

NATIONAL ACCOUNTING STANDARDS

Amended by Decree of Ministry of Strategy and Finance No. 126, Jan. 12, 2010

CHAPTER 1 GENERAL PROVISIONS

Article 1 (Objective) The objective of National Accounting Standards ("the Standards") is to prescribe accounting standards to account for economic transactions occurred in national fiscal activities on an accrual basis in accordance with Article 11 of the 「National Accounting Act」 ("the Act").

Article 2 (Definitions) The terms used in the Standards shall be defined as follows:

1. "National Accounting Entity" means a general account and special accounts under Article 4 of the 「National Finance Act」, and funds established under Article 5 of the 「National Finance Act」 by each ministry or agency.
2. "Date of Statement of Financial Position" means a specific date on which the statement of financial position under Article 7 is prepared.
3. "Fair Value" means the exchange price, which may be formed in an arm's-length transaction between independent parties with rational judgment and intention of transaction.
4. "Intragovernmental Transaction" means transactions between national accounting entities which shall be eliminated in combined financial statements.
5. "Recoverable Value" means the greater of net realizable value and value in use.

Article 3 (Scope of Application)

- ① The Standards shall apply to a general account and special accounts under Article 4 of the 「National Finance Act」, and funds established under Article 5 of the 「National Finance Act」.
- ② Interpretation and guidelines for accounting procedures shall be prescribed separately by the Minister of Strategy and Finance.
- ③ For the matters not specifically prescribed in the Standards, generally accepted accounting principles and/or accounting conventions that are generally regarded as fair and appropriate shall be applied.

Article 4 (General Principles) National accounting shall be based on an accrual basis with double entry bookkeeping and comply with the following general principles:

1. Financial reports shall be prepared on the basis of objective data and evidence in order for them to be reliable;
2. The format of financial statements, descriptions and accounting terms used in them shall be simple and clear for easy understanding;
3. Significant accounting procedures, policies, accounts and amounts shall be sufficiently disclosed;
4. Accounting policies and estimates shall be applied consistently to provide comparability between periods, and they shall not be changed without justifiable reasons;
5. The presentation of accounts and amounts shall be determined in a practical manner based on the materiality of the nature and amounts of the accounts;
6. Transactions and other events shall be accounted for and presented in accordance with their substance and economic reality and not merely with their form.

Article 5 (Financial Statements and Supplementary Schedules)

- ① The financial statements consist of the statement of financial position, the statement of financial operations, the statement of changes in net assets and notes to the financial statements pursuant to Article 14 ③ of the Act.
- ② Supplementary schedules refer to required supplementary information and appendixes.
- ③ The objective of financial statements is to provide information that is useful to users who have direct or indirect interests with the government's fiscal activities in understanding fiscal activities of the government and making rational economic decisions.
- ④ Financial statements shall provide the following information which is necessary to evaluate if the government fulfills its accountability :
 1. Information as to the government's financial position, changes in the financial position, and financial operations;
 2. Information as to whether or not the government attains its operation goals effectively and efficiently
 3. Information as to the extent of compliance with the budget and other relevant laws

Article 6 (Principles for Preparation of Financial Statements)

- ① Financial statements shall be prepared based on the following principles :
 - 1. The financial statements of the current fiscal year and the immediately preceding fiscal year shall be presented for comparative purposes
 - 2. The financial statements of two fiscal years prescribed in Paragraph ①. 1 shall be prepared based on the principle of consistency. If there are changes in the application scope pursuant to the Act, accounting policies or the Standards, the fact shall be disclosed in notes to financial statements.
 - 3. The financial statements shall be prepared in either standard or condensed format based on the materiality of accounts;
 - 4. intragovernmental transactions shall be eliminated when preparing combined financial statements
- ② Transactions that occur during the closing period pursuant to Chapter 2 of the 「Enforcement Decree of National Funds Management Act」 shall be accounted for as follows:
 - 1. Cash receipts under Article 5 Paragraph ② of the 「Enforcement Decree of National Funds Management Act」 shall be deemed to be made at the end of the fiscal year in which relevant revenues are earned
 - 2. Expenditures under Article 6 Paragraph ① of the 「Enforcement Decree of National Funds Management Act」 shall be deemed to be paid at the end of the fiscal year in which relevant expenses are incurred
 - 3. When an official in charge of office operation expenses returns cash received for office operating expenses after the end of the current fiscal year pursuant to the proviso to Article 7 of the 「Enforcement Decree of National Funds Management Act」, the return of cash shall be deemed to be made at the end of the fiscal year in which the office operating expenses are incurred

CHAPTER 2 STATEMENT OF FINANCIAL POSITION

SECTION 1 GENERAL PROVISIONS

Article 7 (Statement of Financial Position)

- ① The statement of financial position presents the financial position such as assets, liabilities and their mutual relationship at the date of statement of financial position and consists of assets, liabilities and net assets.

- ② A sample format of the statement of financial position is presented in annexed Form 1.

Article 8 (Preparation of the Statement of Financial Position)

- ① Assets and liabilities shall be presented in the order of their liquidity. Liquidity means the degree to which they may be easily converted to cash.
- ② Assets, liabilities and net assets shall be presented in gross amounts, and offsetting asset items against those of liabilities or net assets is not allowed.

SECTION 2 ASSETS

Article 9 (Definition and Classification of Assets)

- ① An asset is a resource owned(or substantially owned) or controlled by national accounting entities as a result of past transactions or events and from which the entities may provide public services in future or future economic benefits are expected to flow to the entities directly or indirectly.
- ② Assets are disaggregated into current assets, investments, property, plant and equipment, infrastructure assets, intangible assets and other non-current assets in the statement of financial position.

Article 10 (Recognition of Assets)

- ① Assets shall be recognized when they meet all criteria as follows:
 - 1. when the assets may provide public services or it is probable that the future economic benefits will flow to national accounting entities directly or indirectly;
 - 2. when the amount of assets can be measured reliably
- ② Assets having significant historical, natural, cultural, educational, or artistic characteristics, which the government shall preserve indefinitely for current and future generations (hereinafter referred to as "heritage assets"), shall not be recognized as assets, but information pertaining to these assets such as types and status shall be disclosed in required supplementary information.
- ③ Military assets may not be recognized as assets in consultation with the Minister of Strategy and Finance. In such case, the head of relevant ministry or agency shall record types, acquisition date and management status of the assets in a separate book.

Article 11 (Current Assets)

- ① Current assets are assets that are expected to be converted into cash or used within one year after the date of statement of financial position. Current assets are disaggregated into cash and cash equivalents, short-term financial instruments, short-term investments, receivables, short-term loans receivable and other current assets.

- ② Short-term investments under Paragraph ① are disaggregated into debt securities, equity securities, and other short-term investments which mature or are expected to be disposed within one year from the date of statement of financial position. Other current assets under Paragraph ① are disaggregated into accrued income, advance payments, prepaid expenses, and inventories.

Article 12 (Investments)

- ① Investments are assets held for the purpose of investment or exercise of rights. Investments are disaggregated into long-term financial instruments, long-term investments, long-term loans receivable, and other investments.
- ② Long-term investments under Paragraph ① are disaggregated into debt securities, equity securities, and other long-term investments which mature or are expected to be disposed more than one year after the date of statement of financial position.

Article 13 (Property, Plant and Equipment)

- ① Property, plant and equipment are tangible items that are held for use in the entity's operations and expected to be used during more than one year(except for infrastructure assets under Article 14). Property, plant and equipment are disaggregated into land, buildings, structures, machinery and equipment, vehicles, specialist military equipment, other property, plant and equipment, and items of property, plant and equipment in the course of their construction.
- ② Specialist military equipment under Paragraph ① are specialized military equipment, ammunition, and etc. which are directly used for warfare.

Article 14 (Infrastructure Assets) Infrastructure assets are capital assets that are invested on a large scale to form a foundation of the country and have economic benefits over considerable periods. Infrastructure assets are disaggregated into roads, railroads, ports, dams, airports, other infrastructure (including water supply systems), and items of infrastructure assets in the course of their construction.

Article 15 (Intangible Assets) Intangible assets are exclusive rights for a certain period. Intangible assets are disaggregated into intellectual property rights, mining rights, software, and other intangible assets.

Article 16 (Other Non-Current Assets) Other non-current assets are all other non-current assets which are not classified as current assets, investments, property, plant and equipment, infrastructure assets, or intangible assets.

SECTION 3 LIABILITIES

Article 17 (Definition and Classification of Liabilities)

- ① Liabilities are present obligations of national accounting entities arising from past transactions or events, the settlement of which is expected to result in an outflow or usage from the entities of resources embodying economic benefits.
- ② Liabilities are disaggregated into current liabilities, long-term debts, long-term provisions, and other non-current liabilities in the statement of financial position.

Article 18 (Recognition of Liabilities)

- ① Liabilities are recognized in the statement of financial position when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place may be measured reliably.
- ② Liabilities related to national defense may not be recognized as liabilities in consultation with the Minister of Strategy and Finance. In such case, the head of relevant ministry or agency shall record types, occurrence date and management status of the liabilities in a separate book.

Article 19 (Current Liabilities)

- ① Current liabilities are liabilities that are expected to be settled within one year after the date of statement of financial position. Current liabilities are disaggregated into short-term national bonds, short-term borrowings, current portion of long-term debts and other current liabilities.
- ② Other current liabilities under Paragraph ① are disaggregated into other accounts payables, accrued expenses, advances received and unearned revenues.

Article 20 (Long-term Debts) Long-term debts are obligations which mature after one year from the date of statement of financial position, and include government debts, long-term borrowings, and other long-term debts.

Article 21 (Long-term Provisions) Long-term provisions are liabilities of uncertain timing or amount. Long-term debts are disaggregated into provision for severance and retirement benefits, provision for pension, provision for insurance, and other long-term provisions.

Article 22 (Other Non-Current Liabilities) Other non-current liabilities are all other liabilities which are not classified as current liabilities, long-term debts, or long-term provisions.

SECTION 4 NET ASSETS

Article 23 (Definition and Classification of Net Assets)

- ① Net assets are the residual interest in the assets after deducting liabilities. Net assets are disaggregated into general net assets, retained earnings, and net asset adjustments.
- ② General net assets are net assets less retained earnings and net asset adjustments.
- ③ Retained earnings are disaggregated into voluntary reserves, unappropriated retained earnings(accumulated deficit) carried forward from the prior year, and fiscal operating results.
- ④ Net asset adjustment are disaggregated into gain(loss) on valuation of investments, gain(loss) on valuation of derivatives, and increase(decrease) in other net assets.

CHAPTER 3 STATEMENT OF FINANCIAL OPERATIONS

SECTION 1 GENERAL PROVISIONS

Article 24 (Statement of Financial Operations)

- ① The statement of financial operations is a financial statement which presents operating results including costs of programs implemented for the fiscal year and collection of costs from operations.
- ② A sample format of the statement of financial operations for each ministry, agency or fund is presented in annexed Form 2.
- ③ A sample format of the national statement of financial operations is presented in annexed Form 3.

Article 25 (Statement of Financial Operations of Each Ministry, Agency or Fund)

- ① The statement of financial operations of each ministry, agency or fund presents net program costs, net operating costs, and fiscal operating results.
- ② Net program costs shall be the net total of the following amounts:
 - 1. gross costs incurred to operate a program
 - 2. plus costs allocated from other programs
 - 3. minus costs allocated to other programs
 - 4. minus revenues earned from operations of the program

- ③ Net operating costs shall be the net total of the following amounts:
 - 1. net program costs
 - 2. plus management expenses incurred to support programs or activities of an entity (for special accounts or funds under Article 3 of the 「Government Enterprise Budget Act」, it refers to administrative expenses);
 - 3. plus non-distribution expenses which do not have direct or indirect relationship with a program or are not reasonable to be allocated to a program;
 - 4. minus non-distribution revenues that are not directly attributable to a program
- ④ Fiscal operating results shall be net operating costs less non-exchange revenues under Paragraph ②.2 of Article 28 and others. However, non-exchange revenues and others from integrated funds of a general account and special accounts under Article 50-2 of the 「Enforcement Decree of National Funds Management Act」 shall be presented as "financing and its transfer" in the statement of changes in net assets.

Article 26 (National Statement of Financial Operations)

- ① The national statement of financial operations on which statements of financial operations of each ministry, agency or fund are combined shall be presented as follows:
 - 1. the statement of financial operations which eliminates intragovernmental transactions and presents net operating costs, non-exchange revenues and others, and fiscal operating results;
 - 2. net operating costs by ministry or agency; and
 - 3. fiscal operating results presented as net operating costs less non-exchange revenues and others.
- ② The preparation method of the statement of financial operations of each ministry, agency or fund shall apply mutatis mutandis to matters other than those specified in Paragraph ① in preparation for national statement of financial operations.

Article 27 (Preparation of the Statement of Financial Operations) All revenues and expenses shall be presented in the statement of financial operations when they are incurred based on the accrual basis of accounting.

SECTION 2 REVENUE AND EXPENSES

Article 28 (Definition and Classification of Revenue)

- ① Revenue is an increase in net assets during the reporting period which arises when a government entity provides goods and services to the public or to another government entity for a price or primarily from exercise of the government's power to demand payments from the public and donations without any direct return service.
- ② Revenue is classified into by its source as follows:
 - 1. exchange revenues arisen when a government entity provides goods and services to the public or to another government entity for equal values in exchange; and
 - 2. nonexchange revenues arisen primarily from exercise of the government's power to demand payments from the public (e.g. taxes, duties, fines, and penalties) and donations without giving equal values in exchange.

Article 29 (Recognition of Revenue)

- ① Exchange revenues shall be recognized when goods or services are provided to the public or to another government entity at a price and it may be reasonably measurable.
- ② Non-exchange revenues shall be recognized when a specifically identifiable, legally enforceable claim to resources arises and the amount can be reasonably estimated. Recognition of revenue by type is as follows:
 - 1. Taxes with self-assessments shall be recognized when a taxpayer files his or her tax returns.
 - 2. Taxes with compliance assessments shall be recognized when a taxpayer is notified of taxes by the government.
 - 3. Withholding taxes shall be recognized when a payer of an item of income files and pays the withholding taxes to the government.
 - 4. For taxes entitled to postponement of payments or payments in installments, the entire amounts shall be recognized when the amounts of taxes are finalized.
 - 5. Burden charge, donations, and non-reciprocal transfers in shall be recognized when legally enforceable claim is settled.
 - 6. Fines or penalties shall be recognized when they are paid or forfeiture is taken.

Article 30 (Definition and Recognition of Expenses)

- ① Expenses are a decrease in net assets during the reporting period, which arises when a government entity purchases goods and services from the public or from another government entity for a price or primarily from outflow or usages of resources without any returns.
- ② Expenses shall be recognized :
 - 1. When it is certain that a decrease in net assets has been incurred for national fiscal activities and the amount can be reasonably estimated, or when responsibilities for expenditures pursuant to relevant laws exist and the amount can be reasonably estimated; or
 - 2. When future economic benefits recognized as assets in the past decrease or vanish or when it is certain that there is an increase in liabilities without usage of resources

Article 31 (Cost Accounting)

- ① Cost is the monetary value of economic resources used directly or indirectly in order for the head of each ministry/agency or fund operating agency to achieve objectives of program and generate performance.
- ② Details related to cost accounting such as cost objects and cost allocation method shall be prescribed separately by the Minister of Strategy and Finance.

CHAPTER 4 MEASUREMENTS OF ASSETS AND LIABILITIES

Article 32 (General Rules for Asset Measurement)

- ① Assets presented in the statement of financial position shall be recognized based on its acquisition cost. However, the acquisition cost of bona vacantia(i.e. ownerless property), assets acquired in exchange with parties except for a government entity and assets acquired by contributions are measured at the fair value at acquisition.
- ② The acquisition cost of an asset transferred without receipts or payment of monetary assets between national accounting entities shall be measured at its carrying amount. Otherwise, the acquisition cost of an asset transferred with receipts or payment of monetary assets shall be measured at its fair value.

- ③ Other than prescribed differently under the Standards, when the carrying amount of an asset exceeds the recoverable amount of the asset due to physical damages or a significant decline in its market value and the amount of excess is significant, the carrying amount of the asset shall be reduced to its recoverable amount. The reduction shall be charged to net operating costs as impairment loss of the asset, and the details of impairment shall be disclosed in notes to financial statements. But, an impairment loss recognized in prior periods shall be reversed if its recoverable amount of the asset exceeds the amount that would have been if no impairment loss had been recognized for the asset in prior periods. The reversal is presented as the reversal of impairment losses in the statement of financial position.
- ④ Military assets under the 「Act on the Management of Military Supplies」 may be measured differently under the separate principles determined by the Minister of National Defense.

Article 33 (Valuation of Securities)

- ① Acquisition cost of securities shall be determined by adding incidental costs to the purchase price, and applying the weighted average method or other methods.
- ② Securities are disaggregated into short-term investments and long-term investments based on the asset classification criteria.
- ③ Debt securities are measured at amortized cost while equity securities, other long-term investments and other short-term investments are measured at acquisition cost. Long-term or short-term securities held for investment shall be measured at fair value if it can be measured reasonably, and the difference between the carrying amount and fair value shall be presented as adjustments in the statement of changes in net assets.
- ④ When the carrying amount exceeds the recoverable amount of securities and the decline is judged to be permanent, the difference between the carrying amount and the recoverable amount shall be charged to net operating costs as impairment loss.

Article 34 (Measurement of Receivables) Receivables, long-term loans receivable and short-term loans receivable shall establish allowance for bad debts for estimated losses from doubtful receivables estimated on a reasonable and objective basis.

Article 35 (Measurement of Inventories)

- ① Inventories are assets held for sale in the ordinary course of operations; in the process of production for such sale; or in the form of materials or supplies to be consumed in the production process or in the rendering services.

- ② Inventories shall be recorded at the amount which comprises production price or purchase price and cost directly attributable to the production or purchase. The cost of inventories shall be assigned by using FIFO(first-in, first-out) formula. However, other formulas such as specific identification formula and moving-average formula may be adopted when they are deemed more reasonable considering the flow of inventories and cost formulas, and the fact shall be disclosed in notes to financial statements.
- ③ The inventory cost formula adopted pursuant to Paragraph ② shall be applied consistently to provide comparability between periods, and it shall not be changed without justifiable reasons. When a change in the cost formula is justified, it shall be accounted for pursuant to Article 51.
- ④ When market value of inventory declines less than acquisition cost, inventory shall be recorded at market value in the statement of financial position. Market value of raw materials and other inventories means current replacement cost and net realizable value, respectively.

Article 36 (Measurement of Forfeited Assets)

- ① When its title has vested in the government by judgment, regulations or laws, a forfeited asset shall be recognized as follows:
 - 1. Monetary assets are measured at market value upon forfeiture
 - 2. Non-monetary assets are measured at appraised value or fair value
- ② Details of forfeited assets shall be disclosed in notes to financial statements.

Article 37 (Measurement of Property, Plant and Equipment)

- ① Property, plant and equipment shall be recorded as an acquisition cost determined by adding incidental expenditures to the purchase price or production costs of the asset. Depreciation of property, plant and equipment shall be determined using a depreciation method such as straight-line method over the useful life of the assets, estimated objectively and reasonably.
- ② Usage right of property, plant and equipment(i.e. usufruct) shall be presented as deduction to the relevant assets.

Article 38 (Measurement of Infrastructure Assets)

- ① Article 37 shall apply mutatis mutandis to the measurement of infrastructure assets. Infrastructure assets shall be depreciated separately by items such as buildings and structures.
- ② Notwithstanding Paragraph ①, infrastructure assets may not be depreciated as long as those assets may maintain the same service potential as its acquisition with adequate efforts for maintenance, and the maintenance expenses may replace depreciation expense. However, the exception shall be limited to the case where it may be justified objectively that infrastructure assets maintain the same service potential as its acquisition with an effective infrastructure management system.
- ③ Usage right of infrastructure assets shall be presented as deduction to the relevant assets.

Article 38-2 (Revaluation of PP&E and Infrastructure Assets)

- ① Notwithstanding Article 32, property, plant and equipment and infrastructure assets shall be recorded at fair value when they are revalued after acquisition. If there is no reasonable evidence of fair value, those assets may be recorded as depreciated replacement cost which is measured as the reproduction or replacement cost of the asset less accumulated impairment losses and accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired service potential of the asset.
- ② A guideline for asset revaluation such as the initial year of the revaluation, a revaluation method, and a requisite for revaluation shall be prescribed separately by the Minister of Strategy and Finance.

Article 39 (Measurement of Intangible Assets)

- ① The acquisition cost of intangible assets shall be determined by adding incidental costs to the purchase price or development costs of the asset.
- ② An intangible asset shall be amortized using straight-line method over a reasonable period from the date the asset may be put into use. However, amortization period of intangible assets shall not exceed twenty (20) years unless otherwise provided in the relevant statutes or contracts, which grant exclusive right to the holder.

Article 40 (Expenditures after Acquisition of Property, Plant and Equipment, and Infrastructure Assets) Expenditures that extend the useful life or increase the value of PP&E and infrastructure assets shall be capitalized as cost of the assets. Expenditures that maintain the efficiency of PP&E and infrastructure assets or restore the assets to their original condition shall be recognized as expenses.

Article 41 (Measurement of Liabilities) Liabilities shall be recorded as redemption amount at maturity in the statement of financial position except for those otherwise prescribed in the Standards.

Article 42 (Measurement of National Bonds)

- ① National bonds shall be recorded at issued price less incidental expense directly attributable to the issuance of the bonds.
- ② Difference between face value and issued price of national bonds shall be presented as discount(premium) on national bonds by deducting from(or adding to) the face value. In addition, the effective interest method shall be applied to amortize the difference over the period from issuance to redemption of the bonds, and amortized amount of premium or discount on bonds shall be added to or deducted from interest expenses.

Article 43 (Provision for Severance and Retirement Benefits)

- ① The estimated liability to be recognized as provision for severance and retirement benefits shall be an amount equivalent to severance and retirement benefits a government entity would be liable to pay if all employees who are not entitled to the Public Officials Pension or the Military Pension were to terminate their employment as of the date of statement of financial position.
- ② In notes to the financial statements, disclosed shall be the amount of estimated liability for severance and retirement benefits, the carrying amount of the provision as of the date of statement of financial position, and actual payment made during the current period for severance and retirement benefits.

Article 44 (Provisions for Pension and Insurance) Provision for pension and insurance shall be recorded according to a separate guideline prescribed by the Minister of Strategy and Finance.

Article 45 (Provisions for Subsidized Loan and Guarantee)

- ① Provision for subsidized loan shall be recorded at a difference between principal of the loan and net present value of estimated collections.
- ② Provision for guarantee shall be recorded at present value of estimated cash outflows incurred due to default on a debt guaranteed by a national accounting entity.
- ③ Matters necessary for accounting of provisions for subsidized loan and guarantee which are not specified in Paragraphs ① and ② shall be separately prescribed by the Minister of Strategy and Finance.

Article 46 (Measurement of Receivables and Payables at Present Value)

- ① Receivables and payables from long-term installment transactions, long-term cash loans/borrowings or other similar transactions shall be measured at present value if the face value is significantly different from the present value.
- ② The present value prescribed in Paragraph ① is determined by discounting the total amounts receivable and payable in the future using the effective interest rate(or yield on national bonds of similar conditions when the effective interest rate is not available)
- ③ The difference between the face value and the present value of the receivable or payable prescribed in Paragraph ① shall be recorded as a present value discount. The present value discount shall be amortized or reversed using the effective interest method, and the amortization or reversal shall be charged or credited to net operating costs.

Article 47 (Translation of Assets and Liabilities Denominated in Foreign Currencies)

- ① Monetary assets and liabilities denominated in a foreign currency shall be translated into the Korean currency at the appropriate current exchange rate as of the date of statement of financial position.
- ② Non-monetary assets and liabilities denominated in a foreign currency shall be translated into the Korean currency at the applicable historical exchange rate prevailing at the date of the acquisition of assets or the incurrence of liabilities.
- ③ Gain or loss on foreign currency translation arising in conjunction with the translation procedure prescribed in Paragraph ① shall be reported in the statement of financial operations. Detailed information on assets and liabilities denominated in foreign currencies, foreign currency translation computations, and resulting translation gain or loss shall be disclosed in notes to the financial statements.
- ④ Monetary assets and liabilities denominated in foreign currencies represent assets and liabilities that are to be received or paid in fixed amount of cash in accordance with underlying contracts or other basis. However, those assets and liabilities which have both monetary and non-monetary characteristics shall be classified according to the purpose of holding or the nature of the assets or liabilities.

Article 48 (Measurement of Lease Assets and Lease Liabilities)

- ① A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time, and shall be classified into as follows:
 - 1. a finance lease if it transfers substantially all the risks and rewards incidental to ownership;
 - 2. an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership
- ② At the commencement of the lease term, finance leases shall be recognized as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of lease payments discounted by the interest rate implicit in the lease. Lease payments under an operating lease shall be recognized as an expense in a fiscal year when they are incurred.

Article 49 (Accounting for Derivatives)

- ① Contractual rights and obligations arising from a derivative financial instrument contract shall be measured and reported at fair value on the statement of financial position as either assets or liabilities.

- ② The gain or loss on a derivative instrument shall be credited or charged to net operating costs. However, for a derivative instrument held to hedge a risk of changes in the hedged item's cash flow from expected transactions in the future, its gain or loss shall be recognized as gain(loss) on valuation of derivative instruments in adjustments of the statement of changes in net assets.
- ③ The purpose and details of derivative transactions shall be disclosed in notes to the financial statements. In addition, when the objective of derivative transactions is risk hedging, details of items being hedged, scope of risk hedging, accounting method used to reflect the risk hedging activities, and deferred gain or loss amount shall be disclosed.

Article 50 (Contingencies)

- ① A contingency is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the head of each ministry/agency or fund operating agency. A lawsuit or a guarantee of obligations may be an example of contingencies.
- ② Contingencies shall be accounted for as follows:
 - 1. when it is certain that a decrease in net assets has been incurred as of the date of statement of financial position and the amount of loss may be reasonably estimated, the loss shall be charged to net operating costs and details shall be disclosed in notes to the financial statements;
 - 2. when it is not certain that a decrease in net assets has been incurred as of the date of statement of financial position or it is certain that a decrease in net assets has been incurred but the amount of loss may not be reasonably estimated, the details of the contingency and the estimated financial effect of the contingency when resolved shall be disclosed in notes to the financial statements;
 - 3. when it is certain to occur and the amount of gain may be reasonably estimated, the gain contingency shall be disclosed in notes to the financial statements.

Article 51 (Accounting Policies, Changes in Accounting Estimates, and Errors)

- ① Changes in accounting policies and accounting estimates may be allowed when the change would result in more appropriate presentation of events or transactions in the financial statements or when the change is required due to accounting standard-setting body's adoption of new accounting principles or deletion of previously used accounting principles. Accounting changes are accounted for as follows:
 - 1. The cumulative effect due to change in accounting policies shall be reflected in net assets in the statement of financial position in the period of the change. However, when it is impracticable to determine the cumulative effect of applying a new accounting policy to all prior periods, the new accounting policy may be applied prospectively.
 - 2. Changes in accounting estimates shall be recognized prospectively from the period of the changes.

3. When changes in accounting policies or accounting estimates are made, the nature, the reason for the change and the effect in current period shall be disclosed in notes to the financial statements.
- ② Errors are omissions or misstatements which do not comply with accounting principles, laws or regulations. Errors which occurred prior to the current fiscal year shall be accounted for as follows:
 1. Material errors shall be reflected in net assets of the statement of financial position in the prior period presented in which the error occurred and amounts of accounts related to the errors shall be corrected. In addition, the comparative amounts for the prior period presented in which the error occurred shall be restated.
 2. Immaterial errors other than prescribed in Paragraph ②.1 shall be reflected in the statement of financial operations of the fiscal year in which the errors are corrected.
- ③ Errors occurred prior to the current fiscal year shall be disclosed in notes to the financial statements, including the following items when material errors are corrected pursuant to Paragraph ②.1.
 1. The basis to judge whether errors are material
 2. For the comparative financial statements, the amount of the correction in prior period presented
 3. The fact that the comparative amounts for the prior period presented, in which the error occurred, was restated.

CHAPTER 5 STATEMENT OF CHANGES IN NET ASSETS

Article 52 (Statement of Changes in Net Assets)

- ① The statement of changes in net assets is a financial statement to present changes in net assets during a fiscal year.
- ② The statement of changes in net assets for each ministry, agency or funds shall present the followings:
 1. net assets carried forward from the prior year
 2. fiscal operating results
 3. financing and its transfer
 4. adjustments
 5. net assets to be carried forward to the next year
- ③ A sample format of the statement of changes in net assets for each ministry, agency or fund is presented in annexed Form 4.

- ④ The national statement of changes in net assets on which statements of changes in net assets of each ministry, agency or fund are combined shall present the followings:
 - 1. net assets carried forward from the prior year
 - 2. fiscal operating results
 - 3. adjustments
 - 4. net assets to be carried forward to the next year
- ⑤ A sample format of the national statement of changes in net assets is presented in annexed Form 5.

Article 53 (Adjustments) Adjustments include increase(decrease) in capital stock, gain(loss) on valuation of investments, gain(loss) on valuation of derivative instruments, and other increase(decrease) in net assets.

CHAPTER 6 REQUIRED SUPPLEMENTARY INFORMATION, NOTES AND APPENDIXES

Article 54 (Required Supplementary Information)

- ① Required supplementary information is information which is not presented in financial statements, but required to supplement financial statements and to enhance understandability of financial statements.
- ② Required supplementary information shall include the followings:
 - 1. Types, quantities and status of heritage assets
 - 2. Pension Report
 - 3. Insurance Report
 - 4. Social Insurance Report
 - 5. Report of national tax collection
 - 6. Statement of reconciliation of surplus to fiscal operating results
 - 7. Statement of financial operations by nature of revenue and expenses
 - 8. Other information that is not reflected in financial statements but deemed significant
- ③ A preparation guideline and a form of required supplementary information shall be prescribed separately by the Minister of Strategy and Finance.

Article 55 (Notes to Financial Statements)

- ① Notes to financial statements report significant accounting policies adopted to provide adequate accounting information to users, and matters that have significant impact on the financial statements.
- ② In addition to note disclosures prescribed in the Standards, each of the following shall be disclosed in notes to the financial statements, if necessary:
 1. Description of all significant accounting policies
 2. A schedule of long-term debt repayment
 3. Long-term provisions
 4. Assets and liabilities denominated in foreign currencies
 5. Commitments and contingencies such as guarantees of obligations, derivative instruments, and assets provided as collateral
 6. Accounting changes and corrections of errors
 7. Details of adjustments in net assets
 8. Other matters that have significant impact on the financial statements, or are necessary for understanding of the financial statements.

Article 56 (Appendixes) Appendixes provide additional information when it is necessary to present details for accounts of financial statements. Types, preparation guideline and forms of appendixes shall be prescribed separately by the Minister of Strategy and Finance.

CHAPTER 7 SUPPLEMENTARY PROVISIONS

Article 57 (Preparation of Reports on National Property Management and Operations and etc.)

Detailed practical guidelines to prepare a report on national property management and operations under Article 69 of the 「State Property Act」, a report on commodity management and operations under Article 21 of the 「Commodity Management Act」, and a report on present credit amount under Article 36 of the 「State Credit Management Act」 shall be separately prescribed by the Minister of Strategy and Finance.

Article 58 (Practical Guidelines for Accounting Procedures)

- ① A head of each ministry or agency and fund operating agency may establish practical guidelines for accounting procedures which is necessary to apply the Standards in consultation with the Minister of Strategy and Finance. However, such guidelines shall be established within the principles of the Standards.

- ② A head of each ministry or agency and fund operating agency may establish practical guidelines for accounting procedures which is different from the Standards with the approval of the Minister of Strategy and Finance when it is considered necessary given characteristics of the national accounting entity.

ADDENDA <No. 60, March 19, 2009>

Article 1 (Enforcement Date) The Standards shall enter into force on the date of its promulgation, but be applied from January 1, 2009: Provided, that the provisions of Articles 14, 38, 44 and 45(limited to provision for guarantee) shall be applied from the fiscal year when the Minister of Strategy and Finance determines to apply.

Article 2 (Special Application for Preparation of Financial Statements) Notwithstanding Paragraph ①.1 of Article 6, the financial statements for the year ended December 31, 2009 may be prepared without comparative information of prior periods.

Article 3 (Special Application for Recognition of Infrastructure Assets) Notwithstanding Paragraph ① of Article 10, infrastructure assets acquired prior to the application of the Standards may not be recognized as assets if its acquisition cost is difficult to be measured or reasonably estimated. In such case, types, acquisition date, and management status of the assets shall be disclosed in required supplementary information.

Article 4 (Special Application for Property, Plant and Equipment, and Infrastructure Assets) Notwithstanding Articles 37 and 38, for property, plant and equipment and infrastructure assets which had been revalued prior to the application of the Standards pursuant to Article 47 of the 「State Property Act」, its revalued amounts shall be regarded as carrying amounts of the assets at the application of the Standards.

Article 5 (Special Application for Depreciation and Amortization) Notwithstanding Paragraph ① of Article 37 and Paragraph ② of Article 39, property, plant and equipment and intangible assets in a general account and special accounts under Article 4 of 「National Finance Act」 (except for special accounts under Article 3 of the 「Government Enterprise Budget Act」 and special accounts of responsible administrative agencies under Article 27 of the 「Act on the Establishment and Operation of Responsible Administrative Agencies」) shall be depreciated or amortized from the fiscal year 2011. In such case, the fact of depreciation and amortization being deferred, reasons and deferred amounts if it may be reasonably estimated shall be disclosed in notes to financial statements.

ADDENDA <No. 126, January 12, 2010>

The Standards shall enter into force on the date of its promulgation.