Aoyama Sogo Accounting Firm Innovation Speed Quality

NewsLetter

Aoyama Sogo Accounting Firm

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Chairman's Column

There's a shortage of managers in our industry – why?

Even before Covid, managerial positions have had an unfavorable image primarily among Gen Z , who liken it to a punishment.

Managerial jobs used to be thought of as "doing nothing" a while ago, but fewer people seem to want to become managers now. It's certainly the case that a broader shortage of workers is a contributing factor, but in many workplaces, the manager must oversee everything including attending all meetings, managing personnel, approving expenses, setting goals, and assigning work. They are typically busy and not adequately compensated. Thus, the analogy of a punishment of sorts.

Covid has dramatically changed the way we work, making remote work normal. A declining workforce is also creating a situation where job changes are common. Some executives including Chairman Yamashita of Ricoh says, "The days of companies 'using' employees is over. It's a new age where the company and employees are equals. Employees should have options like remote work that suit their job, which ultimately leads to better performance" (Nikkei Business).

Our firm is no different. Many of our managers take on multiple roles and they often attend consecutive meetings with internal staff and clients. This results in a bad cycle of staff members worrying about bothering managers and unable to ask questions.

Then why not eliminate managers altogether? Of course, that would be a terrible idea. After all, who would carry on the company culture and vision, as well as make intergroup adjustments and decisions.

During Covid, our firm increased the number of employees that work exclusively remote and continue this now. An important job of the manager is to communicate with remote staff members and as a result, this only adds to the burden or "punishment." However, these positions will likely not be replaced by AI, which results in a higher value. The search for suitable managers will continue. I've rambled a bit, but the one certainty is that we now face a severe lack of workers in the industry and companies must become more attractive workplaces to retain employees.

by Kazuhiro Matsuzawa, Chairman

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DX in Accounting

ASA's Story of Digital Transformation

Part 2: Challenges of developing a System for Accounting

As previously mentioned, our firm is currently working on the SDG (Smart Data Guideway) plan as part of our DX. We continue the discussion from Vol.17/21.

Since English is not a strength of mine, I have found that Pocketalk (translation device) to be very reliable in allowing me to speak with foreign people. Two people speaking different languages would find it very difficult to understand each other without devices like Pocketalk (a translator).

Similarly, in developing systems for accounting, communication between the development side and accounting side can be very difficult. It's rare for a developer to have knowledge of accounting (bookkeeping) and vice versa, for an accountant to have technical knowledge of systems. Although both are professionals in their own right, they are novices in the other field. This creates a situation where the developer isn't equipped with accounting knowledge to effectively build the system, and for accountants not knowing how their needs will be reflected in the system.

Early on, our firm ran into this issue at the start of development.

The issue was difficult to solve, however by placing personnel with understanding of both accounting and systems, they essentially acted as translators in deepening the understanding of both sides in the development process. Now, both teams have a better grasp of the other.

I feel that this not only applies to accounting, but for system development in any field that requires expertise or involves complexity in their business, personnel that act as translators is vital. Needless to say, it's difficult to locate or train talent who's good at both or has an interest in both. For system development and for DX, such talent is rare and will become even more essential.

I hope this discussion is helpful in your company's DX.

by Hirokazu Ando, ASA Reporting Professional

Japan Real Estate

Internal Carbon Pricing (ICP)

For Japan to achieve carbon neutrality by 2050, companies are making decarbonization efforts. As a large emitter of CO_2, the real estate industry seems to be very active now with such efforts as well.

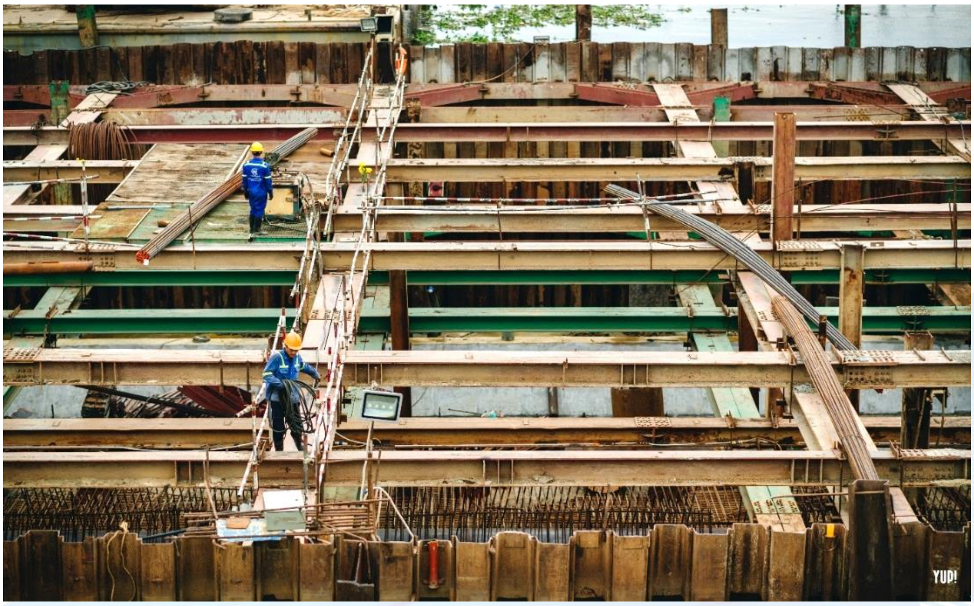
Among the various decarbonization investments made by companies, internal carbon pricing (ICP) is gaining attention as an essential system. For companies to decarbonize, CO_2 emissions are priced independently and incorporated in investment decisions.

As the public and private sectors try to achieve carbon neutrality, buildings that do not qualify will be "stranded assets" and be regarded as non-investable assets. Taking into consideration the future risks and costs of stranded assets and carbon tax, ICP is a method for each firm to independently calculate associated costs.

For example, when comparing a non-green building and green building with similar specifications, the latter typically has higher construction costs. However, under ICP, the total cost may actually be lower. As a result, the company will likely invest in the green building.

According to analysis by the Mitsui Sumitomo Trust Research Institute, the value of CO_2 reduction is estimated at 5% for office and residential buildings, and 10% for commercial buildings. Under ICP, if such value is in fact added to a green building in making investment decisions, it can be expected that the construction of green buildings will rapidly grow.

by Shigeru Hirai, Client Relations Group



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ESG Reporting

Introduction to SASB Standards (Part 1 of 2)

In the evolving world of ESG disclosure, there are frameworks such as TCFD and TNFD, as well as sustainability accounting standards such as GRI and SASB. We focus on the latter, since many of the largest companies in the world present ESG information according to SASB (Sustainability accounting standard board) standards (reporters). Both GRI and SASB are often presented in a company's annual sustainability report.

SASB Standards – Key points to remember

- In 2022, the SASB standards came under the direction of the ISSB (International Sustainability Standards Board) founded by the IFRS Foundation. The first set of IFRS Sustainability Standards, which incorporates SASB standards was released in June 2023. The Board will begin engaging with companies on initial implementation.

- They are industry-specific standards that cover the gamut of ESG disclosure topics such as water management and energy efficiency metrics, fair labor conditions and pay, and climate change risks and opportunities.

- They typically involve non-financial information (e.g. water efficiency metrics and use of renewable energy) that have material and often direct financial impact. For example, the efficient use of water as an input in production can give a company a production edge comparative to its industry peers. An example of a negative financial impact may be a highly publicized security breach that may erode brand image and reputation of a company. As a result, investors may value the company higher/lower, and lenders may raise/lower their lending rates.

- They are ultimately meant to enhance the understanding of a company's ESG risks and opportunities for investors, lenders, and other stakeholders to enable meaningful assessment and comparison of impacts on a company's enterprise value, financial performance, and ability to raise capital in the short, mid, and long-term.

We'll follow up with more on SASB and other ESG topics in the coming volumes.

by Yuichi Totani, Client Relations Group

Topic	Accounting Metric	Category	Code	Response
Disclosures Included in Multiple Sectors' Standards				
Diversity & Inclusion	Percentage of gender and racial/ethnic group representation for (1) executive management, (2) non-executive management, (3) professionals and (4) all other employees	Quantitative	FN-AC-330a.1 FN-IB-330a.1	U.S. Workforce Demographics Updated data will be included in our forthcoming *2022 People Strategy Report*. As part of our commitment to improving diversity at the firm, we have also published our progress toward our aspirational goals; please see page 6 of our 2022 Form 10-K.
Business Ethics	Description of whistleblower policies and procedures	Discussion and Analysis	FN-AC-510a.2 FN-IB-510a.2 FN-CB-510a.2	Raising Integrity Concerns Code of Business Conduct and Ethics
	Total amount of monetary losses as a result of legal proceedings associated with: • Marketing and communication of financial product-related information to new and returning customers; • Fraud, insider trading, anti-trust, anti-competitive behavior, market manipulation, malpractice, or other related financial industry laws or regulations;	Quantitative	FN-AC-270a.2 FN-AC-510a.1 FN-IB-510a.1 FN-IB-510b.3 FN-CB-510a.1	Net provisions for litigation and regulatory proceedings were $576 million for 2022.

Example:
Golden Sachs 2022 Sustainability Report – SASB Index

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Japan Tax Update

[Invoice system exceptions] Conditions for making Qualified Invoices unnecessary and tax calculation

The Invoice System began on October 1.
With the tax reform from last year, companies under a certain size do not have to retain qualified invoices for all expenses.
We take a look at exceptions where qualified invoices are unnecessary and the resulting tax calculations.

【1】 Reduction of administrative burden for companies under a certain size

① *For taxable purchases under 10,000 yen per transaction (NTA: Invoice System Q&A #111)*

For companies with taxable sales under 100 million yen in the base period or under 50 million yen in the specified period※, purchase tax credits can be applied for taxable purchases within Japan by solely retaining accounting records with required information. However, this rule only applies for taxable purchases between October 1, 2023, and September 30, 2029.

※ Unlike in determining tax filing obligation, total salaries paid can not be substituted for taxable sales.

② *Tax deduction during the transition period [20% exception] (NTA: Invoice System Q&A #114)*

For each tax period that begins or ends between October 1, 2023, and September 30, 2026, for tax-exempt businesses (includes tax-exempt businesses that became taxpayers by submitting a "notification for taxpayer election") that became qualified invoice issuers, a transition period measure is available for a deduction of 80% of the remaining amount (calculated as total of consumption tax on the taxable basis in that tax period deducted by total consumption tax on refunds).

However, if for any tax period after the tax period in which the business became a qualified invoice issuer, taxable sales in the base period exceed 10 million yen or if tax filing is exempt based on specified period taxable sales, the 20% special exception will not be available.
In addition, the 20% exception is unavailable for newly incorporated companies and specified newly incorporated companies that qualify for tax filing exemption or for those with shortened tax periods.

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Japan Tax Update

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【3】 Regardless of entity size, case in which retention of qualified invoices is unnecessary to apply purchase tax credits (NTA: Invoice System Q&A # 104)

For ① through ⑨ below, purchase tax credits can be used for taxable purchases by solely retaining proper accounting records.

① Public transportation of passengers costing less than 30,000 yen for which qualified invoice issuance is exempted.
② Transactions that involve collected entry tickets and such that include descriptions required for simplified qualified invoices (excludes transaction date) (excludes those that qualify as ①)
③ Purchase of used goods by a used goods dealer from someone who is not a qualified invoice issuer (includes only the inventory of a used goods dealer)
④ Purchase of pawned goods by a pawnshop from someone who is not a qualified invoice issuer (includes only the inventory of a pawnshop)
⑤ Purchase of a building by a registered real estate dealer from someone who is not a qualified invoice issuer (includes only the inventory of a registered real estate dealer)
⑥ Purchase of renewable materials or renewable parts from someone who is not a qualified invoice issuer (includes only the inventory of the purchaser)
⑦ Purchase of goods from vending machines and automated machines less than 30,000 yen that are exempt from issuing qualified invoices
⑧ Stamp costs and such for postal and cargo services that are exempt from issuing qualified invoices (limited to items dropped off in post box)
⑨ Employee expense reimbursements deemed necessary as ordinary business trip expenses and such (business travel, accommodations, daily allowance and commuting allowance)

※ If the amount for ⑨ is deemed as a necessary amount, there is no limit as stated in ① of less than 30,000 yen.

Please note that 【1】 and 【2】 are rules under the consumption tax law. Particularly for 【2】, as stated above, the purchase tax credit is available even without the usual required evidence. However, both bookkeeping and taxable income calculation for corporate tax require such evidence. Although it is rare for a tax inspector to immediately reject deductions in a corporate tax filing because evidence is lacking, it goes without saying that proper retention of documents is an important first step for accurate bookkeeping and tax filing.

by Harutomo Yamasaki, Tax Consulting Group

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Editor's Afterword

The Covid pandemic has substantially ended but as we approach winter, we still worry about whether our symptoms are Covid or the flu. Our homes and workplaces have certainly changed dramatically with Covid. As work-from-home (WFH) has become common, our firm continues to offer "work flexibility" by creating a work environment suitable for anytime, anywhere, and for anyone. We emphasize this point to differentiate with other companies.

A Harvard Business Review article from over two years ago mentioned that "Work from Anywhere (WFA)" would become common. The challenge would then become "sharing information and knowledge", "employee training", and "communication", which ultimately weigh on the leader's decision-making and approach. For an organization to improve its resilience, the capability of its leader becomes crucial.

by Jun Murata, Corporate Officer