookkeeping and Five Elements of Accounting

Debit (Dr.)
借方 (karikata)

- Increase of an asset
- Increase of an expense or a loss
- Decrease of an liability
- Decrease of a revenue
- Decrease of equity

Credit (Cr.)
貸方 (kashikata)

- Increase of a liability
- Increase of a revenue
- Decrease of an asset
- Decrease of an expense or a loss
- Increase of equity

Dr. amount = Cr. Amount
借方金額 (karikata kingaku) = 貸方金額 (kashikata kingaku)

6. Journal Entries - Sales

Dr. amount = Cr. amount

Transaction	Journal Entry	仕訳 shiwake
1. Received JPY30,000 cash for the consulting fees.	Dr. Cash 30,000 Cr. Sales 30,000	(借方) 現金 30,000 (貸方) 売上 30,000 Karikata Genkin Kashikata Uriage
2. Sold goods on account for JPY50,000.	Dr. Accounts receivable-trade 50,000 Cr. Sales 50,000	(借方) 売掛金 50,000 (貸方) 売上 50,000 Karikata Uriakekin Kashikata Uriage
3. Received a remittance for JPY50,000 into the bank account for the transaction 2 above.	Dr. Bank 50,000 Cr. Accounts receivable-trade 50,000	(借方) 預金 50,000 (貸方) 売掛金 50,000 Karikata Yokin Kashikata Uriakekin

7. Journal Entries – Buy & Sell

Note: We usually use "仕入 Shiire" account, classified into Expenses, in Japanese business accounting practices for purchase transactions while "Inventory" account, classified into Assets, is popular in many countries.

Transaction	Journal Entry	仕訳 shiwake
1. Purchased merchandise for JPY30,000 on account.	Dr. Inventory 30,000 Cr. Accounts payable-trade 30,000	(借方) 仕入 30,000 (貸方) 買掛金 30,000 Karikata Shiire Kashikata Kakakekin
2. Sold merchandise above on account for JPY50,000.	Dr. Accounts receivable-trade 50,000 Cr. Sales 50,000 Dr. Cost of goods sold 30,000 Cr. Inventory 30,000	(借方) 売掛金 50,000 (貸方) 売上 50,000 Karikata Uriakekin Kashikata Uriage
3. Made a remittance for JPY30,000 to pay the transaction 1 above.	Dr. Accounts payable-trade 30,000 Cr. Bank 30,000	(借方) 買掛金 30,000 (貸方) 預金 30,000 Karikata Kaikakekin Kashikata Yokin
4. Compute cost of goods sold. Beginning balance of inventories was JPY5,000, closing balance is JPY6,000.	-	(借方) 仕入 6,000 (貸方) 繰越商品 6,000 Karikata Shiire Kashikata Kurikoshi-shohin (借方) 繰越商品 5,000 (貸方) 仕入 5,000 Karikata Kurikoshi-shohin Kashikata Shiire

Note: No journal entry needed when using "Inventory" and "Cost of goods sold" accounts for transaction 4.

8. Journal Entries-Expenses

Transaction	Journal Entry	仕訳 shiwake
<p>1. Received a bill of JPY10,000 for telephone charge of this month. Payment will be made by the end of next month.</p>	<p>Dr. Communication 10,000 Cr. Accounts payable-other 10,000</p>	<p>(借方) 通信費 10,000 (貸方) 未払金 10,000 Karikata Tsushinhi Kashikata Mibaraikin</p>
<p>2. Received a claim of JPY20,000 from an employee for the commutation of this month. Reimbursement will be made next week.</p>	<p>Dr. Commutation 20,000 Cr. Accounts payable-other 20,000</p>	<p>(借方) 旅費交通費 20,000 (貸方) 未払金 20,000 Karikata Ryohi-kotsuhi Kashikata Mibaraikin</p>
<p>3. Paid JPY30,000 cash for an employee's business trip.</p>	<p>Dr. Business trip 30,000 Cr. Cash 30,000</p>	<p>(借方) 旅費交通費 30,000 (貸方) 現金 30,000 Karikata Ryohi-kotsuhi Kashikata Genkin</p>
<p>4. Paid JPY20,000 cash for the dinner with the customers.</p>	<p>Dr. Entertainment 20,000 Cr. Cash 20,000</p>	<p>(借方) 交際費 20,000 (貸方) 現金 20,000 Karikata Kosaihi Kashikata Genkin</p>

9. Journal Entries - Acquisition cost

Transaction	Journal Entry	仕訳 shiwake
1. Bought a PC and paid JPY500,000 in cash.	Dr. Computer 500,000 Cr. Accounts payable-other 500,000	(借方) 備品 500,000 (貸方) 未払金500,000 Karikata Bihin Kashikata Mibaraikin
2. Made a remittance for JPY2,000,000 for the improvement construction of the rent office.	Dr. Leasehold improvement 900,000 Cr. Accounts payable-other 900,000	(借方) 建物付属設備 900,000 (貸方) 未払金 900,000 Karikata Tatemono-fuzoku-setsubi Kashikata Mibaraikin
3. Bought JPY500,000 worth software on account.	Dr. Software 600,000 Cr. Bank 600,000	(借方) ソフトウェア 600,000 (貸方) 預金 600,000 Karikata Software Kashikata Yokin
4. Bought a furniture and paid JPY400,000 in cash.	Dr. Furniture 400,000 Cr. Cash 400,000	(借方) 備品 400,000 (貸方) 現金 400,000 Karikata Bihin Kashikata Yokin

10. Journal Entries - Depreciation, Amortization

Transaction	Journal Entry	仕訳 shiwake
1. Record monthly depreciation of computers. The amount is JPY10,000.	Dr. Depreciation 10,000 Cr. Accumulated depreciation 10,000	(借方) 減価償却費 10,000 (貸方) 減価償却累計額 10,000 Karikata Genka-shokyakuhi Kashikata Genka-shokyaku-ruikeigaku
2. Record monthly amortization of software. The amount is JPY15,000.	Dr. Amortization 15,000 Cr. Software 15,000	(借方) 減価償却費 15,000 (貸方) ソフトウェア 15,000 Karikata Genka-shokyakuhi Kashikata Software

Tangible asset: Dr. Depreciation / Cr. Accumulated depreciation

Intangible asset: Dr. Amortization / Cr. Asset Account Name

Examples of depreciation methods
Straight line (定額法 Teigaku-ho)
Declining balance (定率法 Teirtsu-ho) , and more...

11. Journal Entries – Adjusting entries

Transaction	Journal Entry	仕訳 shiwake
<p>1. The amount of JPY300,000 recorded into "Office rent" account should be adjusted to the next month's expense.</p>	<p>Dr. Prepaid expense 50,000 Cr. Office rent 50,000</p>	<p>(借方) 前払費用 50,000 (貸方) 地代家賃 50,000 Karikata Maebarai-hiyo Kashikata Chidai-yachin</p>
<p>2. The amount of JPY600,000 recorded as "sales" includes the amount of JPY550,000 subject to the next eleven months' sales.</p>	<p>Dr. Sales 55,000 Cr. Unearned revenue 55,000</p>	<p>(借方) 売上 55,000 (貸方) 前受収益 55,000 Karikata Uriage Kashikata Maeuke-shueki</p>
<p>3. The amount of JPY300,000 of salaries for this month which is not recorded yet will be paid next month.</p>	<p>Dr. Salaries 300,000 Cr. Accrued salaries 300,000 (Salaries payable)</p>	<p>(借方) 給与 300,000 (貸方) 未払費用 300,000 Karikata Kyoyo Kashikata Mibarai-hiyo</p>
<p>4. The amount of JPY80,000 of maintenance fee, already provided services but not received the fees, is not journalized yet.</p>	<p>Dr. Accrued revenue 8,000 (Accounts receivable-trade) Cr. Sales 8,000</p>	<p>(借方) 未収収益 8,000 (貸方) 売上 8,000 Karikata Mishu-shueki Kashikata Uriage</p>

12. Trial balance, selected

Note 1: Beginning balance + Dr. – Cr. = Closing balance

element	勘定科目例 Kanjo-kamoku-rei	Sample account name	Beginning balance	Dr.	Cr.	Closing balance
Asset	現金 Genkin	Cash	2,345,678	1,987,654	1,890,123	2,443,209
	預金 Yokin	Bank	13,555,666	13,567,890	13,432,109	13,691,447
	売掛金・未収金 Urikakekin Mishukin	Accounts receivable	28,334,678	21,678,901	26,789,012	23,224,567
	製品・商品 Seihin Shohin	Inventory	12,345,678	13,456,789	11,234,567	14,567,,900
Liability	買掛金・未払金 Kaikakekin Mibaraikin	Accounts payable	(15,678,901)	16,789,012	14,321,098	(13,201,987)
	借入金 Kariirekin	Loans	(8,765,432)	123,456	210,987	(8,641,976)
	預り金 Azukarikin	Withholdings	(56,789)	56,789	54,321	(54,321)
Equity, Net assets	資本金 Shihonkin	Common stock	(5,000,000)	0	0	(5,000,000)
	利益剰余金 Rieki-joyokin	Retained earnings	(2,708,864)	0	1010,123	(3,781,987)
Revenue, Income	売上 Uriage	Sales	(23,303,678)	7,890	23,210,987	(46,506,775)
	受取利息 Uketori-risoku	Interest income	(96,295)	0	2,109	(98,404)
Expense Loss	交通費 Kotsuhi	Travel	912,345	345,678	0	1,258,023
	保険料 Hokenryo	Insurance	45,678	23,456	0	69,134
	法定福利費 Hotei-fukurihi	Legal welfare	567,890	567,890	0	1,135,780

13. Financial Statements - Balance sheet

Balance sheet indicates the closing balances of Assets, Liabilities and Equity(Net Assets) on TB(Trial Balance).

Sample Balance Sheet

<u>Assets</u>	xxx	<u>Liabilities</u>	xxx
Current Assets	xxx	Current Liabilities	xxx
Cash & Bank	xxx	A/P-trade	xxx
Inventories	xxx	A/P-other	xxx
A/R trade	xxx	Notes payable	xxx
A/R Other	xxx	Withholdings	xxx
Prepaid expense	xxx	Tax payable	xxx
Accrued revenue	xxx	Unearned revenue	xxx
Fixed Assets	xxx	Non-current Liabilities	xxx
Tangible Assets	xxx	Long-term loans	xxx
Computer	xxx		
Intangible Assets	xxx	<u>Net Assets</u>	xxx
Software	xxx	Shareholders' equity	xxx
		Retained earnings	xxx

14. Financial Statements - Income statement

Income statement indicates the closing balances of Revenues and Expenses(losses) on TB(Trial Balance).

Sample Income statement

Sales	XXX
Cost of goods sold	XXX
Gross profit	XXX
Operational expenses	XXX
Salaries	XXX
Depreciation	XXX
Operating income	XXX
Other income(expense)	XXX
Interest income	XXX
Interest expense	XXX
Income before income tax	XXX
Net income	XXX

Other financial statements

- Cash-flow statement
- Statement of Shareholders' Equity
- And more...

We have learned the procedures of Japanese practical, very basic corporate accounting for buy and sellers or service providers.

We should learn more about treatments for

- Domestic transactions and overseas transactions
 - Inter-company transactions and third-party transactions
 - Cost centers, revenue centers management and analysis
 - VATs, Consumption taxes in Japan, tariffs
 - Exchange gains and losses
 - Deferred taxes in multiple countries
 - GAAP adjustments
- and others.

Plus, computing/recording/reporting the manufacturing costs are required in manufacturing industries.



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