안녕하세요

Laporan Lawatan Kerja
Ke
Korea Selatan
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7. Long term Provision Liability  
8. Lesson Learnt
Financial crisis in the late 1990’s

- The Korean government was required to adopt the accrual based accounting system.
- Introduction of accrual accounting started to be publicly discussed as the necessity was raised for public sector accounting reform including effective management and control of public finance.

Accrual

Goal

- To achieve greater accountability and transparency
- To provide comprehensive information for fiscal management
# History of Accrual Reform

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>Announced a plan to adopt the accrual accounting system</td>
</tr>
<tr>
<td>2004</td>
<td>Started budget and accounting reform</td>
</tr>
<tr>
<td>2007</td>
<td>Enacted National Accounting Act and established KFMIS(dBrain)</td>
</tr>
<tr>
<td>2009</td>
<td>Implemented accrual accounting and started a 2-year trial run</td>
</tr>
<tr>
<td>2012</td>
<td>Submitted the national CFS for FY’11 to the National Assembly</td>
</tr>
</tbody>
</table>
## Capacity Building of National Accounting System

| National Accounting Standards Center (NASC) | · Establishment in 2010  
· Makes standard drafts and conducts research on public accounting  
· Consists of CPAs and accounting experts |
| Training sessions | · Provided by MOSF for public officials in charge of accounting and financial reporting  
· Group trainings, on-line lectures, education materials and brochures |
| Recruitment | · Presidential Decree was made to recruit public officials specialized in accounting |
| CPA exam | · Government accounting was adopted as a subject for CPA exam from 2012 |
| dBrain(IT system) | · Integrated financial management information system (Korean FMIS) started full operation in 2007 |
The government acknowledged that a professional organization was needed to be established for successful implementation and development of accrual-based national accounting system.

On 26 July 2010, The NASC was established in the KICPA in accordance with the National Accounting Act.

- Develops and improves the National Accounting Standards
- Supports central government agencies, public corporations and quasi-governmental institutions in their financial accounting and reporting
- Supports the MOSF in preparation of the CFS
- Produces fiscal statistics complying with international standards such as GFS 2001
- Conducts international research and promotes international cooperation
Establishment of KFMIS

Development

- Decide to set integrated dBrain system in 2004
- Develop & trial-run financial information system from 2004 to 2006
- Start Operation since 2007

Characteristics

- Integrates the entire process of public finance from budget formulation to execution and financial reporting
- Connects financial systems of various government agencies
- Performs all financial processes online
- Links cash budgeting and accrual accounting
Korean National Accounting Standards
Legal Framework of National Accounting

- **National Accounting Act**
  - Structure and composition of the Consolidated Financial Report

- **Enforcement Decree of National Accounting Act**
  - Information to be presented in Revenue and Expenditure Reports, preparation and submission of supplementary documents

- **National Accounting Standards**
  - Definition and measurement of assets and liabilities

- **Supplementary Standards**: Supplementary Standard on Loan Accounting, Supplementary Standard on Cost Accounting, etc.

- **Technical Releases by F/S accounts**: Technical Releases by accounts such as asset and liability in the Statement of Financial Position, and total cost and non-distribution revenue in the Statement of Financial Operations

- **Technical Release by major issues**: Technical Releases on National Funds, BTL, BTO, etc.
Standard Setting Process

NASC
- Identification of accounting issues and agenda decisions
- Preparation of initial documents
- Technical discussions with government agencies, if necessary
- Preliminary deliberations by NASC advisory committee

MOSF
- Submission of a proposed standard to MOSF
- Review and modifications of the proposal
- Advice from the NASDC*
- Decision of the final standard reflecting the NASDC’s advice

*NASDC: National Accounting System Deliberation Committee
Few Key Findings
FINANCIAL STATEMENTS

1) Accrual accounting is for yearly financial statement only
2) Decentralized Financial Statements at Ministries' level but unaudited
3) Consolidated financial statement highly dependent to Ministerial financial statements
4) High-level Consolidation of Financial Statements
5) Ministries’ Revenues (exchanged revenues) absorbed in Net Operating Costs
6) Elimination of inter-governmental transactions at ministerial level
7. Financial Statement exclude Cash Flow Statement – considered in Revenue & Expenditure Report (cash basis)


9. Specialist Military Equipment just for military weapons for wartime
PRACTICES & IMPLEMENTATION

1. **KNAS vs. IPSAS**

2. Revaluation for assets – to eliminate *inconsistency* in value (acquisition cost)

3. Threshold – asset cost less KW500,000 consider expenses

4. One bank concept – multiple accounts

5. No trust accounts adopted

6. No PFI concept
SYSTEM

1. dBrain comprises **Budgeting, Accounting & Project Management**
2. Customized from Oracle – non ERP
3. dBrain implemented prior accrual accounting
4. Integrating with various external systems
5. **Two levels of integration** between cash based budget accounting and accrual based financial accounting
Korean National Financial Reporting
### National Financial Report

- Revenue & Expenditure Reports under cash-based accounting
- Consolidated Financial statements under accrual-based accounting

#### Main Components of Financial Report

<table>
<thead>
<tr>
<th>Component</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Overview</td>
<td>Analysis and summary of revenue &amp; expenditure reports, consolidated financial statements, and performance reports</td>
</tr>
<tr>
<td>2. Revenue and Expenditure Reports</td>
<td>Budget realization reports of revenue and expenditure under cash-based accounting</td>
</tr>
<tr>
<td>3. Consolidated Financial Statements</td>
<td>Consolidated financial statements, notes, and supplementary schedules under accrual-based accounting</td>
</tr>
<tr>
<td>4. Performance Reports</td>
<td>Performance reports on programs compared to their plan</td>
</tr>
</tbody>
</table>
Composition of Consolidated Financial Statements

- Statement of Financial Position
- Statement of Financial Operations
- Statement of Changes in Net Assets
- Notes

Required Supplementary Information:
- Types, quantities and status of heritage assets
- Pension report, insurance report, and social insurance report (currently in a grace period)
- Report of national tax collection
- Statement of reconciliation of budget surplus (or deficit) to financial operating results
- Statement of financial operations by nature of revenue and expenses

Appendixes:
- Appendixes provide additional information when it is necessary to provide details for certain accounts of financial statements
Preparation of Consolidated Financial Statements

Central Gov. Agencies

F/S by accounts and funds

Audit by BAI

MOSF

Consolidated F/S

Eliminating intra-governmental transactions between accounts and funds

Eliminating intra-governmental transactions between agencies

Nat’l Assembly
<table>
<thead>
<tr>
<th>Category (Level 1)</th>
<th>Sub-category (Level 2)</th>
<th>Accounting headings (Level 3)</th>
<th>Sub-accounting headings (Level 4 and 5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7 accounts (e.g., assets)</td>
<td>28 accounts (e.g., current assets)</td>
<td>Approximately 180 accounts for disclosure (e.g., cash and cash equivalents)</td>
<td>Approximately 1,100 accounts for management (e.g., cash and cash equivalents)</td>
</tr>
<tr>
<td>TACCT_CD</td>
<td>TACCT_DIV_CD</td>
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</table>
General PP&E accounting
Asset Classification

By cash liquidity

Current asset
- Investment
- General PP&E
- Infrastructure
- Intangible asset
- Others

Non-current asset

By purpose of use
General PP&E

• General PP&E
  - General PP&E: Assets acquired for an entity’s inherent administrative activities for more than a year
  - ex) land, building, structure, machinery & equipment, office equipment & vehicle, specialist military equipment, other PP&E, construction in progress

• Note
  - Capital expenditure & revenue expenditure
    - capital expenditures to extend usage life or increase PP&E value are recognized as assets, while revenue expenditures to maintain PP&E are recognized as expenses.
  - Acquisition of asset with little value
    - Goods acquired at KRW 500,000 or more are recognized as assets, while goods acquired at less than KRW 500,000 are recognized as expenses. Consumables are recognized as expenses regardless of their acquisition costs.
# General PP&E

<table>
<thead>
<tr>
<th>Land</th>
<th>Building</th>
<th>Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery &amp; equipment</td>
<td>Fixed</td>
<td>Mobile</td>
</tr>
<tr>
<td>Office equipment &amp; vehicle</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>Tree</td>
<td>Others</td>
</tr>
<tr>
<td>Specialist military equipment</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Fixed**: industrial machinery, machine tool, etc.
- **Mobile**: truck vehicle, machinery attached to real property, etc.
- **Including** telecommunication, office, construction equipment & vehicle, ship, and aircraft
- **Military weapons for wartime use**
- **Facilities except trees, buildings and its attached facilities, among immobile assets fixed to land**
- **Assets not recorded in above accounts nor in military equipment (e.g. artworks)**
## General PP&E

* Capital expenditure & revenue expenditure

<table>
<thead>
<tr>
<th>Capital expenditure (asset)</th>
<th>Revenue expenditure (expense)</th>
</tr>
</thead>
<tbody>
<tr>
<td>· Renovation for change of use</td>
<td>· Painting of exterior/interior walls</td>
</tr>
<tr>
<td>· Remodeling</td>
<td>· Replacement of damaged window or roof</td>
</tr>
<tr>
<td>· Installation of rescue facilities, etc.</td>
<td>· Replacement of supplies (machinery &amp; equipment, vehicle)</td>
</tr>
<tr>
<td>· Similar efforts including improvement, extension, addition, remodeling</td>
<td>· Similar efforts to maintain assets at current condition</td>
</tr>
<tr>
<td></td>
<td>· Efforts to keep assets ready for use in operation</td>
</tr>
</tbody>
</table>
### General PP&E

- **Accumulated depreciation**
  
  - Accumulated depreciation: Accumulated amount of annual depreciations  
    Presented as a deduction from the asset
  
  ex) Building XXX  
    Accumulated depreciation (XXX) XXX

- **Usage right**
  
  - Usage right: Non-government entity’s right to benefit from operating facilities owned by the government

  ex) If a government entity A was donated a building, for which a private-sector entity paid the construction expense, A accounts for the transaction as follows:

    Dr.) Building XXX  Cr.) Usage right XXX  
    Building XXX  
    Usage right (XXX) XXX
Infrastructure accounting
Infrastructure

- Definition

- Infrastructure: Built with large-scale investments to form a underlying framework of a country with a long-term economic effect.

  eg) Road, railroad, harbor, dam, airport, other infrastructure (river facility, sewage system, fishery harbor facility)
# Types of Infrastructure

Among 49 infrastructure types defined by the Act on Public-Private Partnership in Infrastructure, 8 types meeting the infrastructure recognition criteria were selected for financial statements. (National Accounting System Deliberations Committee, July 2009)

<table>
<thead>
<tr>
<th>Type</th>
<th>Detailed type</th>
<th>Regulations</th>
<th>dbrain classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road</td>
<td>Nat’l expressway</td>
<td>Road Act</td>
<td>Administrative property (Public use/road/nat’l expressway)</td>
</tr>
<tr>
<td></td>
<td>Nat’l highway</td>
<td></td>
<td>Administrative property (Public use/road/nat’l highway)</td>
</tr>
<tr>
<td>Railroad</td>
<td>General railroad (including intercity railroad)</td>
<td>Railroad Enterprise Act</td>
<td>Administrative property (Public use/railroad)</td>
</tr>
<tr>
<td></td>
<td>Express railroad</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Harbor</td>
<td>Designated harbor</td>
<td>Harbor Act</td>
<td>Administrative property (Public use/harbor)</td>
</tr>
<tr>
<td>Dam</td>
<td>Dam</td>
<td>Act on Construction of Dam and assistance, etc. to their environments</td>
<td>Administrative property (Public use/dam)</td>
</tr>
<tr>
<td>Airport</td>
<td>Airport facility</td>
<td>Aviation Act</td>
<td>Administrative property (Public use/airport)</td>
</tr>
<tr>
<td>Sewage system</td>
<td>General waterworks</td>
<td>Water Supply and Waterworks Installation Act</td>
<td>Administrative property (Public use/sewage system)</td>
</tr>
<tr>
<td>River facility</td>
<td>River</td>
<td>River Act</td>
<td>Administrative property (Public use/river facility)</td>
</tr>
<tr>
<td>Fishery harbor facility</td>
<td>Fishery harbor</td>
<td>Rural Fishery Harbor Act</td>
<td>Administrative property (Public use/fishery harbor)</td>
</tr>
</tbody>
</table>
Asset Measurement
Measurement Rules

- Time of acquisition

  - General rule: Acquisition cost
  - Exception: Fair value
    (Acquisition of ownerless real property asset, exchange with non-government party, donation)

- Terminology

  - Acquisition cost: purchase price + incidental costs (registration tax, procurement charge, etc.)
  - Fair value: The amount at which the asset could be exchanged in a current transaction between reasonable and willing parties
Measurement Rules

- Obsolescence, physical impairment
  - When physical impairment or plunge in market price occurs
  - If carrying amount > recoverable amount, impairment loss is recognized as expense
  - Impairment Loss = Carrying amount – Recoverable amount
  - Record Dr.) Impairment loss XXX Cr.) Asset XXX

- Terminology
  - Carrying amount : Acquisition cost – Accumulated depreciation, etc.
  - Recoverable amount : MAX[value in use, net fair value]
  - Value in use : Present value of estimated future cash flows from the continuous use and final disposition of an asset
  - Net fair value : Net exchange price if the same asset is exchanged between independent parties with reasonable judgment and intention of transaction in the market
Measurement Rules by Asset Type

- General PP&E and infrastructure

  - General rule: Acquisition cost (construction cost + costs incidental to acquisition)
  - Exception
    ① Specialist military equipment can be treated as defined by the Minister of Defense.
    ② Acquisition cost of an asset from transfer without compensation is the transferring entity's carrying amount of the asset.
    ③ Acquisition cost of an asset from transfer with compensation is the fair value of the asset.
    ④ When an existing building is demolished and a new building is established, carrying amount of the existing building is recorded as a disposition loss and its demolition cost is recorded as an expense.
Revenue & Expenditure Accounting
-Focusing on Non-Exchange Transactions-
Revenue

Definition and Classification

(1) Definition

- National Accounting Standards distinguish exchange revenue and non-exchange revenue in terms of revenue source.
- Exchange revenues occur as a result of providing goods or services, while non-exchange revenues arise from the exercise of the government's sovereign power to demand payment from the public without benefit in turn.

(2) Exchange Revenue: Classification and Presentation

<table>
<thead>
<tr>
<th>Type</th>
<th>Definition and Presentation</th>
</tr>
</thead>
</table>
| **Program Revenue**         | - Revenue arising from providing goods or services as part of program operation, which can be identified to a specific program and deducted from total program cost.  
- Presented on the Statement of Financial Operations |
| **Non-Attributable Revenue**| - Revenue not related to the goods or services provided by programs, which is not attributable to a specific program.  
- Presented on the Statement of Financial Operations |
(3) Non-Exchange Revenue: Classification and Presentation

<table>
<thead>
<tr>
<th>Type</th>
<th>Definition and Presentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Exchange Revenue</td>
<td>Revenue from payments received without providing consideration directly in return. ex) taxes, charges, donations, transfer without compensation, fines and penalties</td>
</tr>
<tr>
<td></td>
<td>✓ Central agencies &amp; funds: Each entity presents non-exchange revenue differently</td>
</tr>
<tr>
<td></td>
<td>- Non-exchanges revenue is presented on the Statement of Financial Operations for business-type accounts, on the Statement of Changes in Net Assets for administration-type accounts</td>
</tr>
<tr>
<td></td>
<td>✓ Government-wide: Non-exchanges revenue, etc. are presented on the Statement of Financial Operations to be recognized in determining the results of financial operations</td>
</tr>
</tbody>
</table>
Revenue

(3) Non-Exchange Revenue: Classification and Presentation

<table>
<thead>
<tr>
<th>Type</th>
<th>Definition and Presentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Exchange Revenue</td>
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</tr>
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</table>

* Comparison of administration-type and business-type accounts

<table>
<thead>
<tr>
<th></th>
<th>Administration-type</th>
<th>Business-type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definition</td>
<td>- Accounting entity which carries out the gov't general administration by providing public goods with being funded by taxes collected</td>
<td>Self-sustaining accounting entity which generates revenue by receiving compensation</td>
</tr>
<tr>
<td>Accounting Entity</td>
<td>- General account</td>
<td>- Funds</td>
</tr>
<tr>
<td></td>
<td>- Special accounts (excluding enterprise special accounts)</td>
<td>- Enterprise special accounts (including special accounts held by responsible administrative agencies)</td>
</tr>
<tr>
<td>Difference</td>
<td>Engaged in general administration activities</td>
<td>Engaged in revenue-generating activities</td>
</tr>
</tbody>
</table>
### Recognition Criteria of Revenue (Article 29 of National Accounting Standards)

<table>
<thead>
<tr>
<th>Type</th>
<th>Recognition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange</td>
<td>Recognized when a <strong>revenue-generating activity is completed</strong> and the amount is <strong>reasonably estimated</strong></td>
</tr>
<tr>
<td>Non-Exchange</td>
<td>Recognized when <strong>claim to cash or other assets is established</strong> and the amount is <strong>reasonably estimated</strong></td>
</tr>
</tbody>
</table>

### Recognition Criteria of Non-Exchange Revenue

**<Non-Exchange Revenue from taxes>**

(i) Taxes via tax return and payment: Recognized when a taxpayer files a voluntary tax return  
(ii) Taxes imposed by the government: Recognized when the government gives notice  
(iii) Tax withholdings: Recognized when those who withhold taxes report and pay tax withholdings  
(iv) Taxes that can be paid in annual or other installments: Tax amount is recognized in total when the tax amount is determined

**<Non-Exchange Revenue from other than taxes>**

- Revenue from charges, donations, transfer without compensation, fines and penalties: Recognized when the government’s legal, contractual, administrative claim is established
# Accounting for Tax Revenue and Tax Refund

<table>
<thead>
<tr>
<th>Type</th>
<th>Definition</th>
<th>Example</th>
<th>Revenue recognition / Accounting</th>
</tr>
</thead>
</table>
| **Tax Revenue** | - Defined as a collectible portion of the tax or duty imposed by the govt for fiscal income  
                   - Calculated as relevant tax revenue less tax refund  
                   - Presented on the Statement of Tax Collection Activities as RSI, and on the Statement of Financial Operations | Tax via tax return and payment (income tax, corporate tax)  
                   - Imposed tax (gift tax, inheritance tax)  
                   - Withholding tax  
                   - Tax paid in annual or other installments | When a taxpayer files a tax return  
                   - When the govt decides amount and gives notice  
                   - When withholding tax is reported and paid  
                   - Recognized in total when the tax amount is decided |
| **Tax Refund** | - The amount that the govt has to give back to a taxpayer  
                   - For overpayments or erroneous payments: Taxpayer may have failed to apply tax code. e.g. overpayment or double payment  
                   - For refund: Taxpayers may have applied tax code, but they may have paid more than they actually owed | Overpayments or erroneous payments, tax refund | Tax revenue is recorded at total cash receipt less tax refund.  
                                                                 | As the govt is obligated to pay the refund, the tax to be refunded is recorded in the ‘other payables’ account as liability, which is later offset when the money is actually paid back. |
# Accounting for Non-Exchange Revenue (other than tax revenue)

<table>
<thead>
<tr>
<th>Type</th>
<th>Definition</th>
<th>Example</th>
<th>Time of Recognition</th>
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</table>
| Charges                       | - Imposed by a government entity with the authority to impose financial burden under related Acts in connection with a specific public program                                                                   | - Petroleum Sales Charges  
- Environmental Improvement Charges  
- Charges for National Health Promotion                                                                                                                | When the entity establishes a claim       |
| Fines and penalties           | - Financial obligations imposed to those who breached laws, regulations, or contracts                                                                                                                     | Indemnity, cancellation charge, additional charge, fine, forfeiture                                                                                                                                   |                                          |
| Transfer without compensation | Net asset increase via  
- intra-governmental transactions such as funds transferred without compensation from general accounts, special accounts, special funds, or  
- via grant or donation from non-governmental entities                                                                                           | - Transfer-in from general account  
- Intra-governmental asset grant  
- Asset grant from non-governmental entity  
- Donation from non-governmental entity                                                                                                           |                                          |
Long-term Provision Liability
Long-Term Provision Liability

**Accounting for provision for pension liability**
- Provisions related to the government and military officials pensions are recognized as provisions for pension liability.
- The provision amount is the sum of (1) estimated future benefits to current beneficiaries, discounted to the present value and (2) estimated future benefits to future beneficiaries, discounted to the present value. The estimation for future beneficiaries is based on actuarial assumptions such as salary increase rate, retirement rate, death rate, inflation, discount rate.
- Like IPSAS, Korea uses the Projected Unit Credit Method in calculating current and past service cost of future beneficiaries and determines discount rate by referring to government bonds rate.

**2. Accounting for contingent liability**
- IPSAS prescribes as one of the recognition criteria that a provision shall be recognized when it is “probable” that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.
- Unlike IPSAS, Korea’s National Accounting Standards recognize contingent liabilities as other long-term provisions (1) when it is “certain” that a loss contingency will incur and (2) the amount of loss can be reasonably estimated.
- However, when it is not certain that a loss contingency will arise at the date of the statement of financial position, or when it is certain that a loss contingency will arise but the amount of loss cannot be reasonably estimated, details of the contingency and its financial effect are disclosed in the notes to the financial statements.
Concession (Public-Private Partnership)

**Accounting for BTO**
- The asset is acquired when the private entity **donates** the asset
- The private entity’s right to operate is recognized as **usage right** to be a deduction item from the asset
- The acquisition cost is fair value, which can be **total amount of private investments**
Lesson Learnt
Å Government accounting was adopted as a subject for CPA exam from 2012 – Accountants are CFO at ministries
Å System developed base on cash basis with extension for accrual reporting – step by step evolution, not revolution
Å Dare to be different to fulfill national agenda – Standards is not Quran
Å Involvement & Commitment from various parties at every level
Key Success Factors
Å Strategic & realistic planning
Å Comprehensiveness of actions – from Enactment of Act to capacity building
Å Will power, cured & endured - Commitment from customers and stakeholders
Å Suitability of ICT and system – fit to government businesses
감사합니다

Thank you