［論文］

Analysis of Two Approaches in Corporate Accounting:

“The Revenue/cost” and “The Asset/liability”

Jun Oheki

1. Introduction

Basic accounting functions include managing conflicts of interest and providing accounting information. The primary focus of these functions is to provide useful information that supports decision making on the part of the users. In recent years, recognition and measurement concepts to determine the qualities of accounting information have been incorporated. Furthermore, a strong emphasis has been placed on the decision usefulness of accounting information. At the present day, the emphasis has shifted from “recording/calculating” to “reporting/disclosure” in accounting.

Today’s “mixed attribute accounting model based on acquisitition cost and market value” is commonly used due to the shift of interests in accounting such as economic foundations and market characteristics.

More specifically, the interests shifted from “product-based economy” to “finance-based economy” to “knowledge-based economy”, which was accompanied by the shifting of valuation standards from acquisitition cost to market value to fair value. These shifts indicate a change in emphasis from the expanded “reporting and legal forms” to the “economic substance” in the recognition of assets and liabilities.

There are three methods of defining assets in accounting:

(1) revenue/cost perspective
(2) asset/liability perspective
(3) finance perspective.

First, a method to conceptualize assets under the revenue/cost perspective is viewed as accounting based on the revenue/expense pespective. From the aspect of market characteristics, a method to conceptualize assets under the revenue/cost perspective is based on the product-based economy.

Second, the asset/liability perspective aims to understand the idea behind using the balance sheet to calculate property values, which outlines the characteristics of assets conceptualized within static theories.

Third, the concept of assets based on the finance perspective is associated with market characteristics of the finance-based and knowledge-based economy, or accounting based on the asset/liability pespective. Under the finance perspective, assets are valuated at market value.

This paper aims to understand the shift of emphasis in accounting from recording/calculation to reporting/disclosure as the characteristics of modern accounting, through the examination of 2 pespectivees regarding the concept of accounting, and the framework of assets in accounting.

2. Concept of Accounting

A concept of accounting represents attributes common to what is called accounting. A broad concept of accounting is described as “a procedure for recording, measuring, and communicating the economic activities of economic agents to help users of the information make accurate judgements and decisions”, Business accounting to measure corporate economic activities has a series of accounting cycle consisting of recording, calculating, and reporting of business transactions. This paper conceptualizes accounting:

(1) examining procedural
(2) teleological
(3) functional concepts.

The key points of these concepts are explained below.

First, the procedural concept of accounting emphasizes the accounting procedure. One such example is the traditional concept of accounting by the terminology committee of the American Institute of Certified Public Accountants (AICPA); in 1941, AICPA conceptualized “accounting as the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events, which are, in part at least, of financial character, and interpreting the results thereof”,

The concept of accounting by the American Institute of Certified Public Accountants (AIPCA) in 1941 is viewed as a procedural concept. This concept is characterized by the emphasis on calculating and recording financial elements under the double-entry bookkeeping system. Moreover, accounting is conceptualized by focusing more on the perspective of the preparers of accounting information rather than that of the users. Basic functions of accounting include managing conflicts of interest and providing accounting information.

Second, the teleological concept focuses on the preparation of accounting information that meets information needs of the users. In other words, accounting is "the process of identifying, measuring, and communicating economic information to permit informed judgements and decisions by users of the information" as conceptualized by the American Accounting Association (AAA) in *A Statement of Basic Accounting Theory* published in 1966.

In the mid-1960s, the primary focus was placed on the accounting function of providing useful information that supports decision making on the part of information users.

Third, the functional concept emphasizes the qualities of information as the final output of accounting activities, rather than the technical process of accounting measurement, a series of procedural processes associated with accounting activities such as recording, calculating, and reporting. The accounting activities consist of measurement and communication activities. In the functional concept, accounting is conceptualized by the social usefulness of accounting information. From the viewpoint of disclosing a company's financial situation that is useful for the investors, the qualities of information must be sufficient to help the investors predict the business performance and evaluate the enterprise value. Also, in the functional concept, recognition and measurement concepts are used to determine the qualities of accounting information.

In the 1980s, as explained earlier regarding the functional concept of accounting, recognition and measurement concepts to determine the qualities of accounting information were incorporated. Furthermore, a strong emphasis was placed on the decision usefulness theory that is tailored to meet the needs of information users.

Here this paper consider the nature of assets.

The essence of assets is the concept of comprehensive income as the change in the fair value of assets and liabilities. In other words, the essence of an asset is "a resource that is controlled by a company as a result of past events and is expected to have future economic benefits flowing into the company." This is a continuation of the concept of assets in US accounting since the mid-1960s, conceptualized as "service potentials", and nobody feels very uncomfortable. It is important, however, that the asset is "expected future economic benefits",

Regarding retirement benefits and asset retirement obligations, we do not fear management's arbitrariness, and we calculate the "discounted present value" while recording assets at cost. I wonder why. That is because we make the assumption that "market value = fair value", If the nature of the asset is future income, shouldn't the measurement be the discounted present value of that income? Still, using acquisition costs is because "recognition" is difficult. But isn't that impossible, because we use the "discounted present value" for the liability, or when we record the impairment?

According to FASB [1993], the concept of "the essence of assets is utility potential" has led to the concept of present and future economic benefits in international accounting standards[1]. But what is common to both is that while future income (or future cash flow) is an asset, the measurement is "cost", It seems that the assumption of "market value = fair value" is presumed. In understanding the nature of assets, in the 1990s there was no such concept as an asset retirement obligation. Nevertheless, the essence of the determination and the reason for the separation of the measurement methods are important.

This paper have heard that the discounted present value of future earnings would be the market value in a fully competitive market, and that cost could be used as a measure of future economic benefits. Is there a competitive market?

Suppose that an ordinary merchant at a store in front of the station had a business value of 40 million yen as the discounted present value of profits worth doing. Some companies will make 90 million yen at their stores. If so, shouldn't that company capitalize for 90 million yen? The reason is that if a store becomes unprofitable due to deterioration over time or changes in the surrounding population, impairment will be booked by returning profits at that time.

Here, the difference between 90 million yen and 40 million yen is self-created "Noren", If you want to account for self-created goodwill, the only counterparty to that goodwill is equity. This is because the acquisition price of self-created goodwill is an intangible value that is continuously formed by past expenditures. Instead of profit of 50 million yen, shareholders' equity is booked, and comprehensive income is positive. It is such an accounting framework. If you stick to the theory of a pure asset-liability pespective, why and why not?

In fact, the theory of IFRS is, in the end, from the investor's point of view, to meet conservative, early-loss welcome expectations of "want to disclose future losses as soon as possible." Isn't it just a quibble just by giving the theory? Assuming that self-generated goodwill is measured by accumulating past expenditures, the idea holds that the expenditure should be capitalized little by little. On the other hand, it can be considered that the intangible value is suddenly generated one day and should be capitalized at that timing.

If the recording of impairment in the event that goodwill is found to be lost is to be recognized, then recognized and measured and then recorded suddenly, if there are signs of excess earning power, then So there should be room to force measurement and accounting. Even if it is not possible to recognize self-created goodwill every transaction every day, it is not impossible to practice at certain points in time. If you recognize excess earning power at the time of your capital investment plan, and if that fact is supported by store profits and losses in the first year, what are the positive reasons not to record goodwill at this point? In the case of capital investment, it is necessary to calculate the return on investment, so it should be possible to recognize excess profitability there.

Therefore, at least with regard to property, plant and equipment, it is not impossible to recognize self-generated goodwill. Nevertheless, if it is not enforced, one may profess that it is an asset-liability pespective and point out that there is a gap with the inevitable accounting that is derived from the nature of the asset. Impairment accounting is mandatory, and conversely, self-generated goodwill is not mandatory. Is this a contradiction?

Theoretically, it is fair value accounting, so it should be. But is it a compromise because there is no practice to require all assets to be measured? Why not compromise on debt items? At least for fixed assets, I don't think it's possible to make a mark on fair value accounting unless you allow it. Therefore, as mentioned above, the investor said, "Please take care of unexpected loss recording. Please make sure that impairment accounting and asset retirement obligations are recorded properly, and at least it will not worsen, so you can read it as a number, And incorporated that into practice, the accounting standard would have been used to create an accounting theory that could explain everything inductively, resulting in fair value accounting. But, in fact, isn't cost-based accounting just a welcome expectation based on early requests for losses by investors? The hypothess comes out, and there is no reason to deny it.

Of course, the asset framework also has a concept of users of financial reporting, and it is logical to say that it is a useful framework for those users, but in the first place, individual standards are created according to needs and mutual what caused the contradiction was the history of FASB. After creating a lot of individual criteria, we create a conceptual framework. What used to be imported by the American Accounting Association and the FASB before has now become international accounting standards and only IFRS.

The hypothesis states, "In other words, fair value accounting is a sham, and in fact, cost accounting accounting only incorporates the early expectation of early loss on investor demand." [2)]

3. Revenue/cost, Asset/liability and Finance

As the economic foundation and market characteristics change, so do the concept of assets and asset valuation standards in accounting. In order to understand the change in the concept of assets, there is a point of view to take 3 pespectivees, namely, revenue/cost perspective, asset/liability perspective and finance perspective.

First, the revenue/cost perspective establishes the purpose of calculating profit and loss periodically, and assets are conceptualized using computational techniques according to the purpose. The concept of assets in so-called dynamic theories is based on the revenue/cost perspective. In dynamic theories, assets on the balance sheet are divided into expendable and monetary assets. Deferred assets derived from the calculation of periodic profit and loss are recorded as assets on the balance sheet. Assets including inventory assets, tangible fixed assets, and prepaid expenses are considered expendable assets as they are deemed to be expenses of future periods. The expendable assets are generally valuated at acquisitition cost on the balance sheet. The monetary assets are generally valuated based on the recoverable amount or expenditures. Under the revenue/cost perspective, assets are conceptualized based on the revenue/expense pespective. From the perspective of market characteristics, assets conceptualized under the revenue/cost perspective are based on the product-based economy.

Second, under the asset/liability perspective, the purpose of the balance sheet is to realize the philosophy of law, and assets are conceptualized according to the purpose. The concept of assets in so-called static theories is based on the asset/liability perspective. In static theories, the balance sheet is designed to calculate property value by determining the net worth at a specific point of time. The idea behind using the balance sheet to calculate property value originates from the French Commercial Code of 1673, which was established to protect creditors and supervise the management of businesses. Asset valuation based on the asset/liability perspective emphasizes the application of sales value to determine the debtor's ability to repay.

Third, the finance perspective conceptualizes assets by focusing on the economic characteristics. There is a concept called service potential that offers a unified understanding of assets in accounting. As explained earlier, the concept of service potential can be found in the *Accounting and Reporting Standards for Corporate Financial Statements* published by the American Accounting Association: "Assets are economic resources devoted to business purposes within a specific accounting entity; they are aggregates of service-potentials available for or beneficial to expected operations." According to the *Statements of Financial Accounting Definitions No. 6*, "assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events", This concept presents three characteristics of assets: (1) probable future economic benefits, (2) substantially controlled by a particular entity, and (3) occurrence of past transactions or events. Assets as economic resources represent the concept of stocks, whereas assets as economic benefits represent the concept of flows. Hence, the concept of assets based on the finance perspective is characterized by the concept of flows, which identifies assets as "probable future economic benefits" as an extension of the service potential.

Transactions or events that result in the transfer of economic rights or control can be recorded as assets on the balance sheet. In light of recording leased assets on the balance sheet, recognition of assets in lease accounting can be understood through the concept of assets based on the finance perspective. In the recognition of assets and liabilities in lease accounting, the emphasis shifted from legal forms to economic substance. Considering the concept of assets based on the finance perspective, this pespective is associated with the market characteristics of finance-based and knowledge-based economy, and accounting based on the asset/liability pespective (Figure1).

Figure1　Three Value

	Goods	Industry	Perspective
1 Cost Value	Product	Manufacture Retail	Revenue/Cost Perspective Asset/Liability Perspective
2 Market Value	Financial Derivative	Financial Industry	Financial Perspective
3 Fair Value	Information Service	Information service Industry	New Perspective

The concept of service potential shows that “assets are economic in nature; they are embodiments of future want satisfaction in the form of service potentials that may be transformed, exchanged, or stored against future events. Whatever means or method is employed to measure assets (cost, price, appraisal, or arbitrary valuation), assets are service potentials, not physical things, legal right, or money claims”.

In view of various concepts of assets, there is a point of view that the majority of the concepts incorporate the word “potential benefit” as the central element. From this point of view, future cash inflows such as future services, service potentials, future economic benefits, and contribution to and economic value of future sales activities, possess essential characteristics of assets and are considered the fundamental source of asset value. In other words, potential benefits, a key element in defining assets, represent future cash inflows generated by assets and are thereby perceived as the source of asset value.

From this perspective, the concept of assets is based on the concept of flows, which can be applied to the measurement of future cash inflows. Needless to say, hardness of the measurement of future cash inflow could present a problem.

4. Conclusion

The basic concepts of financial accounting in terms of accounting profit and the measurement can be examined through the revenue/expense pespective and asset/liability pespective. acquisitition cost accounting is an accounting principle based on the revenue/expense pespective that implements the acquisitition cost/realization model. In contrast to this traditional accounting system, the modern accounting is perceived as a “mixed attribute accounting model based on acquisitition cost and market value”; and the concept of market value is incorporated into the accounting framework. Needless to say, there have been theories that support the concept of market value in the field of accounting for price level changes, even under accounting principles based on the revenue/expense pespective. First, in examining the current “mixed attribute accounting model based on acquisitition cost and market value”, the first question was presented: “Why is the concept of market value incorporated into the framework of acquisitition cost accounting?”, Also, given that accounting principles based on the asset/liability pespective are generally accepted more than those based on the revenue/expense pespective, the second question was presented: “Why are accounting principles based on the asset/liability pespective widely practiced in today’s financial accounting?”, As might be expected, these questions were raised in view of the modern accounting practices. This paper reexamined this simple question: “What is accounting and what is its role?”,

It is widely believed that “accounting is a document itself, but it will have a function of rationalizing an objective, realistic phenomenon once the document is disclosed. Therefore, accounting serves a function of disclosing information described in unique accounting terms to rationalize a certain type of intended phenomenon, in this case, dividend phenomenon. Accounting has a unique method of representation as a means for disclosure to serve the purpose of social rationalization in order to validate the dividend phenomenon. This theory argues that the accounting phenomenon is a documentation phenomenon and a phenomenon of documentary evidence arising out of managing documents. Moreover, he views accounting as a system to disclose the balance sheet and the profit and loss statement, and a method to serve the purpose. He also explains the function of accounting to serve as a “disclosure system”, He claims that accounting has a function of streamlining and facilitating the creation of economic relationship associated with businesses by validating that subjective economic phenomena are economically reasonable. Evidently, this theory is accepted as an important perspective of accounting in spite of controversy.

The starting point for this paper was to view the calculation of profit as the primary purpose of accounting. The main reason of this pespective was to first discuss various accounting theories in the most objective manner possible in order to understand the changing accounting principles. The conventional concepts of accounting were then presented to examine the characteristics. This paper clarified the changing nature of accounting by addressing the concepts of accounting and the framework of assets in accounting[3].

Footnotes

1) In the process of recognizing, measuring, and communicating accounting information, accounting issues arising from changes in the modern economic environment are first raised in the area of "recognition", Recognition in accounting is to determine what economic activities should be considered a fact in accounting. acquisitition cost accounting implements the acquisitition cost/realization model under the product-based economy. Under the finance-based economy, the market value/feasibility model is implemented to evaluate financial instruments. With regard to the principles of feasibility, the *Statements of Financial Accounting Concepts No. 5* published by the Financial Accounting Standards Board (FASB) in 1984 offers an explanation as follows: "Revenue and gains are realizable when related assets received or held are readily convertible to known amounts of cash or claims to cash. Readily convertible assets have ① fungible units and ② quoted prices available in an active market that can readily absorb the quantity held by the entity without significantly affecting the price", Put it briefly, revenues are realized under these three conditions: (1) An active market is present, (2) Assets have fungible units, and (3) Quoted prices are available in the market.

2) The characteristics of accounting for derivatives in Japan can be summarized as follows: (a) Receivables and payables associated with contracts are recognized, not when the contract is settled, but when it is signed, (b) The amount of net receivables or payables measured using market values are recorded as assets or liabilities on the balance sheet, and (c) The valuation difference due to the change in market values is treated as profit or loss for the current accounting period. Recognizing the occurrence of a transaction at the time of entering into a contract and applying the concept of market value in derivative accounting indicate a change from the traditional accounting orientation. The application of the principles of feasibility, and the recognition and measurement of derivatives transactions represent a transition from limited to expanded reporting/disclosure of financial information. The valuation standards shifted from acquisitition cost to market value to fair value accounting; this indicates a change in emphasis from the expanded reporting and legal forms to the economic substance in the recognition of assets and liabilities.

3) Rather than the conventional revenue/cost, the valuation of the company is maximized by using the procured funds (borrowings and equity (shares)) to generate cash (cash flow), which is then used by stakeholders shareholders).Change the concept (finance thinking) of optimal allocation to creditors .If you are too ntangled in PL, you cannot sacrifice future growth to maintain profits (eg, do not make necessary investments), or can't sort out unprofitable businesses to maintain sales. Management. Conversely, there are good examples of Amazon and Recruit who have invested in the future even at the expense of growth and profits at hand. The transition from accounting thinking to finance thinking is not sweet enough to make a successful business. However, it should be pointed out that the slowdown in the growth rate of Japanese companies in recent years is due to the negative effects of PL thinking. For example, looking at Mercari's stock price, which was listed this year, the stock price was halved when the deficit was announced, despite the fact that for a while the company declared that it would invest in growth at the expense of earnings. And looking at the tone of the Japanese intellectuals, it is always focused only on profitability. In this case, the buds of companies that are trying to grow significantly will be picked up.

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