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The Impact of Type of Lease Accounting Standards on the Judgments of Japanese Professional Accountants

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ABSTRACT

The move towards a principles-based approach in accounting standards has been motivated by cases of accounting fraud and the global convergence of financial reporting. We examine whether a principles-based accounting standard with rules and guidance improves the judgments of accountants and more clearly conveys the economic substance of transactions and events. In particular, we extend prior research on accounting judgments by examining the effects of a principles-with-guidance approach and a principles-only approach, as well as the stringency and incentives on the judgments of Japanese accountants in a lease accounting setting. The results showed that “principle” (full payout criterion) had a positive effect, while “rule” (approximately 90% criterion) had a negative effect on encouraging Japanese professional accountants to recognize lease transactions. A more stringent numerical rule (approximately 88% criterion) had a positive effect only when clients were in poor financial conditions or high debt-equity ratio environments. The findings also indicated that Japanese accountants’ judgments were strongly subject to the perceived judgments of their colleagues, but the perception bias between accountants and their colleagues was not significant. This pioneering study contributes to a better understanding of the unique features of Japanese professional accountants’ judgments.

Keywords: Principles-with-guidance approach, principles-only approach, accounting standards, stringency, incentives, judgments