

The Early Korean Accounting, “Songdo-Style-Four-Element-Bookkeeping”

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The great leader Comrade **Kim Jong Il** said as follows.

“We are a resourceful people who have a history of 5,000 years and a brilliant cultural tradition. The history of our people is one of honourable struggle to free themselves from the fetters of nature and oppression by society; it is a history of the creation of innumerable cultural treasures that bear witness to the resourcefulness and talent of our nation.”

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Korea’s own double – entry bookkeeping is “Songdo–Style–Four–Element–Bookkeeping” (SOFEB), named after Songdo, the capital city of Koryo. Its origination is not found on the historical record yet, but the previous study has two results; one is in the closing years of the Koryo Dynasty, the other is in the opening years of the feudal Joseon Dynasty. These two results are regarded as appropriate and the origination of SOFEB is considered as in the period of Koryo closing and of Korea opening. Because business flourished in Songdo(present Kaesong) at this time while stores, shops, inns and business houses were well run there.

Songdo merchants and usurers needed a certain methodology to oversee multiple simultaneous transactions in terms of cash and developed SOFEB as such that merely deal with the operating property for business management, not including the entire merchant’s property.

SOFEB had been used before the Japanese imperialists’ occupation of Korea and was replaced by the western bookkeeping in 1906, subject to suppression of Japanese Residency – General.

SOFEB saw the fund movement from four aspects and recorded them on books by double –entry method according to its order of occurrence and nature of transaction and settled the accounts for a certain period somewhat like the present accounting.

SOFEB takes the business assets as the monetary funds (operating capital) and has its own equation as the basics of double –entry bookkeeping.

It has four accounts in all: *Kupcha Jil*(assets), *Pongcha Jil*(liabilities), *Sobi Jil*(expenses), *Riyik Jil*(revenue) and other sub – accounts to make a perfect system of accounts. *Kupcha Jil*, *Pongcha Jil*, *Sobi Jil* and *Riyik Jil* are main elements of SOFEB. Four – elements refer to carpenter’s method of fitting four edges, which was quite common in Songdo. This means that four elements (accounts) engage each other.

Pongcha has sub-accounts such as monetary property in a cashbox(*Sijae*), products(commodities), and variable bonds, land, building and other tangible assets.

Kupcha has sub-accounts such as invested money, borrowed money and other variable debt. *Pongcha* and *Kupcha* hold each other in check.

Money assets are raised by *Kupcha* and *Riyik* and it comes into a cashbox to increase *Sijae*. Then *Sijae* goes out of a cashbox to be used for *Pongcha*(excluding *Sijae*) and *Sobi* and as a result it’s decreased. The following equation is corresponding to this circulation.

$$Kupcha + Riyik - Pongcha - Sobi = Sijae$$

Kupcha – Pongcha = Sijae

The above are equivalent to that of the present accounting following:

Assets + Expenses – Equity – Liabilities = Revenue

Income – Expenses = Net income

SOFEB has two transactions; *Jukchon*(cash)transaction and *Pichunkchon*(non–cash) transaction. It records and accounts the variation of *Sijae* and four elements from two aspects of increase and decrease.

Cash transaction changes *Sijae* corresponding to the variation of four elements.

Kupcha increases, *Riyik* increases and *Pongcha* decreases, then *Sijae* increases.

Kupcha decreases, *Pongcha* increase and *Sobi* increases, then *Sijae* decreases.

Non –cash transaction has no relation with the variation of *Sijae* but engages four elements each other.

SOFEB has a system of books corresponding to double –entry method.

It has *Ilkichaek*(journals), *Jangchaek*(a general ledger), *Pojojangbu*(sub–ledgers) and *Hokeyechaek*(a financial book).

Journals record the transaction when it happens and act as a voucher or a cashbook.

They have *Cho–Ilkichaek*(a primary journal)and *Jung–Ilkichaek*(a mid journal).

A primary journal records the transaction one after another whenever it happens and acts as a voucher to be a source document for a mid journal.

A mid journal journalizes all the transactions by order of date.

A general ledger contains *Oesang* ledger and *Takup* ledger.

Oesang ledger is concerned with *Pongcha Jil* and *Sobi Jil*, while *Takup* ledger with *Kupcha Jil* and *Riyik Jil*.

A financial book is equivalent to the present financial statements including balance sheet, a trial balance and income statement. It balances the accounts (*Jil*).

Sub – ledgers have *Myongsimrok*, *Mulchulyipki*,“*Hungsongjil*, *Chukchonmaesuchaek*, *Suhyongchulchaki*, *Suhyongyipchaki*, *Kekankeraerok*, *Mulpumjosabu* and etc.

Myongsimrok records advances paid, advances received, suspense payment and suspense receipt by order of receipt and payment.

Mulchulyipki records income and outgo of a consignment by order of date.

Hungsongjil records goods sale by order of date.

Chukchonmaesuchaek records purchase of goods in cash by order of date. *Suhyongchulchaki* and *Suhyongyipchaki* record the drawing and acknowledgement of a bill respectively by order of date.

Kekankeraerok records sale and purchase of goods through intermediaries by order of date.

SOFEB has a framework of accounting with four *Jils*.

Jil has 2 sides; *Ip* (credit) and *Ke*(debit). All the transactions are entered in *Ip* and *Ke* of a certain *Jil* according to their economic content and characteristic.

When a transaction occurs, it’s entered on a primary journal to be a voucher.

When a daily business is closed, those transactions that are not settled accounts on a primary journal would be transferred to a mid journal. Then those are entered on *Oesang* ledger & *Takup*

ledger everyday and sub-ledgers at the same time.

A financial book brings together journals, a general ledger and inventory information to confirm the financial position and business results. Here they analyze the individual result and find out the factor that has brought such a result.

What makes it possible to take SOFEB as Accounting?

SOFEB has its own style of settlement concerning income & expenditure, loss & profit somewhat similar to the present accounting. SOFEB balances four elements, confirms loss & profit and analyzes the business results and their factors.

Based on the general data, a financial book checks *Sil*(balance or remainder) of all the *Kupcha Jil* & *Pongcha Jil*, and checks *Sil* of *Riyik Jil* & *Sobi Jil*, and then confirms loss and profit of an accounting period and its factors.

Thus SOFEB has ordinary accounting on *Jil*, journalizing transactions according to the order of occurrence. And based on the ordinary accounting data, SOFEB carries out settlement periodically as the present accounting and analyzes the financial position and operating results of a business.

Bookkeeping appeared at different stages in different countries and regions.

Literally speaking, bookkeeping is understood as recording on books in money terms, but as an economic concept, bookkeeping is regarded as a style of business accounting. Therefore the birth of bookkeeping is not regarded as that of a single-entry method as recorded on the historical papers of the ancient Babylonia in mid -20th century B. C. for wealth management of privileged classes, but as that of a double-entry method for operating a business. Double-entry bookkeeping means that each transaction requires the use of at least two accounts, while the chief objective of single -entry bookkeeping is to keep track of amounts owed by customers(debtors) and amounts owed to creditors.

In Europe double-entry bookkeeping is considered as born in medieval Venice, Italy.

Entering the 13th century, medieval Europe moved to a monetary economy and trade, handicraft, money circulation and usury developed in Venice for its favorable location. This promoted the Venetian merchants and usurers to pursue more profits and as a result, a specific technique was created to reflect them on books. It was introduced by an Italian mathematician Luca Pacioli in his famous treatise “Summa De Arithematical Geometrical proportion et proportimalitain”(1494). He had summarized the system of keeping trades by excellent methods which Italian merchants of those days used generally. The system he published included most of the accounting cycle as we know it today. He described the double-entry system by giving insight into the reasoning behind accounting records. He postulated that all entries must be double entry, i.e. when one is debited, the other must be credited, or debit receiver and credit the giver.

Afterwards this Venetian Bookkeeping was introduced into many other European countries. In France the first requirement for accounting dates from Colbert's directive issued in 1673, which is also known as the Savary Code. The obligation to maintain accounting records from the 1673 directive was kept, but was modified in order to make the accounting records a means of providing evidence. The Commercial Code of 1807 replaced the 1673 directive and made reference for the first time to a balance sheet and schedule of profit and loss account.

Accounting tradition in Germany was closed related to France. The Savary Code of 1673 was

immediately translated into German and influenced accounting in Germany in the following centuries. Balance sheets were only used from the beginning of the 18th century in disputes over assets among partners and, due to the absence of a market for companies, different means were found for resolving conflicts concerning assets.

The level of civilization and technological advancement helped in the development of modern methods of accounting. During the industrial revolution there was need for sophisticated accounting methods. Later double-entry system known as Venetian Bookkeeping was introduced into Netherlands, the Common Wealth and into Japan as an eastern country.

After Restoration of Imperial Rule(1867), Japan decided to introduce a new bookkeeping (double-entry bookkeeping) system instead of their original “*Cho-ai*” system in order to catch up with the European and American powers of those days.

Since the discovery of the double entry principle, there has been tremendous development in business management. The introduction of micro and mini computers have brought enhanced performance but the fundamental principle remains unchanged.

SOFEB is one of excellent Korean cultural heritage as a very sophisticated double-entry system that has fundamentals, procedures and a set of books.