

ACCOUNTING LAW OF MONGOLIA

CHAPTER ONE GENERAL PROVISIONS

Article 1. The Purpose of the Law

1.1. The purpose of the present law is to determine the legal ground for accounting principles, management and institution and to regulate the relationship pertaining 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 the present law and other legislation, which is consistent with the present law.

2.2. If an international treaty to which Mongolia is a party is not consistent with the present law, then the provisions of the international treaty shall prevail.

Article 3. Definition of the Terms

3.1. In the present 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 without respects to whether received or paid money.

3.1.2. "Cash basis of accounting" means the recording method, which accepts income and expense when, received and paid.

3.1.3. "Double entry form" means to doubly record the transaction in debit or credit.

3.1.4. "Primary accounting document" means the document, which proved transactions, has incurred.

3.1.5. "Journal" means an initial record of transaction under the date-order 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. "Certified accountant" means the person whom graduated from the university or college, as an accountant profession in bachelor degree or higher.

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. Descriptions in report and statements shall be simple, clear and easy to understand.
- 4.1.4. Per the methodology, accounting and reports information shall be organized as possible to compare with future and past information.
- 4.1.5. Best choice that met its features should be applied in administrative and cost accounting.
- 4.1.6. Activities should be continued permanently

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, in case the State Central Administrative Body on Finance and Accounting permitted.
- 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 basis to maintain accounting record and prepare the financial statements and information fairly and properly.
- 7.2. The State Central Administrative Body on Finance and Accounting and the National Statistic Department shall jointly approve a sample and methodology of the primary accounting document.
- 7.3. The business entity and organization shall be in conformity its financial documents and forms for internal use with the paragraph 2 of this article.
- 7.4. Management and accountants of the business entity or organization shall be responsible for compiling to record the primary accounting document and prepare 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, permitted and inspected.
- 7.6. Employees who prepared, permitted, 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 descriptions 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 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. Statement of cash flow

- 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 on quarterly basis on a cumulative 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 Count

- 11.1. The management of the business entity and organization shall be responsible for organizing the inventory count.
- 11.2. Property count must be performed in following cases:
- 11.2.1. Prior to the preparation of annual financial statements;
 - 11.2.2. Replacement of the stock-keeper and employees, whose duty is related to the property;
 - 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 publicized its restructure or bankrupt and liquidation;
 - 11.2.6. Other cases specified in the legislation.
- 11.3. A property count shall be carried out according to the period stated in Law of State and Local Property and other legislation or when required.

Article 12. Submission of Financial Statements

- 12.1. The quarterly financial statements can be reviewed by an independent auditor.
- 12.2. The relevance organization shall settle account with the taxation, premium and other payment fees on based of the financial statements of business entity and organization which reviewed and received by the corresponding financial institutions,
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- 12.3. In case a business entity and organization did not submit its financial statements, the corresponding financial institution shall publicize about 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 begin 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.

13.4. The Government Organizations shall prepare the financial statements at the end of each month, quarter and year, and shall submit it within the period stated in the Budget Law.

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 on finance and accounting shall be responsible for providing the professional and methodological management within the country.

15.2. The 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 completion;

15.2.2. To develop the accounting standard in conformity with the International Accounting Standard;

15.2.3. To approve and get follows the regulation, rule, guidance, methodology and form for accounting to conform nationwide.

15.2.4. To put control 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 research and conclusion.

15.3. A department in charge of the accounting policy, methodology and supervision shall be included in the structure of the Central State Administrative Body on finance and accounting.

15.4. The Finance, Accounting and Economical Department of the district, city and province shall act the functions specified in the Article 15.3 of the present law within the related region. .

15.5. The Provisional Committee for Accounting Standard shall work under the Central State Administrative Body on finance and accounting.

The Cabinet member on finance and accounting shall approve a charter of the Committee.

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 replicated along with the additional disclosures and notes in consistent with the national feature.

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

- 17.1. The management of a business entity or organization shall carry out responsibility for providing coordination of accounting.
- 17.2. The management of a business entity and organization shall develop, approve and comply with the documents of accounting policy in conformity with the legislation, standard, regulation and guidance on accounting.
- 17.3. The business entity and organization shall be carried out their accounting by the professional or certified public accountants.
- 17.4. The chief accountant of an enterprise, which is state, owned and majority contributed by the state or the general budget administrative, shall be the certified public accountant..
- 17.5. The rural 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 of accounting.
- 18.3. The management of a business entity and organization shall determine the functions and responsibilities 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 has the following rights and responsibilities:
 - 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 to organize activities providing management and users of the financial statements of a business entity or organization with timely, accurate and complete information;
 - 19.1.3. To require a primary accounting document and other related materials;
 - 19.1.4. To perform a property count, and conclude its results, to do a reconciliation with customers and suppliers in an appointed time, and require to document it;
 - 19.1.5. To not record any transaction with the invalid documents of assets and liabilities;
 - 19.1.6. To refuse to fulfill any decision that breaches the law and legislation on finance and accounting.
- 19.2. The contracted accountant shall exercise the rights and responsibilities specified in Article 19.1 of the present law.
- 19.3. The chief (senior) accountant of the business entity and organization shall sing the second signature on its cash disbursement document and financial statements.

19.4. The accountant shall not bear any responsibility for carrying out written instructions of management of a business entity or organization that breach the law and legislation on finance and accounting.

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 restricted to use the powers of his/her position wrongly.

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, where working currently or employed.

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 by violating the legislation.

20.1.6. To make correction in accounting documents, the financial statements, records and accounts excluding in the circumstances specified in the Article 8.4 of the present law.

20.1.7. To not maintain the compulsory journals, general ledgers and extensive records without compiling 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 of accounting.

21.2. The state chief inspector, the senior inspector and the inspector for accounting shall be the certified public accountant.

21.3. The Cabinet member in charge of finance and accounting shall issue license for the state inspector for accounting.

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 define the qualification extra pay.

22.2. Accounting staff, which worked energetically in accounting activities, shall encourage or be awarded.

22.3. The Cabinet member in charge of finance and accounting shall approve the regulation on incentive for the accounting staff of a state owned business entity and organization.

**CHAPTER FIVE
OTHER PROVISIONS**

Article 23. Liability for Breaching 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. In case, breach of the Article 8.3, 8.4 and 20.1 of the present law the guilty person shall be fined penalty 30000 – 60000 tugrugs;

23.1.2. In case, the business entity or organization in breach the maintaining accounting records and preparing the financial statements, the guilty staff shall be fined penalty 30000 – 60000 tugrugs, the business entity or organization shall be fined penalty 60000 - 250,000 tugrugs.

23.1.3. A person who did not submit the financial statements within the period set in the Article 13.2, 13.3 and 13.4 of the present law, shall be fined penalty 30000 – 60000 tugrugs.

Article 24. Enforcement of the Law

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

**The CHAIRMAN OF THE
STATE GREAT KHURAL**

S. TOMOR-OCHIR