LAW OF MONGOLIA ON ACCOUNTING

(REVISED)

May 13, 2001 Ulaanbaatar city

(Turiin medeelel #1, 2002)

CHAPTER ONE GENERAL PROVISIONS

Article 1. The Purpose of the Law

1.1. The purpose of this law is to determine the legal ground for accounting principles, management and institution and to regulate the relationship concerning to the maintenance of accounting records and the preparation of financial statements of the business entity or organization.

Article 2. Legislation on Accounting

- 2.1. The legislation on accounting is comprised of this law and other legislative acts issued in conformity with this law.
- 2.2. If an international treaty to which Mongolia is a party is not consistent with this law, then the provisions of the international treaty shall prevail.

Article 3. Definition of the Terms

- 3.1. In this law, the following terms shall have the following meanings:
- 3.1.1. "Accrual basis of accounting" means the recording method, which accepts income when gained or expense when incurred irrespective of money transfer.
- 3.1.2. "Cash basis of accounting" means the recording method, which accepts income and expense, at the time when money actually received or paid.
- 3.1.3. "Double entry form" means double records of the transaction in debit and credit.
- 3.1.4. "Primary accounting document" means the written documents and other evidence, collected for confirming incurred transactions.
- 3.1.5. "Journal" means an initial chronological record of the transaction before entry into the general ledger.
- 3.1.6. "General ledger" means the accounts, which comprise the financial statement of business entity and organization.
- 3.1.7. "Professional accountant" means the person who graduated from the university or college, as an accountant in bachelor or higher degree.
- 3.1.8. "Accounting policy document" means regulation, instruction and methodology, which determined the accounting principle on preparation of financial statement and accounting basis.

Article 4. Accounting Principles

- 4.1. The following principles shall be adhered to the accounting of business entity and organization:
- 4.1.1. The financial statement of a business entity and organization shall be in conformity with the international accounting standards.
- 4.1.2. The financial statement shall be based on the correct and fair material documents, figures and information.
- 4.1.3. Indexes in the report and statements shall be simple, clear and easy to understand.
- 4.1.4. The methodology of accounting and reports shall be designed in way allowing to provide comparison of future and past data and figures of registry and accounting.
- 4.1.5. Optimal option adjusted to it's specific should be applied in administrative and cost accounting.
 - 4.1.6. Accounting activities should be carried out constantly.

Article 5. Basis of accounting records

- 5.1.A business entity and organization should maintain accounting on the accrual basis.
- 5.2.A business entity or organization can maintain its accounting on the cash basis with permission of the State Central Administrative Body in charge of Financial and Accounting issues.
- 5.3. Organization, which maintains accounting on the cash basis, shall convert its year-ended financial statements on accrual basis.

Article 6. Unit of Accounting

6.1.A unit of accounting shall be denominated in Tugrug and Mungu – the currency of Mongolia.

CHAPTER TWO MAINTENANCE OF ACCOUNTING RECORDS

Article 7. Primary Accounting Document

- 7.1. The primary accounting document shall be ground for fair and proper maintenance of accounting record and preparation of the financial statements and reports.
- 7.2. The State Central Administrative Body in charge of Financial and Accounting issues and the National Statistic Department shall jointly approve a samples and methodology of the primary accounting document.
- 7.3. The business entity and organization financial documents and forms for internal use shall be in conformity with the regulations specified in the paragraph 2 of this article.

- 7.4. Management and accountants of the business entity or organization shall be responsible for compiling primary accounting document and preparing entries for each movement and change of assets and liabilities, which incurred in the extent of the service and production stages and business activities on the basis of those documents.
- 7.5. The primary accounting document shall be considered as a valid document, upon signing and affixing a seal by the persons who prepared, approved and inspected it.
- 7.6.Employees who prepared, approved, inspected and received the document shall be responsible for the compilation and faithfulness of the primary accounting document.
- 7.7. Any transaction without the primary accounting document shall be forbidden to record in the accounting records and financial statements.

Article 8. Maintenance of Accounting

- 8.1.The business entities and organizations, which are engaged in business within the territory of Mongolia, shall maintain accounting records and prepare financial statements.
- 8.2. The business entity or organization shall maintain accounting records in double entry form.
- 8.3. Activity processing accounting information shall be implemented in the following stages of:
 - 8.3.1. compilation of the primary accounting documents;
 - 8.3.2. entry of the journal;
 - 8.3.3. maintenance of the detailed and general accounts;
 - 8.3.4. preparation of transactions' information:
 - 8.3.5. preparation of statements.
- 8.4. To adjust errors occurred during the maintenance of accounting record, the additional documents shall be compiled and noted the proper indexes of adjustment, and it shall be assured through signing by person who made the adjustments.
- 8.5. If the management of the business entity and organization agrees with the auditor's report on occurring errors in financial statements, it shall be adjusted in accordance with the provision specified in the Article 8.4 of the present law.

Article 9. Valuation and registration of Assets and Liabilities

- 9.1. The business entity or organization shall assess and reflect its assets and liabilities in accounting record in accordance with the International Accounting Standards.
- 9.2. The business entity or organization shall record the income and expense transactions denominated in foreign currencies into accounts in Togrogs at the exchange rate announced by Mongol Bank at the date of transactions.

- 9.3. In order to prepare the financial statements, the balance of receivables and payables denominated in foreign currencies shall be recorded in Togrogs at the exchange rate announced by Mongol Bank.
- 9.4.A loss or damage of an asset of the entity or organization that is wholly or partially owned by the state shall be settled by the highest value between the market price and the cost of the loss or damage.

CHAPTER THREE FRAMEWORK FOR THE PREPARATION OF FINANCIAL STATEMENTS

Article 10. Composition of Financial Statements

- 10.1. The business entity or organization shall prepare the financial statements in accordance with the International Accounting Standards.
 - 10.2. Financial statements shall have the following composition:
 - 10.2.1. Balance sheet
 - 10.2.2. Income statement
 - 10.2.3. Statement of changes in equity
 - 10.2.4. Cash flow statement
- 10.2.5. Other required additional disclosures to the financial statements
- 10.3. The notes and disclosures of the significant events that effected to the operation of a business entity or organization along with the auditor's opinion and managerial report shall be enclosed in the audited financial statements.
- 10.4. A business entity or organisation shall prepare their financial statements quarterly on a cumulative basis from the beginning of a year.
- 10.5. Either the director, chairman and head of a financial department, chief (senior) accountant of the business entity and organization or the contracted accountant shall sign and stamp in the financial statements.

Article 11. Property inventory

- 11.1. The management of the business entity and organization shall be responsible for organizing the inventory of the property.
- 11.2. Compulsory inventory of the property shall be provided in following cases:
 - 11.2.1. Prior to the preparation of annual financial statements;
- 11.2.2. Replacement of the stock-keeper and employees, who perform duties related to the property inventory;
- 11.2.3. In case of a lack of property or a illegal disbursement of property;
 - 11.2.4. After the natural disaster, fire and the other contingencies;
- 11.2.5. In case of a business entity or organization announced to be restructured, bankrupt or liquidated;

- 11.2.6. Other cases specified in the law.
- 11.3. A property inventory shall be carried out within the term specified in the Law on State and Local Property and other laws or when required.

Article 12. Submission of Financial Statements

- 12.1. The quarterly financial statements could be reviewed by an auditor.
- 12.2. The relevant organization shall settle account with the taxation, premium and other payment fees based on the financial statements of business entity and organization which has been reviewed and received by the corresponding financial institutions,.
- 12.3. In case of failure of a business entity and organization to submit its financial statements, the corresponding financial institution shall publicize it.
- 12.4. The business entity and organization may publish and issue merely the audited financial statements and its summary together with auditor's report.

Article 13. Financial Year, Deadline of Consolidation and Submission the Statements

- 13.1. The financial year shall start on January 1 and end on December 31 of each year.
- 13.2. The business entity or organization shall prepare and submit their quarterly financial statements by 20th of the first month following quarter and annual financial statements by February 10th of the following year to the corresponding financial institution.
- 13.3. The business entity or organization, which prepares consolidated financial statements shall submit quarterly financial statements by 25th of the first month following quarter and annual financial statements by February 25th of the following year to the corresponding financial institution.
- 13.4. The aimag and capital city financial Organizations shall prepare consolidated annual financial statements of corresponding business entities and organization and shall submit it by the March 13th of the following year to the State Central Administrative Body in charge of Financial and Accounting issues.

Article 14. Custody of Accounting Documents and Statements

14.1. The business entities and organizations shall keep all accounting files and financial statements in compliance of the Law on Archives.

CHAPTER FOUR MANAGEMENT AND COORDINATION OF ACCOUNTING

Article 15. Managerial System for Accounting

15.1. The Cabinet member in charge of financial and accounting issues shall be responsible for providing the professional and methodological management on accounting within the country.

- 15.2. The State Central State Administrative Body in charge of the accounting shall have the following obligations:
- 15.2.1. To organize the implementation of legislation on accounting and monitor its fulfillment;
- 15.2.2. To develop the accounting standard in conformity with the International Accounting Standard;
- 15.2.3. To approve and get fulfilled the regulation, rule, guidance, methodology and form for accounting to comply nationwide.
- 15.2.4. To monitor the supplies for the software of accounting and financial statements;
- 15.2.5. To consolidate the financial statements of the business entities and organizations all over the country and make survey and conclusion.
- 15.3. A department in charge of the accounting policy, methodology shall be included in the structure of the State Central Administrative Body in charge of financial and accounting issues.
- 15.4. The Finance, Accounting and Economical Department of the aimag, capital city and district shall fulfill the functions specified in the Article 15.3 of the present law within it's territory.
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Article 16. Accounting Standards

- 16.1. The accounting activities shall be complied with the International Accounting Standard.
- 16.2. Some standards of the International Accounting Standard can be used along with the additional interpretations and notes consistent to the national specific.

Article 17. Management and Organization of Accounting of a Business Entity or Organization

- 17.1. The management of a business entity or organization shall be responsible for guiding and organization of accounting.
- 17.2. The management of a business entity and organization shall develop, approve and fulfil accounting policy documents in conformity with the legislation, standard, regulation and guidance on accounting.
- 17.3. The business entity and organization accounting shall be carried out by the professional or certified public accountants.
- 17.4. The chief accountant and general budget administrator of the enterprise, which is fully or partly owned by the state shall be the certified public accountant.
- 17.5. The business entity and organization without a full-time accountant may maintain its accounting and prepare financial statements by the accountant on contractual basis.

Article 18. Internal Accounting Supervision

- 18.1. The management of business entity and organization shall accomplish its internal audit.
- 18.2. The management of business entity and organization can appoint an internal auditor.
- 18.3. The management of a business entity and organization shall determine the rights and duties of employee in charge of internal supervision for the accounting in the resolution, which issued in compliance with the legislation.

Article 19. Rights and Responsibilities of an Accountant

- 19.1. The accountant of the business entity and organization shall has the following rights and duties:
- 19.1.1. To develop and approve an accounting policy of a business entity or organization;
- 19.1.2. To maintain accounting records and prepare financial statements in accordance with approved forms and regulation, to organize work on provision of management and users of the financial statements of a business entity or organization with accurate and complete information on timely basis;
- 19.1.3. To require a primary accounting document and other related materials:
- 19.1.4. To perform a property inventory, and conclude its results, to do a reconciliation with customers and suppliers in a fixed time, to confirm and and documentary record of the balance;
- 19.1.5. To refuse from recording any transaction with the invalid documents on assets and liabilities:
- 19.1.6. To refuse to fulfill any decision that breaches the legislation on accounting.
- 19.2. The contracted accountant shall exercise the rights and duties specified in Article 19.1 of the present law.
- 19.3. The chief (senior) accountant of the business entity and organization shall put the second signature on its cash disbursement document and financial statements.
- 19.4. The accountant shall not bear any responsibility for carrying out activity which breaches the legislation on accounting on written demand of management of a business entity or organization.

Article 20. Restrictions of Activity for an Accountant

- 20.1. The following activities shall be restricted for an accountant:
- 20.1.1. The chief accountant of the business entity or organization is prohibited to abuse his/her powers.
- 20.1.2. To admit job of a position under his/her direct control in accordance with his/her job description.
- 20.1.3. To use for personal purpose or to disclose to others a business secret of the organizations of present and past employment.

- 20.1.4. To record transactions in the account by compiling the false documents.
- 20.1.5. To destroy, lose and damage the accounting documents and accounts and financial statements in breach of the legislation.
- 20.1.6. To make correction in accounting documents, the financial statements, records and accounts except the condition specified in the Article 8.4 of this law.
- 20.1.7. Failure to maintain the compulsory journals, general ledgers and extensive records and to compile the primary accounting documents.
 - 20.1.8. To destroy the securities and identical documents and forms.

Article 21. State Inspector of Accounting

- 21.1. There should be the state chief inspector, the state senior inspector and the state inspector, which are entitled to supervise for implementation of the legislation on accounting.
- 21.2. The state chief inspector, the senior inspector and the inspector for accounting shall be the certified public accountant.
- 21.3. The license for the state inspector on accounting shall be issued in accordance with the paragraph 3 of the Article 21 of the Law on State Audit.
- 21.4. The Government shall approve the regulation on state inspector for accounting.

Article 22. Incentive and Extra Pay for Accounting Staff

- 22.1. A certified public accountant shall be granted monthly the qualification extra pay. The Government shall set the qualification extra pay.
- 22.2. Accounting staff, which performed accounting activities creatively could be encouraged or awarded.
- 22.3. The Cabinet member in charge of financial and accounting issues shall approve the regulation on incentive for the accounting staff of a state owned business entity and organization.

CHAPTER FIVE MISCELLENIOUS

Article 23. Liability for Breach of Accounting Legislation

- 23.1. Unless a person in breach the legislation for accounting are criminally liable, the State Inspector or the Judge shall impose the following punishment:
- 23.1.1. for breached of paragraphs 8.3, 8.4 of article 8 and paragraph 20.1 of the article 20 of this law a fine of 30000 60000 tugrugs shall be imposed upon citizen;
- 23.1.2. In case of failure of the business entity or organization to maintain accounting records and preparation of financial statements, a fine of 30000 60000 tugrugs shall be imposed upon officials, a fine of 60000 250,000 tugrugs shall be imposed on entity and organization.

23.1.3. the official failed to submit the financial statements within the period set in paragraphs 13.2, 13.3 and 13.4 of the article 13 of the this law, shall be subject to penalty of 30000-60000 Tugrugs.

Article 24. Enforcement of the Law

24.1. This law shall come into force on 1 April, 2002.

CHAIRMAN OF THE STATE IKH KHURAL

S. TUMUR-OCHIR