1. Workflow of Account Closing and Final Return

(1) Record of daily transactions

STEP1-(1)

Recording withdrawal/deposit slips and transfer slips, etc.
Recording a cashbook and a sales ledger, etc.
Sorting out receipts, invoices, and contracts, etc.

(2) Closing adjustment

STEP1-(2)

Confirming balance of cash and deposits
Confirming quantities and deciding prices of inventory assets
Calculating depreciation expenses

(3) Preparation of financial statements
Determination of accounting profits
(Net income)

STEP2

Preparing balance sheet, income statement, and statement of shareholders' equity, etc.

(4) Approval of shareholders' meeting

Account closing approved by a shareholders' meeting, etc. is regarded as **"settled account closing."**

(5) Preparation of tax final forms

Adjustment of final tax return

STEP3

Determination of taxable income and corporation tax

Adjustment of final return means to make adjustment by addition and subtraction in the appended table 4 of corporation tax return forms.

(6) Filing of final return forms and tax payment

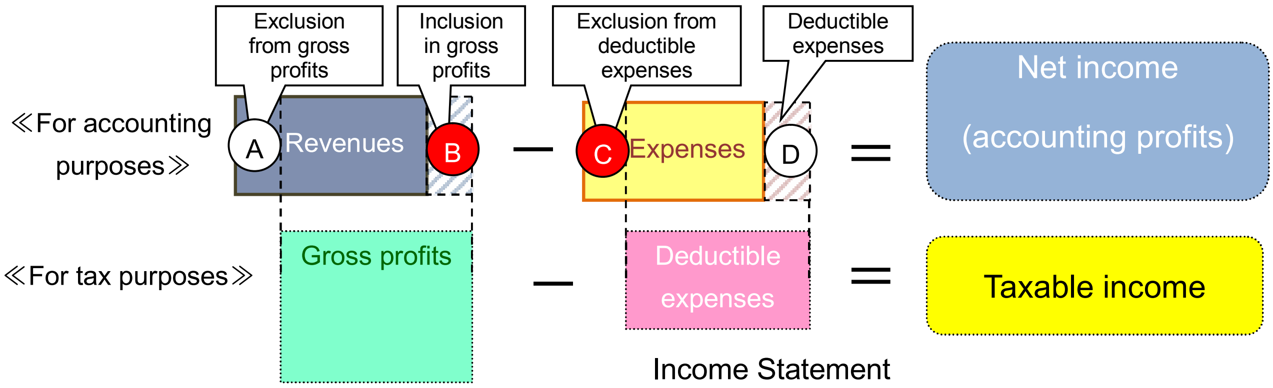
[Due date for filing a final return form] and [Due date for tax payment]
As a rule, filing and tax payment must be made **within two months** from the day following the account-closing day.
(Note) Interim final return may be required.

2. Accounting Profits and Taxable Income

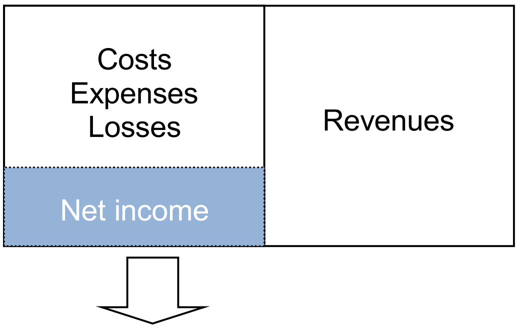
The “accounting profits” are calculated by subtracting expenses from revenues.

The “taxable income” is calculated by subtracting deductible expenses from gross profits.

There is a difference between accounting “revenues” and “gross profits” for tax purposes. Similarly, there is a difference between “expenses” and “deductible expenses.” These differences are treated as exclusion from gross profits, inclusion in gross profits, exclusion from deductible expenses, and deductible expenses, which are added to or subtracted from the “accounting profits” to calculate the “taxable income.”



Income Statement



Addition	Exclusion from deductible expenses (Exclusion from deductible expenses of social expenses, excessive expenses amount of depreciation expenses, etc.)	C
	Inclusion in gross profits (Gain on reversal of provisions, etc.)	B

Subtraction	Exclusion from gross profits (Dividends received, etc.)	A
	Deductible expenses (Losses of blue return, etc.)	D

Taxable income

Taxable income × Corporation tax rate ＝ Corporation tax

3. Calculation of Taxable Income and Corporation Tax

Sales ¥80,000,000 − Costs/Expenses ¥75,000,000 = Net income ¥5,000,000

Net income ¥5,000,000 + Exclusion from deductible expenses ¥800,000 − Exclusion from gross profits ¥300,000 = Taxable income ¥5,500,000

Taxable income ¥5,500,000 × Corporation tax rate 15% = Corporation tax ¥825,000

* The corporation tax rate differs depending on capital and taxable income.
*The above calculation is made on the assumption that a corporate tax is 15% as an example.

4. Tax Adjustment

(1) The "tax adjustment" means an adjustment to calculate a taxable income from accounting profits (net income).
Tax adjustment is divided into: an adjustment made in closing adjustment and an adjustment made in amendment of final return.

Tax adjustment
- Closing adjustment
- Adjustment of final return

(2) The "closing adjustment" means an adjustment made by a corporation in its account closing to reckon specified items into deductible expenses according to tax laws.

*"Reckoning the amount into expenses for accounting purposes" means to record some items as expenses or losses in final account closing.

(3) The "adjustment of final return" means an adjustment to calculate a taxable income by adding to and subtracting from net income determined by final account closing in the appended table 4 of corporation tax return forms.

(i) Items required to be adjusted in final return

The following items are required to be adjusted in final return.

- Corporation tax, etc. included in deductible expenses
- Social expenses, etc. included in exclusion from deductible expenses
- Exclusion from deductible expenses of contribution or donation
- Excessive depreciation expenses of depreciable assets
- Excessive limit amount of reserve
- Losses carried forward of blue return included in deductible expenses
- Items violating account processing standards that are generally accepted as fair and appropriate

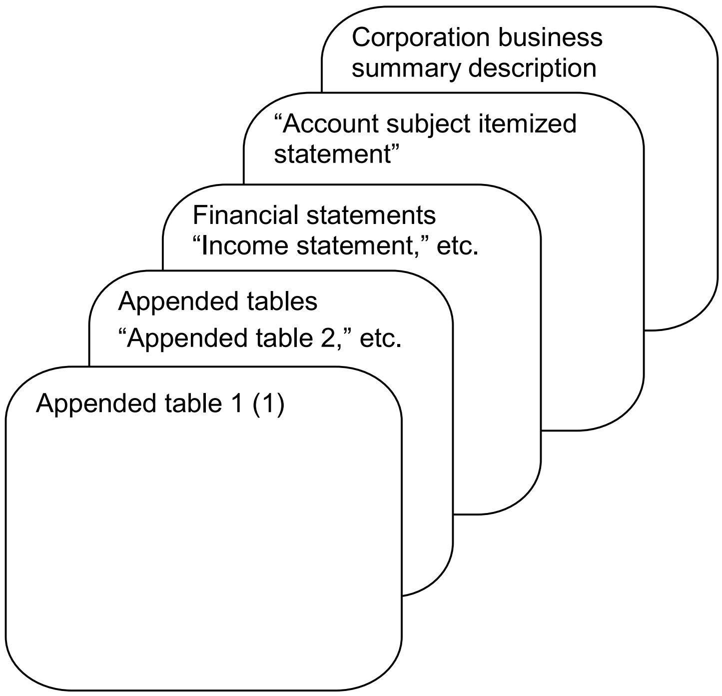
(ii) Items to be voluntarily adjusted in final return

The following items are provided a certain preferential treatment in taxation by the adjustment of final return.

- Exclusion from gross profits of dividend received, etc.
- Credit for income tax
- Special credit for corporation tax related to small and medium sized enterprise operators' acquiring machinery, etc.
- Special credit for income tax related to expropriation, etc.

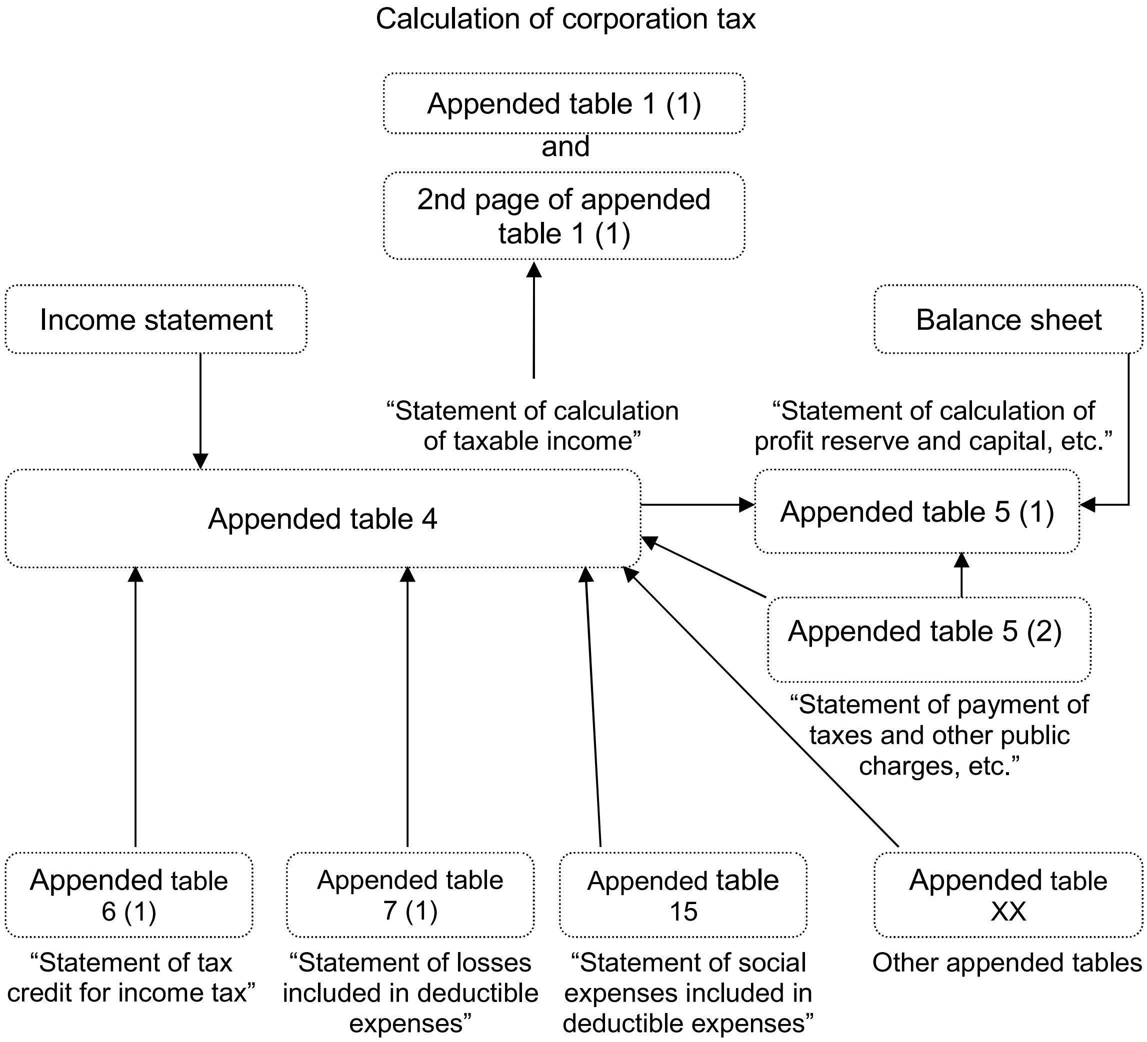
5. Structure of Final Return Forms for Corporation Tax

The final return forms for corporation tax consist of "income statement, balance sheet, and statement of shareholders' equity," "appended tables including the appended table 1 (1)," "account subject itemized statement," and "corporation business summary description."



6. Scheme of Final Return Forms for Corporation Tax

In the final return forms for corporation tax, the appended table 4 is used to calculate a taxable income, and the appended table 1 (1) is used to calculate a tax amount.



7. Relationship between Appended Table 4 and Appended Table 5 (1)

(1) Role of appended table 4

The appended table 4 is prepared to calculate a taxable income from accounting profits. Consequently, the appended table 4 plays a role as an income statement for tax purposes.

(2) Role of appended table 5 (1)

The appended table 5 (1) is prepared to describe an increase and a decrease in profit reserve. Consequently, the table plays a role as a balance sheet for tax purposes.

(3) “Retain” and “drain”

In the case of calculating a taxable income from accounting profits in the appended table 4, you divide addition/subtraction items into “retain” and “drain” and transfer information on the “retain” to the appended table 5 (1).

The **“**retain**”** is a temporary difference in revenues and expenses between an income statement under the Companies Act and an income statement for tax purposes.

For example, omission in sales and excessive depreciation fall under such a difference. The omission in sales, etc. are processed as addition (retain) in the appended table 4 and then transferred to the appended table 5 (1).

The **“drain”** is a permanent difference in revenues and expenses between an income statement under the Companies Act and an income statement for tax purposes. Unlike the case of “retain,” the difference will not be resolved in the future.

For example, social expenses, etc. included in exclusion from deductible expenses and exclusion from gross profits of dividend received, etc. fall under such a difference. Since social expenses, etc. included in exclusion from deductible expenses, etc. are processed as addition (drain), etc. in the appended table 4, they are not transferred to the appended table 5 (1).

Items to be adjusted in final return

(1) (Omission in sales 100) (Account receivables 100)
(2) (Excessive depreciation 80) (Excessive depreciation (Buildings) 80)
(3) (Social expenses, etc. included in exclusion from deductible expenses 60) (Drain 60)
(4) (Exclusion from gross profits of dividend received, etc. 40) (Drain 40)

Income statement

Costs Expenses Losses	Revenues
Net income 120	

Balance sheet

Assets	Liabilities Capital Retained earnings brought forward 500 (Net income 120)

Appended table 4

	Item	Total	Retain	Drain
	Net income	120	120	
Addition	Omission in sales	100	100	
Addition	Excessive depreciation	80	80	
Addition	Social expenses	60		60
Subtraction	Exclusion from gross profits of dividend received, etc.	40		40
Subtraction				

Appended table 5 (1)

Item	Beginning of term	Decrease	Increase	Beginning of following term
Account receivables			100	100
Excessive depreciation (Buildings)			80	80
Profit and loss brought forward	380		120	500