

Accountancy and Accounting Education in Korea

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《Contents》

A. Accountancy in Korea

1. Historical and Political Background of Modern Korea
2. The Development of Korean Economy and Business Systems of Korea
3. The Characteristics of Korean Accounting
4. Professional Regulatory Bodies in Korea
5. Accounting Principles and Its Formulation Process in Korea
6. Professional Accountants in Korea

B. Accounting Education in Korea

1. The History of Education and Education System in Korea
2. The History of Accounting and Accounting Education in Korea
3. Curriculum
4. Accounting Teachers
5. Textbooks and Teaching Materials
6. Accounting Research and Korean Accounting Association

C. Evaluative Comments

Bibliography

A. Accountancy in Korea

1. Historical and Political Background of Modern Korea

Korea is an ancient country with a history of 5,000 years. The early days of Korea are shrouded in the clouds of mythological stories. However, the origin of Korean people and Korean history begin usually with the "Three Kingdom Era" (Koguryo, Paekje, Silla Dynasties). By 668 the Silla Kingdom

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이 글은 美國會計學會에서 발간하는 Accounting Education and the Third World(委員長 Adolf J. H. Enthoven 教授)에 수록하기 위하여 작성된 것으로 韓國의 會計 및 會計教育에 관한 최초의 소개문헌이 될 것이다.

had unified the Korean People.

The Silla Dynasty was succeeded by Koryo, which ruled from 918 and was replaced by the Yi Dynasty, which ruled from 1392 to 1910. Then came the Japanese annexation of Korea until independence was gained on August, 1945. The defeat of Japan in 1945 did not bring all Koreans freedom. The Russians occupied the northern half of the 38th parallel and the Americans the south.

The north launched a surprise invasion of the south on June 25, 1950. That was the Korean War. After bitter destructive battles a truce was signed in 1953, leaving the border nearly where it was before the war.

In 1960, a nationwide uprising by students was touched off by the rigging of an election by Syngman Rhee's government, which had been in power since 1948. Syngman Rhee stepped down from the presidency and following a new general election, the Democratic Party formed a new government.

However, the Democratic Party government proved to be inefficient in solving urgent national problems. To eradicate corruption, restore stability, build a selfsupporting economy and protect from the country from the threat of communism, General Chung-Hee Park, late President of the Republic, took over the government on May 16, 1961.

During President Park's rule, the first five year economic development plan was introduced in 1962. Since then Korea has emerged as one of the fast growing countries in the world and maintained one of the highest rates of growth in modern economic history.

President Park was assassinated in 1979 in political turmoil. But his state policies are respected and followed by his successors. Through the transition government led by Kyu-Ha Choi, General Doo-Hwan Chun has been newly elected as President of the Republic. President Chun has started cleaning corruptions, realignment of industry for boosting the international competitiveness of the nation's big industries, commendable educational reforms, clean climate of politics, and solving other problem areas which were the sources for people's dissatisfaction.

2. The Development of Korean Economy and Business Systems of Korea

Since the First Five-Year Economic Development Plan was introduced in 1962 as a coordinated economic plan, Korea has achieved dramatic progress in various fields including over \$12,000 million in yearly exports, a balance in international trade payments, a sharp increase in rural income, expansion of heavy and chemical industries and social overhead capital, and the introduction of a medicare system and other social development projects. Between 1962 and 1978, the GNP, growing at an average of about 9.3 percent per annum increased from \$2.3 billion to \$46.0 billion in current prices, while per capita GNP rose from \$87 to \$1,242 in current prices. Now the fourth five-year economic plan has been launched from 1977 through 1981.

Korea is fast becoming a heavily industrialized country and is already a major trading country. Korea's economic development is reflected in the rapid expansion of 40% annually to a total of \$12.7 billion in 1978. Commodity imports have also expanded markedly, rising from \$390 million to \$14.5 billion, an annual increase of 27%.

Since the early 1960's the Korean economy has come a long way from being the mere recipient of "pump-priming" assistance in the form of foreign aid, soft loans, and taxation privileges and other incentives to become a viable repayer and reinvestor.

In a successful effort to attract foreign investment, several "export estates" have been set up. Inducements include tax advantage, guaranteed remittance of profits and principal, and facilities designed for the comfort and convenience of foreign managerial or technical staff members.

The securities market also had striking development during last decade. Public offerings have increased rapidly following the enactment of a law in 1973 requiring certain private companies to "go public". There were 356 listed companies with capital of ₩1,914 billion at the end of 1978. The value of bonds listed on the the exchange amounted to ₩970 billion at the end of

1978. The total value of listed securities at the end of 1978 of ₩2,884 billion showed twenty-fold increase over seven years.

However, in the wake of the reemergence of worldwide stagflation following closely upon the 2nd oil shock, the Korean economy also experienced as other western countries accelerated inflation, slowdowns in economic growth and unemployment, and a deteriorating balance of payment situation. Thus Korea suffered a rapid recession beginning in the latter half of 1979 due to frequent oil price hikes and the unstable oil situation. But Korea is expected to return to the position of fast economic progress when the world economy recovers.

Business systems of Korea are similar in nature as in other capitalistic nations. The characteristics of capitalism, free competition, profit seeking and private ownership, are all assured. However, the government plays a key role in regulating business enterprises. For example, the government take various measures like stepped-up support for heavy and chemical industries, the strengthening of international competitiveness of local enterprises, technological innovation and development of skilled manpower and the fostering of small and medium enterprises.

As a measure to help strengthen the competitiveness of Korea's manufacturing industry on the international market, the government had designated key group companies as general trading companies. Those companies are business leader trading companies. Those companies are business leaders in Korea. Such companies like Daewoo Industrial Co., Hyundai Co., and Samsung Co. Ltd, which were also listed on the Fortune's 500, are general trading companies. They receive special government supports for their growth, because their growths are vital to Korean economic development.

Such a strong government leadership prevails to every corner of Korean business circles. The government influence on the accounting profession is the same in this line.

3. The Characteristics of Korean Accounting

There are some characteristics of Korean accounting which are conceived as distinctively different from those of U. S. accounting. The characteristics can be described as below.

(1) Accounting is still in the stage of developing.

Accounting in Korea is gradually developing. As a token of underdevelopment, some of important accountinng informations are not fully disclosed and the quality of audit report is not yet assured. The reason of undevelopment is partially due to a slow acceptance of western accounting education. Heavily influenced by the Japanese accounting education, accounting education in Korea is gradually improving nowadays. So does the accounting profession by improving its audit reports. However, Korea must wait for several years to achieve same quality of audit reports as in the U.S.

(2) Strong government influences on accounting principles formulation and practices are noted.

In Korea, the task of accounting principles formulation belongs to the government sector. The accounting profession, especially KICPA, the only organization of professional CPAs, has played minor role in the formulation of accounting principles.

The accounting profession in Korea is controlled and regulated by the Security Division of the Ministry of Finance and Korean SEC (and its arm Securities Supervisory Board). These two organizations control and regulate Korean accounting and auditors in the wake of controlling securities market.

(3) Tax accounting dominates business accounting in Korea.

In Korea tax accounting is predominant. Even though auditors have tried to avoid the bad impact of tax accounting, tax law affects negatively in the application of business accounting principles. Recently some efforts have been made to correct this malpractice. But there still remain many differences between business accounting and tax accounting. Some of differences are:

- reserve for retirement and severance benefits
- allowance for doubtful accounts
- special depreciation
- revenue recognition
- reserve for mine development
- reserve for security transactions
- reserve for technical development

These provisions which are not in accordance with Korean GAAP must be disclosed in the accompanying notes to the financial statements. But often this disclosure is not presented as it should be and auditors sometimes hesitate to qualify their opinion on this matter.

(4) Peculiar accounting procedures are followed.

Some peculiar accounting procedures are accepted in Korea.

- Periodical revaluation of fixed assets are allowed at least every two year with acceptance from tax authorities.
- Financial statements are usually prepared on an individual company basis rather than on consolidation basis. The making of consolidated statements are not prevailed even though it is mandatorily required.
- Some accounting procedures are permitted to promote business activities by government. For example, special depreciation is allowed to manufacturing and other deferred changes are capitalized instead of expensed.
- Dividends are not deducted from the year-end retained earnings as dividends payables are not recorded on the balance sheet. Therefore, there are always the problem of overstatement of retained earnings and understatement of current liabilities.
- Sometimes, there can not be any distinction between current assets and longterm assets or current liabilities and longterm liabilities. For example, many Korean company's current liabilities are rolled up and extended over the maturity date over and over, so it has the nature of longterm liabilities. Consequently, there could be some limitation on ratio

analysis, especially current ratio.

—Most properties of Korean companies are secured as collateral. Korean companies are used to do business with lots of liabilities. Therefore, most of their properties must be collateralized as a guarantee for those liabilities.

(5) The quality of auditing is not yet assured.

The independent auditing in Korea is relatively new in Korea. It was not until 1973 that mandatory audit was required to stock exchange listed companies (about 360 companies), registered companies and other designated healthy private companies which have the potential to go public. Presently it is known that auditing standards and techniques are not developed observed well in Korea. There are problems of allocating audit jobs. However, it is expected that the quality of auditing will be improved as same as the economic progress. The Ministry of Finance is not satisfied with the present state of the profession and has requested recommendations from various organizations. It is expected that Korean SEC will act positively to improve the quality of audit reports. Presently about 70% of audit opinions are unqualified opinions. But there are possibilities that many of unqualified opinions could be qualified opinions or some other opinions at U.S. auditing standards.

4. Professional Regulatory Bodies in Korea

The accounting profession in Korea is controlled and regulated by the Securities Division of the Ministry of Finance (MOF) and the Financial Management Division of the Korean Securities Supervisory Board (an arm of the Korean Securities Exchange Commission, KSEC) through the Korean Institute of Certified Public Accountants (KICPA) under the following laws, decrees and regulations.

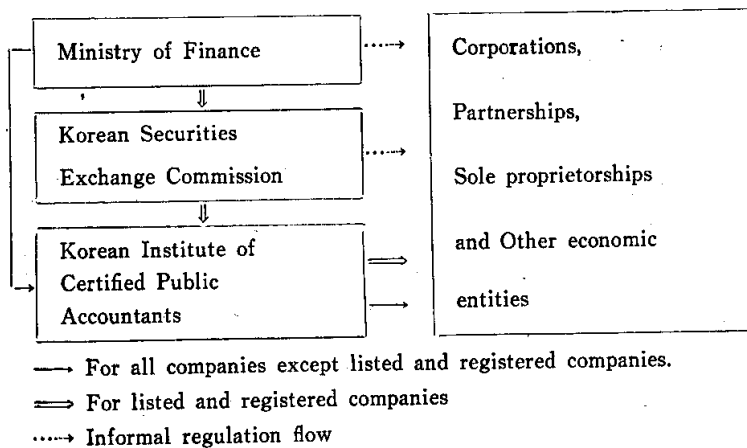
- Securities Exchange Law
- Certified Public Accountants Law
- Regulation on the Issue of CPA Certificates
- Regulation on Professional Fees for CPAs

— KICPA's Bylaws and Regulations

In the Exhibit I, the regulation process of Korean accounting profession consists of two flows. First, for listed and registered companies, the MOF and the Korean SEC regulate companies through the KICPA.

From the Exhibit I, it is clear that the regulatory power belongs solely to the public sector. The MOF leads all the accounting matters in Korea. The MOF is responsible for the formulation of accounting principles as well as its implementation. Even the Korean SEC and the KICPA receives order from the MOF and follows MOF's guidelines. This kind of practices seems inevitable from the point of Korean political and social situations. But the government's dominance has leaded Korean accounting to the tax accounting orientation, rigid accounting regulations and slowness of accounting principles revision work. So far, the development of accounting has not kept up with the developments or changes of economic environment or business management techniques because of its rigidity and inflexibility.

Exhibit I. Professional Regulation Process



5. Accounting Principles and Its Formulation Process in Korean

There are two sets of accounting principles in Korea, one for general use and another applicable to stock exchange listed companies. The former is "Business Accounting Principles" and Financial Statement Rules (companion

set) and the latter is "The Accounting Principles for Listed Companies" and "Financial Statement Rules for Listed Companies" (companion set).

These two sets of Korean GAAP are actually same in its content and in format with the exception of minor differences. But there exists a possibility that these two principles could be differently formulated. Recently the Ministry of Finance has requested the Accounting System Advisory Committee (ASAC) of the Korean SEC for revision. The revision is now in process, hoping to issue the proposed draft at the end of this year. The important revision would be the mandatory requirement for preparation of comparative financial statements recognition of a statement of financial position as one of basic financial statements, and treatment of prior period adjustment as an adjustment to beginning retained earnings.

Korean accounting principles are actually influenced by Japanese accounting principles. The form and content of financial statement are similar. The original Business Accounting Principles were pronounced in 1958 and revised in 1976.

The Accounting Principles for Listed Companies were pronounced in 1974 and revised in 1976. Since there are no significant differences between these two principles, many people are questioning on the reasonableness of dual accounting principles existence.

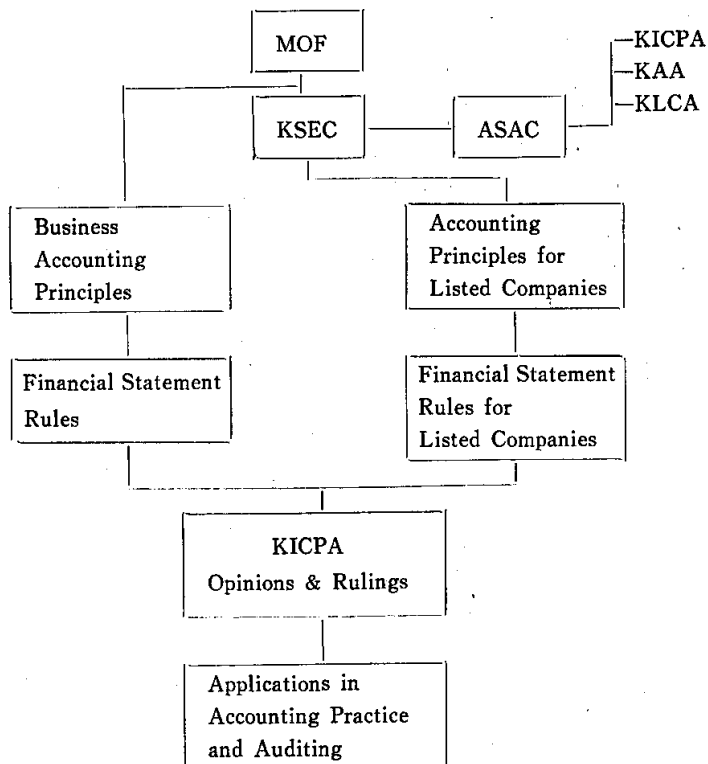
In addition to the above principles there are some laws and regulations which are not covered by above principles.

- Commercial Code
- Corporate Income Tax Laws
- Financial Control Regulation for Listed Companies (issued by KSEC)
- Asset Revaluation Law
- Laws and Regulations Governing Special Industries.

Standards setting bodies in Korea are shown in Exhibit II. From Exhibit II we can know the following things.

First, the Ministry of Finance supervises the entire formulation work or interpretation of principles, so the responsibility of formulation belongs strictly

Exhibit II. Accounting Standards and Standards Setting Bodies in Korea



MOF : Ministry of Finance
 KSEC : Korean Securities Exchange Commission
 ASEC : Accounting Systems Advisory Committee
 KICPA : Korean Institute of Certified Public Accountants
 KAA : Korean Accounting Association
 KLCA : Korean Listed Companies Association

to the government sector.

Second, Korean Securities Exchange Commission plays major role in the formulation of accounting principles for listed companies. The Accounting Systems Advisory Committee is the arm of KSEC and this organization does actual work of formation and interpretation for listed companies.

Third, Korean Institute of CPAs, Korean Accounting Association (academic org.) and Korean Listed Companies Association (KLCA) usually sends their opinion or proposed draft to KSEC and MOF for consideration of revision work. Thus, these organizations plays a kind of advisory role to KSEC and MOF.

Fourth, presently there is no organization which formulate and interpret

accounting principles for general use. The original Business Accounting and the Financial Statement Rules were formulated by the Business Accounting Rules Committee of the Ministry of Finance. But this committee no more exists, and the MOF still has the power to revise principles. It is expected the creation of new FASB type accounting standards body or the Accounting Systems Advisory Committee may substitute that organization.

6. Professional Accountants in Korea

(1) Economic Development and Professional Accountants

It was not until recent years that an accountantship is regared as a socially respected profession in Korea. In the past, maybe until now, CPAs have been regared simply as bookkeepers or tax problem solving specialists. In addition, accountants work in a low profile in comparison with American auditors. Their works have not been socially respected or appraised, but considered as a tool of earning profit for their auditing services.

However, such a mistaken concept on auditors have changed recently. In line with economic developments and change of accounting environments, the Korean business society gradually recognizes the importance of auditing and auditors' responsibility. Especially, auditing has developed as the securities market expanded.

1973 was the important year for CPA as well as for the capital market. In 1973, important economic measures such as Capital Market Promotion Act, Companies Stock Public Offering Act, Foreign Capital Inducement Act, Special Decree on Korean Economic Stability and Growth, and above all, Securities Exchange Law are newly formulated or revised. By the revision of Securities Exchange Law, listed and registered companies are subject to receive compulsory audit from CPAs. With this measure, CPA opinions, once disregarded its importance by businessmen, were gradually recognized. Their opinions must be disclosed to the public by attaching to the financial statements. And if a company receives an adverse or a disclaimer of opinion, a special notice of

attention on the applicable stock is issued to the public and various penalties and punishments are assessed to the company. As a result, management realizes gradually the importance of clean opinions.

As CPAs' work expanded, CPAs' social role was gradually recognized as important. CPAs earn a good salary as well. On the other hand there were some challenges and questions on the abilities of CPAs and their quality standards.

(2) Services of the Accountants

Korean CPAs perform similar services as American CPAs. They perform auditing service, tax service and management service. But the nature, contents, and the way of rendering services are somewhat different. The companies to be audited by CPAs classified as follows:

1. Statutory Audit

(1) Audit for protection of investors

- a. Securities Exchange Law: all listed companies
- b. Law on dividend remittance guarantee of stocks
- c. Enforcement decree of Securities Exchange Law: all security firms

(2) Audit of credit beneficiaries

- a. Companies of borrowings in excess of two billion won controlled under the Bank of Korea
- b. Groups of affiliated companies
- c. Firm with borrowings in excess of 100 million won from Korea Development Bank
- d. Other Statutory Audits e.g. Enforcement decree of provisional management law on military goods supply: military goods suppliers under MCI

2. Voluntary Audit

(1) Audit of credit beneficiaries

- a. Government sponsored Loans e.g. IBRD Loan, ADB Loan, AID Loan, etc.
- b. Overseas Private capital credit, EXIM, WAB, BOA, etc.

- c. Audit of royalty beneficiaries
- d. The companies of which stock price are requested to be evaluated by stock purchasers of consolidating companies.
- e. Internal audit requested by top management
- f. Audit requested by prosecutors office, shareholders, fellow traders, etc
- g. Others

Between statutory and voluntary audits, statutory audits are more important than voluntary audits from the point of effect on investors. In essence most of Korean audits are statutory audits. Audit for listed and registered companies is performed in accordance with the Securities Exchange Law. Also, audit for credit beneficiaries is performed in accordance with the statutory requirement that companies of borrowings in excess of two billion won controlled under the Bank of Korea must be audited. Statutory audits are basis for audit job allocation among CPAs as explained later.

However, there is a tendency of increase in voluntary audits in recent years. Recently, the new government has suggested that CPAs should perform audits of universities, colleges and other private schools. Therefore, there will be a great demand on CPAs. As a result some research on accounting for not-for-profit organization will be needed.

(3) Korean Institute of Certified Public Accountants

Korean Institute of Certified Public Accountants is the only professional accountants' organization in Korea. It is organized by CPAs who have passed CPA examinations and registered with the Ministry of Finance and the KICPA. The objects of the Institute are to improve the dignity of the CPAs, promote the practice of the CPAs and intend the mutual friendship among the members.

The KICPA is organized with a president, two vice-presidents, two statutory auditors, six directors, a secretary and administrative staffs. The three main committees include Research, Ethics, and Quality Audit Review. The Research Committee has seven subcommittees to deliberate on matters of accounting principles, auditing, taxation, legal, international accounting, management con-

sulting and public and governmental accounting.

There are 1,260 members of KICPA at September 30, 1980. Under the Securities Exchange Law and the CPA Law, CPAs are required to form themselves into partnerships or audit corporations with the approval of the Ministry of Finance and become the only CPAs qualified to audit companies in Korea for KSEC, bank and government purposes. The government has been encouraging larger CPA firms by restricting the size of companies that can be audited by firms with less than 30 CPAs.

The KICPA has a number of training programs for its members. Each year the Institute generally has one general three-day seminar and about ten two-day seminars on specific accounting, auditing and tax matters.

It is generally recognized that Korean CPAs have not yet achieved the same high standards of U.S. or U.K. auditors. The reasons arose from the short history of auditing, loose auditing standards and professional ethics, and problems of audit contract (allocation of audit jobs on point system basis regardless of auditors' abilities).

The important promulgations of the KICPA are opinions, rulings, auditing standards and professional ethics code. The KICPA also publishes a journal named "*Accounting*" yearly.

Foreign CPAs can practice in Korea. Foreign CPAs are required to take oral examinations on the Korean commercial code and tax regulations in order to qualify in Korea. Their activities are, however, restricted.

Six foreign CPA firms have a presence in Korea through some forms of association with the Korean audit corporations. Their names are: Arthur Young & Co., Coopers & Lybrand, Peat, Marwick, Mitchell & Co., Price Waterhouse & Co., Tuche Ross & Co. and SGV of philippine.

(4) CPA Examination

To be a CPA, Korean students must take three CPA examinations given by the MOF. Since Examination 1 is exempt for students with two years of college education, college students usually take Examination 2 and 3.

Examination 1 is designed to test the candidate's general educational level. The subjects covered are Korean, Mathematics, English and basic law.

Examination 2 is important to college students. The test is designed to test the candidate's knowledge and application of accounting and other commercial subjects. The subjects are intermediate accounting, auditing, cost accounting theory, business administration theory, economics and the commercial code.

Examination 3 is the test of candidate's practical ability to carry out CPA work. The candidate must serve two years of articleship before taking this examination. The subjects are advanced accounting, advanced auditing, cost control, financial analysis and tax accounting.

Each examination is given once a year in Seoul. The candidate must pass all subjects at one time to advance to the next examination. The average passing rate of the examinations are Examination 1, 11%, Examination 2, 5%, and Examination 3, 32%. It is known that passing of CPA examination is extremely difficult, because the pass rate of Examination is too low. The MOF is currently in process of revising the CPA examination regulations to eliminate various criticism on examination.

B. Accounting Education in Korea

1. The History of Education and Education System in Korea

Education in Korea has recorded a significant growth during the last 30 years. The total registrations with various level of schools showed a sixfold increase to the present 8.7 million persons from 1.4 millions in 1945. Particularly, the number of college students boosted from 8,000 to as many as 260,000 during the same period, marking a whopping 33 fold increase. The period also saw an increase of education facilities to 9,498 from 3,018 and a rise of teaching staff to 200,000 from 20,000. Such a remarkable increase of students, facilities and teaching staffs has provided Korea a prime source of manpower for economic development.

Korea's education system was greatly influenced first by the Christian Missionaries and secondly, and ultimately, by the Japanese, at the turn of the century. Modern education was first introduced to Korea by Christian Missionaries in the 1880's. In 1884, a number of missionaries of various denominations arrived in Korea and began building modern schools as part of their missionary activities. By the contributions of missionaries, several private universities were established.

During the Japanese annexation period, the nation's basic education system of elementary, secondary and college education was first established. The Seoul National University was thus founded as a model university. In this respect, the Japanese have contributed to Korea to some extent, but their contributions were frequently disregarded with the much criticized oppression.

The Korean education was also influenced by the U.S., particularly after the liberation from Japan. At the end of World War II, the U.S. military government, which existed in Seoul from 1945 to 1948 until the establishment of Korean government, planted the American education system in Korea to provide the Korean people with democratic education under the principle of equal opportunity. Since then, U.S. influences on Korean education systems have increased in many respects with the close tie between Korea and the U.S.

The Republic of Korea's school system is divided into elementary school, secondary (middle and high school) school and college or university. The 6-3-3-4 schooling system was thus adopted in Korea. Higher education includes universities, graduate schools, independent colleges, and junior colleges except for medical studies, which take six years, undergraduate courses are of four years.

As of the end of 1978, there were 74 four-year regular colleges and universities, 90 graduate schools, 11 two-year teachers' colleges and 10 two-year junior colleges across the nation. Of the higher learning institutions, 140 were private, 55 were state-run and one was public school.

In 1978 the combined enrollment in the nation's higher learning institutions

stood at 308,730. The figure broke down to 277,783 for four-year regular colleges and universities, 19,150 for graduate schools, 4,308 for junior teachers' colleges, 4,803 for junior colleges and 2,686 for miscellaneous vocational colleges.

Meanwhile the number of faculty members totaled 12,586. The figure compared 11,953 faculty members recorded in the previous year.

2. The History of Accounting and Accounting Education in Korea

According to the historical findings, the accounting history of Korea goes back to the times before Luca Pacioli's writing on the double entry bookkeeping. It was during the Koryo Dynasty (918-1392) that Korea's unique bookkeeping system was first invented and used. It is estimated as sometime in the twelfth century, but not in the fifteenth century. The system is known as Songdo Bookkeeping System or Sa-Gae Songdo Chibu-Bup. The system is similar to the double entry system in principle.

Because of lack of communication, Korea's own bookkeeping system was not known to the western world until 1918, when *The Federal Accountant*, an Australian professional journal reported in its editor's note. Now the Songdo Bookkeeping System which had been invented, developed and used by Korean businesses for hundreds of years was completely ignored and only the western system is taught in schools. Thus Pacioli's system replaced the old Korean system, because the Koreans practically abandoned their own system and adopted the western system.

During the Japanese rule, the western bookkeeping was introduced to Korea. It was mostly taught at the commercial high school. After the War, accounting has been also adopted as one of subjects at the college of commerce. Most of accounting subjects at that time appeared were principles of accounting (elementary), cost accounting, auditing and financial analysis. They are introductory courses, not developed as U.S. textbooks under same course titles. Therefore, no courses of intermediate or advanced level of accounting were

taught in the class during that time.

After the World War II accounting is taught at most universities at the department of business administration (formerly department of commerce) as well as at high schools. At high school accounting is taught in two ways. At public high school, bookkeeping which is considered as a part of commerce, is classified as one of three industrial subjects (others, agriculture and manufacturing industry). And high school students must take and study one of these three subjects. At commercial high school accounting is treated as one of core courses and every student must take it.

At the undergraduate level of universities accounting is taught as one of business studies at the department of business administration. So undergraduate students of business studies do not have to specify his major as accounting or some other business areas. But at the graduate level a business student must decide a specific field as his major field among six business areas which are accounting, marketing, production, personnel, finance and international business. Thus students who major in accounting can only appear at the graduate level, not at the undergraduate level.

The department of accountancy was first established at the Sogang University in 1976. The installation of accounting department in Korea is evaluated as important as the establishment of the college of accountancy in the U.S. As a result, the accounting department can be segregated from the department of business administration and accounting can develop beyond the boundaries of business studies. As of March, 1980, the department of accountancy was appeared at 54 universities and colleges with government approval. Such a fast increase of accounting department in number was due to social needs for business studies and accounting, and efforts of university officials. Even the government considers the establishment of a special college for taxation in 1981.

There were certain problems and criticism for the establishment of accounting department. Many students prefer the department of business administration to

the department of accounting. Thus major universities like Seoul National University, Yonsei University and Korea University are reluctant to install the accounting department. Problems and criticism for accounting department are as follows:

First, It is too premature to establish such a specialized department at the undergraduate level of university in Korea. It is argued that students should not specialize in specific field like accounting and should get the broad knowledge of business studies. Second, students with accounting major are hard to find jobs. Their jobs are restricted to mechanical accounting jobs, frequently not allowed to have broad management jobs. Third, the social status of accountants are fairly low at present time. Thus, students tend to be businessman, government officials or persons with more highly respected jobs rather than to be accountants. Fourth, there are many problems in present accounting education. Those problems are also conceived as barriers for the development of accounting department. Problems are scarcity of accounting teachers, not well developed accounting curriculum, and scarcity of quality accounting books. Without such groundworks for accounting education, it appears too early to discuss the installation of accounting department at the undergraduate level. Fifth, from the logic that accounting students should pass the CPA examination as law students must pass the BAR examination, most of accounting students should have CPA titles upon graduation. But because of difficulties in passing the CPA examination, only a few student as now will pass the examination. Therefore, grumbles will be growing among students and students will shun application to the accounting department.

Korean accounting is greatly influenced by Japanese and American accounting. As Japanese accounting was influenced by German accounting, particularly in the past, it can be said that Korean accounting was also influenced by German accounting at some extent. The Japanese have influenced Korea in various aspects after the Korea-Japan annexation. The Japanese ruled Korea for 36 years. Those years were the critical times for Korea, because during that time

Korea was on the verge of approaching to western countries and was beginning to import a new culture from foreign countries. Accounting was one area that was influenced by the Japanese during that time. From that time Koreans tend to accept Japanese social system easily with slight modifications. This tendency is supported on the ground that Korea has not yet developed as Japan and Koreans have similar cultural background as Japanese. As a result, many Korean law, commercial code and accounting principles were formulated in reference to the Japanese. Thus important laws, principles and regulations like Business Accounting Principles, Accounting Principles for Listed Companies, Income Tax Laws, etc, were formulated in this way.

However, there are some arguments that Koreans ought to import social or accounting systems directly from more developed U.S. or U.K. not indirectly through Japan. There are also some outcries that Koreans should develop their own social or accounting systems for unique accounting situations.

The influence of U.S. accounting on Korean accounting education is gradually greater these days. There are some reasons for this trend. First, Korea has maintained friendly relationship with U.S. after the World War. II. But with Japan there is always a distant relationship. Korea is closely related with U.S. politically, economically and socially. Second, as mentioned above, Koreans start to look for more developed social or accounting systems from U.S. than Japan. Third, many students and scholars have returned to Korea after receiving U.S. education. They are expected to develop Korea's own accounting systems or education. Their background of American education will lead Korean accounting education to the American style of education.

3. Curriculum

As in other countries, the bachelor of business administration or master of business administration degree program at Korean universities are based upon a broad educational foundation combined with courses in business and economics.

A total of not less than 140 credits is required for BBA degree in Korea. Since 140 credits are required for BBA degree, semester should average 17.5 credits. In principle, higher learning institutions are free to choose their own curriculum under above credit limit. However, the curriculum of Korean universities are similarly formulated.

At the Seoul National University, which is the leading university in Korea, the subjects are classified into three main categories: (1) general education subjects, (2) specialization (major) subjects, and (3) general electives. The course requirement for BBA degree at the Seoul National University can be divided as below:

42 credits must be in general education subjects as prebusiness courses

63 credits must be in specialization (major) subjects. Included are 33 compulsory core courses of business.

35 credits may be in or outside business and economics area.

140 credits

The general education subjects are prebusiness courses for business students. The students are required to take 42 credits from these subjects. The general education subjects are roughly three kinds. First, some subjects, such as "National Ethics", "Korean History", "Physical Education", and "Military Drill", are specially designated compulsory by the government regulation. Second, there are the so-called "tool subjects", such as "Language," and "Statistics". And third there are introductory courses of major disciplines, such as "Introduction to Political Science", "Principles of Economics", "Introduction to Logic", "Introduction to Philosophy", etc.

The specialization subjects refer to those subjects which are offered by each department. Students are required to take at least 63 credit points out of the listed specialization subjects. Some of the specialization subjects are designated compulsorily. At the department of business administration, 11 subjects are determined compulsory. They are principles of economics, principles of management, principles of accounting (introductory), business statistics, financial

accounting, quantitative analysis, organizational behavior, financial management, production management, marketing management and personnel management.

Those subjects which do not fall into any of the above categorized as the general electives. Elective courses in accounting for all business students are financial accounting, management accounting, cost accounting, intermediate accounting, auditing, accounting theory, tax accounting and financial analysis. Those accounting subjects such as advanced accounting, accounting systems, accounting information system, accounting history, governmental accounting and social or macro accounting are rarely adopted in Korean accounting curriculum.

At most of Korean universities, graduate students are required to take 24 or more credits to earn a Master's degree. Particularly at Seoul National University, graduate students must take 30 credits at least to fulfill the Master's requirement.

There are some variations in Master's degree requirement at Seoul National University. Students with undergraduate background in business can earn the degree by the fulfillment of 30 credits and four semesters' stay. But night-time (part-time) students of nonbusiness background should spend five semesters in school by limiting total credits to be taken at one semester. This differentiation is designed not only to give part-time students the alleviation of study load per semester but to impose heavier and more rigorous burden on night-time student during the total study period.

The master's degree program begins with a sequence of fundamental management courses. A student may major in accounting if he or she has, at the beginning of the second year or at the start of any semester thereafter.

Following core courses are required of all business graduate students.

—principles of economics, business statistics, principles of accounting, financial accounting, personnel management, organizational behavior, marketing management, production management, financial management, quantitative analysis.

The compulsory courses for accounting major are as below.

—management accounting, cost accounting, auditing, tax accounting, seminar in accounting.

Elective courses in accounting are as below.

—accounting theory, accounting information system, social accounting and accounting history.

To get a degree, an accounting major should pass a comprehensive examination in business and should write a thesis on accounting.

There are many problems in Korean accounting curriculum at undergraduate level as well as at graduate level.

First, accounting curricula are not yet fully developed. Especially graduate and advanced courses are not developed well. Curricula should be developed on the basis of detailed research and extensive discussions. There were no such efforts to improve the accounting curriculum.

Second, there are not many differences between undergraduate and graduate programs. As seen before, many undergraduate subjects of accounting were repeated at the graduate level. The graduate subjects of accounting are not much different in its scope and contents from undergraduate subjects.

Third, some advanced knowledge of accounting is not introduced or taught in the class. For instance, important accounting courses such as advanced accounting, management accounting, governmental accounting, accounting for non-profit organizations, national income accounting, are areas that must be studied and taught at the graduate level. No book has ever published on these subjects. In Korea, management accounting is well behind financial accounting. This is because the financial reporting was emphasized. The function of accounting was only considered as measuring and reporting of financial data, not including the use of accounting data for managerial decisions. The financial statement was primarily regarded as useful for tax reporting via financial reporting. Therefore, accounting schools were late in incorporating management accounting in their curricula.

Fourth, the doctoral program has not yet well formulated. This problem

arose partly because there are a few Ph.D. candidates in accounting in Korea, and partly because that the problem will be resolved with the increasing demand on accounting teachers and the return of foreign education Ph.D. students.

Fifth, there are a host of problems in the development of accounting education in Korea. Curricula are not well developed, there are a few high level text books, there are shortages of capable professors, and case studies are not developed. Even though this condition is far better than other developing countries, the level of accounting and accounting education is far behind the U.S. or U.K..

Sixth, curricula for accounting major students of the newly established department of accountancy have not yet well developed. There are not many differences of curriculum between students of accounting major and business major. Again this problem arose due to shortage of professors, text books and delay of advanced knowledge of accounting. Therefore, there are not many unique characteristics at the department of accountancy.

4. Accounting Teachers

There are about 120 accounting teachers at Korean universities and colleges. All of them are members of the Korean Accounting Association which is the only organization of university and college instructors in accounting.

The accounting teachers can be divided into four categories by ranks.

a. Full-time instructor

Qualification is the master's degree from a recognized academic institution in Korea or other countries.

b. Assistant professor

Qualification is the doctorate degree from a recognized academic institution in Korea or other countries or the instructor with three years of teaching experience and writing.

c. Associate professor

Qualification is the same as for instructor above, plus four years of teaching experience and writing.

d. Professor

Qualification in the same as for instructor above, plus nine years of teaching experience and writing.

The doctorate degree is a requirement for a permanent teaching position in all universities in Korea. However, most of the universities have a requirement of at least a master's degree in business administration (specializing in accounting) to teach accounting.

The salary levels of accounting teachers are moderate considering the wages and salaries levels in Korea. In Korea, salary levels of university and college professors are same at the same rank with the same years of service regardless of specialized (major) fields. Thus, the salary of assistant professor of accounting is same as the salary of assistant professor of chemistry with the same years of teaching experience. However, there are some variations of salary level between national university professors and private university professors.

The salary level of Korean accounting professors are approximately as below in dollar terms.

Professor.....about \$ 12,000 per year

Associate Professor.....about \$ 10,800 per year

Assistant Professor.....about \$ 9,600 per year

Full-time Instructor.....about \$ 7,400 per year

As in other countries it is hard to recruit accounting teachers in Korea.

Students favor to go into business circle or government rather than to be professors. A few graduate students can get Ph.D. degree in accounting in Korea. Foreign-educated, particularly U.S. educated, students, although a few in number, seldom return to Korea. Another reason of difficulties in recruitment arises from the fact that it is difficult to get Ph.D. degree in accounting in the U.S..

Considering the difficulties of recruiting accounting teachers in Korea, it is

necessary to create and support for training programs of accounting education development. A few years ago such a program was suggested by the study group of the World Bank (IBRD). With this suggestion the Korean government agreed with the World Bank to initiate a special management education program. The loan agreement was signed in 1979 and the loan program has already started from 1980.

The program is divided into two kinds. The first is the management teachers development program, by which candidates of accounting teacher are selected among Korean-educated Master's degree holders and then sent to the U.S. for Ph.D. degree. The second is the management teachers retraining program, by which selected teachers are sent to the U.S. universities as visiting scholars or researchers for retraining. With the completion of this program, it is expected that new accounting Ph. D.'s will return to Korean in the near future and most of present accounting teachers will be retrained and learn higher level of accounting knowledge from more developed U.S. universities.

Now, a majority of Korean accounting teachers are holders of master's degree. Moreover, most of these degrees were obtained from Korean universities. However, this situation was improved in comparison with the past. In the past, most of accounting teachers were holders of bachelor degree from Japanese or Korean universities. They were in fact bookkeeping teachers and they were only capable of teaching elementary accounting. They did not receive a sufficient education because they were a generation of Japanese rule and Korean War.

The situation has changed since the Korean War. With better education for students, the number of master's degree holders in accounting or business administration has increased. There were considerable demands on higher level of degrees in accounting. But unlike other fields, there are a very few accounting Ph.D.'s in Korea. Therefore, each accounting department of Korean universities must satisfy with master's degree holders as accounting teachers for the time being. But the number of Ph.D. professors will be increased in the future as each university demands on higher level of degree

for the qualification of accounting teacher.

5. Textbooks and Teaching Materials

The textbook is another problem area in Korean accounting education. As said before, one of critical accounting education problem is the paucity of accounting textbooks in quality as well as in quantity. As the textbook is a prerequisite for the development of curriculum and better teaching, the textbook problem must be solved with the problems of curriculum and teaching materials. Especially in a developing country like Korea, the development of textbook and teaching materials is urgently needed. But it will take some time to have quality books and well-written teaching materials.

In the past, most Korean accounting books were written only within the boundaries of bookkeeping. Most books handle with accounting problems and its solutions concentrating of financial accounting area of elementary and intermediate level of accounting and elementary cost accounting area. The advanced level of accounting, management accounting and other specialized accounting areas have not been covered. However, with the economic development and the growth of accounting profession, both Korean business society and accounting profession needs more advanced and specialized knowledge of accounting. Also at most Korean universities, courses of management accounting, advanced accounting and some other specialized subjects of accounting have appeared. To meet these demands, there must be some efforts to develop those textbooks and teaching materials.

There are some needs to develop cases in Korea. So far, not many cases have been appeared. There were not many classes which use case study as a method of instruction. Korean cases must be written by Korean professors. Since western cases are made to adapt to western environment, it would be inadequate to use them without modification in Korean classes.

The quality of accounting books in Korea is still considered low. Most of books published before were just the translation of Japanese or American

textbooks. Thus there was a problem of originality in those books. This situation may be considered a first phase of textbook development in a developing country. However, in recent years, several books, but not many, are published with some originality of Korean authors.

It seems desirable that Korean accounting books, may be the same in other developing countries, should be written on an original basis by referring to western textbooks. In the process, the concepts, principles and methods of western countries should be adjusted to Korean business environment or may be accepted without modification if they can be applied without modification if they can be applied without resistance. The blind importing of western concepts and theories may cause problems in real situation or may be inapplicable.

Since there are not many good accounting books in Korea, some of American books are used.

For example. Hendriksen's Accounting Theory, Horngren's Introduction to Management Accounting and Cost Accounting, and Kieso & Weygandt's Intermediate Accounting are popular among students. But there are not many students who can purchase those English-written books because of its expensiveness and difficulty of availability due to long shipping time. It would be beneficial to developing countries if some best selling accounting books are printed on a paper cover and distributed to those countries. As the demand on those books are sizable in Korea, publisher would be profitable.

List of Korean authored accounting textbooks are seen in Exhibit III.

Exhibit III List of Korean authored accounting textbooks

Principles of Accounting

Jhong-Ho Lee,

Hee-Joon Lee

Yong-Joon Lee,

Chin-Deok So

Financial Accounting

Soo-Young Chung,

Jin-Sup Lim

Hae-Dong Lee,

Gui-Hyun Yang

Cost Accounting

Yon-Joon Lee,

Jae-Suk Shim

Se-Hwan Yoo,

Auditing

Hyung-Joon Park

Chin-Deok So & Ke-Sup Yoon,

Ja Song and Chong-Am Chung

Accounting Theory

Sang-Oh Nam

Ik-Soon Cho

Sung-Ha Cho

Jhong-Ho Lee

Tax Accounting

Chan-Soo Shin,

Ssang-Jong Song

Intermediate Accounting

Sang-Moon Choi

On the graduate level, there is a severe deficiency of textbooks and course materials. In fact, no books have ever been published for graduate students. As mentioned earlier, there has not been much difference between undergraduate and graduate level of accounting education. Thus accounting books for undergraduate students are frequently used for graduate students. Such a repetition of undergraduate education on the graduate level has been a source for grumbles by students. Some professors use English-written textbooks or reference materials in the class which are limited in Korea. Therefore, the development of textbooks and course materials for graduate students are greatly needed.

6. Accounting Research and Korean Accounting Association

Up to now accounting research in general has not been emphasized in Korea. The accounting research was virtually non-existent. There was no need to do research in accounting before. The reasons can be spelled out as below.

First, in the past Korean economy and business environment were not as sophisticated as now. Thus it was not necessary to make research or investigate the real world of business. Second, the past accounting principles were formu-

lated simply by referring from Japanese accounting rules. Therefore, accounting rules of those times could be formulated without the help of accounting research. Third, as securities market was not fully developed as now, the accounting information was not considered important to the investors and other financial statement users.

However, the above situations have changed. Korean economy is fast growing up and the business environment becomes more and more sophisticated and complex. Under these different situations, accounting principles needs to be formulated on the basis of accounting research. Investors and other financial statement users are gradually demanding more accounting information. Thus there appears the pressing need for accounting research.

The topics of accounting research should relate to current accounting problems in Korea focusing on the peculiarities of Korean accounting. The probable topics of accounting research could be illustrated as below.

- (1) research relate to international accounting area
 - treatment of foreign exchange gains and losses
 - accounting for multinational enterprises
 - comparative accounting
- (2) research relate to the capital market
 - access to foreign capital market
 - accounting issues in the Korean securities market
- (3) research relate to peculiar accounting treatment
 - asset revaluation
- (4) research relate to auditor's opinion and other auditing problems
- (5) research relate to accounting principles
 - validity of income tax allocation in Korea
 - accounting for group companies: consolidation vs. combining of statements.

Until now, most of Korean accounting researches were conducted on a descriptive or analytical basis, but not on a quantitative, mathematical or

computer-based basis. As the trend of accounting research moves to this direction, the future accounting research should be conducted in such a way.

The accounting research in Korea is usually conducted on an individual basis. There is no particular group or organization of accounting research in Korea. For example, the Accounting Research Institute of Sogang University is essentially a teaching institute. The sources of research funds are government, private foundations and corporations. The government is encouraging in providing research funds to university professors.

There are two national journals for accounting research in Korea. One is *The Korean Accounting Review* which is the publication of Korean Accounting Association. The other is *Accounting* which is the publication of KICPA. As name implies, *Korean Accounting Review* is similar to *Accounting Review of AAA* and *Accounting* is similar to the *Journal of Accountancy* of AICPA. Both journals are published yearly. In addition professors can publish articles in their university's journals. In Korea, most of universities have their own journals.

Korean Accounting Association (KAA) is the organization of university and college professors in Korea. It was organized in 1973. The number of member to date is 120 professors. The purposes of KAA are (1) to encourage and support research activities in accounting, (2) hold an annual meeting and special meetings for presentation of articles and discussions, (3) publish an accounting journal, research studies and monographs, (4) exchange and supply of research data between members, (5) cooperate with other national or international organization. The activities of KAA so far were not satisfactory, but there is a great expectation from academicians, accountants, businessmen as well as government officials. There is no fraternity organization like Beta Alpha Psi in Korea.

C. Evaluative Comments

Although many problems of accounting and accounting education of Korea are presented here, Korea seems to be in the upper bracket of Third World countries in the area of financing and accounting education. Korea can be said to be one of the foremost advanced countries among developing countries from the stand point of accounting and accounting education. Korea is striving for improvements in these and the future of Korean accounting and accounting education looks brighter than today. With the help of combined efforts of Korean government (MOF), KSEC, KICPA and KAA, Korea will achieve the better state of accounting in the near future. As said earlier Korea was once under the influence of Japanese accounting rules. Now proceeds to the world of better and more advanced accounting by developing own framework of accounting which is adaptable to Korean business environments and by importing recent accounting directly from western countries.

In summary, this paper presents problems and improvements in accounting and accounting education in Korea as below.

Improvements in accounting are needed in the following areas:

- (1) The accounting principles should be revised up to international standards or U.S. standards.
- (2) The government should delegate some of regulatory authority powers to KSEC or independent private organization or KICPA. The orientation of public sector regulation should gradually move to the private sector. Consequently it is desirable that KSEC and KICPA must play more active role in accounting circle.
- (3) Problem areas of present accounting should be solved and improved. Tax accounting orientation and disregarding of management accounting (accounting for managerial decisions) are examples.
- (4) The quality of auditing and auditors should be improved.

- (5) The improvement in CPA examination system is needed.

Improvements in accounting education can be summarized as below.

- (1) The development in accounting education must be made corresponding to the development of economy and the change of business environment in Korea.
- (2) The education of undergraduate level and graduate level must be differentiated. Especially, the graduate level education must be leveled up.
- (3) Establishment of department of accountancy at the undergraduate level is premature.
- (4) Accounting areas other than financial reporting must be developed with the help of accounting education developments. Management accounting, advanced accounting and other specialized accounting areas (e.g. accounting for not-for-profit organizations, income tax allocation) are examples of these areas.
- (5) The present curriculum must be improved both at the undergraduate and graduate level.
- (6) The quality and quantity of accounting teachers should be improved. Education plan for fostering new accounting teachers among master's degree holders and professor retraining program will be beneficial.
- (7) The textbooks and teaching materials should be improved and developed. Case studies of Korean business firms must be collected and developed.
- (8) Accounting research must be actively conducted in the area of unique Korean accounting situations.

There are some needs of creating international organization of accounting academicians. As we know, there are a number of international organizations for CPAs. But none exists for accounting teachers. It is desirable to establish International Accounting Association or some regional association of accounting teachers such as Southeast Asian Accounting Association. By the creation of this type of organizations, the accounting education in developing countries will

be greatly improved. For instance, the exchange of accounting data and accounting research results, joint accounting research, and discussion of accounting and education problems between countries will be possible. The International Accounting Section of AAA will be helpful in this respect. But this organization seems to have some limitations.

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