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Accounting Profession in South Korea; Professional Accounting in Foreign Country Series

KPMG San Tong & Co.

Steven F. Moliterno

The Accounting Profession in South Korea

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

AICPA

American Institute of Certified Public Accountants

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NOTICE TO READERS

The Professional Accounting in Foreign Countries series is designed to be educational and used as reference material for the members of the Institute and others interested in the subject. It is not intended to establish standards.

The International Practice Committee gratefully acknowledges the contributions made to the development of this series by former committee chairmen Howard Keefe and Harvey Moskowitz and former staff aides James Flynn and Susan Sgromo. The committee would also like to acknowledge the fine editorial efforts of Carrie Vaccaro and Peter Homans and the production work of Robert DiCorcia, Jeanmarie Brusati, and Dona Montrone.

The Accounting Profession in South Korea

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

Prepared by

KPMG San Tong & Co.

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Series Editor

AICPA
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Preface

This booklet is one of a series on professional accounting in foreign countries. The material is current as of September 30, 1989. Changes after this date in the standards of either the United States or South Korea may alter the comparisons and references detailed in this publication.

Included are descriptions of the accounting profession, auditing standards, and accounting principles in South Korea. The booklet also presents brief descriptions of the various forms of business organizations, taxes, and requirements for stock exchange listings and securities offerings. Checklists comparing South Korean auditing standards and accounting principles with those generally accepted in the United States are appendixes to the text.

This booklet is not intended to be a comprehensive discussion of auditing standards and accounting principles in South Korea but is designed instead to focus primarily on differences from those of the United States.

John Graves
Director—Technical Services

Contents

1 The Accounting Profession

REQUIREMENTS FOR ENTRY INTO THE PROFESSION

Domestic Functions and Licensing Requirements

1. To obtain the title of *certified public accountant* (CPA) in South Korea, a person is required to pass a series of three examinations. They cover a wide range of topics, including not only accounting subjects but also areas such as management and economics. Upon successful completion of the first and second examinations, aspirants receive the title of *junior CPA*. A two-year apprenticeship period is required before the third and final examination can be taken. Upon successful completion of all applicable requirements, candidates are required to register with the Ministry of Finance (MOF) through the Korean Institute of Certified Public Accountants (KICPA).

2. The title *certified public accountant* shall only be used by the members of the KICPA, which can be reached at the following address:

Korean Institute of Certified Public Accountants
KICPA Building
46-22 Soosong Dong Chongro-Ku
Seoul, South Korea

According to the Korean CPA Law (1966), CPAs can offer accounting, audit, tax, and management services.

3. Prior to 1966 most public accounting work performed by CPAs in South Korea was limited to services for government agen-

cies and a few private enterprises. However, amendments to the Securities Exchange Law in 1964 and 1968 made the external audit system a legal requirement for publicly held enterprises. The law was further amended in 1973 to require every publicly held company to (*a*) provide an audit report issued by a CPA whenever financial statements are provided to interested parties and (*b*) add a CPA's opinion to the financial statements that appear in newspapers.

4. The Law on Outside Audit of Corporations, promulgated in 1980, requires every company subject to that law to appoint a CPA as an external auditor within five months from the beginning of the fiscal year. A company that has beginning-of-year paid-in capital of over South Korean *won* (W) 500 million, beginning-of-year total assets of over W 3 billion, or a combination of the two, is subject to this law. All CPA reports concerning this law shall be reviewed by the External Audit Supervisory Commission, a department of the Securities and Exchange Commission (SEC) of Korea.

Foreign Reciprocity

5. A person who is a CPA in a foreign country and has a specified level of knowledge regarding the Korean Commercial Code, tax law, and SEC law may register as a foreign CPA with the South Korean government.

6. A foreign CPA is only entitled to audit—

- A joint venture of which an entity from the CPA's home country has invested 50 percent or more.
- A company in which the CPA's firm has an interest in association with a South Korean CPA.
- Any company that the South Korean government requests to be audited.

ROLES AND RESPONSIBILITIES OF STANDARD-SETTING BODIES

Professional Standards Promulgated by Each Body

7. *Accounting Standards for Business Enterprises*, the basic accounting principles of South Korea, and some specialized indus-

try accounting standards were established by the SEC with the approval of the Ministry of Finance. The SEC also issued related guidelines and interpretations on accounting principles.

Ethics Requirements

8. The KICPA issued *Professional Ethics Rules for CPAs* (1961). According to these rules, members of the KICPA must maintain their independence and integrity as professionals to maintain public confidence. These rules include a number of ethical restrictions regarding commissions, advertising, beneficial interests in clients, unfair competition with other CPAs, etc.

PROFESSIONAL PUBLIC ACCOUNTING ORGANIZATION

Requirements for Membership

9. The KICPA was established under the CPA Act (1966). As mentioned previously, applicants for membership in the KICPA must pass a series of three examinations given by the South Korean SEC.

10. The first examination covers areas of the Commercial Code, economics, English, and accounting. The second examination covers financial accounting, cost accounting, accounting theory, management, and auditing. The third examination covers income taxes, auditing practice, and financial analysis.

11. Candidates are required to pass the second examination within one year after passing the first. Candidates may take the third examination after they have completed two years of practical experience.

Rights of Membership

12. Only members of the KICPA are eligible to undertake audit engagements. Members of the KICPA are also entitled to register with the Ministry of Finance as tax accountants. Therefore, members of the KICPA who are registered as tax accountants can perform taxation services for business enterprises and individuals.

Number of Members

13. Membership in the KICPA as of December 31, 1989, included the following:

Registered CPAs	2,138
Foreign CPAs	6
Junior CPAs	351
Total	2,495

CPE Requirements

14. The KICPA requires continuing professional education (CPE) for all members. All members of CPA firms and individual auditors must obtain a minimum of twenty hours a year of CPE within a broad range of professional activities (such as accounting, audit, tax, and the Commercial Code).

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Auditing Requirements

STATUTORY AUDITING AND REPORTING REQUIREMENTS

Purpose of the Statutory Audit

15. The Law on Audit of Corporations in Korea (External Audit Law) requires companies defined in paragraphs 17–18 to be audited by independent auditors.

16. The objectives of an audit under the External Audit Law are to enable the auditor to form an opinion on whether the financial statements give a true and fair view of the state of affairs of the respective enterprise and of its financial performance measured in compliance with *Accounting Standards for Business Enterprises*, thereby providing users with a consistent basis for making judgments regarding the audited entity.

Entities Required to Be Audited

17. In accordance with the External Audit Law, companies with beginning-of-year paid-in capital in excess of W 500 million or those with beginning-of-year total assets in excess of W 3 billion are required to have annual audits of their financial statements.

18. However, it is not required for companies subject to the Law on Management of Government-Related Corporations or the following types of companies to have an outside audit:

- A corporation of which half of the paid-in capital is held by local municipalities
- A corporation that has ceased operations or has been dormant over the past year

- A corporation that is scheduled to be dissolved as a result of a merger or business combination
- A corporation that is structured as an exception to the outside audit requirement by the MOF in consultation with the SEC

Appointment and Qualifications of Auditors

19. A company subject to the External Audit Law is required to appoint the auditor within five months of the beginning of the fiscal year. The appointed auditor should then report the audit engagement to the KICPA within fourteen days of the notification date.

20. Only auditors who are registered CPAs or accounting firms that are duly registered with the MOF are legally able to perform audits acknowledged by the MOF. They may restrict the work of the auditors depending on the size of the audited company.

21. Not only is there a requirement that only duly registered CPAs may perform audits in accordance with the External Audit Law, there are also requirements concerning the size and number of companies that registered CPAs may audit. These limits apply to all auditors, which include accounting firms (legal entities) and individual practitioners. The limits consist of point limits and asset amount limits.

22. In addition to the total-asset limits mentioned previously, restrictions exist on the number of companies an auditor can audit in one year. This limit is determined on a point basis. The general formula is as follows:

$$\text{Number of companies to be audited} \times \frac{\text{Total number of points of each audit}}{\text{Total number of points of all requested auditors}} \times 130\%$$

23. Various points are given based on the type of organization (that is, accounting firm, joint company, or individual), number of CPAs, and work experience. Reductions of points can occur when a CPA leaves the employ of the auditor, when CPAs do not meet KICPA guidelines for CPE, or when disciplinary action is taken against an auditor by the KICPA.

24. After the foregoing calculation has been made, there are two additional restrictions to consider: one regarding companies with total assets over W 100 billion and the other regarding companies with assets of less than W 7 billion.

25. The maximum number of companies with total assets of W 100 billion or more that an auditor may contract with is determined as follows:

$$\text{Maximum number of companies the auditor can audit} \times \frac{\text{Number of companies with total assets of W 100 billion or more}}{\text{Number of companies to be audited}} \times 200\%$$

26. The maximum number of companies with total assets of less than W 7 billion that an auditor may contract with is determined as follows:

$$\text{Maximum number of companies the auditor can audit} \times \frac{\text{Number of companies with total assets of less than W 7 billion}}{\text{Number of companies to be audited}} \times 100\%$$

27. An accounting firm must currently employ at least 100 CPAs in order to audit companies with total assets of more than W 500 billion. Accounting firms with less than fifty CPAs are allowed to audit only companies with total assets of less than W 300 billion.

28. The number of CPAs is determined as of March 31 of each year, and the total asset amount of client companies is that as of the latest balance sheet date. The limits are determined as of March 31 of each year and applied to the audit engagements for the year commencing January 1 through December 31 of the same year.

29. Joint offices of fourteen or more CPAs are allowed to audit companies with less than W 100 billion in total assets. In joint offices with less than fourteen CPAs, the total asset limit is W 50 billion.

30. Individual practitioners are currently allowed to audit companies with total assets of up to W 10 billion.

Auditing and Reporting Responsibilities

31. Company management, not the auditors, is responsible for ensuring that the company keeps proper accounting records and that its financial statements give a true and fair view of the company's financial standing and results of operations. The auditor is responsible for reporting on whether these obligations have been fulfilled.

32. According to reporting procedures under the External Audit Law, the company should submit the basic financial statements such as balance sheet, income statement, the statement of the appropriation of unappropriated retained earnings, and the statement of changes in financial position no later than four weeks before the date of the annual stockholders meeting.

33. The auditors should submit the audit report to the company no later than one week before the date of the annual stockholders meeting and to the SEC within two weeks of issuance.

Filing of Reports

34. The statutory auditor's report is to be addressed to the chairman of the board of directors of the company. The report is attached to the financial statements along with any necessary schedules, ratio analyses, and consolidated statements and is to be filed with the SEC within two weeks of issuance. The general public may inspect these financial statements by applying to the SEC.

SUMMARY OF SIGNIFICANT AUDITING STANDARDS AND COMPARISON WITH U.S. GENERALLY ACCEPTED AUDITING STANDARDS (GAAS)

Standards Issued

35. The significant auditing standards are set forth in the auditing standards and in the supplemental guidelines to fieldwork and reporting. A booklet titled *Auditing Standards* was originally promulgated on April 1, 1961, by the KICPA and subsequently revised on March 31, 1982, and December 28, 1982, under the

approval of the MOF. The revisions reflect the enforcement of the External Audit Law, which specifies the principal auditing procedures to be adopted by outside auditors.

36. In addition, *Guidelines for Fieldwork* and *Guidelines for Reporting* were promulgated on December 28, 1982, to supplement the auditing standards. The following summarizes the auditing standards and guidelines applicable in South Korea.

General Standards

37. Three general standards, similar to those in the United States, pertain to the qualifications of the auditor and the quality of his or her work.

a. Training and proficiency. South Korean GAAS sets forth requirements regarding the auditor's education, training, supervision, and CPE.

b. Independence. The impartiality of the auditor is emphasized in GAAS as well as in the External Audit Law.

c. Due professional care. Due professional care should be exercised. The auditor should maintain good faith, integrity, and diligence.

Standards of Fieldwork

38. The following standards of fieldwork stipulate the procedures the auditor should follow to obtain satisfactory audit evidence for an expression of an opinion on the financial statements.

- *Adequate planning, orderly implementation, and proper supervision.* The auditor should prepare an adequate plan, control the work in an orderly manner, and supervise his or her staff properly.
- *Evaluation of internal controls.* The auditor should study and evaluate the internal controls of the company to determine the nature, timing, and extent of substantive procedures.
- *Completeness of audit evidence.* The auditor should obtain sufficiently relevant and reliable audit evidence to enable him or her to draw reasonable conclusions. In the process of obtaining evidence, the auditor should adequately assess the materiality of the account and the risks inherent in the account.

Standards of Reporting

39. The standards of reporting are as follows:

a. *Scope of audit work and opinion.* The auditor's report should clearly mention the scope of work performed by the auditor as well as his or her opinion on the fairness of the financial presentation.
b. *Adherence to GAAP and consistency of application.* The auditor should determine whether the company adhered to generally accepted accounting principles (GAAP) in South Korea and whether GAAP had been consistently applied in the current period in relation to the preceding periods.
c. *Materiality standards.* South Korean GAAS sets forth the requirement for reporting on materiality, whose meaning can be expanded to discuss the potential significance of materiality to the future state of affairs.
d. *Disclosure of opinion.* The opinion should clearly state whether it is unqualified, qualified, adverse, or a disclaimer of opinion. In addition, the audit report should specifically mention the reason for the opinion unless it is unqualified.

Standard Form of Report

40. *Audit Reports—Case Study,* prepared by the KICPA, provides the standard wording for audit reports in South Korea. The standard audit report is modified when the opinion is qualified, when a disclaimer of opinion is issued, or when an adverse opinion is expressed.

41. An unqualified audit report can include disclosures of events with material implications occurring after the fiscal year-end or other significant events such as important transactions with employees, shareholders, and management. These significant matters should be reported in a separate paragraph between the scope paragraph and the opinion paragraph.

Qualifications in Audit Reports

42. *Guidelines for Reporting* outlines the circumstances under which a qualified report is to be issued and explains the form of the required qualifications. The following delineates the types of opinion and the circumstances in which they are given.

- *Restrictions on the scope of work.* Depending on the materiality of the impact of restrictions, either a qualified opinion or a disclaimer of opinion should be expressed. However, a disclaimer of opinion is preferred in the case of a severe restriction on the audit work involving important accounts such as the confirmation and physical count of inventory.
- *Breach of compliance with GAAP.* Depending on the materiality and magnitude of the account balance, either a qualified or an adverse opinion should be given. This rule applies to breaches of compliance with KICPA pronouncements, opinions, and case studies.
- *Inconsistency.* A qualified or adverse opinion should be given.
- *Uncertainties.* An uncertainty that is considered material but does not render the financial statements of the entity entirely meaningless requires a qualified opinion. If the uncertainty causes the financial statements to be meaningless, a disclaimer of opinion should be issued.

Dating of Audit Reports

43. In South Korea, the date of the audit report should be the date when fieldwork is completed.

Other Auditors

44. There are occasions when the auditor cites another auditor's audit report as an integral part of his or her opinion. In this case, the responsibilities among the auditors should be distinguished in the scope paragraph. The concept of *principal participating auditors* or *joint audit* does not exist in South Korea.

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Accounting Principles and Practices

SOURCES OF ACCOUNTING PRINCIPLES

45. Korean generally accepted accounting principles, formally titled *Accounting Standards for Business Enterprises* (the "Accounting Standards"), were promulgated on December 23, 1981, by the Republic of Korea SEC with the approval of the MOF. Subsequent revisions to these standards have occurred, the most recent of which took place December 30, 1985. The establishment and revision of the Accounting Standards are provided by article 13 of the External Audit of Joint-Stock Companies Act (External Audit Act) and article 6 of the related enforcement decree.

46. As stated in article 2 of the *General Rules*, the objective of accounting is to provide the users of financial statements with an adequate basis for making judgments about the substance of the business operations. The *General Rules* establish standards, including the definition of the scope, terminology, format, and method of preparation of the financial statements of business enterprises. It also provides details necessary for the performance of related accounting functions so that uniformity and objectivity is promoted in the accounting and auditing of companies that are regulated under article 13 of the External Audit of Joint-Stock Companies Act and article 6 of the related enforcement decree. The *General Rules* also refer to the following fundamental principles as a basis for the formulation of accounting standards: objectivity, sufficiency of disclosure, consistency, materiality, and conservativeness.

47. These standards apply to all business enterprises operating in South Korea. However, as allowed under article 8 of the *General Rules*, special rules found in other laws and regulations regarding the preparation of financial statements promulgated by other authoritative regulatory bodies (such as the Bank of Korea with regard to banking institutions or the MOF with regard to insurance operations) may be applied to companies other than those in the business of merchandising or manufacturing.

48. As a combination of previous accounting standards and regulations applicable to listed companies and those applicable to business enterprises in general, the Accounting Standards have the full authority of law and constitute GAAP in South Korea. Therefore, they are to be followed not only by those companies subject to the statutory requirements of outside audit, but also by all other business enterprises, including sole proprietorships, as prescribed by article 133.

49. The SEC also reserves the right, in accordance with articles 131 and 132, to provide specific industry accounting standards and detailed provisions regarding implementation.

50. As provided under the External Audit Act, companies with beginning-of-year paid-in capital of more than W 500 million or total assets of more than W 3 billion are subject to external audit.

51. The External Audit Act also specifies that these companies shall follow generally accepted accounting principles. However, companies not meeting the foregoing criteria are not subject to such stringent reporting requirements. These companies are still subject to Commercial Code regulations, but certain financial statements and disclosures required by the External Audit Act are not required under Commercial Code guidance.

FORM AND CONTENT OF FINANCIAL STATEMENTS

Presentation of Statements

52. In accordance with the Commercial Code, directors of a company are required to prepare various documents and financial statements, in a comparative format, for the approval of the board of directors prior to presentation to the shareholders.

53. The Commercial Code requires that directors shall submit the previously mentioned documents to the company's internal auditor at least six weeks prior to the regular general meeting. Upon completion of the audit examination, but no later than four weeks from the date of receipt of the unaudited statements, the internal auditor shall submit the audit opinion to the directors. The directors shall submit the balance sheet, income statement, and the statement of appropriation of retained earnings to the regular general meeting of shareholders for their approval. The directors are also required to submit a business report on the company's operations at this meeting.

54. For those companies subject to the External Audit Act the timing is slightly different. The timing with regard to the company's internal auditor is the same. However, if applicable, the external auditors are to be given the appropriate financial statements no later than four weeks prior to the general meeting. The external audit examination is to be completed and audit opinion rendered to the board of directors no later than one week prior to the general meeting.

55. There is no specific guidance given for the contents of the business report. However, the report usually contains the company's history, principles of business operation, overall results of operations, and the names of the officers and directors.

56. Companies are also required to publish their balance sheet annually in a newspaper of general distribution. This is required by either the External Audit Act for applicable companies or the Corporation Tax Law for all companies subject to tax filing.

Types of Statements Prepared

57. The Accounting Standards provide that the basic financial statements comprise a balance sheet, income statement, statement of appropriation of retained earnings (or statement of disposition of deficit), and statement of changes in financial position. Comparative financial statements for the current and prior year should be prepared.

58. A statement of changes in financial position is not required under Commercial Code regulations. This statement is included,

however, in the basic financial statements to be prepared by companies subject to the External Audit Act.

59. Semiannual financial statements are required of those companies listed on the Korean Stock Exchange. These required statements include a balance sheet and income statement. Supplementary information, including a schedule of manufacturing costs and a schedule of unappropriated retained earnings, should be prepared.

60. The Accounting Standards further provide that significant accounting policies and certain other relevant accounting information should be disclosed in the notes to the financial statements, and the standards also specify a possible twenty-nine supplementary schedules that, depending on applicability, should be prepared. The criterion for separate line-item disclosures is that each item exceeds 2 percent of total assets for balance sheet presentations; the criterion for income statement revenue items is that each item exceeds 20 percent of total sales. For those revenue items for which a separate line-item disclosure is required, a corresponding expense disclosure is also required.

61. Effective January 1, 1985, a company owning more than 50 percent of the total outstanding voting capital stock of another company (a subsidiary) or controlling it by other means is required by article 6 of the Accounting Standards to prepare consolidated financial statements and various consolidated disclosures.

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND COMPARISON WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Historical Cost Basis

62. Accounting Standards require that assets should generally be recorded at acquisition cost unless they have been revalued in accordance with the Asset Revaluation Law. This law applies to certain classes of property, plant, and equipment, and at the time of revaluation the assets would be reflected at revalued amounts.

63. With regard to certain marketable securities, these assets may be recorded at market value if a decline below cost occurs. However, if the decline is considered significant, which is currently defined as a 30-percent-or-more decrease in market value below acquisition cost, and the value is not expected to recover, the security shall be recorded at market value.

64. Asset acquisition cost or other carrying value should be allocated to expense for future periods based on allocation methods considered appropriate for the nature of the assets.

65. No form of current cost accounting (that is, current cost or constant dollar) has been adopted, even for supplemental disclosure. The concept of *going concern* is applied and, in the absence of evidence to the contrary, the continuation of an entity's operations for an indefinite time period is assumed.

Marketable Securities and Investments in Securities

66. Article 92 of the Accounting Standards provides that temporarily owned marketable securities whose market value has declined below cost may be valued at the market value. However, if the market value of the security declines significantly and is not expected to recover, the security should be valued at the market value. This lower-of-cost-or-market rule can be applied individually or in the aggregate.

67. Any unrealized loss from the valuation of securities should be recorded as an allowance for securities valuation and presented as a deduction from total securities. Subsequent recoveries in market value may be recognized and the valuation allowance reversed, to the extent of the original cost.

68. For investments in securities that are considered noncurrent assets, including securities of affiliated companies, the Accounting Standards provide the same valuation method as for marketable securities except for holdings that enable the investor to exercise significant influence over the investee.

69. Investments in bonds acquired for long-term investment purposes should be recorded at purchase cost plus or minus applicable premium amortization or discount accretion.

Inventories

70. Inventories shall be stated at acquisition cost using any of the following methods:

- Specific identification
- First-in, first-out (FIFO)
- Last-in, first-out (LIFO)
- Moving-average
- Weighted-average
- Retail

71. The foregoing methods may be used without restriction except that the method must be declared with the corporation's initial corporate tax return filing. However, when the market value—defined as the average wholesale price for one month preceding the balance sheet date determined by a price survey index published by a reputable price survey institution or, if this is not available, the latest purchase price or another reasonable method—has declined to at least 30 percent below the book value and is not expected to recover within a short period of time, inventories should be stated at market value. Losses on valuation of inventories from using the lower-of-cost-or-market method should be deducted directly from book value.

Deferred Charges

72. Under article 38 of the Accounting Standards, deferred charges are defined as organization costs, preoperating costs, new stock issue costs, debenture issue costs, experimentation and research costs, and foreign exchange losses. Deferred charges are to be valued net of applicable amortization based on the following:

- *Organization costs.* These are costs incurred in the organization of a business (such as stock issue costs, registration fees, etc.) and are to be amortized over no more than five fiscal years on a straight-line method beginning in the year of incorporation or the year after the final preoperating dividend is paid.
- *Preoperating costs.* These are start-up expenses incurred from the date of court registration to the date of commencement of operations and are to be amortized over no more than three fiscal years on a straight-line method beginning in the year of commencement of operations.

- *New stock issue costs.* These are expenses directly associated with the issuance of stock subsequent to initial stock issue and are to be amortized over no more than three years on a straight-line method beginning in the year of stock issuance.
- *Debenture issue cost.* These are expenses directly associated with the issuance of debentures and are to be amortized on a straight-line basis over no more than three years, unless the debenture repayment period is less than three years, in which case the amortization period should correspond with the repayment period.
- *Experimentation and research costs.* These include nonrecurring expenditures incurred for experimentation and research of new products or advanced technology and are to be amortized over five years on a straight-line method, starting in the year incurred.

73. Article 38 of the Accounting Standards further provides that unusual and significant (defined as amounts in excess of 5 percent of paid-in capital) foreign exchange losses arising from the translation of long-term foreign currency receivables and payables are to be deferred as foreign exchanges losses. These losses are to be amortized on the straight-line method over no more than five years, commencing in the year of occurrence.

Property, Plant, and Equipment

74. Property, plant, and equipment shall, in principle, be valued at acquisition cost. However, assets received in exchange, as investment in kind, by donation, or by other methods without consideration should be valued as follows:

a. Assets received as investment in kind should be valued at the par value of stock issued to the investee.

b. Assets received in exchange, by donation, and by other methods without consideration should be valued at fair value.

75. In addition, certain classes of property, plant, and equipment may be revalued in accordance with the Asset Revaluation Law. These revaluation amounts are determined by the Korea Appraisal Board, subject to final review and adjustment by the tax authority. This write-up in property value is reflected as an increase in surplus in the equity section of the balance sheet, net of

the applicable asset revaluation tax of 3 percent on the appreciated amount.

76. Assets that have been revalued shall be stated at revalued amounts and disclosed in the notes to the financial statements.

77. Depreciation of property, plant, and equipment (including revaluation amounts) may be based on either the straight-line method, declining-balance method, or units-of-production method over the estimated useful life. As a matter of practice, however, the estimation of useful lives is normally dependent on the corporate tax law in which the tax depreciation lives are specified for each type of asset, and a 10 percent salvage value is used.

78. The amortization of intangible fixed assets should be based on the straight-line method, except that amortization of mining rights may be based on the units-of-production method.

79. Provisions also exist for the treatment of tax incentives or "special depreciation." The South Korean government allows strategic industries to depreciate their fixed assets at an accelerated rate. This is also allowed for book purposes in accordance with article 87 of the Accounting Standards and must be recorded for book purposes if it is to be utilized for tax purposes. If the depreciation is not recorded for book purposes, it will be disallowed for tax purposes. Special depreciation is to be recorded as an extraordinary loss, except that special depreciation based on usage in excess of ordinary working hours should be included in manufacturing costs.

Leases

80. In the Accounting Standards, leases are divided into two categories, financing leases and operating leases, and the accounting and disclosure requirements for each category are specified.

81. A lease that has substantially noncancelable lease terms and meets one or more of the following criteria shall be classified as a financing lease. Otherwise, it shall be classified as an operating lease.

a. The lessor transfers ownership of the leased property to the lessee at the end of the lease term.

b. The lease contains a bargain purchase option.

c. The lease term exceeds the estimated economic life of the leased property.

82. Basic lease rentals and contingent rentals under operating leases shall, in principle, be recognized as revenue or charged to expense as they become receivable or payable according to the lease agreement. This recognition is on a due-date basis and, depending on lease terms, may differ from accrual basis recognition. In practice, however, both methods of income recognition are employed.

83. Interest expense and other costs for funds related to acquisition of leased assets by the lessor may be capitalized as part of the cost of the assets. Depreciation on assets leased under operating leases shall be calculated on either the declining balance or straight-line method over the lease term.

84. Financing leases should be valued by the lessor as a receivable from the lessee at the acquisition cost of the property. Property acquired under financing leases and the related lease obligations should be valued by the lessee at the total amount of lease rentals payable over the lease term less the total interest payable. The interest on the liability should be calculated to produce an approximately constant rate of interest on the lessor's lease receivable amount.

85. Financing lease receivables and the total value of assets under operating leases should be presented in the lessor's balance sheet as a separate asset between current assets and investments.

86. In addition to general descriptions of leasing arrangements for both the lessee and lessor, the following information must be disclosed:

a. *Operating leases*—future lease rentals receivable or payable for the next five years and in total thereafter
b. *Financing leases*—future lease rentals receivable or payable, the related unearned income or interest payable, and the depreciation expense on assets

Foreign Currency Translation

87. Monetary assets and liabilities denominated in foreign currency shall be translated at the telegraphic transfer (TT) buying

rate for assets and the TT selling rate for liabilities at the balance sheet date.

88. Nonmonetary assets and liabilities denominated in a foreign currency shall be translated at the exchange rates in effect at the acquisition or borrowing date.

89. Gain or loss on the translation of short-term receivables or payables denominated in a foreign currency should be credited or charged, respectively, to income for the year.

90. When the net foreign currency translation gain or loss for the year arising from the translation of long-term receivables or payables denominated in a foreign currency is unusual in nature, it is accounted for as a deferred credit (that is, deferred foreign currency translation gain) or as a deferred charge (that is, deferred foreign currency translation loss). *Unusual in nature* is defined as a condition in which the net foreign currency translation gain or loss exceeds 5 percent of capital stock.

91. Deferred foreign currency translation losses should be amortized in equal annual amounts over a period not exceeding five years beginning with the year in which the loss was incurred, whereas deferred foreign currency translation gains should be amortized on the straight-line method over five years starting with the year the gain occurred.

92. The exchange rate as of the balance sheet date may be applied to the translation of assets and liabilities, and the average exchange rate of the current fiscal year may be applied to the translation of income statement items. Gain or loss shall be presented in a foreign currency statements translation adjustment account. A debit in this account should be amortized at an equal annual amount over a period not exceeding five years, whereas the amount of a foreign currency statements translation adjustment credit should be offset against the amount of a foreign currency statements translation adjustment debit occurring after the current fiscal year.

Taxation

93. In South Korea, a corporation is subject to a number of taxes (that is, corporation tax, defense tax, and residence tax)

based on earnings. Provision is not made to reflect that the interperiod allocation of income taxes resulting from certain income and expense items is treated differently for financial reporting purposes than for tax computation purposes.

94. The corporation tax return must be filed within fifteen days from the date of finalization of the settlement of accounts (within thirty days if attaching a taxation adjustment statement prepared by a certified public accountant or a tax accountant).

95. In addition, the carryback of losses incurred in the current year to be offset against income earned in prior years is not allowed. However, losses incurred in the current year may be carried forward a maximum of three years and offset against future income.

Stockholders' Equity

96. The declaration of dividends is voted on at a general meeting of the stockholders, and dividends are paid early the following year, under the articles of incorporation.

97. Prepaid dividends during the preoperating period shall be presented as a deduction from stockholders' equity in the balance sheet. These are dividends paid during the construction period, before the start of operations.

98. In addition, there are no provisions as to the disclosure or calculation method of earnings per share.

Accounting Changes

99. Changes in accounting principles and estimates shall generally be applied on a current and prospective basis. However, certain types of estimates will give rise to prior-period adjustments in subsequent years. The difference between estimates made in the current year and the resultant actual amounts finalized in subsequent years is treated as prior-period adjustments and applied retroactively to the year of estimation. Changes in accounting principles and estimates shall be disclosed in the notes to the financial statements.

Business Combinations

100. The Accounting Standards or the Commercial Code have not specified the method of accounting for business combinations. The Accounting Standards, however, provide that goodwill or gain on business combinations shall be accounted for as an intangible asset or capital surplus. Goodwill shall be amortized over no more than five fiscal years on a straight-line method.

Consolidated Financial Statements

101. Article 6 of the Accounting Standards provides that a company owning more than 50 percent of the total outstanding voting capital stock of another company, or able to exercise effective control over another company by means other than ownership, shall prepare consolidated financial statements. The South Korean SEC separately established accounting standards for consolidated financial statements, which became effective on January 1, 1985. A *subsidiary company* is defined as any company having one of the following relationships with a controlling company:

a. More than 50 percent of the total outstanding voting capital stock is owned by the controlling company.
b. More than 50 percent of the total outstanding voting capital stock is owned by the controlling company, and the subsidiary in turn owns more than 50 percent of the total outstanding voting capital stock of another company.
c. More than 50 percent of the total outstanding voting capital stock of the subsidiary is owned by the controlling company, and each owns at least 10 percent of the total outstanding voting capital stock of another company, so that the combined holding of voting capital stock of this other company by the controlling company and its subsidiary exceeds 50 percent.

102. However, in the absence of a controlling ownership interest, a company that is the largest stockholder among the same group of companies (when the group of companies owns more shares than the other largest stockholder) owns more than 30 percent of the total outstanding voting capital stock of another company, that company should also be regarded as a controlling company on the basis that it exercises substantial control over the other company. However, if other factors such as stock distribution

status clearly show that the company does not exercise substantial control, it should not be regarded as a controlling company.

103. In any of the following circumstances, subsidiary companies should be excluded from consolidation:

a. When a decision has been made to commence liquidation proceedings in accordance with the Corporation Liquidation Law

b. When a subsidiary company is being liquidated, or has been declared bankrupt, by a court

c. When consolidation is impractical due to occurrence of war, natural disasters, or other uncontrollable circumstances

d. When it is impractical to prepare consolidated financial statements because the lines of business of the two companies are very different (for example, manufacturing or construction versus finance, insurance, stockbroking, or nonprofit activity)

e. When the capital stock of a subsidiary is less than W 500 million and the total assets are less than W 3 billion at the end of the previous fiscal year

104. Investments in subsidiaries excluded from consolidation should be valued based on the equity method, as should companies in which ownership is more than 20 percent, but less than 50 percent, of the total outstanding capital stock.

105. Use of a subsidiary's year-end financial statements is allowed for consolidation purposes if the subsidiary's year-end is within three months of the consolidation date.

106. The following matters should be disclosed in the notes to the consolidated financial statements:

a. Consolidation policies, which should include—
- Names of subsidiaries included in, or excluded from, consolidation
- Names and lines of businesses of companies that are newly consolidated
- A description of (1) the consolidation method involving subsidiaries whose year-end is different from the consolidation date and (2) any significant events in the subsidiaries' operations subsequent to the subsidiaries' year-end but prior to the consolidation date

b. A description of changes in consolidation policies
c. Accounting policies, including a description of parent and subsidiary policies (if different) and methods of elimination of the controlling company's interest, amortization of consolidation adjustments, and elimination of unrealized profit and loss
d. The valuation method of investments in unconsolidated subsidiaries
e. Reconciliation, if necessary, between individual financial statements of the controlling company or subsidiaries and the official books of accounts
f. A description of parent's securities held by its subsidiary, details of changes in subsidiary's capital structure, and any other items that are considered necessary

Other Matters

107. The Accounting Standards are silent on a number of items covered by U.S. GAAP. The following are the most significant of these items:

- Consolidation accounting when control is deemed to be temporary or does not rest with the majority owner
- Accounting for business combinations
- Disclosure of nonmonetary transactions
- Definition of gain or loss contingencies and guidance in determining amounts for recording or disclosure
- Disclosures regarding development-stage enterprises
- Segment disclosure
- Revenue recognition methods for gains on the sale of real estate
- Pension accounting
- Futures contract accounting
- Imputing of interest on fixed-amount payables or receivables

4

Business Environment

FORMS OF BUSINESS ORGANIZATION

Entities With Corporate Attributes

108. The Commercial Code recognizes the following kinds of entities that are incorporated for the purpose of engaging in commercial transactions and the acquisition of gains:

a. *Hapmyong-hoesa*—a "general commercial partnership," which is composed of members with unlimited liability. An example of *hapmyong-hoesa* is an accounting (auditing) corporation.

b. *Hapcha-hoesa*—a "limited partnership," which is composed of certain members with unlimited liability and other members with limited liability.

c. *Yuhan-hoesa*—a private company whose members' liability is limited to the amount of their contribution for their units. The total number of members is normally limited to 50, and the transfer of units must be approved by a general meeting of members.

d. *Chusik-hoesa*—a joint stock company in which the liability of a shareholder is limited to the amount contributed to purchase his or her share in the company. Most of the companies in Korea are incorporated as *chusik-hoesa.*

The *hapmyong-hoesa* and the *hapcha-hoesa* are similar to incorporated partnerships. With the consent of all the members, a *hapmyong-hoesa* may become a *hapcha-hoesa* either by making an existing member a member with limited liability or by admitting a new member with limited liability.

Frequency of Shareholder Meetings

109. In a *chusik-hoesa,* the convening of a general meeting of shareholders is determined by the board of directors. However, an ordinary general meeting must be convened at least once a year (once every fiscal period if the fiscal period is less than one year).

110. An extraordinary general meeting may be convened periodically whenever necessary.

111. Shareholders representing 5 percent or more of the total shares may demand a meeting by filing with the board of directors a written application that shall state the object of such a meeting and the reasons why it is to be convened.

112. In the case of a *yuhan-hoesa,* the statutory auditor may also convene a meeting. A statutory auditor is an officer of the company who may make an investigation of the status of property and the affairs of the company and may request the directors to report on the business.

Liabilities of Incorporators, Shareholders, and Board Members

113. Formation of a *chusik-hoesa* requires seven promoters who are liable to assume ownership of shares that are issued at the time of incorporation but not subsequently subscribed by other shareholders. The seven promoters are also responsible jointly and severally for payments of shares if such payments are not made by subscribers. If promoters neglect to perform their duties in connection with the incorporation of the company or exercise gross negligence, they shall be jointly and severally liable for damages to the company.

114. If directors act in contravention of any law, decree, or articles of incorporation or act in a negligent manner, they shall be jointly and severally liable for damages to the company. Directors' duties include the following, apart from managing and representing the company:

- Preparation of financial statements, business reports, and supporting schedules and submission of these documents to the statutory auditors
- Maintenance of the foregoing documents, the auditor's report, the articles of incorporation, and the minutes of general meet-

ings of shareholders at the head office and the branch offices for inspection by shareholders and creditors

- Publishing the balance sheet of the company in a daily newspaper after the approval of the financial statements by a general meeting of shareholders
- Reporting on financial statements to the ordinary general meeting of shareholders

115. In the case of an issuance of additional shares, the directors are responsible for receiving payments from persons who have subscribed for new shares. If shares are not yet subscribed or the subscription is rescinded, the directors shall be deemed to have jointly subscribed for such shares.

116. The Commercial Code also provides that a *chusik-hoesa* has to elect one or more statutory auditors who may inspect accounting records and demand directors to report on the accounts. They may attend meetings of the board of directors, investigate the performance of directors, and report to the shareholders on the wrongdoings of directors. If the auditors neglect any of their duties, they shall be jointly and severally liable for damages to the company.

Legal Reserves

117. A South Korean company is required to set up as legal reserve an amount equal to at least 10 percent of a cash dividend until such reserve equals 50 percent of stated capital.

118. A South Korean company is also required to set aside the following amounts as capital surplus:

a. Additional paid-in capital
b. Surplus on capital reduction (the excess of the capital amount reduced by the amount required for the retirement of the shares)
c. Surplus on merger (the excess of the amount paid over the value of net assets received)

119. The foregoing reserves may be offset against a deficit or may be transferred to capital.

Branch of a Foreign Company

120. If a foreign company intends to engage in commercial transactions in the Republic of Korea, it shall appoint a representative in South Korea and establish a branch. Such a branch is registered in the same manner as a branch of a domestic company doing similar business. The foreign company is also required to include in the registration information the law on which the company's organization was based and the name and address of the company's representative in South Korea.

121. As far as the application of other laws is concerned, a foreign company and the South Korean company it most closely resembles are treated identically.

Partnership Entities

122. There is no recognized form of business organization in South Korea comparable to a partnership in the United States.

123. Corporate partnerships (*hapmyong-hoesa* and *hapcha-hoesa*), which have unlimited and limited liability, are similar to U.S. partnerships in certain respects.

124. In the case of a *hapmyong-hoesa*, a transfer of shares requires the consent of all members. A new member is liable for all of the company's liabilities even if they were incurred prior to admission. A retiring member is liable for the obligations of the company incurred prior to his or her retirement for a period of two years after retirement. Members can demand that a court expel a member by a majority vote for reasons outlined in the Commercial Code.

125. In a *hapcha-hoesa*, the laws applicable to unlimited members are similar to those for members of a *hapmyong-hoesa*. Limited (liability) members, however, cannot make their contribution in the form of credit or personal services, nor can they administer the affairs of the company or represent the company. They are allowed, however, to carry on a separate business in competition with the company.

Other Forms of Business Organization—Sole Proprietor

126. Sole proprietors are individuals engaged in a business or profession for themselves. A sole proprietor should maintain a book of accounts if total sales exceed W 250 million (W 60 million in the case of certain service industries). The accounts of a sole trader need not be audited or publicly disclosed.

REQUIREMENTS FOR PUBLIC SALES OF SECURITIES AND REQUIREMENTS FOR LISTING SECURITIES ON THE STOCK EXCHANGE

Registration Requirements for Public Sale

127. The South Korean government has been attempting to encourage private companies to go public. One of the measures the government has taken in this regard has been to designate certain companies as "excellent" prospects and to stipulate that these companies should go public within a certain period. These companies and other companies wishing to issue shares to the public must first be registered with the South Korean SEC. The following are the minimum requirements for going public:

a. The company has at least three years of operations.
b. The company's capital is in excess of W 500 million.
c. The rate of return on capital exceeds the interest rate for a one-year time deposit.
d. At least 20 percent of all outstanding shares are offered to the public.
e. The share value must exceed 150 percent of par value.
f. Auditor opinions must be unqualified or qualified.
g. The debt ratio of the company is less than 1.5 times the average ratio of listed companies within the particular industry.

128. As part of the registration documents, the latest audited financial statements are included. At present there is no requirement for presenting consolidated statements.

129. There is only one exchange in South Korea, the Korea Stock Exchange. When a registered company wishes to issue shares through the stock exchange, it selects security companies to act as underwriters and share register agents and an "employees' share ownership association" is formed. The lead manager evaluates the share value, and the underwriting contract is entered into. It is normal for underwriters to purchase all the shares and sell them to the public. A registration statement is prepared and submitted to the SEC, and includes the following:

- Articles of incorporation
- A copy of the company registration form
- A board-of-directors resolution concerning the public offering
- Contracts with underwriters, the share register agent, etc.
- Audited financial statements and details concerning such statements
- Details concerning the employees' share ownership association

130. The manager issues a prospectus, which includes all the information in the registration statement. The prospectus must be available to potential investors. Up to 10 percent of shares offered to the public can be sold to employees through an employees' share ownership association.

Requirements for Listing Securities on the Stock Exchange

131. A listed company is required to submit an interim report to the SEC within forty-five days after the six-month interim period. Financial statements that have been prepared for the six-month period and reviewed by external auditors should be included in the report.

132. A year-end report including audited financial statements must be submitted within sixty days of year-end.

133. Apart from the review of interim statements, there is no other requirement on a company being public, since companies with capital in excess of W 500 million need to be audited by external auditors whether they are public or private companies.

TAXES

Principal Types

134. The South Korean tax system is composed of both national and local taxes. The system is further divided as follows:

National Taxes	*Local Taxes*
• Corporation tax	• Acquisition tax
• Income tax	• Registration tax
• Inheritance and gift tax	• License tax
• Assets revaluation tax	• Property tax
• Value-added tax	• Automobile tax
• Special excise tax	• Inhabitant tax
• Liquor tax	• Workshop tax
• Telephone tax	
• Stamp tax	
• Securities transaction tax	
• Defense tax	
• Education tax	

Corporation Tax

135. The Korean Corporation Tax Law distinguishes among three major categories of taxable corporate entities:

a. Domestic corporation

b. Foreign corporation without a permanent establishment in South Korea or with real estate income in South Korea

c. Foreign corporation without a permanent establishment in South Korea and without real estate income in South Korea

136. A domestic corporation is defined to include not only corporations formed under South Korean law, but also other corporations having their head office in South Korea. Subsidiaries and joint ventures of foreign corporations are domestic corporations for tax purposes, since they are separate entities formed under South Korean law. Domestic corporations are required to

pay a corporation tax on their entire income from domestic and foreign sources.

137. Foreign corporations have their head offices in countries other than South Korea. Therefore, a South Korean branch of a foreign corporation is a foreign corporation for tax purposes.

138. In general, a foreign corporation is taxed only on its income from domestic sources within South Korea. If a foreign corporation either has a permanent establishment in South Korea or has real estate income in South Korea, a corporation tax on its South Korean source income will be assessed and collected in the same manner as that for a domestic corporation.

139. On the other hand, if a foreign corporation has neither a permanent establishment nor real estate income in South Korea, it will be taxed only on certain types of South Korean source income, and only by the withholding of tax at the source.

140. The calculation of taxable income for corporate tax purposes is similar to the calculation of income before corporate taxes as shown in the financial statements. The accrual basis of accounting is used in both cases. However, certain adjustments to book income will be required to derive taxable income. Taxable income is defined as assessable income less allowable deductions. Assessable income is simply gross income adjusted to include receipts deemed to be income by the Corporation Tax Law and to remove tax-exempt income items. Allowable deductions include most expenses recognized for financial accounting purposes.

141. Corporation taxes are assessed on a graduated basis at the following rates:

Taxable Income	*General Corporation*	*Unlisted Large Corporations**
First W 50 million	20%	20%
Amount over W 50 million	30%	33%

*Defined as a corporation whose stock is not listed on the Korea Stock Exchange and that has either paid-in capital in excess of W 5 billion or share capital in excess of W 10 billion.

142. In addition, corporations are liable for the defense tax and the inhabitant tax. However, a foreign corporation having no

permanent establishment and no real estate income in South Korea is not liable to pay the inhabitant tax.

143. The capital gains of a corporation are subject not only to taxation as ordinary income but also to an add-on tax. The additional tax is assessed at a rate of 25 percent (35 percent for property transferred without registration) on the gains derived from the sale of, or the rights to, land or buildings.

Individual Income Tax

144. The Income Tax Law of the Republic of Korea applies to individual taxpayers. An individual who is domiciled in or a resident of South Korea for one year or longer, or intends to reside in South Korea, is liable for income tax on all income derived from sources both within and outside the country. Tax treaties, however, often override this basic rule. For example, the United States–South Korea tax treaty provides that a person present in South Korea for more than 183 days or having earned income in excess of $3,000 related to services provided in South Korea is subject to South Korean income tax on such income. Public officials, directors, and personnel employed by a resident individual or a domestic corporation but who are on overseas service are deemed as having a residence in South Korea. An expatriate who is a resident as defined herein must pay tax on his or her worldwide income, unless a tax treaty between the expatriate's home country and South Korea provides otherwise.

145. A nonresident is simply an individual other than a resident. Nonresidents must pay tax only on South Korean source income.

146. The composite income of an individual is categorized as follows by the Korean Income Tax Law:

a. *Global income:*
   - Earned income, which includes class A income and class B income (that is, income earned through a foreign institution or company)
   - Interest income
   - Dividend income
   - Real estate (rental) income

- Business income
- Other income

b. Nonglobal income:

- Severance pay income
- Capital gains income
- Timber income

147. The Korean Income Tax Law permits a number of deductions such as a special deduction for earned income of up to W 1.7 million, insurance premiums of up to W 240,000, medical expenses of up to W 240,000, and education expenses of up to a limit of W 120,000 per dependent and exemptions from global income.

148. The global income tax base is the amount remaining after the following personal exemptions have been deducted:

- A basic exemption of W 300,000
- An exemption of W 420,000 for a spouse
- Exemptions for other dependents (W 240,000 for each dependent living with the taxpayer)
- An exemption for handicapped persons (W 300,000 for each handicapped person in the taxpayer's household)

149. The global income tax rates range from a low of 6 percent for annual taxable income less than W 1.8 million to a maximum of 55 percent for annual taxable income over W 60 million. A defense tax is imposed as a surtax on income tax at a rate of 20 percent (10 percent if the composite taxable income is less than W 8.4 million). An inhabitant tax is also imposed as a 7.5-percent surtax on the income tax.

150. Severance pay income that is received by either a class A or class B wage earner is taxed separately from global income. Capital gains from the sale of, or the rights to, land or buildings are also taxed separately from global income. Income from lumbering or the transfer of timber that has been cultivated for five years or more is also taxed separately from global income.

151. In general, a person or entity paying interest, dividends, wages and salaries, severance pay income, business income from

"free occupations" (prescribed by presidential decree), or other income is required to withhold income tax from such income at the time of payment and to remit that tax to the South Korean government by the tenth of the following month.

Value-Added Tax

152. A 10 percent value-added tax (VAT) is levied on the value of goods and services supplied in South Korea and on the value of goods imported into South Korea. In effect, the VAT is borne by the ultimate consumer of goods and services. Most businesses simply collect VAT by remitting to the national government the excess of the VAT collected on sales to customers over the VAT paid on purchases from suppliers. However, if the VAT paid to suppliers of goods and services that have been or will be used in the business exceeds the VAT collected on sales to customers, the difference is refundable.

153. Certain goods and services are "zero rated" for VAT purposes. No VAT is charged on the sale of zero-rated goods and services. In addition, the VAT paid on the related purchases is refundable. The following are examples of zero-rated items:

- Goods for export
- Services rendered outside of South Korea
- International transportation by ship or aircraft
- Other goods and services generating foreign exchange earnings

154. Certain other goods and services are "exempt" for VAT purposes. No VAT is charged on the sale of exempt goods and services, nor is the VAT paid on the related purchases refundable. The following are among the items classified as VAT-exempt:

- Designated life necessities, including unprocessed foodstuffs
- Medical care
- Certain educational services
- Designated cultural activities
- Many personal services, including services of employees
- Financial and banking services
- Insurance services
- Duty-exempt goods

155. New businesses in South Korea must register with a district tax office within twenty days of the start-up of operations. Each new business is assigned a number, which must be used in all transactions subject to VAT. All suppliers of goods and services must provide customers with VAT invoices, the content of which is prescribed by law. VAT tax returns are filed on a quarterly basis.

156. A brief explanation of the other principal types of taxes follows.

Inheritance and gift tax. A national tax is assessed on the value of property acquired by inheritance, net of certain allowable deductions. The tax rates are progressive, ranging from 7 percent to a maximum of 67 percent for the gift tax and 60 percent for the inheritance tax.

Stamp tax. In general, the national government requires that revenue stamps be affixed to specified documents, including property transfer documents, loan contracts, certain receipts, and articles of incorporation. The cost of a revenue stamp ranges from W 10 to W 150,000, depending on the type of taxable document and the *won* amount mentioned therein, if any.

Defense tax. The defense tax is imposed by the national government as a surtax on certain national and local taxes. The defense tax is generally assessed as a certain percentage of the amount of the subjected tax. Nonresident individuals and foreign corporations having no domestic place of business and no real estate income in South Korea are not subject to a defense surtax on their income.

Education tax. The education tax is imposed by the national government to provide funding for additional educational facilities in South Korea. The following are subject to the education tax at the indicated rates:

Item	*Rate*
• Interest and dividend income subject to the 10 percent final withholding tax prescribed in the Income Tax Law	5 percent of the income amount
• Liquor tax payable under the Liquor Tax Law	10 percent of the income tax amount

Item	*Rate*
• Sales of domestic tobacco and imports of foreign tobacco	10 percent of the value of the tobacco sold or imported
• Gross revenues of banking and insurance companies	0.5 percent of gross revenues

The education tax on interest and dividends is withheld at the source. Other education taxes are declared and paid by the taxpayer.

Acquisition tax. A 2 percent local tax is imposed on the acquisition price of most real estate, ships, forestry rights, motor vehicles, and heavy equipment. Such items acquired for business purposes in major cities are taxed at a higher rate of 10 percent. Certain luxury properties and nonbusiness land acquired by corporations are taxed at a rate of 15 percent.

Inhabitant tax. Individuals and corporations residing in South Korea are assessed a per capita inhabitant tax by their locality in amounts ranging from W 800 to W 4,000 for individuals and from W 8,000 to W 40,000 for corporations, depending on the type and size of the locality. Individuals and corporations liable for the payment of income and corporate taxes in South Korea are assessed an additional inhabitant tax at the rate of 7.5 percent of the income or corporate tax amount.

Property tax. Registered owners of land, houses, mining lots, and vessels are liable to their localities for an annual property tax. The tax on land and buildings is based on the assessed value of the property, with rates ranging from 0.3 percent to 10 percent, depending on such factors as the use, size, value, and holding period of the property.

Automobile tax. Motor vehicle owners are subject to a local annual tax of a fixed amount determined by the type, size, and use (business or nonbusiness) of the vehicle owned. The fixed amounts vary widely, from W 4,400 for certain small automobiles for business use to W 1.98 million for large automobiles having eight cylinders or more and not for business use.

Workshop tax. Any business entity employing fifty persons or more or having 100 or more *pyong* of "workshop" or office space (one *pyong* is equivalent to 3.3058 square meters) is liable for a local workshop tax. The amount of the tax is W 500 per *pyong*, remitted annually, plus 0.5 percent of the total payroll, remitted monthly.

Tax Returns

157. Every corporation is required to file an annual tax return, with an attached set of financial statements and supporting schedules.

158. In general, a corporation must submit its return within fifteen days of the approval of the annual financial statements by its shareholders, an event deemed to be the settlement of the accounts. However, a corporation that is required to submit a reconciliation of tax and accounting income must submit its return within thirty days of the settlement of the accounts.

159. Corporations are generally not eligible for filing extensions. However, a foreign corporation required to file a return may extend the filing period if it is unable to file due to the failure of the head office to settle the accounts in time. Prior approval of such an extension is required.

160. Certain companies are required to file a reconciliation between book and tax income. These companies are required to have their tax returns certified by a South Korean certified public accountant or a certified tax accountant.

161. A resident who has global income, severance pay income, capital gains income, and timber income in the taxable period is required to file an annual tax return on the tax base during the month of May of the following year.

162. Taxpayers who receive only class A income do not file an annual tax return, since their employer is required to withhold income taxes on a monthly basis, finalize their tax liability, and issue a final tax settlement certificate at the end of the tax period.

APPENDIX A

Outstanding Auditing Pronouncements

The following is a list of the translated outstanding auditing pronouncements.

Auditing Standards

- *General Standards*
- *The Standards of Fieldwork*
- *The Standards of Reporting*

Auditing Guidelines—Fieldwork

110 *Objectives of Auditing Guidelines for Fieldwork*
120 *Evidential Matters and Audit Procedures*
200 *Audit Plan*
300 *Study and Evaluation of the Internal Control System*
400 *Audit Procedures for Test of Transactions*
500 *Audit Substantive Procedures*
600 *Audit Work Papers*

The following are supplements to the auditing guidelines for fieldwork:

1. *Confirmation Inquiry Letter (Bank and General)*
2. *Management Representation Letter*
3. *Attorney's Letter*

Auditing Guidelines—Reporting

110 *Objective of Auditing Guideline for Reporting and Auditor's Report*
200 *Standard Auditor's Report*

300 *Situations That Require Other Than Standard Auditor's Report* (includes No. 320, *Limitation on Scope*; No. 330, *Relying on the Other Auditor*; No. 340, *Departure From Generally Accepted Accounting Principles*; No. 350, *Uncertainties*; No. 360, *Lack of Independence*; No. 370, *Emphasis of a Matter*)

400 *Audit Report on Prior Years' Financial Statements*

500 *Report on Supplementary Information*

APPENDIX B

Outstanding Accounting Pronouncements

The following is a list of the translated titles of laws, ministerial ordinances, and pronouncements related to statutory accounting requirements and accounting standards.

Laws

- *The Commercial Code*
- *The Securities Transactions Law*
- *The Certified Public Accountant Law*

Ministerial Ordinances

The Ministry of Finance Ordinance Concerning Financial Statements for Listed Companies

Pronouncements of the Accounting Standards Research Committee and the SEC

- *Financial Accounting Standards*
- *Consolidated Financial Statements Standards*
- *Lease Accounting Standards*
- *Accounting Standards for Construction Companies*
- *Cost Accounting Standards*
- *Accounting Standards for Business Combinations*
- *Regulation Concerning Financial Accounting for Listed Companies*
- *Guideline for Preparation of Interim Financial Statements*

APPENDIX C

Illustrative Auditor's Report and Financial Statements

The following financial statements are intended for illustrative purposes only. The statements presented are not intended to include all information that South Korean law requires.

The Board of Directors
ABC Corporation

We have examined the balance sheets (expressed in *won*) of ABC Corporation as of December 31, 1988 and 1987, and the related statements of earnings, (proposed) appropriation of retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with auditing standards generally accepted in the Republic of Korea.

In our opinion, the accompanying financial statements present fairly the financial position of ABC Corporation at December 31, 1988 and 1987, and the results of its operations and the changes in its retained earnings and financial position for the years then ended, in conformity with generally accepted financial accounting standards in the Republic of Korea.

The accompanying financial statements expressed in United States dollars have been translated into dollars solely for the convenience of the reader. We have reviewed the translation, and in our opinion, the accompanying financial statements expressed in *won* have been translated into dollars on the basis set forth in Note 2 to the financial statements.

March 14, 1989

ABC CORPORATION
BALANCE SHEET
December 31, 1988 and 1987

	Won (millions) 1988	1987	U.S. Dollars (thousands)* 1988	1987
Assets				
Current assets				
Cash (Note 4)	W 87,231	W 88,643	$ 127,512	$ 129,576
Marketable securities, at cost, which approximates market (Note 4)	18,058	13,391	26,397	19,574
Trade notes and accounts receivable (Notes 7 and 15)	896,694	837,707	1,310,764	1,224,539
Less allowance for doubtful accounts	4,175	4,358	6,103	6,370
Net trade receivables	892,519	833,349	1,304,661	1,218,169
Other receivables	37,957	37,106	55,484	54,240
Inventories (Note 5)	542,962	387,735	793,688	566,781
Prepayments	68,140	97,186	99,605	142,064
Other current assets (Note 10)	27,907	40,697	40,794	59,490
Total current assets	1,674,774	1,498,107	2,448,141	2,189,894
Investments				
Affiliated companies (Notes 4 and 7)	457,529	443,366	668,804	648,101
Other investments (Note 4)	17,110	13,810	25,011	20,187
Total investments	474,639	457,176	693,815	668,288
Property, plant, and equipment (Notes 4 and 8)				
Land	22,195	21,991	32,444	32,146
Buildings	51,020	49,148	74,580	71,843
Machinery and equipment	498,808	569,935	729,145	833,116
Construction in progress	434	842	634	1,231
	572,457	641,916	836,803	938,336

*See Note 2 to the financial statements.

	Won (millions) 1988	1987	*U.S. Dollars (thousands)* 1988	1987
Less accumulated depreciation	W 403,156	W 445,866	$ 589,323	$ 651,755
Net Property, plant, and equipment	169,301	196,050	247,480	286,581
Other assets (Notes 3, 4, and 9)	234,563	241,732	342,878	353,358
	W 2,553,277	W 2,393,065	$ 3,732,314	$ 3,498,121
Liabilities and Stockholders' Equity				
Current liabilities				
Short-term loans (Note 4)	484,758	448,738	708,607	655,954
Current portion of long-term debt (Notes 4 and 10)	56,348	81,364	82,368	118,936
Trade notes and accounts payable	709,890	508,397	1,037,699	743,162
Other payables	27,761	42,831	40,580	62,609
Income taxes payable (Note 12)	7,229	8,587	10,567	12,552
Deposits and advance receipts	98,815	74,641	144,445	109,108
Accrued expenses	39,390	37,152	57,579	54,308
Other current liabilities	130	424	190	620
Total current liabilities	1,424,321	1,202,134	2,082,035	1,757,249
Long-term debt—excluding current portion (Notes 3, 4, and 10)	508,387	692,635	743,147	1,012,476
Deposits and advance receipts—noncurrent (Note 4)	67,620	78,589	98,845	114,879
Retirement and severance benefits	46,600	37,946	68,119	55,468
Total liabilities	2,046,928	2,011,304	2,992,146	2,940,072

(cont.)

ABC CORPORATION
BALANCE SHEET *(cont.)*

	Won (millions)		*U.S. Dollars (thousands)*	
	1988	*1987*	*1988*	*1987*
Stockholders' equity				
Common stock of W 5,000 par value (Note 13): Authorized—60,000,000 shares Issued—41,832,384 shares in 1988 (28,849,920 shares in 1987)	W 209,162	W 144,250	$ 305,748	$ 210,861
Revaluation surplus (Notes 8 and 13)	—	160	—	234
Capital surplus (Note 13)	71,836	9,606	105,008	14,042
Retained earnings:				
Appropriated (Notes 13 and 14)	197,519	199,720	288,728	291,946
Unappropriated	27,832	28,025	40,684	40,966
Total stockholders' equity	506,349	381,761	740,168	558,049
Commitments and contingencies (Note 16)	—	—	—	—
	W 2,553,277	W 2,393,065	$ 3,732,314	$ 3,498,121

See accompanying notes to financial statements.

ABC CORPORATION
STATEMENT OF EARNINGS
December 31, 1988 and 1987

	Won (millions) 1988	Won (millions) 1987	U.S. Dollars (thousands) 1988	U.S. Dollars (thousands) 1987
Sales	W 4,729,259	W 4,453,250	$ 6,913,110	$ 6,509,647
Cost of goods sold	4,388,542	4,131,332	6,415,059	6,039,076
Gross profit	340,717	321,918	498,051	470,571
Selling, general and administrative expenses	206,322	183,345	301,596	268,009
Operating income	134,395	138,573	196,455	202,562
Other income (deductions)				
Interest income	29,531	27,207	43,167	39,770
Interest expense	(136,981)	(161,556)	(200,235)	(236,158)
Gain on sale of marketable securities and investments, net (Note 10)	535	12,073	782	17,648
Exchange and translation gain, net	18,637	35,795	27,243	52,324
Dividends	2,520	2,042	3,684	2,985
Other, net (Note 3)	(6,971)	(9,328)	(10,190)	(13,635)
	(92,729)	(93,767)	(135,549)	(137,066)
Earnings before income taxes	41,666	44,806	60,906	65,496
Income taxes (Note 12)	9,266	10,476	13,545	15,313
Net earnings	W 32,400	W 34,330	$ 47,361	$ 50,183

See accompanying notes to financial statements.

ABC CORPORATION
STATEMENT OF (PROPOSED) APPROPRIATION OF RETAINED EARNINGS
December 31, 1988 and 1987

Date of Proposed Appropriation for 1988: March 28, 1989
Date of Appropriation for 1987: March 29, 1988

	Won (millions)		*U.S. Dollars (thousands)*	
	1988	*1987*	*1988*	*1987*
Unappropriated retained earnings				
Balance at beginning of year	W 5,945	W 3,032	$ 8,690	$ 4,432
Prior year adjustments, net (Note 15)	(10,513)	(9,337)	(15,367)	(13,649)
Net earnings	32,400	34,330	47,361	50,183
Balance of unappropriated retained earnings before proposed transfers and appropriations	27,832	28,025	40,684	40,966
Proposed transfer from appropriated retained earnings—by reversal of (Note 14):				
Reserve for overseas market development	25,679	24,889	37,537	36,382
Reserve for export loss	2,733	2,067	3,995	3,021
Reserve for loss on overseas investments	800	690	1,169	1,009
Reserve for loss on overseas operations	7,733	3,833	11,304	5,603
	36,945	31,479	54,005	46,015
Proposed appropriation (Note 13)				
Legal reserve	1,900	1,300	2,777	1,900
Reserve for business rationalization	1,500	1,350	2,193	1,974
Reserve for improvement of financial structure	2,600	2,500	3,800	3,654
Reserve for overseas market development	20,000	34,000	29,235	49,700
Reserve for export loss	11,000	—	16,080	—
Reserve for loss on overseas investments	4,000	2,000	5,847	2,924
Dividends	18,173	12,409	26,565	18,139
	59,173	53,559	86,497	78,291
Balance of unappropriated retained earnings after proposed appropriation	W 5,604	W 5,945	$ 8,192	$ 8,690

See accompanying notes to financial statements.

ABC CORPORATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
December 31, 1988 and 1987

	Won (millions)		*U.S. Dollars (thousands)*	
	1988	*1987*	*1988*	*1987*
Sources of working capital				
Net earnings	W 32,400	W 34,330	$ 47,361	$ 50,183
Items that did not use (provide) working capital:				
Depreciation	40,665	50,333	59,443	73,575
Amortization	6,712	5,553	9,811	8,117
Unrealized exchange loss (gain)	7,447	(6,900)	10,886	(10,086)
Provision for retirement and severance benefits	19,217	15,070	28,091	22,029
Loss (gain) on disposition of property, plant, and equipment	(1,627)	1,290	(2,378)	1,886
Loss (gain) on valuation of investments and other assets	(7,388)	970	(10,799)	1,418
Other	(974)	—	(1,424)	—
Working capital provided by operations	96,452	100,646	140,991	147,122
Proceeds from sale of property, plant, and equipment	7,876	6,803	11,513	9,944
Proceeds from sale of investments	2,725	5,691	3,984	8,319
Decrease in other assets	90,782	—	132,703	—
Increase in long-term debt	439,965	1,081,974	643,130	1,581,602
Increase in deposits and advance receipts—noncurrent	16,128	57,932	23,576	84,684
Proceeds from issuance of common stock	115,111	24,042	168,266	35,144
Decrease in working capital	45,520	94,879	66,539	138,692
	W 814,559	W 1,371,967	$ 1,190,702	$ 2,005,507

(cont.)

ABC CORPORATION
STATEMENT OF CHANGES IN FINANCIAL POSITION *(cont.)*

	Won (millions)		*U.S. Dollars (thousands)*	
	1988	*1987*	*1988*	*1987*
Uses of working capital				
Dividends	W 12,409	W 8,985	$ 18,139	$ 13,134
Additions to property, plant, and equipment	39,111	36,343	57,171	53,125
Increase in investments	89,459	176,179	130,769	257,534
Increase in other assets	892	87,088	1,304	127,303
Current portion and repayments of long-term debt	624,514	1,042,224	912,899	1,523,497
Decrease in deposits and advance receipts—noncurrent	27,097	—	39,610	—
Retirement and severance benefits payments	10,563	11,811	15,441	17,265
Prior year adjustments, net	10,514	9,337	15,369	13,649
	W 814,559	W1,371,967	$ 1,190,702	$ 2,005,507

	Won (millions)		*U.S. Dollars (thousands)*	
	1988	*1987*	*1988*	*1987*
Changes in components of working capital				
Increase (decrease) in current assets:				
Cash	W (1,412)	W (1,225)	$ (2,064)	$ (1,791)
Marketable securities	4,667	2,957	6,823	4,322
Net trade receivables	59,170	(81,554)	86,492	(119,213)
Other receivables	851	2,434	1,244	3,558
Inventories	155,227	30,131	226,907	44,045
Prepayments	(29,046)	(15,412)	(42,459)	(22,529)
Other current assets	(12,790)	(7,952)	(18,696)	(11,624)
	176,667	(70,621)	258,247	(103,232)
Increase (decrease) in current liabilities:				
Short-term loans	36,020	(251,416)	52,653	(367,513)
Current portion of long-term debt	(25,016)	39,460	(36,568)	57,682
Trade notes and accounts payable	201,493	199,826	294,537	292,100
Other payables	(15,070)	(3,419)	(22,029)	(4,998)
Income taxes payable	(1,358)	292	(1,985)	427
Deposits and advance receipts	24,174	36,386	35,337	53,188
Accrued expenses	2,238	2,952	3,271	4,315
Other current liabilities	(294)	177	(430)	259
	222,187	24,258	324,786	35,460
Decrease in working capital	W 45,520	W 94,879	$ 66,539	$ 138,692

See accompanying notes to financial statements.

ABC CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 1988 and 1987

1. Summary of Significant Accounting Policies and Basis of Presenting Financial Statements

Basis of Presenting Financial Statements

ABC Corporation (the Company) maintains its books and prepares its financial statements in conformity with generally accepted financial accounting standards in the Republic of Korea. The financial statements include only the accounts of ABC Corporation. Investments in subsidiaries are accounted for on the cost basis.

Inventories

Inventories are principally stated at the lower of cost or market, cost being determined substantially by the first-in, first-out method.

Property, Plant, and Equipment

As permitted under the Asset Revaluation Law of the Republic of Korea, the company has, to some extent, recognized the loss in purchasing power of the *won* by upward restatement of the cost of property, plant, and equipment.

Property, plant, and equipment are stated at the net revalued amounts at January 1, 1980. Additions since that date are stated at cost.

Depreciation is computed on the net revalued amounts by the declining balance method using rates based on the estimated useful lives of the related units of property.

Improvements that significantly extend the life of an asset or add to its productive capacity are capitalized. Expenditures for repairs and maintenance are charged to income as incurred.

Investments

Investments are carried principally at cost plus incidental expenses.

For invested companies over which the Company cannot exercise significant influence in operating and financial policies, a writedown of investments in listed companies is made when the markdown to the market value exceeds 30 percent of the acquisition cost. Investments in unlisted companies are written down when the net equity per share is less than 30 percent of the acquisition cost at the balance sheet date.

The carrying values of the invested companies over which the Company is able to exercise significant influence in operating and financial policies need not be written down.

Other Assets

Debenture issuance costs are amortized on a straight-line basis over periods up to three years. Goodwill resulting from the rationalization of XYZ Enterprises, Ltd. and its affiliated companies is amortized over thirty years.

Free Distributions of Shares and Revaluation Surplus

Free distributions of shares out of revaluation surplus have been accounted for in accordance with applicable provisions of the Korean Commercial Code by transferring from revaluation surplus to common stock an amount equivalent to the par value of the shares issued.

Income Taxes

Provision is not made in the accounts to reflect the interperiod allocation of income taxes resulting from certain income and expense items being treated differently for financial reporting purposes than for tax computation purposes.

Retirement and Severance Benefits

Employees who have been with the Company for more than one year are entitled to lump-sum payments based on current rates of pay and length of service when they leave the Company. It is not the policy of the Company to fund the retirement and severance benefits accrued; however, provision has been made in the accompanying balance sheets for the estimated accrued liability under the plans.

Certain directors are not covered by the programs described above. Benefits paid to such directors are charged to earnings as paid, since amounts vary with circumstances and it is not practicable to compute the liability for future payments.

According to these plans, the Company's total liability for employees' retirement and severance benefits as of December 31, 1988 and 1987, is W 63,912 million ($93,425 thousand) and W 49,489 million ($72,342 thousand), respectively. However, the Company has accrued its liability for employees' retirement and severance benefits at an amount equal to 60 percent of the net increase in total retirement and severance liability, assuming all employees terminate as of the balance sheet date plus current year payments. Such a method is allowable under Republic of Korea generally accepted financial accounting standards. As such, the existing liability is understated by W 17,312 million ($25,306 thousand) and W 11,543 million ($16,874 thousand) at December 31, 1988 and 1987, from that which would be required assuming all employees terminate as of the balance sheet dates.

Long-Term Contracts

Long-term construction contracts are accounted for by the percentage-of-completion method of accounting for contract revenue, and costs are recognized based on the percentage that work performed to date bears to the total performance required by the contract.

Foreign Currency Translation

Monetary assets and liabilities are translated into South Korean *won* at current rates of exchange at the balance sheet date. Nonmonetary assets and liabilities are translated at historical rates. Unrealized exchange gains or losses on long-term foreign currency items are deferred and amortized over five years if they exceed 5 percent of capital in a year.

Foreign currency assets and liabilities of foreign-based operations are translated at current rates of exchange at the balance sheet date, whereas profit and loss items are translated at average rates. Translation gains on foreign-based operations are accumulated as a foreign currency translation gain to be offset against future translation losses on foreign-based operations. Translation losses on foreign-based operations are first offset against any foreign currency translation gains accumulated in prior years. The balance is amortized by the straight-line basis over five years.

Leases

The Company accounts for and classifies its lease transactions as operating leases in accordance with the Korean Lease Accounting Standards, which became effective January 1, 1985.

Prior Year Adjustments

Generally accepted financial accounting standards in the Republic of Korea allow for recognition as prior year adjustments the financial effects of certain adjustments occurring in the current year that are applicable to prior years' activities. Such adjustments have been reflected in the accompanying financial statements as direct adjustments to retained earnings at the beginning of the year.

2. Basis of Translating Financial Statements

The financial statements are expressed in *won* and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of W 684.10 to U.S. $1, the exchange rate on December 31, 1988. These translations should not be construed as a representation that any or all the amounts shown could be converted into U.S. dollars at this or any other rate.

3. The Rationalization Plan for XYZ Enterprises, Ltd.

On September 22, 1986, the Industry Policy Review Board approved a plan for the rationalization of XYZ Enterprises, Ltd. and its affiliated companies with a purpose of improving their financial condition, competitive power and managerial ability. This plan prescribed that ABC Corporation and its seven subsidiaries should acquire 26.81 percent of the issued shares of XYZ Enterprises, Ltd. by assuming its liabilities, approximating W 577,500 million ($844,175 thousand), in equal installments over twenty-five years beginning in 1987. Such liabilities assumed are without interest. Each annual portion of liabilities assumed is to be repaid over fifteen years after a grace period of fifteen years.

The Company booked W 23,100 million ($33,767 thousand) of this liability as long-term debt in 1987 with a corresponding debit to the goodwill account which is amortized over thirty years. The amount amortized in 1988 and 1987 was W 825 million ($1,206 thousand).

However, in 1988 no additional liability related to XYZ Enterprises, Ltd. was assumed by ABC. It is uncertain at this time whether future liability assumption will be required and also the timing of such liability assumption.

4. Pledged Assets

The book value of the following assets as of December 31, 1988 and 1987, is pledged as collateral for short-term loans, long-term debt, and deposits and advance receipts.

	Won (millions)		*U.S. Dollars (thousands)*	
	1988	*1987*	*1988*	*1987*
Cash	W 39,656	W 52,705	$ 57,968	$ 77,043
Cash included in other assets	6,842	12,746	10,001	18,632
Marketable securities	3,475	3,167	5,080	4,629
Investments	35,229	32,596	51,497	47,648
Land, buildings, and machinery and equipment	55,131	41,484	80,589	60,640

Land and buildings of the affiliated companies amounting to W 8,218 million ($12,013 thousand) as of December 31, 1988 and 1987, were provided as collateral for the Company's bank loans. In addition, the Company's short-term loans, long-term debt, and deposits and advance receipts amounting to W 2,031,894 million ($2,970,171 thousand) and W 1,593,904 million ($2,329,928 thousand) as of December 31, 1988 and 1987, respectively, were guaranteed by affiliated companies.

5. Inventories

Inventories as of December 31, 1988 and 1987, are summarized as follows:

	Won (millions)		*U.S. Dollars (thousands)*	
	1988	*1987*	*1988*	*1987*
Raw materials	W 229,621	W 213,872	$ 335,654	$ 312,632
Work in process	7,319	8,758	10,699	12,802
Finished goods	3,612	4,298	5,280	6,283
Merchandise held for resale	259,329	99,674	379,080	145,701
Goods in transit	43,081	61,133	62,975	89,363
	W 542,962	W 387,735	$ 793,688	$ 566,781

6. Insurance

Property, plant, and equipment and inventories were insured against fire damage up to an amount of W 86,420 million ($126,327 thousand) and W 78,730 million ($115,086 thousand) as of December 31, 1988 and 1987, respectively. In addition, the Company maintains general vehicle and comprehensive general liability insurance policies.

7. Investments

Major investments in affiliated companies as of December 31, 1988 and 1987, are summarized as follows:

	Won (millions)		*U.S. Dollars (thousands)*	
	1988	*1987*	*1988*	*1987*
DEF Co.	W 225,899	W 225,899	$ 330,213	$ 330,213
GHI Co.	21,484	21,484	31,405	31,405
JKL Co.	210,146	195,983	307,186	286,483
	W 457,529	W 443,366	$ 668,804	$ 648,101

8. Asset Revaluation

Property, plant, and equipment were revalued on January 1, 1980, as permitted by the Asset Revaluation Law, and such accounts were increased by W 23,461 million ($34,295 thousand). The resulting revaluation surplus has been offset against deferred exchange losses of W 754 million ($1,102 thousand), and has been reduced by revaluation taxes of W 704 million ($1,029 thousand) and transfers to common stock of

W 22,003 million ($32,164 thousand) in connection with the free issue of shares.

9. Other Assets

Other assets as of December 31, 1988 and 1987, are summarized as follows:

	Won (millions)		*U.S. Dollars (thousands)*	
	1988	*1987*	*1988*	*1987*
Long-term deposit	W 2,488	W 1,201	$ 3,637	$ 1,756
Long-term trade receivables	307	356	449	520
Restricted cash	6,842	12,746	10,001	18,632
Deposits for severance benefits	53,712	57,464	78,515	83,999
Telephone rights	491	468	718	684
Rental deposits	131,340	131,071	191,989	191,596
Noncurrent prepaid expenses	1,172	1,288	1,713	1,883
Intangible fixed assets	6,019	6,442	8,798	9,417
Debenture issuance costs	726	1,492	1,062	2,181
Foreign currency translation loss	9,681	6,760	14,151	9,882
Goodwill	21,450	22,275	31,355	32,561
Other	335	169	490	247
	W 234,563	W 241,732	$ 342,878	$ 353,358

10. Long-Term Debt

Long-term debt at December 31, 1988 and 1987, is summarized as follows:

	1988			
	Due	*Average Interest Rate per Annum*	*Won (millions)*	*U.S. Dollars (thousands)*
Foreign currency debt:				
South Korean banks	1989–1995	10%–11%	W 3,026	$ 4,423
Foreign banks	1989–1993	10%–11%	327,540	478,790
			330,566	483,213
Local currency debt:				
South Korean banks	1989–2017	0%– 8%	26,179	38,268
Debentures	1989–1991	11%–13.3%	207,980	304,020
Other			10	14
			234,169	342,302
			564,735	825,515
Less current portion			56,348	82,368
			W 508,387	$ 743,147

(cont.)

	1987			
	Due	*Average Interest Rate per Annum*	*Won (millions)*	*U.S. Dollars (thousands)*
Foreign currency debt:				
South Korean banks	1988–1995	8%–10%	W 88,038	$ 128,692
Foreign banks	1988–1993	7.5%–8.375%	387,417	566,316
			475,455	695,008
Local currency debt:				
South Korean banks	1988–2017	0%–14%	41,278	60,339
Debentures	1988–1991	12.21%–13.5%	257,239	376,025
Other			27	40
			298,544	436,404
			773,999	1,131,412
Less current portion			81,364	118,936
			W 692,635	$ 1,012,476

W 7,300 million ($10,671 thousand) of debentures were held by the Company for resale at December 31, 1987, and are included in other current assets. Such debentures were sold to an affiliated company during 1988. The loss on sale of these debentures, amounting to W 860 million ($1,257 thousand), is included in the gain on sale of marketable securities and investments, net in the accompanying financial statements.

11. Leases

The basic future lease rental payments under various operating lease contracts for computer and telecommunication facilities as of December 31, 1988, are summarized as follows:

	Annual Rental Payments	
Year	*Won (millions)*	*U.S. Dollars (thousands)*
1989	W 1,029	$ 1,504
1990	773	1,130
1991	597	873
1992	127	186
1993	1	1
	W 2,527	$ 3,694

12. Income Taxes

The Company is subject to a number of taxes based on earnings, which result in a normal tax rate of approximately 39.8 percent.

A reconciliation between the effective tax rate and the South Korean normal income tax rate is as follows:

	1988	*1987*
South Korean normal tax rate	39.8%	39.8%
Unrecorded tax effect on timing difference items:		
Reserves established for tax purposes	(5.5)	15.2
Write-off of goodwill	0.8	(19.8)
Other timing difference items	(5.7)	(8.1)
Tax exemption under the Tax Exemption and Reduction Control Law	(11.9)	(5.8)
Other	4.7	2.1
Effective tax rate	22.2%	23.4%

13. Stockholders' Equity

In 1988 the Company issued an additional 8,654,976 shares of common stock with a par value of W 5,000 for cash at W 13,300 per share. Amounts received on the issuance in excess of par value, amounting to W 71,836 million ($105,008 thousand) have been recorded as an increase in capital surplus in the accompanying financial statements. The revaluation surplus of W 160 million ($234 thousand), the capital surplus of W 9,606 million ($14,042 thousand), and appropriated retained earnings of W 11,871 million ($17,353 thousand) were transferred to stated capital in connection with the free distribution of 4,327,488 shares at par.

A summary of the changes in the Company's stockholders' equity account in relation to the foregoing capital stock transactions are as follows:

	Won (millions)			
	Common Stock	*Revaluation Surplus*	*Capital Surplus*	*Reserve for Business Rationalization*
Balance at December 31, 1986	W 120,208	W 160	W 9,606	W 25,591
Issuance of common stock for cash	24,042	—	—	—
Appropriation of reserve for business rationalization	—	—	—	3,400

(cont.)

	Won (millions)			
	Common Stock	*Revaluation Surplus*	*Capital Surplus*	*Reserve for Business Rationalization*
Balance at December 31, 1987	W 144,250	W 160	W 9,606	W 28,991
Issuance of common stock for cash	43,275	—	71,836	—
Free distribution of shares	21,637	(160)	(9,606)	(11,871)
Appropriation of reserve for business rationalization	—	—	—	1,350
Balance at December 31, 1988	W 209,162	W —	W 71,836	W 18,470

	U.S. Dollars (thousands)			
	Common Stock	*Revaluation Surplus*	*Capital Surplus*	*Reserve for Business Rationalization*
Balance at December 31, 1986	$ 175,717	$ 234	$ 14,042	$ 37,408
Issuance of common stock for cash	35,144	—	—	—
Appropriation of reserve for business rationalization	—	—	—	4,970
Balance at December 31, 1987	210,861	234	14,042	42,378
Issuance of common stock for cash	63,258	—	105,008	—
Free distribution of shares	31,629	(234)	(14,042)	(17,353)
Appropriation of reserve for business rationalization	—	—	—	1,974
Balance at December 31, 1988	$ 305,748	$ —	$ 105,008	$ 26,999

14. Appropriated Retained Earnings

Appropriated retained earnings as of December 31, 1988 and 1987, are summarized as follows:

	Won (millions)		*U.S. Dollars (thousands)*	
	1988	*1987*	*1988*	*1987*
Legal reserve	W 13,921	W 12,621	$ 20,349	$ 18,449
Reserve for business rationalization	18,470	28,991	26,999	42,378
Reserve for improvement of financial structure	11,909	9,409	17,408	13,754
Reserve for overseas market development	102,252	93,142	149,469	136,153
Reserve for export loss	9,400	11,467	13,742	16,762
Reserve for loss on overseas operations	36,367	40,200	53,160	58,764
Reserve for loss on overseas investments	5,200	3,890	7,601	5,686
	W 197,519	W 199,720	$ 288,728	$ 291,946

Legal Reserve, Reserve for Business Rationalization, and Reserve for Improvement of Financial Structure

The Korean Commercial Code requires the Company to appropriate as legal reserve an amount equal to at least 10 percent of cash dividends for each accounting period until the reserve equals 50 percent of stated capital.

Under the Tax Exemption and Reduction Control Law, the Company is allowed to make certain deductions from taxable income for overseas operations. The Company is, however, required to appropriate from retained earnings the amount of the tax benefit obtained and transfer such amount into reserve for business rationalization.

The Financial Control Regulations for Listed Companies require the Company to appropriate as reserve for improvement of financial structure an amount equal to at least 50 percent of the net gain on sale of property, plant, and equipment and 10 percent of the net earnings for each year until the Company's net worth equals 30 percent of total assets.

The foregoing reserves may be used to reduce a deficit, or they may be transferred to stated capital in connection with a free issue of shares.

Reserves Set Up for Tax Purposes

Under the Tax Exemption and Reduction Control Law, the Company is allowed to make certain deductions from taxable income and set up reserves for overseas market development, export loss, and loss on overseas operations and overseas investments, by appropriating retained earnings. The unused portion of the reserves is generally added back to taxable income over two to seven years after certain grace periods.

Voluntary Reserves

Voluntary reserves included in the various appropriated retained earnings were established by a stockholders' resolution for unspecified purposes and may be restored to unappropriated earnings by a future stockholders' resolution.

15. Prior Year Adjustments

As allowable under generally accepted financial accounting standards in the Republic of Korea, certain adjustments for financial items related to prior years have been made directly to beginning-of-year retained earnings.

The details of such prior period adjustments for the years ended December 31, 1988 and 1987, are as follows:

	Won (millions)		*U.S. Dollars (thousands)*	
	1988	*1987*	*1988*	*1987*
Income taxes for the prior year	W 9,177	W 9,057	$ 13,415	$ 13,239
Other	1,336	280	1,952	410
	W 10,513	W 9,337	$ 15,367	$ 13,649

16. Commitments and Contingencies

Contingent liabilities for collateral and guarantees of loans and performance, etc., of affiliated companies amounted to W 5,384,878 million ($7,871,478 thousand) at December 31, 1988.

Notes amounting to W 66,428 million ($97,103 thousand) have been given to customers as of December 31, 1988, with respect to warranties made on construction contracts. In addition, notes amounting to W 88,710 million ($129,674 thousand) have been given to customers as of December 31, 1988, regarding warranties made on export sales contracts, etc.

Notes discounted with banks, on which the Company remains contingently liable, amounted to W 492,445 million ($719,844 thousand) at December 31, 1988.

Various lawsuits involving the Company for claims amounted to W 3,611 million ($5,278 thousand) as of December 31, 1988. These lawsuits arose in the ordinary course of business, and significant losses are not expected to occur from them.

A summary of commitments with respect to forward exchange transactions at December 31, 1988, is as follows:

	U.S. Dollars (thousands)
Forward exchange buying contract	$ 2,561
Forward exchange selling contract	171,821
Foreign exchange option forward buying contract	200,000

APPENDIX D

Checklist for Comparison of Generally Accepted Auditing Standards (GAAS) in the United States to Auditing Standards in South Korea

General Information	Answer	Comments
1. Is a primary purpose of an audit:		
a. to attest to information used by investors, creditors, etc.?	Yes	
b. to satisfy statutory requirements (for example, the Companies Act)?	Yes	
c. for tax purposes?	No	
2. A. The United States has ten generally accepted auditing standards including general standards, standards of fieldwork, and standards of reporting. Those standards and their interpretations constitute U.S. generally accepted auditing standards which have been published in *Codification of Statements on Auditing Standards.* Do generally accepted auditing standards exist in South Korea?	Yes	

B. If so, are they published?	Yes
C. If auditing standards exist in South Korea, are they similar to U.S. standards?	Yes
D. If not, what are they?	
3. Who is responsible for promulgating auditing standards (for example, the profession, a governmental body, etc.)?	KICPA

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
4. Do auditors confirm receivables? (AU 331)	Yes. Guideline for Fieldwork No. 550	✓			
5. Do auditors observe inventory counts? (AU 331)	Yes. Guideline for Fieldwork No. 550	✓			
6. Do auditors receive written representations from management? (AU 333)	Yes. Auditing Standards (art. 14-3)	✓			
7. Do auditors receive written representations from management's legal counsel? (AU 337)	Yes. Guideline for Fieldwork No. 550	✓			

Notes:

Checklist should be completed from the perspective of performing a local audit, *not* a referral audit.
AU numbers refer to sections in the *Codification of Statements on Auditing Standards,* unless otherwise noted.
This checklist does not include the latest GAAS pronouncements issued in the United States.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
8. A. Do auditors prepare and maintain working papers? (AU 339)	Yes. Auditing Standards (art. 19) and Guideline for Fieldwork No. 600	✓			
B. If so, do they include a written audit program outlining procedures to be performed? (AU 339)	Yes. Auditing Standards (art. 10) and Guideline for Fieldwork No. 200	✓			
9. Do auditors obtain a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing, and extent of tests to be performed? (AU 319)	Yes. Auditing Standard (art. 12) and Guideline for Fieldwork No. 300	✓			9. The auditor should study and evaluate a company's internal control to determine the nature, timing, and extent of substantive procedures.
10. A. Do auditors communicate reportable conditions in the internal control structure to the audit committee? (AU 325)	Yes. Auditing Standards (art. 12)	✓			
B. If so, is the communication documented? (AU 325)	Yes	✓			
11. In obtaining evidential matter, does the auditor apply either statistical or nonstatistical procedures? (AU 350)	Yes. Auditing Standards (arts. 11, 13, 14) and Guideline for Fieldwork No. 430	✓			
12. Is the auditor responsible for designing the audit to provide reasonable assurance of detecting errors and irregularities that are	Yes. Auditing Standards (arts. 10, 11) and Guideline for Fieldwork No. 200	✓			

material to the financial statements? (AU 316)				
13. Does the auditor perform procedures to identify related party transactions and their effect on the financial statements? (AU 334)	Yes. Auditing Standards (art. 14) and Guideline for Fieldwork No. 440	✓		
14. Does the auditor consider the adequacy of cutoff procedures to ensure that movements into and out of inventories are properly identified in the accounting records? (AU 313)	Yes	✓		
15. A. Are specific auditing procedures applied to transactions occurring after the balance sheet date? (AU 560)	Yes	✓		
B. Are other auditing procedures applied to ascertain the occurrence of subsequent events that require adjustment to or disclosure in the financial statements? (AU 560)	Yes	✓		
16. The concept of "joint auditors" in certain countries (e.g., U.K., Canada, and Australia) is that two auditors or audit firms jointly audit the financial statements of a company and issue a single report signed by the two firms. This practice is not generally followed in the U.S. Does the concept of "joint auditors" exist in South Korea?	No		✓	16. See paragraph 44 of text.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
17. When a principal auditor is reporting on financial statements that include one or more subsidiaries, divisions, branches, or investees: (AU 543)					
A. Must the principal auditor assume responsibility for the work of the other auditor as it relates to the principal auditor's opinion?	Yes. Auditing Standards (arts. 23-5, 31) and Guideline for Reporting No. 330	✓			
B. May the principal auditor decide not to assume that responsibility by making reference to the other auditor and indicating the division of responsibility?	Yes. Auditing Standards (art. 23-5) and Guideline for Reporting No. 330		✓		17B. Under certain circumstances, the principal auditor can refer to other auditors in his or her report.
18. A. Is there a standard form of auditor's report? (AU 508)	Yes. Guideline for Reporting No. 200	✓			
B. List the circumstances that require a departure from the standard report and indicate the type of report required. (AU 508)					18B. See paragraph 42 of text.
19. A. Does the auditor's report require an explanatory paragraph for a change in accounting principles or in the method of their application? (AU 508)	Yes	✓			19A. See paragraph 39 of text.

B. If not, does it imply that either consistency exists or the financial statements disclose the inconsistency?			
20. A. Is the auditor's report dated as of the last day of fieldwork? (AU 530)	Yes. Auditing Standards (art. 22) and Guideline for Reporting No. 260	✓	20A. The date of the audit report should be when fieldwork is completed.
B. If not, what date is used?			
21. To express an opinion, must the auditor be independent? For the purpose of this checklist, independence is defined as not having a financial interest in or connection with the client. (*Code of Professional Conduct,* Rule 101 and its interpretations)	Yes. Auditing Standards (art. 7) and *Code of Professional Ethics* 15	✓	
22. Please describe any standards in South Korea for which there are no corresponding U.S. standards.			22. None

APPENDIX E

Checklist for Comparison of Generally Accepted Accounting Principles (GAAP) in the United States to Accounting Principles in South Korea

General Information	Answer	Comments
1. Are there generally accepted accounting principles in South Korea? If so, are they codified?	Yes	
2. Who is responsible for promulgating accounting principles (for example, the profession, a governmental body, etc.)?		2. The Securities and Exchange Commission, with the approval of the Ministry of Finance, provides accounting standards. The Commercial Code also specifies certain accounting principles, valuation methods, and disclosures. Regulatory bodies can also prescribe generally accepted accounting principles for applicable industries.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
3. Are assets and liabilities recorded on the historical cost basis?	Yes	✓			3. The Accounting Standards require that assets should generally be recorded at acquisition cost unless they have been revalued in accordance with the Asset Revaluation Law, which applies to certain classes of property, plant, and equipment.
4. Are interest costs, incurred while activities that are necessary to get an asset ready for its intended use are in progress, capitalized as part of the historical cost of an asset? (I67)	Yes. FAS (art. 96)	✓			
5. A. Is a general revaluation (either upward or downward) of assets permitted? (D40)	Yes	✓			
B. If so, define the basis.					5B. See paragraphs 75 through 77 of text.
6. Are nonmonetary transactions that culminate an earnings process accounted for on the basis of the	Yes. FAS (art. 96)	✓			

Notes:

References are to sections in the *FASB Current Text,* unless otherwise noted.
This checklist does not include the latest GAAP pronouncements issued in the United States.
FAS = Accounting Standards for Business Enterprises
ASC = Accounting Standards for Consolidated Financial Statements
ASL = Accounting Standards for Leasing Transactions

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
fair market value of the assets involved when that value is determined within reasonable limits? (N35)					
7. Is revenue recognized when it is earned and its realization is reasonably assured (rather than when money is received)? (Statement of Financial Accounting Concepts No. 5)	Yes. FAS (art. 65)	✓			
8. Are costs recorded when incurred rather than when money is paid? (Statement of Financial Accounting Concepts No. 5)	Yes. FAS (art. 65)	✓			
9. A. Are consolidated financial statements required when one company has control over another company? (C51)	Yes	✓			
B. Is control usually indicated by ownership of over fifty percent of the outstanding voting shares? If not, how is control indicated?	Yes. ASC (art. 3)	✓			
10. A. Are there instances when an entity would not be consolidated even though control is present? (C51)	Yes	✓			
B. If so, list them.					10B. See paragraph 103 of text.

11. If consolidation is not otherwise appropriate, is the equity method used for unconsolidated subsidiaries, corporate joint ventures, and other investees, if the investments give the investor the ability to exercise significant influence over the investees' operating and financial policies? (I82)	Yes	✓	11. See paragraph 104 of text.
12. Are there two methods of accounting for business combinations—the pooling-of-interests method and the purchase method? (B50)	Yes	✓	
13. Is the method used to account for a business combination disclosed? (B50)	Yes	✓	
14. A. Do criteria exist for treatment of business combinations as a pooling of interests? (B50)	No	✓	
B. If so, list the criteria.			
15. A. Is goodwill arising from a business combination accounted for as an asset? (I60)	Yes	✓	15A,B. The Accounting Standards provide that goodwill shall be accounted for as an intangible asset and shall be amortized over no more than five fiscal years on a straight-line method.
B. If so, is it amortized as a charge to income over the period estimated to be benefited?	Yes	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
16. Are the following disclosures made for related party transactions: (R36)					
a. the nature of the relationship?	Yes	✓			
b. a description of the transactions for the periods presented?	Yes	✓			
c. the amounts of the transactions for the periods presented?	Yes	✓			
d. the amounts due to or from related parties at the balance sheet date?	Yes	✓			
17. Is an estimated loss from a loss contingency accrued only if it is probable that an asset has been impaired or a liability incurred and the amount of loss can be reasonably estimated? (C59)	Yes	✓			
18. If a loss contingency is not accrued because both conditions for accrual listed in question 17 are not met, is disclosure of the contingency required when there is at least a reasonable possibility that a loss may have been incurred? (C59)	Yes. FAS (art. 63)	✓			18. Required disclosure consists of a description and amount of each contingent liability.
19. Are guarantees of the indebtedness of others or other loss con-	Yes. FAS (art. 65)	✓			

tingencies disclosed in financial statements even though the possibility of loss may be remote? [In the U.S., guarantees are usually disclosed as loss contingencies even if the possibility of loss is remote.] (C59)				
20. Are the following items disclosed in a public enterprise's financial statements for each industry segment: (S20)				
a. sales to outsiders and intersegment sales?	No		✓	20*a-f*. The FAS does not address segment disclosure.
b. operating profit or loss?	No		✓	
c. identifiable assets and related depreciation, depletion, and amortization expense?	No		✓	
d. capital expenditures?	No		✓	
e. equity in net income and net assets of unconsolidated subsidiaries and other investees?	No		✓	
f. effect of a change in accounting principle?	No		✓	
21. A. Are there any requirements or recommendations to disclose the effects of inflation? (C28)	No		✓	
B. If so, list the disclosures required.				
22. Are assets segregated into current and noncurrent classifications with a total for current assets presented? (B05)	Yes. FAS (art. 11)	✓		

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
23. A. Are noncurrent assets those not expected to be realized within one year or the current operating cycle? (B05)	No			✓	23A,B. Current or noncurrent assets are classified based on their liquidation within one year.
B. If not, how are noncurrent assets defined?					
24. A. Is an allowance established for uncollectible receivables? (C59)	Yes. FAS (art. 75)	✓			
B. If so, what is the basis (e.g., percentage of sales, aging of receivables, etc.) for calculating the allowance?	None specified				
25. Are receivables and payables, not arising in the normal course of business or subject to normal trade terms, recorded at an amount which takes imputed interest into account? (I69)	No			✓	
26. A. Is inventory stated at the lower of cost or market (or net realizable value)? (I78)	Yes. FAS (art. 93)	✓			26A. If the market value of inventory has fallen below cost by 30 percent or more, it should be valued at the market value.
B. If not, how is inventory stated?					
C. Is the basis disclosed?	Yes. FAS (art. 69)	✓			

27. Does cost for inventory purposes include: (I78)		
a. materials?	Yes. FAS (art. 71)	✓
b. direct labor?	Yes. FAS (art. 71)	✓
c. factory overhead?	Yes. FAS (art. 71)	✓
d. if the answer to *c* is yes, is an allocable share of all factory overhead included?	Yes	✓
28. A. Are the following cost methods permitted for reporting purposes: (I78)		
a. first-in, first-out (FIFO)?	Yes. FAS (art. 93)	✓
b. last-in, first-out (LIFO)?	Yes. FAS (art. 93)	✓
c. average cost?	Yes. FAS (art. 93)	✓
B. Are the same methods permitted for tax purposes?	Yes	✓
29. Is the inventory costing method used disclosed? (I78)	Yes	✓
30. A. Are fixed assets depreciated over their estimated useful lives by systematic charges to income? (D40)	Yes	✓
B. If so, is an accumulated depreciation account used?	Yes. FAS (art. 30)	✓
31. Are disclosures made of: (D40)		
a. depreciation expense for the period?	Yes	✓
b. balances of major classes of depreciable assets?	Yes. FAS (art. 29)	✓
c. the methods used to compute depreciation for the major asset classes?	Yes. FAS (art. 5)	✓

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
d. accumulated depreciation, either by major class of assets or in total?	Yes. FAS (art. 30)	✓			
32. A. Do criteria exist for classifying leases as operating leases? (L10)	Yes. ASL (art. 4)	✓			
B. If so, list the criteria and disclosure requirements.					32B. See paragraph 81 of text.
33. A. Do criteria exist for classifying leases as other than operating leases for the lessor and lessee? (L10)	Yes. ASL (art. 4)	✓			
B. If so, list the criteria, type of lease, and disclosure requirements.					33B. See paragraphs 81 and 86 of text.
34. Are liabilities segregated into current and noncurrent classifications with a total for current liabilities presented? (B05)	Yes. FAS (arts. 44 and 45)	✓			
35. A. Are noncurrent liabilities those whose liquidation is not expected to require the use of current assets or the creation of current liabilities? (B05)	No			✓	35A,B. Noncurrent liabilities are defined as those that will not be liquidated within one year of the balance sheet date.
B. If not, how are noncurrent liabilities defined?					

36. For notes payable, is disclosure made of: (C32)		
a. interest rates?	Yes	✓
b. maturities?	Yes	✓
c. assets pledged as collateral?	Yes	✓
d. covenants to reduce debt?	Yes	✓
e. minimum working capital requirements?	Yes	✓
f. dividend restrictions?	Yes	✓
37. For long-term construction-type contracts, are the percentage-of-completion and completed contract methods used? (Co4)	Yes. FAS (art. 67)	✓
38. A. Are research costs charged to expense when incurred? (R50)	Yes	✓
B. Are such costs disclosed?	Yes	✓
39. A. Are development costs charged to expense when incurred? (R50)	Yes	✓
B. Are such costs disclosed?	Yes	✓
40. A. In the U.S., events and transactions are presented in the income statement as extraordinary items when they are unusual in nature and are of the type that would not reasonably be expected to recur in the foreseeable future. Do similar criteria for identifying extraordinary items exist in South Korea? (I17)	Yes	✓
B. If not, what are the criteria?		

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
41. Are material events or transactions that are unusual in nature or expected to occur infrequently but not both (and thus do not meet the criteria for classification as extraordinary) shown as a separate component of income or expense? (I22)	Yes	✓			
42. Are disclosures required for:					
a. extraordinary items? (I17)	Yes	✓			
b. material events or transactions not classified as extraordinary items? (I22)	Yes	✓			
c. disposal of a segment of a business? (I13)	Yes	✓			
43. A. Are pension costs provided for covered employees over the term of employment? (P16)	No			✓	43A. There are no FAS provisions or other mandatory guidance regarding pension accounting.
B. If so, do they include charges for costs assigned under the actuarial method used to years prior to the plan's inception?					
44. A. Are specific disclosures required relating to pension plans? (P16)	No			✓	
B. If so, list them.					

45. A. When accounting income and taxable income differ, are deferred income taxes recorded for temporary differences (as opposed to permanent differences)? (I25)	No		✓	
B. If so, are deferred taxes provided for all timing differences (as opposed to only those meeting certain criteria)?				
C. If deferred taxes are provided only for those timing differences meeting certain criteria, what are the criteria?				
46. Are deferred taxes determined on the basis of current tax rates? (I25)	No		✓	
47. A. Is specific information related to income taxes required to be disclosed? (I25)	No		✓	
B. If so, list the requirements.				
48. A. Are operating losses reported on the income tax return allowed to be carried backward to earlier periods? (I25)	No		✓	48A. Losses incurred in the current year are not allowed to be carried back to be offset against income earned in prior years.
B. If so, are the tax effects of a loss carryback included in the income in the period?				
49. A. Are operating losses reported on the income tax return allowed to be carried forward? (I25)	Yes. Corporation Tax Law (art. 8)	✓		

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
B. If so, are the tax effects of a loss carryforward included in the income in the period realized?	See Comment				49B. An operating loss may be carried forward a maximum of three years and offset against future income. If utilized, it is reported as an extraordinary item.
50. Are financial statements of a foreign entity prepared for consolidation purposes measured in the currency of the primary economic environment in which the entity operates? (F60)	Yes. FAS (art. 103-2)	✓			
51. Are all elements of financial statements translated at current exchange rates? (F60)	No. FAS (art. 103-2)	✓			
52. A. Are translation adjustments reported separately? (F60)	No			✓	52A-C. Translation adjustments are recorded as deferred assets or liabilities and are amortized over a five-year period.
B. Are they accumulated in a separate component of stockholders' equity until ultimately realized?	No			✓	
C. Is there an analysis of the changes during the period in the component of stockholders' equity relating to translation adjustments?	No			✓	

53. A. Are gains and losses resulting from transactions, denominated in a currency other than that of the environment in which the entity operates, included in determining net income for the period in which the exchange rate changes? (F60)	Yes	✓		
B. Is the aggregate transaction gain or loss included in determining net income for the period disclosed in the financial statements or notes?	No		✓	
54. Are gains or losses on foreign currency transactions that are intended to hedge a foreign currency commitment deferred and included in the related transactions? (F60)	No		✓	
55. What information is disclosed about foreign currency restrictions? (F60)	See Comment		✓	55. No disclosure is required.
56. Are significant events arising subsequent to the balance sheet date reflected in the financial statements or notes thereto? (C59)	Yes. FAS (art. 63)	✓		56. Subsequent events are required to be disclosed in a footnote.
57. Please list any standards for South Korea for which there are no corresponding U.S. standards.				57. None

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