December 28, 2021

For immediate release


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# Notice Regarding the Receipt of the Investigation Report by the Internal Investigation Committee

As announced in the "Notice Concerning the Establishment of an Internal Investigation Committee" released on November 30, 2021, in the process of auditing procedures related to the financial statements of Demae-can Co., Ltd. (the "Company") for the fiscal year ended August 2021, the accounting firm engaged in the audit indicated that it had determined the existence of an error in the balance of accounts receivables and accounts payables, and since it was assumed that there were also possible another error due to omission of recording of outsourcing expenses to delivery service providers, the Company has established an internal investigation committee and continued the investigation since then. We hereby announce that the Company has received an investigation report from the internal investigation committee today as follows.

We deeply apologize for the considerable inconvenience and concern this has caused shareholders, investors, and all other parties involved.

Details

1. Results of the Investigation

As a result of the investigation conducted by the internal investigation committee, it was confirmed that, with respect to the Demae-can business of the Company, in addition to the overstatement of accounts receivable from settlement agents of 2,325 million yen (as of the end of August 2021) for the fiscal year ended August 2016 and thereafter, there was an overstatement of accounts payable of 985 million yen (as of the end of August 2021) due to various errors such as the overstatement of accounts payable accompanying such overstatement of accounts receivable, the understatement of accounts payable due to an error in the consumption tax treatment of outsourcing expenses to delivery service provider sand an error in accounting process for accounts payable at the end of the quarter, and all of them were found to be inappropriate accounting treatments due to errors.

Further, it was found that while the Company did not adequately recognize risks of high-volume and complex accounting process arising from the rapid expansion of the Company’s Demae-can business and delayed in establishing framework to address such risks, the Company continued its business without addressing problems of operational process to ensure proper accounting accounts receivable and accounts payable, etc. The internal investigation committee pointed out that the practical causes of the errors were (i) an undeveloped operation manual for accounts receivable and accounts payable, (ii) inadequate management of accounts receivable, accounts payable, and agency fees, (iii) an inadequate checking system in the Finance and Accounting Group, and (iv) insufficient understanding of the accounting process for accounts receivable in the Finance and Accounting Group.

For the details of the results of the investigation by the internal investigation committee, please refer to the attached "Investigation Report (Summary)". Please note that from the perspective of protecting personal information, confidential information and other information, the "Investigation Report (Summary)" anonymizes or summarizes the names of individuals and companies and other information.

2. Future Actions

(1) Amendments to Annual Securities Reports for Previous Fiscal Years

Based on the results of the internal investigation committee, the Company will, for the previous fiscal years, submit an amendment to its Annual Securities Reports and Quarterly Reports on December 28, 2021 (Tue).

(2) Financial Results for the Fiscal Year Ended August 2021

The Company will amend its summary of financial results for the fiscal year ended August 2021 (announced on October 14, 2021) on December 28, 2021 (Tue).

In addition, as announced in the "Notice Regarding Approval of Submission Due Date Extension of Annual Securities Report for the Fiscal Year Ended August 2021", the Company will submit its Annual Securities Report for the fiscal year ended August 2021 on December 28, 2021 (Tue), which is the submission due date of the Annual Securities Report after the extension.

(3) Measures to Prevent Recurrence

Taking the results of the investigation by the internal investigation committee seriously, the Company has decided at its Board of Directors meeting today to implement the following measures to prevent recurrence.

- Holding regular cross-departmental risk assessment meetings including the Finance and Accounting Group
- Increasing the number of employees in the Finance and Accounting Group to strengthen its accounting structure
- Developing accounting process manuals for transactions with franchisees and settlement agents
- Strengthening and thoroughly managing accounts receivable and accounts payable by counterparty
- Strengthening ratio analysis of agency fee costs
- Strengthening journal entries in the franchisee process

In the future, we will steadily implement measures to prevent recurrence and strive to regain your trust. We ask for your understanding and support.

**Investigation Report (Summary)**

December 28, 2021

Demae-can Co., Ltd., Internal Investigation Committee
Chair, Hidetaka Miyake
Member, Toraki Inoue
Member, Satoshi Yano

## Chapter 1 Outline of Investigation

### 1 Background to the Establishment of Internal Investigation Committee

#### (i) Determination of Discrepancy in the Balance of Accounts Receivable from Settlement Agents

The Company released its summary of financial results for the fiscal year ended August 2021 on October 14, 2021. On October 29, 2021, in the course of the audit procedures concerning the financial results for the fiscal year ended August 2021, it was indicated by Ernst & Young ShinNihon LLC., the auditor of the Company, that they found a discrepancy in the balance of the accounts receivable from two settlement agents during the confirmation of the balance of accounts receivable. The Company commenced an initial investigation on November 5, 2021, by forming an internal investigation team consisting of seven cross-divisional officers and employees. After that, on November 17, 2021, the Company reinforced the structure of its internal investigation team by appointing Anderson Mori & Tomotsune LPC and Accounting Advisory Co., Ltd. as external experts in order to conduct a comprehensive investigation including the financial results of previous fiscal years.

#### (ii) Recognition of the Possibility of Omission of Recording of Outsourcing Expenses to Delivery Service Providers

On November 22, 2021, the internal investigation team detected that there was an error in consumption tax treatment for the recording of outsourcing expenses from January 2021. With further investigation by the internal investigation team, on November 25, 2021, a possibility of omission of the recording of outsourcing expenses to delivery service providers of 127 million yen in the fiscal year ended August 2020 was recognized. Therefore, the Company considered that a higher objective investigation structure by an investigation committee which includes external experts would be desirable, and decided to establish and to shift the investigation structure to an internal investigation committee (the **"Committee"**) on November 30, 2021.

## 2 Purpose of Investigation

(a) Determining erroneous amounts of accounts receivable and accounts payable

(b) Examining outsourcing expenses (payments to delivery service providers)

(c) Confirming the existence of similar cases

(d) Calculating the amount of impact on the consolidated financial statements, etc.

(e) Analyzing the cause and recommending measures to prevent recurrence

(f) Other matters deemed necessary by the internal investigation committee

## 3 Investigation Structure of the Committee

### (i) Composition of the Committee

| | |
|---|---|
| **Chair** | Hidetaka Miyake (Lawyer, Anderson Mori & Tomotsune LPC) |
| **Member** | Toraki Inoue (CPA, Accounting Advisory Co., Ltd.) |
| **Member** | Satoshi Yano (CFO/Executive Officer of the Company) |

The organizations to which Committee Chair Hidetaka Miyake and Committee Member Toraki Inoue belong have supported the investigation of the internal investigation team before the change of structure to the Committee, but neither of them has been entrusted with any other cases from the Company, and have no interest in the Company.

### (ii) Investigation Assistants

Anderson Mori & Tomotsune LPC
Yuuki Shiono (Lawyer, CPA)

Accounting Advisory Co., Ltd.
Hiroyuki Ikeuchi (CPA)

# Chapter 2 Outline of the Investigation Procedures

## 1 Investigation Implementation Period

The Committee was established on November 30, 2021, and from that date until December 27 of the same year, it conducted an investigation and examination based on the results of the investigation.

## 2 Period under Investigation

The Committee has determined that the period from September 1, 2015 to the end of August 2021 shall be the period under investigation.

### 3 Overview of the Investigation Procedures

The Committee took over the investigation conducted by the internal investigation team, examined relevant materials, verified transaction data pertaining to accounts receivable and accounts payable, conducted interviews with employees and retirees of the Company, reviewed email data of retirees and conducted an investigation on similar transactions.

## Chapter 3 Summary of Investigation Results

As a result of the Committee's investigation, with regard to the Company's Demae-can business, it was confirmed that, in addition to the overstatement of 2,325 million yen (as of the end of August 2021) in accounts receivable from settlement agents since the fiscal year ended August 2016, there was an overstatement of 985 million yen (as of the end of August 2021) in accounts payable due to various errors such as the overstatement of accounts payable accompanying such overstatement of accounts receivable, the understatement of accounts payable due to an error in the consumption tax treatment of outsourcing expenses to delivery service providers and an error in accounting process for accounts payable at the end of the quarter.

With regard to the suspicion of the omission of 127 million yen in outsourcing expenses to delivery service providers in the fiscal year ended August 2020, which was identified by the internal investigation team, the Committee also examined the outsourcing expenses, but as a result of its investigation, no such omission was found.

The Committee's investigation did not detect any circumstances that would lead the Committee to suspect that the Company's officers and employees had intentionally made false financial reporting, and the Committee uncovered that all the findings were inappropriate accounting treatments due to errors.

### 1 Overstatement of Accounts Receivable from Two Settlement Agents

As a result of the Committee's investigation, it was confirmed that there was an overstatement of accounts receivable from two settlement agents that handle cashless payments on behalf of "Demae-can".

The Company started transactions with one of the settlement agents in April 2015 and with the other in September 2018, and had been booking accounts receivable from the two settlement agents based on the date of delivery. The timing of payment differs depending on the settlement terms between the Company and each settlement agent. The Company's collection cycle for accounts receivable from settlement agents is basically closed at the end of the month and collection in the following month, but for those two companies only, a collection cycle that closes in a shorter period of time was agreed upon. Therefore, in relation to those two companies, the Company's Finance and Accounting Group performed monthly adjustment processing without taking into account the amount collected in the current month, even though a part of the accounts receivable posted by the Company in a given month would have been collected by the end of the current month due to the collection cycle of the closing date and the payment date.

As a result, the accounts receivable from the two settlement agents were overstated, and the corresponding accounts payable were also overstated.

According to the statements of the parties involved, the overstatement of such accounts receivable can be attributed to errors such as insufficient information sharing regarding the accounting treatment of accounts receivable among the parties involved in the Finance and Accounting Group.

## 2 Understatement of Outsourcing Expenses to Delivery Service Providers due to Errors in the Treatment of Consumption Tax

### (i) Errors in the Treatment of Consumption Tax for the Fiscal Year Ended August 31, 2021

During the period from September 2020 to December 2020, the Company proceeded with the establishment of a system for automatic journal entry linkage from the accounting support system to the accounting system, and also recorded accrued outsourcing expenses for delivery service providers through manual journal entries.

However, when the accrued amount of outsourcing expenses was recorded by manual journal entry, the amount of accrued expenses that should have been recorded with tax included was recorded with tax excluded, resulting in an understatement of outsourcing expenses, suspense paid consumption tax, and accounts payable, respectively.

As a result of the establishment of a system for automatic journal entry linkage from the accounting support system to the accounting system on the premise of setting incorrect treatment of consumption tax, the same incorrect accounting treatment continued even after January 2021.

In the fiscal year ended August 2021, outsourcing expenses were understated by 245,282 thousand yen (excluding tax), while accounts payable was understated by 269,810 thousand yen (including tax) as of the end of August 2021.

The person in charge of these processes recognized that the unit price of the outsourcing expenses transmitted from the business unit as the outsourcing expenses is the amount including tax, and stated that he did not confirm the evidence such as the contracts in which such unit prices are specified as excluding tax, and it is recognized that the understatement of the outsourcing expenses due to the error of the treatment of consumption tax is also recognized as resulting from an error.

**(ii) Suspicion of Omission of Accounting of Outsourcing Expenses to Delivery Service Providers as Initially Assumed**

Prior to the establishment of the Committee, the Company's internal investigation team identified a suspicion of omission of 127 million yen in outsourcing expenses to delivery service providers in the fiscal year ended August 2020, and the Committee conducted a close examination of these outsourcing expenses.

In the delivery agency service (Sharing Delivery) that the Company launched on a full-scale basis in 2017, there are the company-owned base (directly managed) and partner delivery company as delivery agent bases, each of which is responsible for the delivery of each order. Initially, the partner delivery company's deliveries were made under a delivery service consignment agreement with the franchisees, but not with the Company, and the Company merely acted as an intermediary in the settlement of delivery fees between the franchisee and the partner delivery company. As a result, this was not a transaction in which the Company's accounting process would record expenses related to the payment of delivery fees to the partner delivery companies or sales related to delivery agency fees to franchisees.

However, this policy has changed, and from the fiscal year ended August 2020, the Company has gradually proceeded the transition to a form in which partner delivery companies become FC bases (franchise stores) of the Company, and outsource deliveries after concluding direct contracts with the Company.

The Committee checked the content and transition, etc. of the contractual relationship with the delivery service providers and found that, although there were large customers whose contracts had already been switched in the fourth quarter of the fiscal year ended August 2020, it was from September 2020 that the Company adopted a policy to record the delivery agency fee for the FC base delivery portion as sales to franchisees and to record the outsourcing expenses as cost of sales to the delivery service providers. Therefore, the process of not recording the outsourcing expenses paid to partner delivery companies and FC bases as cost of sales in the fiscal year ended August 2020 was appropriate and turned out that this was not considered to be an omission of recording the outsourcing expenses.

## 3 Inappropriate Accounting Treatment due to Other Errors

**(i) Errors in Adjusting Journal Entries for Accounts Receivable and Accounts Payable at the End of the Quarter**

**(a) Adjusting Journal Entries of Accounts Receivable and Accounts Payable at the End**

**of the Quarter**

At the end of each quarter, the Company enters a journal entry for accounts receivable from settlement agents and accounts payable. Since the settlement fee for a particular settlement agent will be charged to the franchisees after being borne by the Company, the Company will not be liable for any profit or loss. Therefore, the settlement fees for a particular settlement agent were basically adjusted for accounts payable (other). However, the operational rules for accounting process are not clear, and including the settlement agents other than the relevant settlement agent, there was not necessarily uniform treatment as to whether adjustments would be made in agency fees or in accounts payable (other) depending on each quarter.

**(b) Adjustment Amount of Agency Fees**

The balance of accounts receivable from settlement agents is processed by journal entries that reduce the balance when payment is received from each settlement agent.

If the actual amount received is small compared to the accounts receivable, the balance of uncollected accounts receivable will remain large. Therefore, the Company's Finance and Accounting Group shared the understanding that as long as the balance of accounts receivable at the end of each quarter was replaced by the balance expected to be received in the following month or later, the adjustment amount of collection of accounts receivable would be expensed as agency fees on a quarterly basis.

However, the balance of accounts payable assumed by the Finance and Accounting Group itself was overstated compared to the actual situation, and under the circumstances where the settlement amount at the settlement agent itself was gradually increasing, the adjustment amount of accounts receivable itself often deviated greatly from the actual situation, and as a result, the amount calculated as the adjustment amount also deviated greatly from the balance that should have been.

Due to a lack of uniformity in the treatment of the account title for the adjustment amount and other reasons, of the amount of agency fees recorded for each quarter were understated or overstated.

**(c) Error in Accounting Treatment at the Time of Termination of Partner Food Delivery Service A**

In the settlement of accounts at the end of May 2021, when the food delivery service A provided by the Company's business partner was terminated, the amount of accounts receivable from the business partner in May 2021 was received for both the food delivery service A and another service. As a result, the amount received for the other service was mistakenly treated as the amount received for the food delivery service A, which resulted in incorrect journal entries.

**(d) Error in Accounting Treatment at the Time of Termination of Partner Food Delivery Service B**

Food delivery service B, which was provided by a partner of the Company, was integrated into the Company's Demae-can in December 2020, and the service was terminated. However, the Company was not aware that there was a separate accrued liability other than the food delivery service B in the Company's transactions with such partner, and the Company processed incorrect journal entries.

**(e) Error in Accounting Treatment Due to Error in Recording of Accounts Receivable Related to Payment Processing Service C**

In May 2021, since there was a partial omission in the original data when the Company recorded accounts receivable related to payment processing service C, there was an understatement in the recorded amount of accounts payable in addition to an understatement in the recorded amount of accounts receivable. As a result of accounting treatment based on such understated amount of accounts receivable, an incorrect journal entry was made.

**(ii) Errors in Chargeback Processing**

A "chargeback" is a situation in which a credit card company cancels a payment to the company from which the credit card transaction was made because the user (credit card user) does not agree to pay for the transaction due to fraudulent use or because they are not satisfied with the details of the transaction. In the quarterly processing, when a chargeback is made, the accounts receivable is returned and the settlement fee (agency fee) for a particular settlement agent is reduced. Originally, it should have been processed to transfer the accounts receivable to the accounts receivable of the relevant settlement agent, and the reduction of the agency fee should have been reversed, but such treatment was not processed.

**(iii) Errors Related to Accounts Payable (Yume no Machi)**

The main cash transactions between the Company and the delivery service providers are the outsourcing expenses of delivery payments, and the collection of payments for goods that have been collected in cash by the delivery service providers at the time of delivery.

For these cash payments and collections, the difference between the amount paid to the delivery service providers and the amount collected is calculated as a receivable or payable, with the Company recognizing accounts receivable for the party that ultimately becomes a receivable and accounts payable for the party that becomes a payable.

On the other hand, there are two types of delivery agent bases used by the Company, company-owned bases (directly managed) and FC bases (franchise stores). In the case of a company-owned base, as mentioned above, receivables and payables are not actually recorded with the Company. However, for the convenience of calculating the amount of money collection and the amount of payment to franchisee, a name of a business partner has been separately set up in order to distinguish it from an external FC base, and the company name was "Yume no Machi Souzou Iinkai Co., Ltd." ("Yume no Machi"), the former name of the Company.

At the year-end of the fiscal year ended August 2021, when the Company processed the transfer from "accounts payable to other", which was not distinguished by counterparty, to the detailed balance of accounts payable for each franchisee provided by the accounting support system, it also transferred the balance of "accounts payable to other" to the company-owned base (Yume no machi), which was not originally required to be transferred.

Although such journal entry was a transfer within accounts payable and there was no change in the balance of accounts payable itself, the person in charge of the Finance and Accounting Group thought that it was strange that there were still receivables and payables for the company-owned base, so the journal entry was processed by reducing outsourcing expenses.

However, originally, it was wrong to allocate the "accounts payable to other" to the company-owned base where receivables and payables had already been offset as a transfer destination from the "accounts payable to other", and since the journal entry recorded described above was also unnecessary, the journal entry described above had to be cancelled, but this process was not carried out.

**(iv) Analysis of Overstatement of Accounts Receivable and Accounts Payable**

As of the end of August 2021, the overstated balances of accounts receivable and accounts payable were 2,325 million yen and 985 million yen, respectively, and net assets were overstated by 1,339 million yen (or 1,313 million yen if the impact of unpaid consumption tax is considered).

The analysis results by the Committee of the breakdown of the causes of the difference are as follows.

(Unit: thousand yen)

| | |
|---|---|
| Understatement of accounts payable due to understatement of outsourcing expenses | 269,810 |
| Errors in chargeback processing | 251,215 |
| Error in accounting treatment at the time of termination of food delivery service A | 166,632 |
| Error in accounting treatment at the time of termination of food delivery service B | 215,205 |
| Error in accounting treatment due to error in recording of accounts receivable related to payment processing service C | 124,940 |
| Errors related to accounts payable (Yume no Machi) | 351,600 |
| Adjustment amount of agency fees | (65,829) |
| Other detected items | 14,913 |
| Difference from before August 2018 | 11,448 |
| Total | 1,339,934 |

## Chapter 4 Outline and Results of Investigation on Similar Transactions

### 1 Investigation on Similar Transactions for Errors in Accounts Receivable and Accounts Payable

Based on the results of its investigation to date, the Committee verified accounts for which there is a possibility that the Company's accounting system may not have been able to sufficiently manage balances by counterparty, such as accounts payable. As a result, a slight retention of balance was detected, but no increase or retention of balance suspected to be an overstatement without any particular actual situation was detected.

### 2 Investigation on Similar Transactions for Errors Caused by Omission of Recording of Outsourcing Expenses

As similar risks were assumed in accounts such as outsourcing expenses, advertising expenses, and subcontracting expenses for non-delivery service providers, an investigation was conducted to check whether there was any omission in recording expenses. As a result, the above investigation has not detected any expenditure that is not accounted for as expenses.

## Chapter 5 The Amount of Impact on the Consolidated Financial Statements of the Company

The following table shows the amount of impact of errors found during the investigation on the Company's consolidated financial statements.

Issues that require derivative consideration, such as the impact of these corrections on income taxes, etc are not included in the following amounts.

(Unit: thousand yen)

| | Year ended | | |
|---|---|---|---|
| | **August 31, 2019** | **August 31, 2020** | **August 31, 2021** |
| Accounts receivable | (39,549) | (595,129) | (2,325,468) |
| Accounts payable | (24,836) | (521,718) | (985,534) |
| Consumption tax payable | 0 | (2,243) | (26,209) |
| Accrued expenses | (7,305) | (41,499) | 0 |
| Impact on net assets | (7,408) | (29,669) | (1,313,725) |

| | Year ended | | | |
|---|---|---|---|---|
| | **August 31, 2019** | **August 31, 2020** | **August 31, 2021** | **Total** |
| Net sales | 0 | 0 | (45,443) | (45,443) |
| Cost of sales: | | | | |
| Agency fees | 7,408 | (174) | 690,901 | 698,135 |
| Outsourcing expenses | 0 | 22,434 | 542,562 | 564,996 |
| Advertising expenses | 0 | 0 | 5,149 | 5,149 |
| Cost of sales (total) | 7,408 | 22,260 | 1,238,612 | 1,268,280 |
| Impact on profit | (7,408) | (22,261) | (1,284,056) | (1,313,725) |

The amounts in the table above with respect to the fiscal year ended August 2021 represent the impact of these corrections on the summary of financial results for the fiscal year ended August 2021 disclosed by the Company on October 14, 2021. These impacts are expected to be factored into the Annual Securities Reports for the fiscal year ended August 2021 to be submitted.

## Chapter 6 Analysis of the Cause of the Occurrence

All of the inappropriate accounting procedures uncovered by the Committee's investigation are considered to be due to errors. In this Chapter, we will analyze the causes of the errors that occurred in the Company, but first, as a prerequisite, it is necessary to understand the characteristics of the operations of the Company's Finance and Accounting Group. As the Company's Demae-can business expanded rapidly, the number of the franchisees increased, and transactions with settlement agents and delivery service providers increased due to the expansion of services such as cashless settlement and delivery services. The volume of transactions was extremely large, and the settlement terms were different with each counterparty, and the timing of recognition of receivables and payables between the Company and the counterparty was also different. As a result, the operations of the Finance and Accounting Group were extremely complex and time-consuming.

Under these circumstances, between December 2017 and March 2021, the two superiors were leading the Finance and Accounting Group's business operations with a concentration of operational and other businesses while mutually checking and supervising each other. However, due to the increase in the volume of transactions and other factors, it gradually became difficult for them to check and supervise each other and to provide sufficient guidance and supervision to the other members. However, there is no evidence to believe that both failed to fulfill their duties, and it seems that they were doing their best in the personnel and system infrastructure they were given.

On the other hand, the management side also understood the characteristics and problems of the Finance and Accounting Group based on the results of the audit by the Internal Audit Office and other information, and communicated with both of them to increase the number of personnel and strengthen the system infrastructure, and there were no circumstances in which they refused to hire new staff or left it unattended while being aware of the problems of the Finance and Accounting Group.

However, it can be considered that the Company was not fully aware of the risks of increasing the volume and complexity of accounting treatment in line with the rapid expansion of the Demae-can business, and the delay in the development of a system to respond to these risks and continuation of business without addressing operational process issues to appropriately account for accounts receivable and accounts payable led to the occurrence of these errors. Based on such an overall analysis of causes, the Committee points out the following as the specific causes of this incident.

## 1 Lack of Operation Manuals for Accounts Receivable and Accounts Payable

Although the Company had a financial and accounting manual prepared, the errors of the overstatement of accounts receivable, etc. occurred due to accounting procedures under circumstances in which operation manuals were not prepared.

Although accounts receivable were added to business processes to be assessed under the so-called J-SOX from the fiscal year ended August 2020, the balance management of accounts receivable was not defined as a business process. In addition, with regard to the monthly accounts receivable, the amount of the settlement statement to the settlement agents was recorded with insufficient understanding within the Finance and Accounting Group that the accounts already received should be excluded.

In addition, the quarterly journal entries for adjusting accounts receivable and accounts payable is quite complex and difficult to process, and it was difficult to process accurately in the situation where the operation manual was not prepared.

If the operation manual for accounts receivable and accounts payable had been properly prepared, the occurrence of these errors could have been prevented, and the lack of such operation manual can be cited as one of the causes of these errors.

### 2 Insufficient Management of Accounts Receivable, Accounts Payable, and Agency Fees

Regarding the overstatement of accounts receivable, the accounts receivable were overstated, including amounts that were originally collected and should be deducted from the balance at the end of the period, but an abnormality could not be detected due to the lack of management of the collection performance and analysis of the balance of accounts receivable recorded.

In addition, as a result of the overstatement of accounts receivable, the corresponding accounts payable to the franchisees were also overstated, but in the accounting system used by the Company, such accounts payable to the franchisees were recorded as "accounts payable to other" which was not distinguished by counterparty, and therefore, it had become a situation to be described as so-called "loose account".

Also, with regard to the understatement of outsourcing expenses to the delivery service providers due to an error in the consumption tax treatment, when calculating the accounts payable of outsourcing expenses, the accounts payable which should have been recorded as an amount including tax, had been recorded as an amount excluding tax, and as a result, the accounts payable had been understated. There is a possibility that an abnormality could have been detected if the accounts payable had been managed by the counterparty.

Furthermore, with regard to the errors in the journal entries for adjusting accounts receivable and accounts payable at the end of each quarter, the Company adjusted the difference between the accounts receivable from each settlement agent and accounts payable to the estimated balance of accounts receivable and accounts payable, and recorded the difference in adjustment as agency fees. However, in addition to the lack of management of collection performance of accounts receivable, management was not conducted to confirm the overall appropriateness of the recorded amounts of agency fees, and was unable to identify that the adjusting journal entry was incorrect.

In this way, it can be considered that the insufficient management of accounts receivable, accounts payable, and agency fees was one of the reasons why these errors could not be prevented.

### 3 Inadequate Checking System in the Finance and Accounting Group

In the Finance and Accounting Group of the Company, the two superiors respectively checked each other's operations and kept mutual control. However, due to the increase in the volume of transactions and other factors, it became difficult for neither of them to complete their respective duties, and the mutual checks between the two became gradually ineffective. Therefore, they shifted to a system in which they respectively checked the work which they requested to the other members, but due to busy work, it created a situation which neither of them could sufficiently check each of the work they requested.

Regarding the overstatement of accounts receivable, both of them were aware of the settlement cycle of the two settlement agents, and understood that the amount collected during the month should be deducted to record the balance of accounts receivable, but due to the inadequate checking system, they overlooked the fact that the amount was erroneously recorded including the amount collected during the month as a result.

The checking system in the Finance and Accounting Group was pointed out in the internal control audit for the fiscal year ended August, 2017, and it seems they tried to improve the quality of checking by "four-eyes" principle each time. However, while an operation manual for accounts receivable and accounts payable had not been prepared, members of the Finance and Accounting Group had been dealing with the situation by referring to past journal entries, and it is considered that they had not established a sufficient checking system to prevent the errors in this case.

In addition, regarding the understatement of outsourcing expenses to the delivery service providers due to an error in the consumption tax treatment, both of them misunderstood the actual amount excluding tax as the amount including tax. Although the lack of cooperation with the business division may be a cause of this misunderstanding, it is considered that the main reason for the occurrence was that the Finance and Accounting Group did not confirm the evidence clearly marked as tax excluded.

This inadequate checking system in the Finance and Accounting Group can also be pointed out as one of the reasons for the occurrence of this error.

**4 Inadequate Understanding of the Accounting Procedure of Accounts Receivable in the Finance and Accounting Group**

In the Company's Finance and Accounting Group, the two superiors had a reasonable understanding of the accounting procedure of accounts receivable. However, the entire group was not well aware of transactions with settlement agents and franchisees, and of the settlement and payment of such transactions. As a result, members of the Finance and Accounting Group lacked an essential understanding of the accounting procedure of accounts receivable, such as what journal entries are required during and at the end of the month.

In addition to this situation, there was no operation manual for accounts receivable and accounts payable, which resulted in insufficient coordination and information sharing among the persons in charge based on verbal instructions.

The overstatement of accounts receivable and the error in adjusting journal entries for accounts receivable and accounts payable at the time of the quarterly settlement were probably caused by these circumstances.

## Chapter 7 Recommendation for Measures to Prevent Recurrence

In this Chapter, the Committee recommends measures that should be considered introducing and implementing in order to prevent the recurrence of the errors identified by the investigation.

### 1 Actions to be Considered for Implementation Immediately

#### (i) Preparing Operation Manuals for Transactions with Franchisees, Settlement Agents and Delivery Service Providers

It can be pointed out that one of the causes of the occurrence of these errors were lack of operation manuals for accounts receivable and accounts payable. Thus, the Company should immediately develop operation manuals for accounting procedures required for transactions with franchisees, settlement agents and delivery service providers that generate accounts receivable and accounts payable, and start operating such manuals after conducting education and training within the Finance and Accounting Group.

Given that these transactions are, in addition to the large volume of transactions, complicated and not easy to understand, the Company should describe the meanings of and notes to each accounting procedure, and develop the manuals at a level that enables other members and new members to respond quickly in the event of sudden retirement.

#### (ii) Reinforcement of Management of Accounts Receivable

Given that insufficient management of accounts receivable contributed to these errors, the Company should reinforce management through timely understanding and analyzing the collection performance of accounts receivable.

#### (iii) Reinforcement of Management of Accounts Payable

Given that these errors occurred due to the failure to manage accounts payable by counterparty, which resulted in a so-called "loose account", the Company should manage the accounts payable by counterparty. Since the current accounting system is not capable of managing the balance by counterparty, it is necessary for the Company to reinforce the management by reconciling the balance by counterparty conducted by the accounting support system with the balance in the accounting system.

### (iv) Reinforcement of Management of Agency Fees

Given that the failure to manage agency fees by confirming the overall appropriateness of the recorded amount of agency fees contributed to these errors, the Company should strengthen the management by considering and introducing a method to confirm appropriateness of the recorded amount by analysis of the agency fees or other method.

### (v) Reinforcement of Checking of Major journal Entries

Given that one of the reasons of the occurrence of these errors was the inadequate checking system in the Finance and Accounting Group, the Company should strengthen the checking system by developing a system in which a member other than the entry person checks for at least journal entries such as offsetting and settlement adjustment journals for accounts receivable and accounts payable, and agency fee adjustment journals, which are important journal entries in the accounting process.

In addition, in order to ensure the effectiveness of such checking system, it would be more effective to establish a system in which at least two people understand the entries for important journal entries in the accounting process as described above, and are responsible for preparing and checking the journal entries. As a measure to achieve this, the introduction of a rotation system for the members of the Finance and Accounting Group in terms of their areas of responsibility could be considered.

### (vi) Reinforcement of Personnel of the Finance and Accounting Group

The shortage of personnel in the Finance and Accounting Group was pointed out in the internal control audit for the fiscal year ended August 2017 and although the Company has since expanded its staff members by hiring new staff, etc., a superior, to whom various tasks were concentrated, suddenly resigned in August 2021, and the Company appears to be searching for an appropriate personnel structure.

In the future, the Company should promote the members' understanding of transactions and settlements with franchisees, settlement agents and delivery service providers through the development and operation of an operation manual, as well as immediately consider the composition of the members to establish an appropriate checking system, and reinforce the personnel of the Finance and Accounting Group as necessary.

## 2 Actions to be Considered for Implementation in the Medium-Term

### (i) Systematization of Debt Management

One of the reasons for the occurrence of these errors is that, in the current operation, the accounting system did not manage the accounts payable by counterparty in the system data, especially for accounts payable to the franchisees. There is a choice as to whether to manage balances by counterparty on the accounting system side or on the core system side, but in any case, manual management is not practical with a vast number of counterparties like the Company. Therefore, it is necessary to establish a system to manage the recording, payment and offsetting of debts in a manner that is operationally appropriate for the Company.

**(ii) Expansion of the Automatic Linkage Portion by the Accounting Support System**

In the current operation of the Company, the sales accounting process of fees and commissions to the franchisees is automatically linked between the core system and the accounting system and there is no need to manually input journal entries, however, most of the other journal processing in the Demae-can business is still conducted by processing data retrieved from the accounting support system, as needed, and inputting journal entries.

In order to reduce journal entry errors and improve the efficiency of accounting work, it is worth considering expanding the automatic linkage portion.

**(iii) Management's Commitment to Prevent Recurrence**

Concerning both the measures that should be considered for implementation immediately and the measures that should be considered for implementation in the medium term described in the above (i) and (ii) to prevent recurrence, the commitment of the Company's management to prevent recurrence is indispensable in order to develop an appropriate system and ensure the effectiveness of the measures by thorough operation of such measures.

It is important for the management of the Company to keep in mind that events such as the errors in this incident are a temporary experience and that the countermeasures are apt to fade into a dead letter. It is also important for the management of the Company to recognize the efforts for prevention of recurrence as an important management issue and for each officer to be involved in accordance with his/her role. In addition, appropriate monitoring should be conducted by placing the specific state of progress and improvement status of recurrence prevention measures under the supervision of outside directors and auditors as important matters to be reported to the Board of Directors.

End