Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm

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Chairman's Column

How ChatGPT may change Accounting Firms

With Covid mostly behind us, we're seeing our clients and stakeholders more in person. Recently, we visited Singapore for a conference as a member of Prime Global, a network of tax, accounting, and audit firms. The event spanned three days and centered around Asian practices. It included multiple sessions, presentations for new services, and successful case studies. 91 members were in attendance.

Some of the challenges that accounting firms face were mutually shared regardless of country. They included a range of topics such as preparing for labor shortages, inflation-adjusted fees, employee training, and carbon accounting.

Among them was the topic of ChatGPT which most speakers mentioned without exception. How each accounting firm intends to engage with it varies, but as the shortage for workers is becoming a reality, there's hope that ChatGPT will save accounting firms by dramatically boosting operational efficiency.

It's been reported that some countries have banned the use of ChatGPT, however I personally believe that the development of such revolutionary tools are useful in some capacity.

The one task that I can think of immediately is a more efficient way of making journal entries. With further advancement, it may not only make data entries, but also review, analyze, and prepare draft reports.

To try it for myself, I made an OpenAI account and asked the question, "How will business models of accounting firms change with ChatGPT?". I received a surprisingly sufficient answer.

It's just the beginning of this new era and the implications are still unknown as the technology evolves. As AI constantly learns and doesn't forget information like humans, I get the feeling that these machines will affect both work and our entire livelihood.

Just as remote work and web-based meetings took off during Covid, we will keep a close eye on this rapidly advancing new technology.

by Kazuhiro Matsuzawa, Chairman

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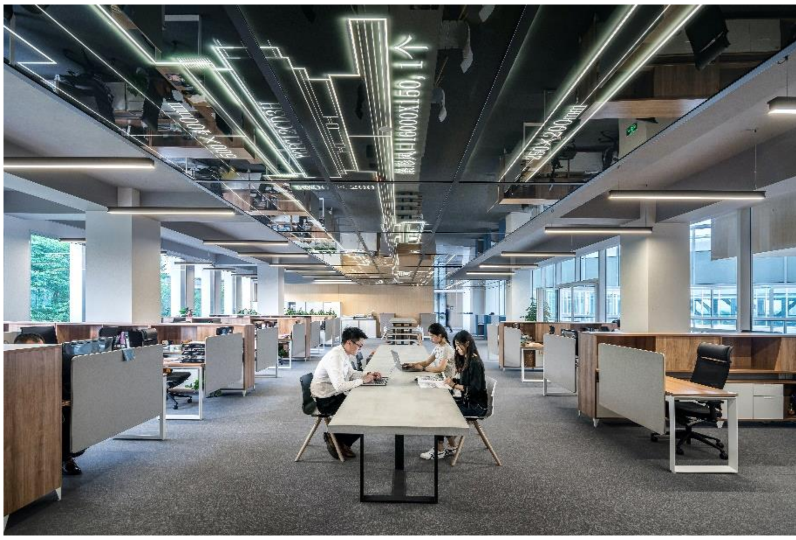
DX in Accounting

ASA's Story of Digital Transformation
Part 2: Before undergoing DX



As we previously mentioned, we are working on our SDG (Smart Data Guideway) plan as part of our DX.

In Vol.17, we discussed some of the challenges with DX. This time, we discuss necessary preparations before moving further.

As the commercial "Eat before you drink!" for digestive medicine suggests, the idea is to have measures (to protect your stomach with digestive medicine) in place for incidents that may occur in the future (Feeling stomach discomfort after a heavy meal). With DX, prior preparations will likely be effective just the same. Specifically, the aim is to eliminate the "reliance on individuals" as much as possible.

You may think this is obvious, but work related to real estate funds can often be reliant on a few individuals. At accounting firms, there are a variety of formats for accounting policies and PM reports, as well as different reporting formats for AMs and investors. Because it's often difficult to standardize these various processes, there is a tendency to become reliant on a few individuals. However, in developing systems, the reliance on specific individuals will result in higher development costs and delays in completion.

Thus, in developing our system, we felt a strong need to simultaneously do the following (ideally in advance):

① Standardization
② Rule-setting
③ Consistent workflows

In providing various reports, rules can be made when the same approach is used, or standard processes can be decided on. By doing so, the reliance on nontransparent procedures by individuals can be eliminated.

Our firm has emphasized standardization as an important topic from three years ago, but in developing our new system, an elevated level of rules and consistent workflows will be needed. The above items will likely contribute to operational efficiency as well. The benefits for DX will likely mean greater productivity for our firm.

We hope this discussion will be helpful in your company's DX as well.

by Hirokazu Ando, ASA Reporting Professional

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Emerging Trends

Changing Tides of Global Population

In general, a linear relationship typically exists between working population and real estate value. According to research results, the correlation is high in Tokyo, particularly for residential properties.

According to Mizuho Trust Bank's "Real Estate Market Report - April edition", in Tokyo's 23 wards, there were net move-outs (minus 14,000 people) in 2021. In 2022, there were net move-ins (plus 21,000 people). During Covid, there were roughly 60,000 net move-outs, so a third has returned, perhaps implying a post-Covid shift. For the hotel and foodservice industries, the number of 20 to 29-year-olds who make up the core workforce have bounced back to pre-Covid levels.

Japan's population has declined for 12 straight years, with 2022 having a decrease of 560,000 compared to the previous year. While the Japanese population decreased by 750,000, the number of foreigners increased by 190,000 for the first time in two years (reported by the Ministry of Internal Affairs and Communications). Considering Fukui Prefecture's population is about 750,000, the Japanese are disappearing by a similar amount every year!

Looking globally, while China as the most populous country is declining, India is on the rise, and is estimated to surpass China as the world's most populous country (estimated by the United Nations).

Meanwhile, the population in African countries is growing rapidly. Since 1950, the population of the African continent as a whole has increased by over 2% annually. Currently the continent holds a similar-sized population as that of China and India with 1.4 billion people. Estimates suggest that by 2050, one in four people will be African. Since we view the world on a Mercator projection where north and south appear larger, one may have an impression that the centrally-mapped African continent is not as big as Europe or the Americas. However, in reality, the continent is massive and with a growing population, the region is sure to become more significant in the future.

by Shigeru Hirai, Client Relations Group

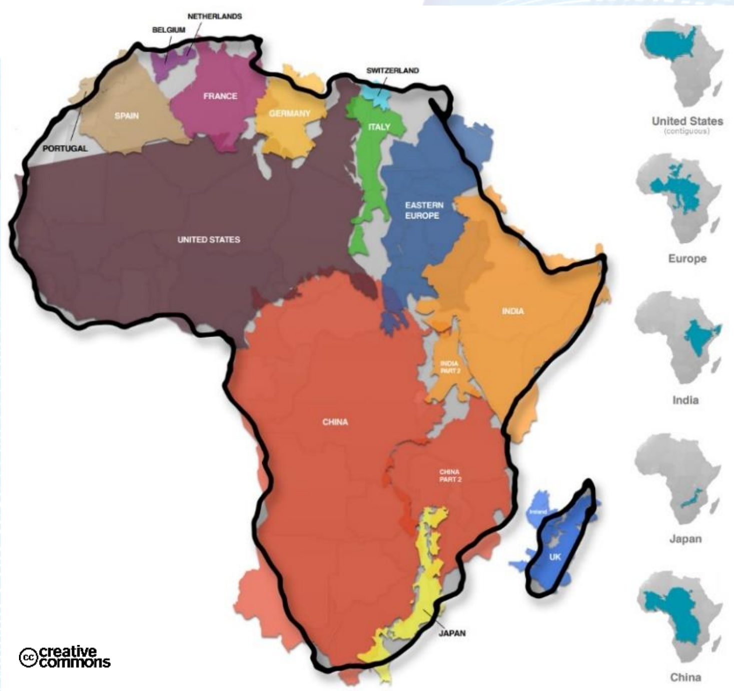
Population ranking (2020)

Rank	Country	Est. population (billion)
1	China	14.4
2	India	13.8
3	United States of America	3.3
4	Indonesia	2.7
5	Pakistan	2.2
6	Brazil	2.1
7	Nigeria	2.1
8	Bangladesh	1.6
9	Russia	1.5
10	Mexico	1.3
11	Japan	1.3

Population % change ranking (2020)

Rank	Country	Increase (%)
1	Niger	3.8
2	Bahrain	3.6
3	Equatorial Guinea	3.4
4	Uganda	3.3
5	Angola	3.2
6	Democratic Republic of the Congo	3.1
7	Burundi	3.1
8	Mali	3.0
9	Chad	3.0
10	Tanzania	2.9
	Japan	▲ 0.3

Source: Ministry of Foreign Affairs



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Global Real Estate

Sweden's use of wood for new builds

With the built environment accounting for nearly 40% of carbon emissions every year, new constructions have a stronger focus on energy efficiency and carbon reduction than ever. Sweden, with its rich history of low-level wooden homes has transitioned into higher level constructions.

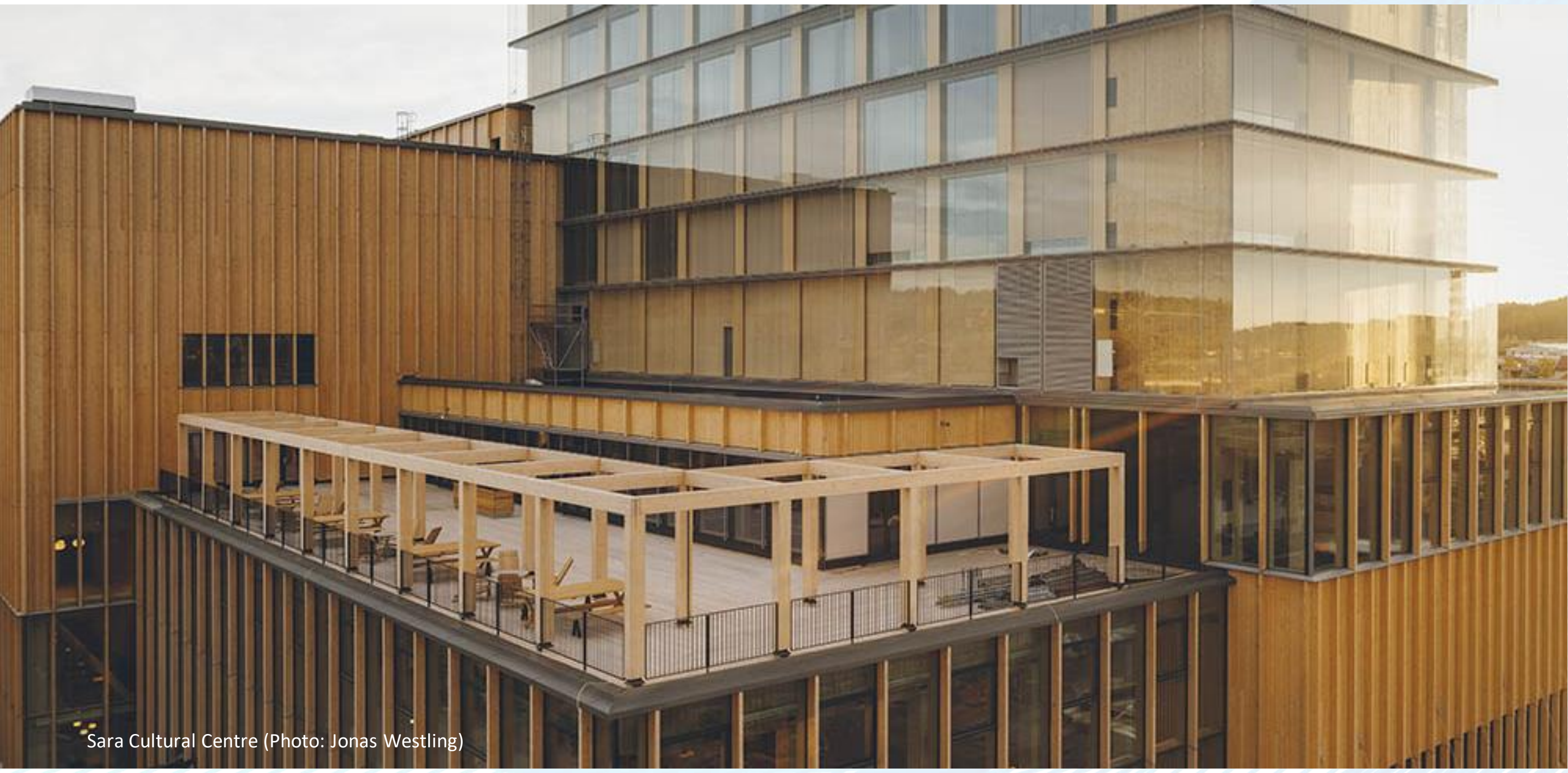
New builds are being demanded for an exploding e-commerce industry or for use as new city center, and the focus is on carbon neutral builds. For Sweden, timber has become a key material to achieve a carbon neutrality or even carbon negativity during a building's full lifecycle (from materials manufacturing, transportation, construction, operation, and demolition).

Sweden is taking full advantage of this natural resource, since the country has one of the highest densities of forestland in the European Union. Timber is considered to store carbon during the tree's growth and only emits carbon dioxide during its reuse or ultimate incineration. The Swedish Wood association claims that reforestation and proper management of timberland ensures that resources are plentiful, and forests continue to act as carbon sinks.

In recent years, the 75-meter Sara Cultural Centre built in Skelleftea, Sweden is symbolic of a burgeoning timber construction scene. The mixed-use building is constructed of cross-laminated timber and glued laminated timber and claims to be carbon negative over its lifecycle. The timber it uses was locally sourced and processed at a sawmill 30 km from the construction site. The country has also focused heavily on green building certifications, resulting in 6th in global rankings for LEED certifications in 2022.

Sweden is a great example of an early adopter that has utilized its abundant natural resources in a sustainable way. The people must demand it, and the people certainly have. Government-led initiatives have also influenced action for true sustainability through carbon tax law implemented in 1991 and ideals of circular economy. Perhaps there are lessons here for other countries as well.

by Yuichi Totani, Client Relations Group



Sara Cultural Centre (Photo: Jonas Westling)

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Japan Tax Update

Requirements for bookkeeping under the electronic record retention system

The Electronic Record Retention Law which starts on January 1, 2024, primarily consists of two separate rules which are the “Preservation of accounting documents in electronic format” and “Preservation requirement for information regarding electronic transactions”.
The outline of the law was covered briefly in Vol.17 of our newsletter, but this time we will explain in detail about the electronic retention system for accounting, which is a crucial component.

【1】 Key point

Electronic accounting records are separated into “Best practice electronic accounting records” and General electronic accounting records” with different requirements for each. The latter has more simple requirements.

【2】 Requirements for Best practice electronic accounting records

① Manual for computer systems
※ Having a system instruction manual available will suffice.

② Placement of a readable device
※ To put simply, a device such as a monitor and printer to neatly/clearly display and promptly output the data.

③ Be downloadable upon request
※ If a tax audit occurs and a tax agent requires a download of accounting data related to national tax.

④ History of revisions, deletions, and additions of electronic records
※ Required that the fact and content of any revisions or deletions of the recorded accounting records can be verified. In addition, any entry deletions made after the ordinary processing period has elapsed should be verifiable.

⑤ Ensure interconnectedness of recorded items across accounting records
※To put simply, previously the general journal, general ledger, and other accounting documents were separately created documents. However, in most cases now, there is one database for these documents where interconnectedness is ensured. In addition, the other accounting documents is defined as all other accounting records prior to the 2023 tax reform. The reform has limited the scope of other accounting documents to the following:

Notes receivable ledger, notes payable ledger, accounts receivable ledger, accounts payable ledger, securities journal, fixed asset register, deferred asset ledger, sales journal, purchase journal, expense journal (excludes the salary register)

⑥ Search function
- Search by transaction date, amount, and party is possible.
- Search by range of date or amount is possible.
- Search with a combination of at least two entered items is possible.

※In principle, the three requirements above are needed to satisfy the search function requirement. However, if ③ (download is available upon request) is satisfied, only the first requirement of “transaction date, amount, and party” is necessary.

(continued on next page)

Japan Tax Update

【3】General electronic accounting records requirement

As mentioned above in 【1】, the use of standard accounting software should be ample to satisfy this requirement.

The following are the three requirements under the general electronic accounting records.
① Manual for computer system
② Placement of a readable device
③ Comply to download requests

The requirements differ substantially between best practice and general electronic accounting records. There are numerous hurdles to clear for the best practice electronic accounting records and may even necessitate a change in accounting software. However, there are benefits under the best practice, such as a lower underpayment penalty of 5% for any underreported income tax, corporation tax, or consumption tax on an amended return (the penalty is 10 to 15% under general accounting records.)

by Harutomo Yamasaki, Tax Consulting Group