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Documents about Accounting Standards

Acknowledgement

This appendix is a copy of “Accounting Standards for Research and Development Costs,” R-2-1, “FASF Japanese Accounting Standards on CD-ROM: Release 2002.” The authors thank to Mr. Toshitaka Hagiwara, the Chiefs Director of Financial Accounting Standards Foundation, Tokyo, for his copyright permission.

Statement of Opinions on the Establishment of Accounting Standards for Research and Development Costs

March 13, 1998
Business Accounting Council

Establishment of Accounting Standards for Research and Development Costs

I. Background

The Business Accounting Council (“the Council”) decided to consider accounting standards for research and development costs, regarded as important investment information; it started discussions in July 1997, and issued “Statement of Opinions on the Establishment of Accounting Standards for Research and Development Costs (Exposure Draft)” in December of the same year, to elicit opinions from various fields.

Referring to opinions received, the Council continued consideration and partially modified the contents of the Exposure Draft so as to now issue this “Statement of Opinions on the Establishment of Accounting Standards for Research and Development Costs.”

II. Necessity of Establish Accounting Standards

Research and development is an important factor for the future profitability of any business. Recently, expenditures on research and development have become more considerable due to the shortening product cycle, the shorter period to catch up on new technologies, and the wider range and more advanced level of research and development. Thus, the importance of research and development has greatly increased in business activities. As a result, information as to the gross amount of research and development costs and the contents of research and development is regarded as important investment information, that casts light on businesses' managerial policies and profit forecasts.

Resembling research and development costs, in Japan there are the separate concepts of "research costs" and "development costs." The scope of these costs is not always clear, and whether or not to capitalize such costs as assets is optional for businesses; it has been pointed out that this vagueness obstructs comparability between Japanese and foreign businesses.

Under these circumstances, it is necessary to establish accounting standards for research and development costs, in order to elicit appropriate information on research and development, promote comparability among business entities, and contribute to the harmonization of standards internationally.

Along with the advance of computer technologies and the growth of the information-intensive society, the role of software has rapidly become more important in business activities, and expenditures for the production of software have increased. Software production processes include activities regarded as research and development, but there are no clear accounting standards for this endeavor, and arbitrary accounting methods are applied for such costs; therefore it is necessary to establish well-defined, uniform accounting standards.

These Accounting Standards are designed to define the scope of research and development included within software production processes, and also to establish accounting treatment for software production costs that are not regarded as research and development costs, with a view to establishing consistent accounting treatment for software production costs overall.

III. Key Points and Concepts

1. Definition of Research and Development

The definition of research and development will, of course, help to determine the scope of research and development costs. To secure comparability between domestic and foreign businesses, in regard to research and development costs, the Standards are designed on the basis of the following definitions, taking into account definitions already adopted in other countries and the scope of activities already recognized, in practice, as research and development by businesses in Japan.