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FEATURES OF THE ACCOUNTING IN SOUTH KOREA

Abstract

Due to its dynamic development, South Korea is calledone of the "Asian Tigers". Therefore, the study of the accounting and reporting system of South Korea, its formation and development are of interest. This article presents the features of Korean accounting, shows the impact of the Korean culture on the application of the international financial reporting standards.

Keywords: *accounting, South Korea, International financial reporting standards, Korean generally accepted accounting principles.*

South Korea, or as it is called, the country of morning freshness is one of the most dynamically developing countries in the world, although 50 years ago the level of its economy was quite low.

In the postwar years, an important goal for the country was the modernization of the economy. The main resource of South Korea was the labor force, as there are practically no natural resources on the territory of the state. Thanks to American loans, it was possible to build factories and start production using foreign resources and technologies. The products were exported, and the money was used for the development of the social sphere. After that, other areas were upgraded: light industry and production, heavy industry (in 1970-1980) and since the 90-ies of XX century – the service sector, which is at the present stage of economic development - two-thirds of the country's GDP. For half a century, the country, whose economy was based on agriculture, managed to achieve incredible economic results, which are called now the Korean economic miracle. Nowadays, South Korea in terms of economic development is compared with Singapore, Taiwan and Hong Kong.

However, there was an economic downturn in 1997, which caused many large companies to collapse or be on the verge of bankruptcy. The International Monetary Fund, in exchange for its assistance, has demanded transparent accounting. As a result, the Korea Accounting Institute was createdin 1999.

At first, it was decided to reform the K-GAAP (Korean generally accepted accounting principles) in such a way as to bring its content closer to IFRS - International financial reporting standards. However, the Korea Accounting Standards Board decided to apply International financial reporting standards. The single-level accounting system was replaced by a two-tier system, which includes IFRS for public companies and GAAP for non-public companies.

It should be noted that the adoption of IFRS in full in 2011 provided an opportunity for the Korean capital market to attract new investors. Also, the transformation to IFRS made it easier to do business internationally. It became easier for suppliers, customers, investors and lenders from other countries to understand and compare financial information. South Korean companies no longer need to prepare double sets of financial statements for both K-GAAP and IFRS purposes.

K-IFRS and K-GAAP are almost similar, but they have some differences. Korean generally accepted accounting principles are rules — based. Since South Korea is extremely negative about risk, accountants have to follow a list of detailed rules that ensure the accuracy of financial information in accordance with K-GAAP. South Korea is a hierarchical society, so citizens are accustomed to following the orders of those who occupies higher positions. In the presence of strict rules, accounting practices are very monotonous in accordance with generally accepted Korean accounting principles. This suited the collectivist nature of the mentality of the South Korean population and satisfied its need to maintain public order.

When South Korea adopted K-IFRS, it moved from rule-based accounting to principle-based accounting. Accounting based on the principles includes general recommendations that may be useful in different circumstances. There are no exact rules that accountants must strictly follow. Accountants should use their professional judgment in the preparation of financial statements. Ideally, this would allow them to adjust the financial statements to reflect their company's financial position more accurately. However, the absence of rules canlead to inaccurate and inconsistent information and make it difficult to compare one organization to another.

For the specialists of South Korea, it was the first time when they present consolidated financial statements, as in accordance with K-GAAP, they presented only separate statements, which, in turn, distorted the real financial position of the company. In the financial statements the parent company and its subsidiaries are considered as separate organizations for accounting purposes. The consolidated financial statements are an aggregate analysis of the financial position of the company and its subsidiaries, which allows shareholders and investors to evaluate its overall financial position. It should be noted that since the adoption of IFRS, consolidated financial statements have become mandatory for all public companies, what led to the improvement of the quality of the financial reporting and to an increase in investment.

The Korean accounting and auditing system includes an external audit and an internal accounting control system. The external audit means forming an independent opinion by a third party on faithfulness of the financial statements. In the framework of the system of internal accounting controlthere are internal standards which allows to prepare financial statements and disclose the information.

Korean laws that regulate financial statements obtained during business activities include:

- the Commercial Act;
- tax laws;
- Financial Investment Services and Capital Markets Act;
- the Act on the External Auditing of Stock Companies;
- theCertifiedPublicAccountantAct;
- business accounting standards;
- the accounting auditing standards.

In accordance with the Commercial Act, the financial statements consist of balance sheet, income statement, statement of appropriation of retained earnings and statement of disposition of deficit. However, in accordance with the accounting standards, a cash flow statement and explanatory notes to financial statements are also used.

In terms of the system of external auditwe understand the audit of the company by the external expertswho are not economically interested in the company. This system was created specifically to allow external auditors to conduct audits independently of internal auditors to protect the interests of the interested parties and to facilitate the effective development of companies.

The internal accounting control system, which is a part of the internal control system, is designed and operated to provide a rational basis for determining whether the company's financial statements have been prepared and disclosed in accordance with accounting principles.

The internal control system has three objectives: operational activities, financial reporting and compliance with requirements. For these purposes, an internal control system for accounting information has been developed to ensure that financial statements are reliable.

Thus, despite the adoption and wide application of International financial reporting standards for financial reporting, accounting in South Korea has some national differences from IFRS in the organization and formation of reporting information. However, in general, it is conducted with the prevalence of theoretical approaches typical for the international accounting practice of the Anglo-Saxon type.

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