



11 Raven Wharf, Lafone Street, London, SE1 2LR Tel: +44 (0)20 7403 5959 Fax: +44 (0)20 7403 3111  
Email: gba@gballp.com Web: www.gballp.com

Published in Japanese  
*Eikoku News Digest*  
November 2009

## PRINCIPLES AND RULES

- *When I ask my accountant a technical question, he often gives an answer full of ifs and buts. Are the rules really that vague?*

No, the rules in the UK are no more vague than anywhere else; it's just that they are based more heavily on principles than they are in some countries, like Japan. The UK rules tend to refer to what is "reasonable" or what "best reflects" the reality. This might be backed up by supplementary legislation in some countries, but in the UK details are more likely to be left to experience and the courts.

- *Can you give me an example?*

Depreciation. The UK standard says it should be calculated over the "useful economic life" of the asset in a "systematic" way that reflects the cost of use "as fairly as possible". The standard suggests two common methods (straight line and reducing balance) but there is no list of assets saying that "computer equipment must be depreciated straight line over 3 years", or whatever. The details are up to directors.

- *So you can depreciate at whatever rate you want?*

Not exactly. You have to be consistent and reasonable, and prepared to justify any decisions that go against common practice. It would be difficult to argue that a new office PC will only last a year, or will still be just as useful in 10 years. If you are realistic there should not be any problems.

- *Oh, OK, that makes more sense. Any other examples?*

Terminology is another one that often crops up. There is no prescribed list of terms that you must use for accounts and the transactions or balances that must go in them. So, if you ask which account such and such an expense should be booked in, the answer is not necessarily fixed by law. You can choose what expense accounts you have in your accounting systems and what you call them.

- *What?! So I could put all my admin expenses together or book rent under an account called "travel" if I felt like it?*

Well, again, not exactly. All companies must keep “adequate” accounting records. “Adequate” means they show and explain the company’s transactions, they disclose with “reasonable accuracy” the company’s financial position at any time, and they enable the directors to prepare any statutory reports needed. Clearly this means that accounting records that ignore common sense are not likely to be good enough! Similarly, there are terms whose meaning is effectively fixed by common usage or by accounting or industry regulations. There is still, however, considerable flexibility. Moreover, it is impossible to map all Japanese accounting terms directly to British accounting terms, and when there is an equivalent, the Japanese term may often be much more strictly defined than the English one.

- *I see, but that all seems rather haphazard. Doesn't it cause confusion when comparing year to year or across companies?*

Not really. Consistency is a key principle, so changing the way you present things each year for no good reason would fall foul of the rules. Similarly terms tend to converge in each industry, which helps to maintain consistency. Lastly, the requirements for listed and regulated companies - the ones outsiders tend to be more interested in - are more stringent.

- *Hmmm, OK. Fair enough. I can see the benefit. It seems less certain, but you gain flexibility. Perhaps I shouldn't be so hard on my accountant!*