THE DEVELOPMENT OF MANAGERIAL ACCOUNTING IN JAPAN

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I

The purpose of accounting is to furnish financial data concerning a business enterprise, compiled and presented to meet the needs of a group of people interested in it. The form of presentation and the content, therefore, differs somewhat depending upon to what group the information is to be furnished.

There are many people who are interested in a business enterprise. They can be roughly classified into two groups; outsiders such as investors, shareholders, creditors and tax-authorities and insiders represented by management. In this respect, accounting can be classified roughly into accounting for external reporting and accounting for internal reporting. In the United States, the former is often called financial accounting and the latter managerial accounting.

In the earlier period, a study of accounting for external reporting was more emphasized in the United States and Great Britain. For the past twenty years or so, accounting for internal reporting has also achieved good progress keeping pace with the progress of accounting for external reporting. This trend of progress was not an exception in Japan.

Based principally upon literature and publications, the writer herein attempts to present various arguments raised in Japan regarding managerial accouting, with the aim to trace back the course of development in its theory and practice.

II

The study in Japan of Managerial Accounting Theory dates back to the pre-war period. It was first taken up by a few scholars who specialized in the German school of business economics. They treated it as one component of business economics.

Accountants at that time paid little or no attention to managerial accounting, as their ideas were largely based on public accounting which had developed in the United States and Great Britain. They considered that "accounting aims at the presentation of the balance sheet and profit and loss statement, and for its purpose, it studies means and procedures by which business transactions can be clearly and accurately recorded".[1]

Japan was thrown into depression in 1927. The depression led to the awakening of the necessity of the rationalization of industry and to an awarenss of the function of accounting as a tool of management. To cite one or two examples, in 1928, Mr. Yohichi Ueno who acted as efficiency consultant for many years, stressed the need of studying accounting for managerial purposes.[2] Subsequently, the Financial Management Commission of the Industrial Rationalization Bureau in the Ministry of commerce and Industry started to formulate a "cost accounting guide" in 1930. Despite the most efficient tool of control, the cost system at the time was in an infant stage. The Commission thought that the improvement of the cost system was a pre-requisite to making accounting serve as a tool of control.

In 1933 the Commission published the "Cost Accounting Guide (draft)" and revising the draft, formulated the "Manufacturing Cost Accounting Guide" in 1937. Although these guides dealt with standard cost accounting, they placed more emphasis on historical cost accounting, simply because business enterprises at that time generally adopted this type of cost accounting.

It is true that the improvement of the historical cost system tends to develop the managerial function of accounting. But, historical costs merely show the actual results of past transactions and, therefore, may involve waste which can be economized. The historical cost system for this reason is not a competent tool for current control. With a view to developing the managerial function of accounting, there appeared several scholars who stressed the introduction of future elements. For example, soon after the financial crisis, Prof. Seitaro Suyama, Prof. Rintaro Aoki and the late Prof. Yasubei Hasegawa introduced in succession the ideas of standard cost accounting and budgetary control.

In the industrial field, a few companies having had connection with American corporations started to put into practice the standard cost system. Up to that time the budgetary control system had been fairly well adopted by some organizations, but the tendency for application of the system was further accelerated over wider fields.[3]

Under these circumstances there appeared some attempts to systematize accounting methods serviceable to management.

As evidence, the late Prof. Yasubei Hasegawa advocated the importance of managerial accounting.[4] According to him accounting hitherto aimed at

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[1] Seijiro Kano, *General Principles of Accounting* (in Japanese), revised edition, 1924. Kinzo Sambe, *General Principles of Accounting* (in Japanese), 1927.

[2] Yohichi Ueno, *Control of Business Enterprise* (in Japanese), 1928, pp. 39–40.

[3] Yasubei Hasegawa, *Research Study of Budget System in our Country* (in Japanese), 1936.

[4] Yasubei Hasegawa, "Managerial Accounting and Budgetary Control", *Waseda Business Review* (in Japanese), Vol. 8, No. 3/4 1932, p. 467.

the recording of facts, and for this reason did not serve management control. To make it more useful to management, account must be taken of future elements. Accounting of this nature should be called managerial accounting as contrasted to the former which may be called retrospective accounting. Managerial accounting at the present state consists of budgetary control and standard cost accounting, although some other components may be added to it as time goes on.

The substance of managerial accounting is considered by the late Prof. Hasegawa as perspective accounting for management control. But, to carry out budgetary control and standard cost control, a comparison of either budget or standard costs with actual costs is an absolute requisite. The recording of facts, therefore, is one of the indispensable elements of managerial accounting. As can be seen from business analysis developed in Germany, valuable informations can be obtained by comparing actual costs of different business units. In looking over cash voucher registers, the recording itself serves as a protective device against fraudulent conduct of employees and against inaccuracy, error and omission in cash transactions. The late Prof. Hasegawa was right in stressing the importance of the perspective phase of accounting, but he was wrong in overlooking the importance of recording past transactions to assist management. Prof. Kiyoshi Kurozawa and Prof. Rintaro Aoki are sound on the latter point.

Based on the historical approach, Prof. Kurozawa opines briefly as follow :[5]

"Viewed from the way of approach, there are two kinds of accounting; accounting of public accountants and accounting as a branch of business economics. The former is a set of accounting knowledge requisite to public accountants for the execution of their duties. It must be competent enough to meet the needs of public accountants who represent essentially the interests of outside groups such as shareholders and creditors.

Business economics developed in Germany has two fundamental problems; namely, flow of values and organization problems. Accounting as a part of business economics deals with the former problems; namely, business analysis, business balance sheet, cost accounting and budgetary control. Managerial accounting is a term especially applied to the study of cost accounting and of budgetary control.

Public accountants nowadays may have more chance to work for the outside groups represented by shareholders and creditors. In the earlier period, however, they worked principally for the management of business enterprises. The same is also true in many cases even at present. It is wrong, however, to contrast accounting of public accountants and accounting for management as Prof. Kurozawa did. It is also wrong to assume, as the

[5] Kiyoshi Kurozawa, *Accounting* (in Japanese), 1933, p. 125 and p. 140.

writer pointed out before, that cost accounting and budgetary control alone and nothing else fall into the category of managerial accounting.

The opinion expressed by Prof. Kurozawa, however, contains two ideas which have induced a further development of managerial accounting. One idea was developed by Prof. Aoki and another by Prof. Furukawa.

In the opinion of Prof. Kurozawa, "Business Analysis" and "Business Balance Sheet" are not to be included in managerial accounting. However, as pointed out before, they undoubtedly function as tools of management control. Thus, Prof. Aoki defined managerial accounting as "a set of accounting knowledge required for management" including therein business analysis and business balance sheet.[6]

The relation between managerial accounting and the so-called "accounting of public accountants" is not thoroughly explained by Prof. Aoki. If we analyse "accounting of public accountans", we see two elements; (1) the accounting procedure and system necessary to the outside group of interests for controlling a business enterprise from outside, (2) the accounting procedure and system necessary to a businss enterprise for the purpose of furnishing financial data on behalf of the outside group. These two procedures and systems are interrelated and similar in many respects. Nevertheless, they differ in that the groups which adopt accounting procedures and systems are different—they will be either the outside group of interests or the management of a business enterprise. In other words, the former is performed by outsiders and not by a business enterprise, while the latter is to be performed by a business enterprise as in case of managerial accounting. Accordingly, the problem relative to the latter may be studied together with the problem of managerial accounting under the general caption of business accouning. It was Prof. Furukawa who explained this point in a clear-cut way.[7]

Prof. Furukawa explains; "Accounting implies an entirety of numerical orders in a business enterprise, classified from the viewpoints of both accounting purposes and methods". He continues, "Accounting purposes and accounting methods are in intimate relation with each other. Since business accounting is a means to an end, the classification by accounting purposes is basically important. From the point of view of accounting purposes, business accounting can be classified into accounting for financial statements for the benefit of outsiders of business enterprise and managerial accounting for the benefit of business management. Business accounting is essentially internal accounting, and external accounting is merely of secondary importance. Attention may be called to the fact that the classification of internal accounting and external accounting as herein made, is done by accounting

[6] Rintaro Aoki, *Managerial Accounting* (in Japanese), 1936.
[7] Eiichi Furukawa, *Accounting Theory of Business Enterprise* (in Japanese), 1st Vol. 1937.

purposes. The accounting methods such as cost accounting and income determination serve sometimes as internal accounting and sometimes as external accounting. In view of the growing importance of accounting for management, new accounting methods only serviceable for management have come to develop.

This new theory advanced by Prof. Furukawa has not been generally accepted by leading scholars at that time.

According to Dr. Sotaro Takase,[8] "If accounting aims at the study of furnishing financial data necessary for management and other groups interested in a business enterprise, accounting can never be an independent science." "This," he continues, "is merely an applied technique of principle." "Accounting as a branch of commercial science is a systematized knowledge with the balance sheet as its basic form."

Dr. Tetsuzo Ohta says as follows:[9] The object of accounting research is accounting procedures of a business enterprise. A business enterprise is a social unit which performs production and distribution, rallying whithin its unit capital and labor. Accounting not only is a means to maintaining and preserving property for an enterpreneur, it must have social significance as well.

As a result of the business revival started from 1932, industry lost the stimulus of rationalization and became nonchalant to managerial accounting.

During the chaotic period during and after World War II, business enterprises lost interest in managerial accounting which had once been a challenging subject. Despite this loss of interest, the government authorities came to realize the need of the rationalization of industry to meet the national emergency. They compiled and made public the "Manufacturing Cost Accounting Rules" which was legally enforced in all branches of manufacturing industry. It was at that time that the former Japanese Army published several guides to standard cost accounting, budgetary control, financial analysis, business analysis and internal auditing. Meanwhile, literature on managerial accounting appeared in periodicals. Despite these guides and literature, the essentials of managerial accounting were scarcely taken into account in business enterprise.

III

Soon after World war II, Japan faced many knotty problems such as the democratization of investment, inducement of foreign capital and tax-reform. To find a solution for these, the necessity of a reform of accounting

[8] Sotaro Takase, *Accounting* (in Japanese), 1929, p.32.
[9] Tetsuzo Ohta, "New Departure for the Study of Accounting," *Economic and Business Review* (in Japanese), No. 5, 1933.

system was keenly felt by those concerned. Subsequently, the authorities promulgated several accounting standards such as "Business Accounting Principles" and "Working Rules for the Preparation of Financial Statements" in 1949, "Tentative Statements of Auditing Standards and Auditing Procedures" in 1950, "Rules for Verification of Financial Statements" and "Procedural Instructions" in 1951.

These served to accelerate the general interest in accounting, especially in accounting for external reporting. Nevertheless, the prosperous business conditions due to the inflationary economic policy of the government tended to retard the progress of rationalization in business and industry. There were very few people who really paid keen attention to managerial accounting. Mr. Joseph Dodge in March, 1949 brought the inflationary policy to a halt.

To attain economic stabilization, utmost efforts were necessary for the rationalization of enterprises. Accounting as a help to management again came to attract keen interest.

I. Several books were published to introduce in Japan the theory of "business analysis" of the German school and the analysis of financial statements of the American school.[10]

These publications were a natural consequence of the improvements on preparation and publicity of financial statements and of the general adoption of the historical cost accounting systems based on the "Manufacturing Cost Accounting Rules" established during the war. As "business analysis" and the analysis of financial statements herein discussed constituted essentially managerial accounting based on past records, there were difficulties in using them as a management tool. The standard cost accounting system was proposed to meet the difficulties.

II. The first attempt to introduce standard cost accounting was made by Prof. Rokuro Yamabe[11] and then by the writer.[12] The former emphasizes the importance of basic standard cost accounting, while the latter stresses current standard cost accounting. Prof. Yamabe emphasized basic standard cost accounting because he wrote his book at the end of the inflationary period, while the writer's book was published at the beginning of stabilization. In line with the progress of stabilization, there appeared more and more people who upheld current standard cost accounting. In the stabilization period cost standards could easily be set up and theoretically complete control and follow-up is possible only in current standard cost accounting and not in basic standard cost accounting.

Comparing the theory of standard cost accounting before the war with

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[10] Masao Matsumoto, *Business Analysis* (in Japanese), 1948. Eiichi Furukawa, *Business Analysis* (in Japanese), 1949.

[11] Rokuro Yamabe, *Standard Cost Accounting* (in Japanese), 1949.

[12] Masao Matsumoto, *Standard Cost Accounting* (in Japanese), 1949.

that after the war, there are some characteristic differences. In the prewar period, the setting of cost standards and standard cost accounting were indiscriminately treated, but after the war they were clearly differentiated. The setting of cost standards is merely perspective accounting, while standard cost accounting includes not only perspective accounting but also the ascertainment of actual costs, a comparison of actual costs with standard costs and cost variance analysis. Another characteristic difference is that before the war the setting of cost standards and cost variance analysis were emphasized in the theory of standard cost accounting. After the war, the ascertainment of actual costs has also been considered important same as the comparison of actual costs with standard costs and cost variance analysis.

Thus, standard cost accounting has come to be widely accepted in academic circles as a tool of control. Yet, businessmen were generally apprehensive of applying the system to practical use.

The reasons for this apprehension were:

1. The tax-law at that time was based on historical costs. Hence, if a company adopted a standard cost system, it would have to make a year-end adjustment. There was no short-cut method legally accepted for such adjustment and local tax officers frequently pressed companies to make rigid year-end adjustments. The companies considered it more profitable to adopt the actual cost system which took into account estimated costs, rather than making year-end adjustments.

2. Japanese industry largely depends upon export and hence tends to operate on the basis of job-order production. This leaves Japanese companies far behind in the standardization of production processes. Most factories in Japan find it extremely difficult to estimate reliable current standard costs.

3. In order that the standard cost accounting system can be most effectively used for management control, the function of cost accounting should be thoroughly understood by executives and superintendents who use this control tool as well as by workers who are to be controlled by it. In Japan at that time, neither executives, superintendents nor workers understood this function well.

Circumstanced as they were, even if standard cost accounting had been put into practice, it would hardly have been as effective in Japan as in the United States. This system, therefore, was only studied for application by a few mass-production plants which were comparatively advanced in time and motion studies.

III. Time was ripe for the revival of budgetary control. As mentioned previously, budgetary control which had been fairly well popularized all over Japan, went out of use in the chaotic period during and after the war. With the progress of deflationary economic policies, business and industrial circles were thrown into financial difficulties. To meet them, they instituted a budgetary control system, especially a cash budget. However, most emphasis was laid on the restriction of cash outlays which had much in common with the gevernment budget system.[13]

IV. The discussion of managerial accounting became very active among scholars as well.

The first feature of the managerial accounting theory at that time was the new views advanced by scholars on the classification of managerial accounting. Formerly, classification based on accounting methods was popular. For example, Dr. Hasegawa classified managerial accounting into standard cost accounting and budgetary control.[14] Prof. Furukawa, on the other hand, classified it into budget, short-term bookkeeping, historical cost accounting (partial costing), standard cost accounting (predetermined cost accounting), efficiency measurement, business analysis and business statistics.[15]

It was Prof. Kazuo Mizoguchi who first raised objection to the above classifications.[16] In his opinion, managerial accounting does not imply any specific accounting method, but consists of any accounting method which will be serviceable as a tool of management. The managerial accounting system and technique, therefore, should be viewed from the field to which they are applied. In other words, managerial accounting should be treated as managerial accounting in various fields such as finance, procurement, production and sale.

As managerial accounting is one type of accounting, it should be embodied in accounting methods. The methods of controlling business through managerial accounting vary, depending upon business processes such as procurement, production and sale. Managerial accounting, therefore, may be classified based both on accounting methods and business processes. As generally accepted, managerial accounting is accounting which serves the management of a business enterprise and as such, should be classified by management processes. Viewed from these processes, management may be roughly classified into planning and control. Planning may further be subdivided into individual planning and general planning, and control into divisional control and general control. These sub-divisions are integral parts of management organically bound together. They have separate and different functions and accounting for each should be different. From this point of view, managerial accounting, the writer proposes,[17] may be divided into accounting for planning and accounting for control. Accounting for planning may further be sub-divided into accounting for individual planning and accounting for general planning (budgeting); accounting for control into

[13] Eiichi Furukawa, "Application of Internal Control to Japanese Industry", *Management Review* (in Japanese), Vol. 7, No.1, p.20, 1953.
[14] Yasubei Hasegawa, *op. cit.*, p. 466.
[15] Eiichi Furukawa, *op. cit.*, *p.* 102.
[16] Kazuo Mizoguchi, *Managerial Accounting*, (in Japanese), 1950, p.27, p.29.
[17] Masao Matsumoto, *Cost Control* (in Japaneses), ed. by M. Matsumoto, 1953, pp.17-18.

budgetary control and divisional control.

The second feature of managerial accounting at that time was emphasis placed on the close tie-up of managerial accounting with management organization for effective operation. To cite an example, Prof. Furukawa stressed as follows: "Managerial accounting, viewed from the accounting system, is one integrated whole of the accounting methods serviceable to all levels of management". But, the following facts should be taken into consideration: firstly, management accounting is based on the management process, secondly, management accounting is in inseparable relation with management organization. We, therefore, have to tackle with two problems:

(1) Organization problems of the line departments which are directly managed through managerial accounting.

(2) Organization Problem of the staff departments which put managerial accounting into operation.[18]

The same opinion was expressed in a different form in July, 1951, when the Financial Management Commission, the Council on Industrial Rationalization attached to the Ministry of International Trade and Industry published a draft entitled "Outline of Internal Control in Business Enterprises". In this draft the Commission proposed;

(1) To realize the vital necessity of rationalizing enterprises, internal control based on accounting control shall be thoroughly enforced.

(2) To make internal control effective in operation, an independent comptroller's department in charge of this function shall be established in the staff department. The comptroller shall be responsible for its operation.

The internal control mentioned signifies that through accounting methods management from over-all observation of an enterprise conducts planning of line activities based on the highest policy, coordinates operations and appraises performance. Internal control is one form of management, but it is indirect management through accounting figures different from process control or quality control which is directly connected with business operations.

To express it more concretely, internal control implies not only budgetary control, standard cost accounting and internal auditing but also accounting method and systems used for management such as statistics, general accounting and historical cost accounting serviceable for its performance. Internal control herein implied, does not conform to the auditing terminology commonly used in the United States. It is rather synonymous with managerial accounting above discussed. The new feature in the "Outline of Internal Control" is that managerial accounting is treated in relation with the comptroller's department in charge of its functions.

In this connection, Prof, Yasuichi Sakamoto says as follows:[19]

[18] Eiichi Furukawa, "The New Development of Managerial Accounting", *Departmental Managerial Accounting* (in Japanese), 1953.
[19] Yasuichi Sakamoto, "Problems of Managerial Accounting", *Financial and Cost Accounting* (in Japanese), Vol. 11, No. 6, 1951, p.34.

"Accounting essentially aims at the presentation of supplementary data for management control. When this be accepted, managerial accounting is directly conscious of the functions of accounting itself. Managerial accounting, if it deals with methods for direct control of business activities, will go beyond the intrinsic field of accounting, thereby trespassing a field of study on behavior and results of business operations through accounting methods."

"In many studies on managerial accounting nowadays, the terms of internal control and managerial accounting seem to be used in confusion. Discussion concerning the comptroller's department, it seems to me, is actually a debate on management organization. It does not belong to the intrinsic field of accounting. It is the problem which constitutes a premise for managerial accounting, but it should not be considered as study of component parts of managerial accounting".

As Prof. Sakamoto rightly said, managerial accounting is not executive control itself by means of accounting methods, but "is accounting for management".

Prof. Sakamoto goes on to say: "After all, accounting aims at the presentation of data for management control. It serves management directly and indirectly. When a company makes up its financial statements through accounting methods on behalf of stockholders and creditors, accounting is of service to management control indirectly and to outside interests directly. When management intends to elicit data for management planning and control by means of accounting methods, accounting proves of service to management directly. Managerial accounting is the accounting which is conscious of such a direct service to management."

Prof. Iwao Iwata seems to have the same opinion of managerial accounting as Prof. Sakamoto, although he expresses it in quite a differnt way.[20]

According to Prof. Iwata, accounting is for accounting control of a business enterprise. Accounting control signifies accountability by means of recording the flow of assets on accounting-books to safeguards assets in business and increase the efficiency of management. "When a particular department or a person within an organization of responsibility is authorized to receive, store and issue assets and the responsibility thereof is limited to the area delegated, that department or the person in charge shall be responsible for explaining upon request the details as to how the assets entrusted have been received, stored and issued. Accountability here signifies such a responsibility". Accounting countrol is exercised either from the management's standpoint over the internal organization of an enterprise or from the investor's standpoint over the business enterprise. If there exists a kind of accounting which could be called accounting for management

[20] Iwao Iwata, "Account, Accountability and Accounting Control", *Financial and Cost Accounting* (in Japanese), Vol. 13, No. 1, 1953.

it shall be classified into accounting for internal control used as "a tool of management" and accounting for external control used as "a tool of enterprise control". If this is what Prof. Iwata really means, then "internal managerial accounting" advocated by him corresponds to "managerial accounting" as defined by Prof. Sakamoto and "accounting for internal reporting" as defined by the writer. Prof. Iwata's "external managerial accounting", on the other hand, corresponds to Prof. Sakamoto's "indirect managerial accounting" and the writer's "accounting for external reporting". As accounting for internal reporting must be differentiated from direct control through accounting figures, accounting for external reporting must be differentiated from enterprise control by outsiders by means of financial statements or tax-returns.

The third feature of managerial accounting is the clarification of relations between "accounting for internal reporting" and "accounting for external reporting".

It is now recognized among influential scholars that accounting of a business enterprise has two-fold functions. It serves outside interests for the control of an enterprise and also serves management for internal control. These two functions were not quite unknown before. What the writer wishes to emphasize here is that formerly, accountants placed more emphasis on external reporting rather than on internal reporting. They now emphasize both, and sometimes lay more importance on internal reporting. This brings to light two discoveries:

The first discovery is that accounting procedures which serve the purposes of internal and external reporting have something in common but also different. The difference in detail of internal and external reporting should be clarified. This is one problem of managerial accounting with which we are now confronted in this country.

The second discovery is that accounting procedures of both internal and external reporting, when carried out continuously in a business enterprise, should be combined for higher efficiency, as they are both performed in the same enterprise.

The fourth feature is that the preparation of management reports has come to be considered as important as the preparation of financial statements.

As repeated before, it is now generally recognized that managerial accounting is accounting procedure on behalf of management. Formerly, the ascertainment of accounting facts serviceable to management was emphasized and the method of communicating the facts to management was treated lightly. Now, it is known that only management and nobody else can manage business and that managerial accounting is merely a tool of management. As a result, the study of accounting reports—the media through which accountants inform management of the result of their findings—has come to be considered important. No matter what useful figures accountants may prepare for management planning and control, they are just futile unless they are made known to management and well understood.

In connection with accounting reports, it is now being discussed as to whether or not the following items belong to managerial accounting: a technician informs a cost department of physical standards which he has decided; a factory superintendent, basing himself on cost reports compiled by a cost department, studies the causes of cost variances and informs the cost department of the result of his findings. Although there are many controvercial opinions as to these questions, many scholars do not consider them as part of managerial accounting. The reason adovanced, is that "valuation" is the fundamental convention on which modern accounting is based. Nevertheless, it is beyond doubt that the development of managerial accounting is gradually modifying the traditional idea formerly entertained by many scholars.

IV

As described in the preceding section, "Outline of Internal Control" involves many controversies, but the idea embodied in it reflects the practical needs of business enterprises in this country. This report proved a turning-point for a number of companies by inducing them to put managerial accounting to practical use. It paved the way to the practice of managerial accounting by introducing comptrollership in their organizations, and they started preparations for standardization of operation processes, clear-cut delineation of management organization and improvement of reporting systems.

It should be noted that along with these developments, the active exchange of views among businessmen prompted managerial accounting to be put into actual use. At present, the exchange of views is conducted in the following manner: several groups are organized among a number of industrial companies for research and discussion. They are mainly composed of businessmen who bring up for discussion various problems relative to managerial accounting. In addition, businessmen of leading companies published articles in periodicals based on their own experience in daily transactions. This exchange of views furnishes valuable data for the promotion of knowledge and has already proved a driving force to convert "imported managerial accounting" into "home-bred managerial accounting". Appreciating the usefulness of managerial accounting, some Japanese companies have already adopted the system into their organizations. But, the majority do not yet understand the system well. To make these backward companies aware of the usefulness of this system, the establishment of procedural standards is keenly hoped for.

To meet the timely need, the Financial Management Commission drafted a report entitled "Outline of Procedures for Internal Control" in February 1953 and submitted it to the Council on Industrial Rationalization for publication. This report clarifies the relations between the Comptroller's Department, the Treasurer's Department and the Board of Executive Officers and exemplifies the outline of procedures relative to budgetary control, statistics, economic research and internal auditing.

In connection with this report, the following problems are now under consideration.

The first problem originates in the fact that the procedures described in the "Outline" are the procedures of managerial accounting for top-management which place emphasis on budgetary control and internal auditing.

Top-management levels in this country have generally managed their companies by "the rule of thumb". Such management undoubtedly delays the sound progress of managerial accounting of Japanese companies. After the war, there appeared two factors which gave an impetus to the top-management organization to adopt managerial accounting. The first factor is that as a business enterprise expands to a larger scale, the necessity is keenly felt for accounting which will assist top-management. The second factor is that the purge of old directors from industry and business soon after war, afforded a good chance to young and progressive college graduates to be promoted to top-management level. It was an opportune time for managerial accounting standards serviceable to top-management.

Managerial accounting for departmental control should be equally taken into account as an important factor in management. Cost accounting plays an important role in departmental control. The cost system prevailing in Japan under the influence of the system established during the war, which primarily aimed at price-fixing, is weak in performing control functions. Moreover, on account of the existing regulations of the tax-law, the standard cost system is not easily put into practice as explained in the preceding section. As departmental control accounting is found more important, business keenly feel the necessity of guidance which may help to improve their cost accounting system. With regard to the relation between budgetary control and standard cost control, the "Outline of Procedures for Internal Control" gives them little or no guidance, merely saying that "standard cost control is exercised primarily in factories under supervision of the comptroller's department". It is a matter for congratulation that the keen necessity for guidance to cost accounting is about to be fulfilled by a report on "Cost Accounting Standards" which has been in the process of drafting for the past several years by the 4 th Sub-Committee: Matters concerning Cost Accounting Standerds of the Business Accounting Council attached to the Ministry of Finance.

Attention may be called to the instruction issued in June, 1953 by the Bureau of Internal Revenue in connection with the disposal of cost variance. Although this instruction still backs up the historical cost basis, it authorizes a short-cut method of cost-variance-adjustments. This instruction has not been well received by those who look upon current standard cost system. Nevertheless, the instruction is a step forward to the improvement of standard cost accounting in the sense that the inconsistencies and regidity on the part of local tax authorities in cost-variance-adjustments have been somewhat moderated.

According to the explanation given by the tax authorities, the cost-variance-adjustment method suggested in the instruction is only a temporary measure. As soon as the "Cost Accounting Standards" is put into force, the tax authorities are likely to comply with that standards. It is expected that cost accounting for management will show a striking progress upon the promulgation of the "Cost Accounting Standards".

The second problem originates in the fact that the "Outline of Procedures for Internal Control" stresses the importance of the profit control function of budgetary control and the managerial function of internal auditing.

As shown in the preceding section, budgetary control has been widely adopted by Japanese companies. But it emphasizes cash budget. The "Outline", however, stresses the importance of budgetary control as a tool of profit control in the same extent as or even more extent than cash budget. This view is becoming more and more popular among businessmen.

An even more important point than budgetary control is that the "Outline" looks upon internal auditing as a supplement to various tools of management.

Before the war, internal auditing was adopted only by a few companies. Since the war-end, it has been attracting keen interest in industrial and business circles, chiefly because the system must be established that may assist public accountants in financial auditing. The essential function of internal auditing, however, is not to assist public accountants. It is a type of control by which the efficiency of other control methods is measured and evaluated. Internal auditing serves public accountants as a derivative of its essential function. The function of interntal auditing as a tool of management, since the "Outline" stressed its importance, has come to be generally accepted in Japan.

The third problem to be pointed out is that the "Outline" does not explain in detail the procedure of planning. Planning is the selection of the most profitable out of many ways of activities in a business enterprise. The plan selected indicates a goal toward which the enterprise should go forward and by which its activities are to be controlled.

Once a plan is unappropriately established, a business enterprise cannot achieve success, no matter how well controlled. Planning, therefore, is the most important process of management.

Plans may be formulated either based on figures or through intuition. In the modern enterprise on a large scale, plans are formulated more or less on some numerical data. For this reason, accounting for planning is essential as a component part of managerial accounting. Plans are made of general operations of a business enterprise or of individual operations. Accordingly, there are two types of accounting which serves for general and individual planning. The formulation of budget belongs to the former and the selection of factory sites and the selection of production methods and selling prices to the latter.

The "Outline" differentiates planning from internal control the same as the writer does. Nevertheless, the "Outline" explains the formulation of the budget in minute detail.

Budgeting as part of planning and budgetary control as part of internal control are very closely related. Because of this close relation, it might have been convenient for the Commission to incorporate both in the "Outline". Nevertheless, the "Outline" does not explain clearly the reason why they are treated together. In the writer's opinion, this is a weak point of the "Outline".

When cost accounting of the German school was introduced in Japan more than a decade ago, accounting for individual planning was studied as a useful means for establishing a capacity-utilizing and pricing policy.[21] This accounting method was not widely accepted in business circles at that time. There are many reasons for this. One important reason was the fact that Japanese industry is strongly influenced by politics, diplomacy and market conditions abroad. The influence of these factors can hardly be measured by figures. As a result, management at that time had little or no appreciation of accounting as a help for planning. Since then, conditions underlying Japanese enterprise have not undergone much change, except that the top-management was largely purged after the war. The new management seems to be more inclined to use accounting data in planning. It is reported that accounting as a help to planning is attracting interest in the United States. In response to this, such a type of accounting is also attracting interest in Japan as a means of management. The upsurge of interest in special cost studies, profit chart and break-even point as now seen in recent publications and periodicals, serve to indicate a new trend in Japanese business accounting.

In view of the above, the Financial Management Commission selected the topic, "Procedures for Planning", as a subject of study for this year and is now drafting a report.

The Korean truce has seriously affected Japanese industry which is largely dependent on special procurement for the U. N. Forces. In order to overcome the difficulties, Japanese industry must exert its utmost for the rationalization of enterprise. The time is ripe for managerial accounting to be widely accepted in the industrial and business circles of this country.

[21] Akira Yamashiro, *Theory of Business Cost* (in Japanese), 1936., Otojiro Kubota, *Theory of Cost Components* (in Japanese), 1938.