A Comparison of Open Market Accounting Regulation Differences among Foreign Investment Enterprises in South Korea, China and North Korea

Park, Chang-Rae (Kangnung National University, South Korea)

1. Introduction

1.1 Background

Recently, the outstanding change around Korea Peninsula is the opening of North Korea. When the North Korea opening, the China's model is the most possible alternative. Considering the changes in trade circumstance around East-North Asia and the possibility of North Korea's China Model selection in opening North Korea, it is needed that integrated study of South Korea, North Korea, and China accounting regulations.

The factors in forming and developing accounting systems are externally international circumstances and internally micro and macro circumstances. The representative external circumstance is opening of capital market. The internal circumstance is subdivided into economic, social, and cultural circumstances which interface with accounting. The economic circumstance is the economic state of each country. And the social and cultural circumstances are social value and cultures which influence accounting system. Politics and law influence accounting system. The other factors such as law and administrative systems also influence accounting system. Internal micro circumstances include ownership structure, capital market, financial system, tax system, accounting regulations. The differences in accounting system among nations are influenced by various accounting circumstances.

1.2 The objectives

The trade and investment circumstances are change radically in East-North Asia. Especially, the opening of North Korea needs the integrated study about the East-North Asia countries. In this context, the integrated understandings about the regulations(especially, about the enterprise activity) of South Korea, North Korea and China are needed, and accounting isn't exception.

The purpose of this study is to understand and compare the accounting regulations which regulate internal enterprise and foreign investment enterprise. Detail objectives of this study are as follows. First, I investigate accounting regulations of North Korea and China for Enterprise with foreign investment. Second, I compare accounting regulations which regulate inner enterprise with the foreign investment enterprise in the South Korea, North Korea, and China.

1.3 The scope and method

The study of international accounting system can be divided three areas such as accounting environment(macro and micro), output of accounting system(record and report), and tax area. Three nations may be different in these areas. In South Korea, some studies are carried out in each area. In the accounting environment, the North Korea's accounting system change according to opening the North and the comparison of accounting regulations among the South Korea, North Korea, China and Taiwan are carried out. In the output of accounting system, the comparison of South Korea and China, and North Korea's accounting procedure about the foreign investment equity joint venture are carried out. And in the tax area, tax policies and law/system adjustment about trade and investment between two Korea are studied.

But the integrated study about the inner and foreign enterprises accounting system is rear. In this study, I focused on the accounting regulations in the record and reporting. In this study, I review the foreign investment enterprise accounting rules in North Korea and China and compare the inner and foreign investment enterprise account rules between each nation and among three nations.

The research method is document study. I review three nations current accounting regulations and former researches. First, I review the accounting system change, objectives, general principles, accounting procedure of elements of financial statements, recognitions of profit. And integrated comparison among three nations accounting regulations for the inner and foreign investment enterprises is carried out. Because the South Korea has no dual regulations for inner and foreign enterprise, "the Financial Accounting Standards" is used.

2. The Accounting Regulations of North Korea and China for Foreign Investment Enterprise

2.1 The Accounting Regulations of North Korea for Foreign Investment Enterprise

2.1.1 Changes in foreign investment enterprise accounting

In North Korea, the foreign investment enterprise classifies three kinds of enterprise such as equity joint venture, co-operative joint venture, wholly foreign owned enterprise. And this classification is the same as China. Before mid of 1990, there is no systematic and uniform accounting regulation. North Korea formulated " accounting regulation for foreign investment enterprise(1995. 12)" and "accounting supervision regulation for foreign investment enterprise(1996. 7)" as a special regulations for foreign investment enterprise. These regulations clearly declare former rules scared in related law.

2.1.2 The objectives of accounting and general principles

(1) The objectives of accounting

North Korea prefer bookkeeping to accounting. And accounting for foreign investment enterprise is defined as "the managerial counting procedure which calculates, records, and arranges the accounts of financial poison change during the business activity and the result of business activity using monetary unit." The purpose of bookkeeping for the foreign investment enterprise is "to present the uniform bookkeeping procedure and method for the funding, distributing and using cash capital of foreign enterprise." The objective can be interpreted that the accounting regulation for the foreign enterprise is to provide the uniform accounting guideline for managing foreign enterprise. And contrary to internal enterprise, the funding and distribution of capital is included in it's objective.

(2) The characteristics of financial information and the elements of financial statements

The basic principles of foreign enterprise accounting are accuracy and objectivity. And the precise principles are truth, obeying the procedure, distinguishing income transaction from capital transaction, and consistency. This means that North Korea makes much of accuracy, reliability, and clear of managerial result than usefulness. This is for getting information in distributing investment result(include tax) and in accurate performance evaluation for control foreign enterprise.

In North Korea, the financial year is regulated as from 1 January to 31 December. So the enterprise has no choice. In recording, the double bookkeeping is regulated. The elements of financial statements are asset, liability, capital, revenue, and expense. The existence of capital is differ from regulations for inner enterprises.

2.1.3 Financial statements

(1) The sorts of F/S

The detailed enforcement regulation of the law of foreign enterprise prescribes the F/S as financial position statement, statement of costing, production and sales income statement, gain and distribution statement, income statement, administration expense statement, depreciations of fixed asset statement. On the other hand, the bookkeeping regulations of foreign investment enterprise describe F/S as basic statements (financial position statement and income statement) and additional statements which analysis basic statements. The detailed enforcement regulation of foreign investment enterprise and foreign person tax describe F/S for taxing as the same as the detailed enforcement regulation of the law of foreign enterprise.

These regulations mean that foreign enterprise make financial position statement and income statement as basic F/S, and make other additional statement for preparing basic statement and internal reporting.

(2) The form of F/S

In North Korea, Settlement of accounts is carried out to find out the financial position and the result of foreign enterprise activity. Settlement term can be monthly, quarterly, and yearly. In the case of monthly settlement, general table of changes in accounts is made. In Monthly and yearly settlement, settlement statements(F/S) are made. The accounts and their list order are decided by central financial bureau. The accounts are financial position accounts(asset, liability, capital) and income statement account(revenue, expense).

Financial position statement is balanced table which is divided into asset side and equity side. And it is useful to analysis financial state and to improve performance. In making financial position statement, there is no remarkable difference with internal enterprise statement. But the display method of asset and equity is different the foreign enterprise statement from the internal enterprise statement. In the foreign statement assets, liability and capital display totally. But in the internal statement assets and their source are matched. In the foreign statements the assets are divided into current asset, fixed asset, investment asset, deferred asset. And liabilities are divided into short term liability and long term liability, capital is divided into fund and profit.

Income statement is to find out the performance of enterprise in some period. It is composed of revenue and expense. Revenue is divided into product sales revenue, construction revenue, and other revenue. And it is recognized by receipt of cash or amount to be received in the future in exchange of sales. Expense is divided into cost of sales, construction cost, and other expense.

2.1.4 Accounting procedure and recognitions of income

(1) Accounting of Assets

The assets are recognized by historical cost. There are no special rules in recognitions of current assets except material. Material assets 1 are valued by only their purchase price and exclude additional expense. When using the material assets, the cost is recognized by individual method or average method. Material assets[1] divided into current and fixed items by 1 year basis. The Fixed assets are valued by sum of purchase price and additional expense. The only straight line method is allowed as depreciation method. The durable years and depreciation rate is fixed. There are no special valuation rules about the investment and deferred assets.

(2) Liabilities and Owner's equity accounting

Liabilities are divided into long term and short term liabilities and the one year criterion is used. There is no valuation method of liabilities. There exist the rules of loan from North Korea or foreign financial organ, but there is no regulation about the recognitions of interest. The rules about bond are exist, but no accounting regulation about interest, discount or premium issue.

Owner's equity is divided into listed capital and fund, profit. Listed capital is the same as capital of South Korea. Listed capital is invested by cash or kinds(include intangibles). The cash is translated by the official exchange rate of North Korea's Trade Bank. In the case of investment in kind, the translated rate is decided by the consensus of interesting groups. The additional investment is allowable at any time, but the reduction of capital is not allowed. The fund is similar to retained earnings of South Korea. Fund is divided reserved fund and other funds. Reserved fund is like the reserved earning and other funds are like the reserves by law. The reserved fund is accumulated by pre rated share of profit until the total is reached pre rated ratio of listed capital. The reserved fund must be used to apply loss or increase of listed capital.

Profit is calculated by total asset minus liabilities and owner's equity(balance sheet method). Profit is divided by the share of investment after deducting the tax and needed funds.

(3) Recognitions of revenue and expense

The recognition method is differ among the source of revenue. The product sales revenue is total sales amount of product and the installment sales are reported separately. The recognition point of special sales show in <table 1>.

2.2 Accounting Regulations of China for Foreign Investment Enterprise

2.2.1 Changes in foreign investment enterprise accounting

The accounting system of foreign investment enterprise in China is formulated in 1979 when the opening policy is adopted. The foreign investment enterprise related laws are formulated from 1979 till 1983. The capitalistic accounting is induced in "Accounting Regulations of the People's Republic of China for Chinese-foreign Co-operative Joint Venture(1985)." This is the origin of "Accounting Regulations of the People's Republic of China for Enterprise with Foreign Investment(1992)." After that, the regulations of account and accounting statements are formulated. Continuing policy of

Table 1. Revenue Recognition

Sale method	Recognition
Goods ordered	Shipping point
Consignment sale	Consignee's sales point
Approval sale	Purchaser's order point
Advance sale	Shipping point
Installment sale	Due date of payment

opening increases the foreign enterprise and makes the accounting environments change. So the accounting related law and regulations are revised. In 1992, Accounting regulations which regulate all kind of foreign enterprise are promulgated. This means that the regulations of foreign enterprise accounting are established.

"Accounting Standards for Business Enterprise (1992)" and accounting standards for each industrial enterprise(1992) are for the all enterprise in China. But it isn't easy to apply these rules to all the foreign enterprise. So the foreign enterprise accounting regulations revised. As a result of this historical background, China has dual system. One is for inner enterprise and the other for foreign enterprise. And both systems include capitalistic accounting.

2.2.2 The objectives of accounting and general principle

(1) The objectives of accounting

In accounting regulations of the people's republic of China for enterprises with foreign investment, the objectives of the regulations are to strengthen the accounting function of foreign enterprises and to protect the legal right of these enterprise and their investors. This means that the purposes of regulations regulate accounting system and clearly define the interest of enterprise related groups.

(2) General principles and F/S

The foreign enterprise shall confirm with the relevant law and regulation of foreign enterprise accounting regulation. So the accounting regulations of foreign enterprise differ from that of inner enterprise. But the two regulations are not fundamentally different. For both adopt capitalistic principles. The basic principles of bookkeeping are accurate, complete, prepared up to date and also ensure that correct methods and appropriate procedure have been applied. The foreign enterprise shall account for the transactions for distinct periods(month, quarter, year) and the accounting year shall coincide with the calendar year. This is accounting year is the same as North Korea, and differ from South Korea. Restriction of accounting year may cause some problem when the foreign investors' accounting year is differdet from that of their own nation's company, especially making consolidated F/S.

The Accounting principles of foreign enterprise are periodic concept, accrual concept, matching concept, historical cost, distinguishing capital expenditure from revenue expenditure, consistency. These principles are also included in inner regulations.

The elements of foreign enterprise's F/S are assets, liabilities, investors' equity, cost and expenses, income, profit. These elements are similar to inner regulations but the former is more detail than the latter.

2.2.3 Financial Statements

(1) The sorts of F/S

The financial statements of foreign enterprise are balance sheet, income statement, statements of changes in financial position, and profit appropriation statement. And the notes on the financial statements are also included in the accounting reports. These statements are also similar to inner regulations, but the cash flow statement is included in the inner regulations. The cause of it is that because the inner regulation ("Accounting Standards for Business Enterprise") is promulgated later than the regulations of foreign investment enterprise the inner regulation can include the latest international trends. The consolidated F/S shall be reported when the foreign enterprise invests other enterprise more than 50% share. But when the type of subsidiary's business differs from that of parent's, the consolidated F/S can be waved after obtaining permission.

Foreign enterprise may maintain account in

Renminbi or foreign currency. If foreign currency is used as a recording currency, some of F/S shall be translated into Renminbi. Balance sheet items are translated at the official rate of the year end date, and the items which have been translated from Renminbi for bookkeeping are re-stated to original amount of Renminbi. Income statement is translated at the weighted average exchange rate of the year, and the items(or transactions) which have been translated from Renminbi for bookkeeping are also re-stated. The items of profit appropriation statement are translated at the official rate of the year end date. But the items which are related in former year are translated at the former year end date rate. Differences arising from different exchange rate for translating F/S are taken as foreign currency translation differences and separately discounted in the relevant statements.

Quarterly and annual F/S shall be submitted to the responsible financial bureau, local tax authorities, relevant supervisory authorities and investors, but there is no regulations of public disclosure.

(2) The form of F/S

Enterprise with foreign investment shall adopt the double entry accounting method and maintain account in Renminbi or foreign currency. And once the recording currency is adopted, it shall not be changed at will. The account is kept in Chinese or Chinese and other foreign language. In the case of Chinese-foreign co-operative joint venture where parties to the joint ventures pay respectively, the combined accounting book and each parties accounting book for their own share are kept. This is against the accounting entity concept.

Balance sheet is reported at monthly, quarterly and annually basis and comparative form. Income statements also reported at the same period of balance sheet, and comparable form of this period, this year's accumulations, and last year's accumulations of the same period. The changes in financial poison statement is reported annually and made by indirect method.

2.2.4 Accounting procedure and recognitions of income

(1) Accounting of assets and liabilities

The assets are divided into current assets, long term investments, fixed assets and work in progress, intangible and other assets. Current assets include cash, marketable securities, receivable, prepayments and inventory. The current assets are classified by one year criteria. This is different from inner regulations which adopt one year or an operating cycle longer than a year criteria. Marketable securities are accounted for at cost, and the related profit or loss are accounted for non-operating items of income statements. General provision for bad debts may be made at the end of year and should not exceed 3% of total receivable. General provision is reported in the balance sheet as deduction from related account. Inventory is accounted for historical cost which include purchase price and additional expenses(such as transportation, insurance and so on). Donated inventory is accounted for fair market value or invoice value plus additional expenses. Inventory is recorded using the perpetual inventory method and evaluated regularly by using FIFO, weighted average, moving average, LIFO, batch method. But there is no description about specific identification method.

Long term investments represent capital injected into other enterprise, tangible and intangible assets, share and debentures which are more than one year duration period. Investments in other enterprise, in shares, and in debenture are accounted for based on actual payments. Where debentures are acquired at a premium or discount, the difference shall be amortized by installments using the straight line method or effective interest rate method over the period to maturity. The differences between the appraised values and book values of tangible and intangible assets are treated as deferred items. The deferred items are amortized using straight line method and are accounted as non-operating items of income statement. The cost method is generally used in accounting for investments in other enterprises and shares. The equity method(more than 25%) and consolidation(more than 50%) is used according to the portions of the total capital.

Fixed assets mean tangible assets and are accounted for at cost. Assets under finance leases are accounted for separately, on the other hand assets under operating leases are not accounted. Generally, straight line method is used as depreciation methods and production or service output method is also used if straight line method is not appropriate. The accelerated depreciation methods are also allowed, and are generally calculated using only the double reducing balance method or sum-of-digits method.

Intangible and other assets include patens, proprietary technology, pre-operating expenses, exchange losses during set-up period, deferred items, and so on. Intangible assets are accounted for at cost. And intangible assets contributed by the investors are accounted for at contract amount. Intangible and other assets are amortized by equal installment and deducted directly. Deferred investment losses are accounted for by equal installment over the investment period or not less than 10 years.

Liabilities are divided into current liabilities, long term liabilities, and other liabilities. The classification criterion between current and long term liabilities is one year basis as like assets. Current liabilities are accounted for amounts payables. Current liabilities denominated in mufti-currencies are accounted individually for their original currencies and are translated for the F/S. Long term liabilities are also accounted for amount payables, except redeemable bonds. Bonds are accounted for based on the face value. The difference between the proceeds of issue and the face value is accounted for premium or discount and treated as evaluation account. Premium or discount is amortized by installment using straight line method or effective interest method and adjusts related interest. The handling charges of bonds are accounted as finance charges. Interest is accounted for at the actual interest rate paid. Interest directly related to fixed assets purchase or construction and incurred before assets are used, is included in cost. And interest incurred during set-up period is account for as pro-operating expenses (which include deferred assets).

The regulations about liabilities are less detail than assets. But almost all regulations about liabilities using capitalistic accounting are included. Specially, even though the accounting environment is socialistic economy, regulations about interest are well prescribed.

(3) Investors' equity accounting

Investors' equity includes paid-in capital, capital reserve, general reserve, enterprise expansion fund, and undistributed profit. Paid-in capital is accounted for the amount actually deposited in bank(cash) and for the amount specified in the contract, agreement or enterprise's application document for incorporation(assets, intangible assets). When the paid-in capital requires translation, the specified or official exchange rate is used depending on agreement. Where enterprise use exchange rate of contribution date, and where the currency adopted at the time of registration is different from the reporting currency, and where the capital is contributed at different time, and where the capital is contributed by installment, the capital is translated at the official rate on the date when the first contribution is received. The difference between the translated paid-in capital

Table 2.
Entitlement to the sales consideration

Case	Recognition point
Bank has the collection authorization	All collection procedure are cleared by bank
Consignment sale	Consignment sales statements are received
Hire purchase business contract	Payment dates specified in contracts
Long term contracts	Stage of completion or work completed
Products are distributed among investors(co-operative joint venture)	When the products are distributed to the investors

and corresponding assets account is dealt with in the capital reserve account. Capital returned to investors by cooperative joint venture is accounted not for direct reduction, bur for separately disclosed as a deduction under the paid-in capital account.

Capital reserve includes donation reserve, exchange difference on the translation of capital and premium on capital. These items are occurred by capital transaction.

(4) Cost and expenses accounting and income

The direct cost of production of industrial enterprises includes direct materials, direct labor and production overheads. The cost of production is accounted for cost of good sole when the products are sold. Expense items of industrial enterprise include selling expenses, general and administrative expenses and financial expenses and are accounted for separately as expenses. Expense items of commercial enterprises include purchase expenses, selling expenses, general and administrative expenses and financial expenses. Expenses incurred by service enterprises include operating expenses, general and administrative expenses and financial expenses. Items included in purchase expenses of the commercial enterprise, are similar to the items included in inventory cost and there are no descriptions about how to distinguish between the two. This may occur some confusion.

Total net profit includes operating profit and the net non-operation result. Operating profit represents the gross profit(ie. sales from principle activities less sales tax and operating cost), less selling expenses, general and administrative expenses and financial expenses(and purchase expenses), plus net profit from other business activities. That is, operating profit is the net of operating income and expenses. Net non-operating result represents the net amount of the total non-operating income and expenses.

Operating income includes income from principle activities(which is classified into sales income, business income, engineering project income and servicing fee income depending on industries), and other operating income. Operating income is generally recognized on delivery of goods and services. And the recognitions of sales in the special sales are shown in <tables 2>. Operating income is accounted for the amount received or receivable. Sales return is netted off against operating income, while sales discounts or allowances are separately accounted for and disclosed in income statement.

Financial expenses which are included in operating income is coincide with the inner regulations, but in South Korea that are included in non-operating items.

Non-operating income and expenses includes the items occurred from investment, revaluation of investments, physical count of fixed assets, disposal of fixed assets, penalty and surcharge levied on customers(by suppliers), prior year items, and extraordinary loss and donation payments. Prior year income and loss include in non-operating income in China contrary to South Korea. This and non-current items are included in income statement mean that the all-inclusive income concept is adopted.

(5) Foreign currency transactions

Foreign currency accounts are accounted for separately form similar accounts which are expressed in the reporting currency, and translated for the F/S. Foreign currency is translated at the official exchange rate of transaction date or the first day of the month when the transaction takes place, unless otherwise provided. At the end of each month, balances of foreign currency accounts are translated at the end of that month official rate. The differences between the amount translated at the end of month and books are accounts for as profit or loss for the period. Foreign exchange differences arising during the set-up period are accounted for separately in the deferred assets (loss) and liabilities(gain). Foreign currency transactions through the swap are accounted for actual swap rate.

3. The Comparisons of Foreign Enterprise Accounting Regulations among South Korea, North Korea and China

In this section, I compare the accounting regulations for enterprise with foreign investment among South Korea, North Korea and China. Because South Korea don't distinguish the foreign investment enterprise from domestic in applying accounting regulation, I use the "Accounting Standards for Enterprise" of South Korea. And for the North Korea and China, I use both regulations for inner enterprise and foreign enterprise in order to compare.

3.1 The basic structure

The comparisons of basic accounting structure are shown in <table 3>. The objectives of accounting determine the basic frameworks of accounting. The objective of accounting in South Korea is to provide information for the capital market. So the major demanders of accounting information are stock holders, creditors, investors. On the contrary, North Korea's accounting objectives are means to meet the controlling needs for the nation's planned economy. The objectives in China reflect the extent of opening. China includes both-side of environment. The one is controlling traditions which are needs of national macro-economy control and managerial control of enterprise. And the other is to provide information for the interesting groups. North Korea may receive to some extent China's systems for the foreign enterprises. But North Korea prefer controlling needs than investors' information needs. So North Korea may develop accounting for the interesting groups' information needs.

There are not so much differences between South Korea and China in the principles of F/S. Both reflect the principles of "International Accounting Standards." But North Korea emphasizes the obedience to the accounting procedure and regulations, and the uniformity among enterprises(especially, within the same industry). So North Korea don't emphasize the usefulness and the quality of information.

The elements of F/S are not so big differences, but in North Korea capital is not exist for the inner regulation. Capital is included in the elements of F/S for foreign enterprise in North Korea. If the opening is more progress in North Korea, the capital is more important than before. The accounting period is one year and the beginning is

Table 3.
The Comparison of Basic Accounting Structure

	South Korea	North Korea		China	
		Inner Enterprise	Foreign Enterprise	Inner Enterprise	Foreign Enterprise
Objectives of Accounting	Provide useful information to decision maker Provide cash flow information to the investors and creditors Provide stewardship information	Maintain the independent profit system Understand the financial position and operation to maintain the security of national property	Provide uniform bookkeeping procedure and method of management activity about financing, distribution andusing of fund	Meet the requirement of national macroeconomy control Meet the needs of all concerned external users to understand financial position and operating result Meet the needs of management of enterprise	Strengthening the accounting functions Protect the legal rights of enterprises and their investors
Principles of F/S	Relevance, Reliability, Clearness, Sufficiency, Consistency, Neutrality, Verification, Comparability, Business Entity, Going concern, Monetary measurement, Accounting period, Economic substance, Matching, Materiality, Conservatism	Policy, Popular, Objectivity, Scientific, Uniformity Comparabilit, Monetary measurement, Timeliness,	Accuracy, Objectivity, True view, Regulation obedience, Distinguish capital expenditure from revenue expenditure, Consistency	Reliability, Usefulness, Clearness, Sufficiency, Consistency, Comparability, Timeliness, Busi ness Entity, Going concern, Monetary measurement, A/C period, Historical cost, Accrual basis, Matching, Materiality, Conservitism, Distinguish capital expenditure from revenue expenditure	Accrual basis,, Matching, , Historical cost, Distinguish capital expenditure from revenue expenditure, Consistency
Elements of F/S	Assets, Liability, Capital, Capital adjustment, Revenue, Expense, Gain, Loss	Property, Source of Fund, Income,, Cost, Profit	Property, Liability, Capital, Income, Expense	Assets, Liability, Owners' equity, Revenue, Expenses, Profit and loss	Assets, Liability, Investors' equity, Cost and Expenses, Income, Profit
Accounting period	One year	1 Jan. ~31 Dec.	1 Jan. ~31 Dec.	1 Jan. ~31 Dec.	1 Jan. ~31 Dec.

1 January except South Korea. In South Korea, the beginning is of enterprise's own will. The regulation of fiscal year in North Korea and China is the influence of traditions of which the accounting of enterprise is related to national economic budget.

3.2 The Sort and the Form of F/S

<Table 4> shows the comparison of the sorts and form of F/S among three nations. F/S reflect

Table 4.
The comparison of the sorts and form of F/S

	South Korea	North Korea		China	
		Inner Enterprise	Foreign Enterprise	Inner Enterprise	Foreign Enterprise
Sorts of F/S	Balance Sheet. Income Statement, Statement of appropriation of retained earnings (Statement of loss disposition) Cash flow statement Notes to the F/S Comments to F/S Consolidated F/S Group F/S	Report of executions of financial budget and account settlement Statement of settlement analysis Statement of financial settlement of each item	Statement of financial position Income statement Supplementary statements of analyzing financial position and income statement	Balance sheet Income statement Statement of changes in financial position (or Cash flow statement) Notes to the F/S Explanatory statements on financial condition	Balance sheet Income statement Statement of changes in financial position Profit appropriation statement Notes on the F/S
Form of F/S	Balance sheet : comparative form, report form (account form and summarized form also possible) Income statement : comparative form, report form, principle of section	Current and Fixed assets and their source separately Compare plan and result I/S is differ from industry to industry	The accounts and arranging of they are determined by related bureau Report only result	Balance sheet : comparative form account form Income statement : report form, cumulative form	Balance sheet : account form comparative form Income statement : report form, comparative form Statement of changes in financial position : indirect method

the financial position and it's change, operating result, and the appropriation of result. This is well shown in the regulations of South Korea and that of China for enterprise with foreign investment. But in North Korea there are many statements of which, for control, almost all statements are made in the forms of comparing the result with budget for controlling. If the business concept is induced and emphasized rather than national macro-economy control concept, the sort and the contents of F/S may reduce and be changed in North Korea. That is, the information about the financial position and operating result is required.

There is no big difference between South Korea and China in the form of F/S. On the contrary, in North Korea each industry has it's own uniform F/S for domestic enterprise. And F/S are focused on contrasting budget and result. So North Korea may revise the regulations So the regulations are applied to all industries and are able to compare among all enterprises and to analyze trend. That is, in North Korea the disclosure of uniform and comparable style of F/S which are applied to all industries' enterprises, will be needed.

3.3 Accounting procedure of F/S elements and income determination

3.3.1 Assets accounting

The accounting procedures of assets are summarized in <Table 5>. The components and

Table 5.
Assets Accounting

	South Korea	North Korea		China	
		Inner Enterprise	Foreign Enterprise	Inner Enterprise	Foreign Enterprise
Valuation Principle	Historical Cost	Historical Cost	Historical Cost	Historical Cost	Historical Cost
Calssification and Its method	Current Assets Fixed Assets (including investment, tangible assets, intangible assets) One year basis	Current property Fixed property One operating cycle(generally)	Current property Fixed property Investment Deferred property One year basis	Current Assets, Long-term Investment Intangible Assets, Others One year or one operating cycle which is longer	Long-term Investment Intangible Assets, Others One year basis
Marketable security	Market price	–	–	Historical cost	Historical cost
Inventory	Lower of cost FIFO, LOFO, average, individual, and retail method	Historical cost	Historical cost or average cost (exclude purchase expense)	Historical cost, FIFO, LOFO, average, individual method	Historical cost, FIFO, LOFO, average, individual, batch method
Investment on stock	Market price or lover of cost Equity method	–	–	Historical cost Equity method	Historical cost Equity method
Investment on bond	Market price and effect interest method depending on holding period	–	–	Amortization of premium or discount (no regulation about it)	Straight line or effect interest method
Tangible assets	Historical cost, Straight line, constant percentage, output depreciation method, etc.	Historical cost (nationally revaluation), Straight line method	Historical cost, Straight line method	Historical cost, Straight line, constant output depreciation method	Historical cost, Straight line, output depreciation, double reducing balance or sum of digits method
Intangible method	Choice between straight line and output depreciation method	–	International price	Straight line method	Straight line method
Deferred assets	–	–	Straight line method	Straight line method	Straight line method

Table 6.
Liabilities accounting

	South Korea	North Korea		China	
		Inner Enterprise	Foreign Enterprise	Inner Enterprise	Foreign Enterprise
Valuation principle	Present value of cash flow	Amount of payment	Amount of payment	Amount of payment	Amount of payment
Classification and its method	Current and Fixed liabilities, One year	Short term and long term liabilities depend on term Current and Fixed liabilities depend on related assets	Short term and long term liabilities, One year	Current and Fixed liabilities, One year or one operating cycle which is longer	Current, fixed, and other liabilities, One year
Bond	Par value, Premium (discount) is recorded as valuation account Effective interest rate method	–	Account exists, No regulations for valuation	Par value, Premium (discount) is recorded independently, Amortization is regarded as interest	Par value, Premium (discount) is amortized by strait line or effective interest rate method and adjusted in interest
Long term liabilities	Present value	Payment amount	Payment amount as lone from bank	Incurred amount	Payment amount
Foreign currency translation	Monetary : current exchange rate, Non-monetary : Historical rate	–	Official rate of the North Korea Trade Bank	–	Assets and liabilities : official rate, Revenue and expenses : average rate

valuation principles are similar among nations. But in South Korea the deferred assets are removed in the regulations in 1998.

Current assets are classified by the criteria of one year or one operating cycle which is longer depending on country and regulations. In North Korea, there are no rules about marketable security, because there don't exist security market. But because foreign enterprises may have securities outside North Korea(for example China's company), the regulations about security for the foreign enterprise are needed in North Korea. Inventory accounting is similar South Korea with China. But inventory is called as material property and the additional cost isn't included in its cost in North Korea. Only specific identification method or average method is available in North Korea, so there is lack in diversity.

Investment is related with the development of financial market. The regulations of investment accounting in South Korea are similar to that of in China. This is the result of China's adoption of capitalistic accounting. In North Korea, there are no rules about investment. It is necessary for North Korea to adopt regulations about investment. Investment accounting is related with interest which is weak in socialistic accounting.

In depreciation, China and North Korea don't allow accelerated depreciation method for inner enterprise. This is why the concept of depreciation

Table 7.
Owner's equity accounting

	South Korea	North Korea		China	
		Inner Enterprise	Foreign Enterprise	Inner Enterprise	Foreign Enterprise
Classification	Capital, Capital surplus, Retained earnings, Capital adjust	Nation's investment, Fund restricted in use, Profit	Listed capital, Fund (emergency and various funds), Enterprise profit	Invested capital, Capital surplus, Retained earnings, Unappropriated profit	Paid in capital, General reserve, Unappropriated profit
Accounting procedure	Capital : par value of stock issued, Capital adjust : strait line method	Capital account don't exist because all exterprise is owned by nations	Listed capital : amount of cash invested, International market price of actual things, Funds : appropriated profit, Emergency funds : use only allowance for loss and capital increase	Invested capital : paid amount, Capital surplus : occurred by capital transaction	Paid in capital : amount of cash invested, contracted amount of actual things, Installment of foreign currency : official rate of first payment

Table 8.
Revenue, Expenses, and Profit Accounting

	South Korea	North Korea		China	
		Inner Enterprise	Foreign Enterprise	Inner Enterprise	Foreign Enterprise
Revenue recognition	Realization base	Cash base	Cash base	Realization base	Realization base
Expenses recognition	Accrual base Matching	Case base	Accrual base, Matching	Accrual base, Matching	Accrual base, Matching
Classification of expenses	Operating, Non-operating, Extraordinary	Sales cost, Other	Cost, Other	Operating,, Non-operating (including investment items)	Operating,, Non-operating (including investment items)
Interest	Non-operating item, Incurred within period	Payment or receipt within period	Other item, Payment or receipt within period	Operating item, Incurred within period	Operating item, Incurred within period
Event subsequent to B/S date	Note if material influencd	–	–	Note if material influence	Next period related account if the account is closed
Prior period adjustment	Included in statement of appropriation of retained earnings	–	–	Included in income statement	Included in income statement

is different capitalistic economy from socialistic economy. But in China the acceleration method is accepted for the foreign enterprise. Considering these surroundings, North Korea may accept acceleration method for determining taxable income. Especially for the inducement of foreign capital, acceleration method is needed.

3.3.2 Liabilities accounting

As shown in <Table 6> there exist differences in liabilities valuations among three nations. Liabilities (especially, related with interest) valuation is closely related with the progress of capital market. This is the cause of differences. In South Korea, the basic concept for liability valuation is the present value of cash flow, because the time value of cash is admitted. In contrast, North Korea and China adapt amount of payment as liability valuation. Liabilities are divided into current liabilities and fixed liabilities. And the criteria of division are one year or one operating cycle as like assets. However, North Korea doesn't recognize liabilities totally but relate liabilities with assets as its sources for the inner enterprises.

Bond accounting in South Korea and China is nearly approach to the International Accounting Standards. This is the result of China's approaching to capitalistic accounting. In North Korea, there is no regulation of bond accounting for inner enterprise. And there exists bond account but no regulation of accounting procedure exists for foreign enterprises.

Both North Korea and China, there is no regulations of foreign currency accounting for inner enterprises. But if the trade increase, the regulations of foreign currency may be shaped. And the two countries use not foreign currency market but official rate as foreign currency translation.

3.3.3 Owner's equity accounting

Owner's equity is peculiar to North Korea for inner enterprise. In North Korea where all enterprises are owned by nation, owner's equity isn't important. But the owner's equity may be developed if the independent profit system is more progressed and entity concept is adopted. It is shown in China where opening is progressed. Nowadays regulations for owner's equity is similar to capitalistic accounting. The owner's equity accounting is similar among three countries except for inner enterprises in North Korea. The comparison of owner's equity accounting among three nations is shown in <Table 7>.

3.3.4 Revenue, expenses and profit accounting

The comparison of revenue, expenses and profit accounting among three nations is shown in < Table 8>. Revenue is recognized by realization base except North Korea's regulations for inner enterprises. North Korea uses cash base for inner enterprise. This is influenced by fund accounting for control purpose. So realization base is needed for performance evaluation of each accounting unit. Expenses are recognized by accrual base except North Korea's regulations for inner enterprises. North Korea uses cash base for inner enterprise. So the profit is determined by matching principle except North Korea's regulations for inner enterprises. Interest accrued within accounting period is expensed in South Korea and China. But North Korea recognizes interest expense as paid amount in each accounting period both inner and foreign enterprises. This is also the influence of cash accounting tradition. In China, the interest expense is included not in non-operation expenses but in operating expenses. This doesn't coincide with the separation principles of financing and using. Such regulations as event subsequent to balance sheet date, prior period adjustment doesn't exist in North Korea.

4. Conclusion

The purposes of this study are to compare accounting regulations for inner enterprises and foreign enterprises among South Korea, North Korea, and China. In this study, I review the North Korea and China's accounting regulations for foreign enterprises respectively. The two countries have dual accounting systems for inner and foreign enterprises. And I compared three countries of accounting regulations for inner and foreign enterprises. This is to find out the differences of regulations among countries who are differ in accounting environment, and to find out the direction of accounting regulations change in North Korea(especially for foreign enterprises).

The accounting regulations among three nations are differ according to market opening. And the differences between regulations for inner enterprises and foreign enterprises are not so big in China but big in North Korea. The regulations of North Korea for foreign enterprises are similar to those of China, but differ in the basic viewpoint. In North Korea the accounting is the a kind of mean for planned economy. The North Korea may accept China's accounting system for opening and the major changes in interest and capital accounting will be expected.

The detail results of this study are followings. First, accounting regulations for interest, owner's equity(including appropriation of profit), bond, and investment may be changed in North Korea according to opening. Second, the users groups may be expanded to interest groups other than nation. So it is important to supply information for those groups. Third, if the foreign investment will be increased in North Korea, the more elaborate regulations will be needed in the areas of foreign currency accounting. The regulations for foreign currency may influence directly on the foreigner's investment.

The limits of this study are followings. First, the in depth review for the North Korea's regulations is not carried out for the lack in raw materials (especially, for inner enterprises). Second, because I focused on the regulations, it's lack in reviewing accounting practices. So the further studies will be needed in these areas. And the comparisons of accounting regulations for each industry among three nations are also needed.

Notes

1) Material assets are materials of manufacturing and operating such as raw material, supply, half-finished good, equipment, and operating materials.

References

김백란, "한국과 중국의 기업회계 기준에 대한 비교," 성균관대학교 대학원 석사학위논문, 1999.

김병호, "남북한 경제협력을 위한 북한회계제도에 관한 연구," 통일문제연구 1994년 겨울호(통권 22호), 1994.

김병호, "북한 회계제도에 관한 연구," 북한 및 통일연구 논문집 제 1권, 통일원, 1994.

김병호, "북한회계제도(1부)," 월간공인회계사, 2000. 7.

김병호, "북한회계제도(2부)," 월간공인회계사, 2000. 8.

김확열, "중국 소유형태별 주식제기업의 회계제도," 홍익대학교 대학원 박사학위 논문, 1996.

박범호, 오준환, 국제회계 : 자본시장 국제화의 관점, 서울 : 무역경영사, 1999.

"외국인투자기업 부기 검증규정," 북한의 외국인 관련 투자법규집, 통일원, 1997.

"외국인투자기업 부기 계산규정," 북한의 외국인 관련 투자법규집, 통일원, 1998.

"외국인투자은행 부기계산규정," 북한의 외국인 관련 투자법규집, 통일원, 1998.

원종명, "한국과 중국의 회계제도에 대한 비교연구 - 문화적 특질을 중심으로 -," 부산대학교 경영대학원 석사학위논문, 1997.

임강숙, "남북경제협력사업 소득의 과세에 관한 연구," 강릉대학교 대학원 석사학위논문, 2000.

"조선민주주의 인민공화국 외국인 기업법," 북한의 외국인 관련 투자법규집, 통일원, 1998.

"조선민주주의 인민공화국 외국인 기업법 시행규정," 북한의 외국인 관련 투자법규집, 통일원, 1998.

"조선민주주의 인민공화국 외국인투자기업 및 외국인세금법," 북한의 외국인 관련 투자 법규집, 통일원, 1998.

"조선민주주의 인민공화국 외국인투자기업 및 외국인세금법 시행규정," 북한의 외국인 관련 투자법규집, 통일원, 1998.

"조선민주주의 인민공화국 외국인투자법," 북한의 외국인 관련 투자법규집, 통일원, 1998.

"조선민주주의 인민공화국 합영법," 북한의 외국인 관련 투자법규집, 통일원, 1997.

"조선민주주의 인민공화국 합작법," 북한의 외국인 관련

투자법규집, 통일원, 1997.

"조선민주주의 인민공화국 합영법 시행세칙," 북한의 외국인 관련 투자법규집, 통일원, 1998.

中華人民共和國財政部, 企業會計準則 2000, 經濟科學出版社, 2000.

中華人民共和國財政部會計司, 中和人民共和國會計法, 企業會計準則, 中和人民共和國外商 投資企業 會計制度, 外商投資工業企業會計科目和會計報表, 法律出版社, 1998.

최상문, "북한의 합작투자 기업회계제도," 북한 및 통일연구 논문집 제 1권, 통일원, 1994.

최상문, "중국회계제도의 현황," 회계학연구(제9호), 한국회계학회, 1989.

최상문, 김확열, "중국 주식제향진기업의 회계제도," 1995년도 춘계학술연구발표회 발표 논문집, 한국회계학회, 1995.

최순희, "한국 · 대만 · 중국 · 조선 기업회계기준 비교연구," 계명대학교 대학원 박사학위논문, 2000.

하문춘, "중국의 회계제도에 관한 소고(상)," 월간경리 22권 3호, 1998.

하문춘, "중국의 회계제도에 관한 소고(하)," 월간경리 22권 4호, 1998.

하정수, "한국회계기준과 중국회계기준의 비교연구," 부산수산대학교 대학원 석사학위논문, 1996.

한인구, "북한의 회계시스템," 회계 제29호, 한국공인회계사회, 1993.

FASB, "Elements of Financial Statements of Business Enterprises," ***Statement of Financial Accounting Concepts***, No. 3, 1980.

Gray,S. J., "Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationality," ***ABACUS***, March, 1988.

Hofstede, Geert, "Cultural Dimensions in Management and Planning," ***Asia Pacific Journal of Management***, January, 1984.

IASC, ***Framework for the Preparation and Presentation of Financial Statement***, 1989.

IASC, ***International Accounting Standards 2000***, International Accounting Standards Committee, 2000.

Radebargh, Lee H., and Sindney J. Gray, International Accounting and Multinational Enterprise, 3 ed Ed, Wiley, 1993.