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Abstract

Design of contracts that define firm, and their accounting systems depend on the conditions in the firm’s factor and product markets. We examine the fundamental difficulty of defining and developing "uniform" accounting for diverse economic environments across countries and compare the differences in conditions prevailing in some key markets in Japan and the United States. There are important differences in industrial organization, accounting entities, markets for capital, managers, and labor, employee risk bearing, role of government, and market for corporate control. It would be difficult to defend the current reporting practices in either country to be optimal relative to the current or anticipated future market conditions. Instead of making premature commitment to a single set of worldwide standards, there may be value to allowing alternative sets of standards to compete in the marketplace (Dye and Sunder, Accounting Horizons, 2001).

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