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# ACCOUNTING LAW OF THE DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA FOR FOREIGN-INVESTED BUSINESSES

Adopted by Decree No. 2037 of the Presidium of the Supreme People's Assembly on October 25, 2006, amended by Decree No. 2688 of the Presidium of the Supreme People's Assembly on April 29, 2008 and amended by Decree No. 2046 of the Presidium of the Supreme People's Assembly on December 21, 2011

## Chapter 1 Fundamentals

### Article 1 (Objective)

This Law is enacted for the purpose of ensuring objectivity of the accounting by providing strict guidelines for the accounting practices and auditing of foreign-invested businesses.

### Article 2 (Applicability)

This Law shall be applicable to the foreign-invested enterprises and banks, and the branches, representative offices and agencies of foreign enterprises that earn income in the territory of the DPRK for more than 3 consecutive months.

Accounting laws for the foreign-invested businesses in the special economic zones shall be provided separately.

### Article 3 (Fiscal Year)

The fiscal year of a foreign-invested business shall start on January 1 and end on December 31 of the same year.

The fiscal year of a foreign-invested business that is newly set up shall be from the date of inauguration to December 31, and the fiscal year of a dissolved or bankrupt business from January 1 to the date of dissolution or bankruptcy.

### Article 4 (Accounting currency)

The unit of accounting currency of a foreign-invested business shall be Korean Won.

Foreign currency may also be used as accounting currency subject to the approval of the central financial guidance organ. In this case the accounting statements shall be converted to and expressed in Korean Won.

### Article 5 (Language of accounting documents)

A foreign-invested business shall prepare its accounting documents in Korean language. Accounting documents prepared in a foreign language shall be accompanied by Korean translation.

### Article 6 (Qualification)

Accounting of a foreign-invested business shall be conducted only by persons duly qualified.

#### Article 7 (Auditing institution)

Auditing shall be undertaken by the audit office of foreign-invested business in the DPRK.

#### Article 8 (Exchange and cooperation)

The State shall promote exchange and cooperation with foreign countries and international organizations in matters related to the accounting of foreign-invested businesses.

#### Article 9 (Application of customary accounting practice)

Matters not provided for in the accounting laws and regulations shall be governed by the internationally accepted accounting practice.

## Chapter 2 Accounting Practice

#### Article 10 (Basic requirements)

Accounting is an important work of preparing accounting documents, making entries in the account book and working out financial accounting statements on the basis of the economic and business transactions actually taken place.

A foreign-invested business shall fulfill accounting practice in accordance with the accounting law and regulations.

#### Article 11 (Object of accounting)

The object of accounting shall be:

1. Moneys received or paid;
2. Negotiable instruments issued or received;
3. Property in kind received or sent;
4. Claims and debts occurred or settled;
5. Capital increased or decreased;
6. Import, cost and expenses occurred or settled;
7. Profits and losses determined, distributed or disposed; and
8. Other objects that require accounting

#### Article 12 (Principle of accounting)

The following principles shall be adhered to in fulfilling accounting practice:

1. Entries shall be made on the basis of accurate information and evidence;
2. Accounting statements and business transactions shall be accurately recorded;
3. The time of accounting and the method of appraising the assets shall be consistent to allow periodic comparison, which shall not be changed without justifiable reasons;
4. Capital transactions, profit and loss, capital excess and profit deposit shall be accurately differentiated; and
5. Main contents of accounting statements and the amount of money shall be recorded in detail in the accounting statements

#### Article 13 (Preparation and issuance of accounting documents)

A foreign-invested business shall, upon occurrence of a business transaction, prepare and issue an accounting document that contains an accurate record of the transaction concerned.

Accounting documents shall include a voucher, summary sheet and derived sheet.

#### Article 14 (Particulars of accounting documents)

The accounting documents shall specify the following items:

1. Title;
2. Number and date of issuance;
3. Description, quantity, unit cost, price and other accounting data;
4. Particulars of business transaction;
5. Affixation of the seal of the recipient and cashier in the case of transaction in cash; and
6. Name and address of the enterprise or institution issuing the document

#### Article 15 (Examination and handling of accounting documents)

A foreign-invested business shall, upon receipt of the accounting document issued by other institutions or enterprises, examine them for the accuracy of their form, entries and computation. In this case defective documents shall be sent back subject to the consent of the chief of the enterprise or the accounting department.

#### Article 16 (Repreparation of accounting document)

A foreign-invested business shall, upon receipt of the defective accounting document, prepare it again.

Entries recorded in a voucher shall not be corrected.

#### Article 17 (Filling in account book)

Entries into account books shall be based on the examined and verified accounting documents.

Account books shall include general ledger, general ledger of statements and itemized account book.

#### Article 18 (Particulars of account book)

Account books shall specify the following items:

1. Fiscal year, title of the account book, number of statements and the name of the foreign-invested business concerned on the cover;
2. A list of contents and page number for each entry on the first page;
3. Page number, date of the accounting document being recorded, number of derived sheet, particulars of the transaction concerned and the amount of money from the second page on; and
4. The seal of the person in charge of the accounting department on the last page for the purpose of confirming the close of the account book

#### Article 19 (Checking of records in account book against actual things)

A foreign-invested business shall regularly check the records in its account book against the actual things.

Where the records fail to conform to the actual things, the reasons thereof shall be traced and conformity ensured.

#### Article 20 (Correction of entry in account book)

Where an account book contains a mistake, the latter shall be replaced with a new one or corrected. In this case stamp of the correcting person shall be affixed to the place where the correction is made.

#### Article 21 (Prohibition of double bookkeeping)

A foreign-invested business shall truthfully record and compute the business transactions that took place.

Double account book shall not be set up.

## Article 22 (Change in method of preparation of account book)

The method of preparing an account books shall be consistent from the beginning to the end.

Any change in the method of making entries in the account book shall be made pursuant to the accounting law and regulations. In this case the reason for the change shall be stated in the explanations on financial position.

## Article 23 (Use of accounting statements)

A foreign-invested business shall use prescribed accounting statements.

Where necessary, important business transactions may, subject to the approval of the central financial guidance organ, be expressed by new accounting statements and general business transactions by similar accounting statements.

## Article 24 (Examination of results of ordinary calculation)

The results of ordinary calculation shall be examined by checking itemized calculation against general calculation. In this case any miscalculation shall be corrected provided that the reason thereof and responsibility thereto clarified.

## Article 25 (Balance of accounting)

Balancing of accounting shall be conducted only when the relevant part of accounting-related law and regulations is amended or supplemented, or it can help express financial accounting statements more accurately.

## Article 26 (Recording of outstanding transaction)

The foreseeable amount of loss from the outstanding transaction shall be entered into the financial accounting statement. The amount of loss unforeseeable or the amount of profit foreseeable shall be entered only into the explanations on financial position.

## Article 27 (Preparation of balance sheet)

Balance sheet shall be prepared as follows:

1. Items shall be set out in current arrangement;
2. Sum total of assets shall be expressed in comparison with the sum total of liabilities and capital;
3. Every statement on assets, liabilities and capital position shall be expressed in sum total; and
4. The balance sheet shall be in the form of statement.

## Article 28 (Preparation of profit and loss statement)

Profit and loss statement shall be prepared in the following way:

1. Items shall be arranged by the source of occurrence;
2. Net profit on settlement of account shall be expressed by subtracting the sum total of expenses from that of income; and
3. Every account showing the income and expense position shall be expressed in sum total;

## Article 29 (Preparation of profit and loss disposal statement)

Profit and loss disposal statement shall be prepared as follows:

1. Profit distribution account shall specify profit reserve carried forward from the previous year, net profit on settlement of account, allotment for reserve fund, allotment for enterprise fund, dividend and profit reserve carried forward to the following year;
2. Loss disposal account shall specify loss carried forward from previous year, loss on settlement of account, reserve fund allotted for the disposal of loss and loss carried forward to the following year; and

3. Amount of profit distributed and loss disposed shall be specified in the aggregate.

#### Article 30 (Preparation of cash flow statement)

Cash flow statement shall be prepared as follows:

1. Items shall be classified into business operation, investment and financial matters;
2. Existing balance and periodic increase and/or decrease shall be put together to be expressed as periodic balance;
3. Periodic increase and decrease of the item shall be expressed in total amount; and
4. Statement shall be prepared in indirect method

#### Article 31 (Occurrences after end of term for settlement of accounts)

Matters that occurred after the end of the term for settlement of accounts, affecting the preparation of balance sheet shall be reflected in the assets, debts and capital. Matters that do not affect the preparation of balance sheet shall be specified only in the explanations on financial position.

#### Article 32 (Preparation of statement of settlement of accounts)

Statement of settlement of accounts shall be prepared in the following way:

1. Balance sheet, profit and loss statement, profit distribution statement or loss disposal statement and cash flow statement shall be examined and compiled;
2. Accounting result of the given fiscal year shall be expressed in contrast to that of the preceding year;
3. An auxiliary list shall be worked out for the balance sheet and profit and loss statement; and
4. Accounting matters that are likely to cause misunderstanding shall be specified in the explanations on financial position

#### Article 33 (Preparation cycle of statement of settlement of accounts)

Statement of settlement of accounts shall be prepared on quarterly and yearly basis.

A foreign-invested business shall prepare the quarterly accounting statement not later than the 15<sup>th</sup> day of the month following the end of the quarter and yearly statement not later than February after the end of the fiscal year.

#### Article 34 (Accountability for statement of accounts settlement)

The statement of accounts settlement shall be signed by the chief of the foreign-invested business and the chief accounting officer.

The chief of the business and the chief accounting officer shall be accountable for the statement of settlement of accounts that they signed.

#### Article 35 (Prohibited acts in accounting practice)

None of the following acts shall be committed in accounting practice:

1. Misrepresentation or non-representation of assets, liabilities and capital, or changing without permission the appraisal standard and computation method;
2. Concealing the income, delaying or anticipating the calculation of the income;
3. Misrepresentation or non-representation of expenses and costs, or changing without permission the time and method of calculation; and
4. Changing without permission the computation and distribution method of profits, conjuring up false profits or concealing profits.

#### Article 36 (Rules to abide by in the use of accounting program)

The following rules shall be abided by in the use of the accounting program:

1. The program shall reflect the operational activities in an integrated interconnection;
2. The program shall be in conformity with the computation method and accounting principle prescribed in the accounting-related laws and regulations;
3. Uniformity of the indicators for the settlement of accounts shall be ensured;
4. The form prepared on the screen and in printing shall be the same as the form of written accounting document;
5. A double storage system shall be set up for the preservation of the accounting information;
6. A copy of the accounting documents shall be preserved in a printed form, even though the same has been preserved in an external memory; and
7. Self-developed accounting programs shall be used subject to the permission of the competent institution.

#### Article 37 (Separation of duties, inventory of property)

A foreign-invested business shall separately assign duties of cashier's, preparation of accounting books, retention of accounting documents and custody of property, and properly set the extent, term and method of taking inventory.

#### Article 38 (Transfer of accounting duties)

Accounting duties shall be transferred in the presence of an official concerned.

The transfer of duties by an accountant shall be observed by the chief accounting officer, and that of a chief accounting officer by the chief of the business concerned.

#### Article 39 (Retention of accounting documents)

A foreign-invested business shall keep the accounting documents free from fire, moisture and discoloring.

Accounting documents shall be preserved for 5 years, and account books and yearly financial accounting statements for 10 years.

## Chapter 3 Auditing

#### Article 40 (Classification of auditing)

Auditing is an important work of objectively ascertaining the legality and accuracy of the accounting affairs of a foreign-invested business.

Auditing shall be classified into the auditing of investment, settlement of account and liquidation.

#### Article 41 (Auditing of investment)

A foreign-invested business that is newly established, merged or separated shall have its investment audited.

Reinvestment of over 1million won shall also be subjected to the auditing.

#### Article 42 (Time limit for auditing of investment)

Auditing of investment for the establishment of a business, for the merger or separation and for reinvestment shall be conducted respectively before the inauguration of the business, within 2 months of registration of the change of business and within 1 month of the end of the investment concerned.

#### Article 43 (Method of auditing of investment)

Investment shall be audited by examining the application to that effect submitted by a foreign-invested business.

A foreign-invested business shall attach to the application the investment situation statement, and contribution statements of monetary property, property-in-kind, real property and intellectual property.

#### Article 44 (Auditing of settlement of accounts)

A foreign-invested business shall compulsorily have its yearly statement of settlement of accounts audited.

Where necessary, quarterly statement of settlement of accounts may also be subjected to auditing.

#### Article 45 (Method of settlement of accounts)

Auditing of settlement of accounts shall be conducted by examining the statements of settlement of accounts. In this case the audit office shall conduct an accurate examination of the balance sheet, profit and loss statement, profit distribution statement, loss disposal statement, cash flow statement and auxiliary statement.

#### Article 46 (Time limit for auditing of yearly statement of settlement of accounts)

A foreign-invested business shall, within 2 months of the end of the fiscal year, have its yearly statement of settlement of accounts audited.

#### Article 47 (Auditing of liquidation)

A foreign-invested business that is to be dissolved shall have the auditing liquidated. Auditing of liquidation of a foreign-invested business that is bankrupt shall be conducted upon request by the court.

#### Article 48 (Method of auditing of liquidation)

Auditing of liquidation shall be conducted by examining the balance sheet, credits and liabilities statement, property inventory statement and asset distribution statement.

#### Article 49 (Access to accounting books and files)

An audit office may have access to the accounting books and files of a foreign-invested business concerned.

#### Article 50 (Notification of business transaction occurred during period under auditing)

A foreign-invested business shall inform the audit office of the important business transactions that took place after it has submitted an application for the auditing of account settlement.

The audit office shall truthfully specify in the audit report the particulars of important business transactions that came to its knowledge or it was informed of while conducting the auditing.

#### Article 51 (Duties of audit office)

An audit office shall conduct auditing objectively and impartially.

#### Article 52 (Preparation of audit report)

An audit office shall, upon completion of auditing, prepare a report thereon to be submitted to the financial institution concerned.

The audit report shall specify the object of audit, opinion, date of submitting the report and name of the auditor and shall have the seal of the audit office affixed.

#### Article 53 (Opinions after auditing)

Upon examining the statement of settlement of accounts an audit office shall advance opinions to the foreign-invested business concerned.

The opinions shall be classified into affirmative opinion, conditionally affirmative opinion, negative opinion and refusal of auditing.

#### Article 54 (Fees)

A foreign-invested business shall pay fees for the auditing of its account or any service related thereto.

Fees shall be fixed by the central price fixing institution.

### Chapter 4 Supervision and Control, Complaints

#### Article 55 (Supervisory body)

Accounting affairs of a foreign-invested business shall be placed under the supervision of the central financial guidance organ.

#### Article 56 (Method of supervision and control)

Supervision and control of a foreign-invested business shall be conducted in the form of examining the audit report.

#### Article 57 (Fine)

Fine shall be imposed in cases where:

1. An unqualified person is employed as an accountant;
2. Accounting documents and accounting books are not set up, or accounting is conducted on the basis of incorrect accounting documents;
3. Accounting statement is not used as prescribed and the accounting method is arbitrarily changed;
4. Yearly financial statement of settlement of accounts is not timely submitted without any justifiable reason;
5. Accounting document is soiled or not preserved until the prescribed period of time;
6. Obligation to have the account audited is not fulfilled; and
7. Data required by the audit office is not submitted or misrepresented.

#### Article 58 (Administrative or penal responsibility)

Any person that caused grave consequences through violation of this Law shall, depending on the gravity of the offense, be liable for administrative or penal responsibility.

#### Article 59 (Complaints, settlement)

Complaints in respect of the accounting work of a foreign-invested business shall be lodged with the central financial guidance organ or a competent organ.

Complaints shall be settled within 30 days of receipt thereof.