

Independent administrative institutions, as a rule, follow the principles of corporate accounting (in conformance with Article 37 of the Law concerning the General Rules of the Independent Administrative Institutions), adopting accrual based and double entry accounting conventions.

In addition, the Independent Administrative Institution Accounting Standards, established in consideration of the public nature of institutions whose operations are neither aimed at attaining profits nor meant to be financially self-supporting, call for the sufficient disclosure of financial information on economic resources entrusted for the execution of their missions. To ensure that each independent administrative institution as a trustee fulfills its disclosure obligation to the general public as the trustor, the standards provide specific accounting procedures for grant for operating expenditure from the government and other details such as the disclosure of free-leasing of state-owned assets on a statement of costs of providing administrative services.

RIETI's financial statements for its first fiscal year, from April 1, 2001 through March 31, 2002, have been compiled in line with such principles and are provided on the subsequent pages.

These statements, along with internal auditors' report on the financial statements, have been approved by the Independent Administrative Institution Evaluation Committee.

### Key Points Pertaining to Independent Administrative Institution Accounting Principles

#### 1. Improvement of efficiency and service quality through the adoption of corporate accounting standards

Up until now, accounting methodologies for public entities focused chiefly on cash inflows and outflows during any given fiscal year. But in an effort to achieve greater efficiency and higher quality of service, independent administrative institutions have adopted accounting methodologies more similar to those of corporate enterprises, adopting the double entry bookkeeping system and establishing a formula for financial statements that includes a balance sheet and a statement of income. The introduction of corporate accounting principles facilitates the enhancement of the efficiency and quality of services.

- (1) The condition of assets and liabilities held by an independent administrative institution can be seen at a glance, while the institution's incurred expenses and revenues from operations are clearly presented, and
- (2) It has become easier to grasp how independent administrative institutions utilize economic resources to execute operations, enabling more accurate evaluation of their operations and subsequently leading to greater efficiency and quality of their services.

#### 2. Disclosure of the overall costs of administrative services

In addition to the ordinary set of financial statements, independent administrative institutions have a mandate to compile a statement of costs of providing administrative services that presents, in an easy-to-understand manner, the overall picture of costs relating to each institution's operations that must be financed by taxpayers' money. Marking the first attempt of this kind, the additional statement aims to clarify the cost of administration covered by the state (general public), as the conventional set of financial statements does not provide a clear picture.

**Example: Disclosure of free leasing of state-owned assets**

When an independent administrative institution is allowed to use certain state-owned assets free of charge, it does not appear on any of the ordinary set of financial statements. A statement of costs of providing administrative services, however, lists this as an opportunity cost imposed on the state.

#### 3. Modifications reflecting peculiarities of independent administrative institutions

Because the mechanistic application of corporate style accounting principles fails to present an accurate picture of certain aspects of the financial and management conditions of independent administrative institutions, some modifications have been made to reflect the peculiarities of those institutions.

Although the Independent Administrative Institution Accounting Standards are basically in accordance with the principles of corporate accounting, there are some differences. An accounting system suitable for profit-seeking entities is not suitable for independent administrative institutions, as independent administrative institutions must account for the receipt of grant for operating expenditure and other items not assumed under corporate accounting principles.

**Example: Accounting principles for grants for operating expenditure**

Upon receiving a grant for operating expenditure, an independent administrative institution should account for the full amount as a liability, as the particular project for which the money was granted has yet to be undertaken, and the institution is obligated to execute the project. As the project proceeds, the value amounts of completed portions of the project are removed from liabilities on the balance sheet and reflected as revenues in the income statement along with the matching expenses.

#### 4. Conformance with International Accounting Standards

In fiscal 1999 it became mandatory under International Accounting Standards to compile and disclose a statement of cash flows. A statement of cash flows prepared by a profit-seeking corporation consists of three sections: cash flows from operating activities, cash flows from investing activities, and cash flows from financial activities. An independent administrative institution replaces the first of these—cash flows from operating activities—with a section entitled cash flows from operational activities, which includes the receipt of grant for operating expenditure.