

THE LAW OF THE REPUBLIC OF ARMENIA

“ON ACCOUNTING”*

CHAPTER 1.

GENERAL PROVISIONS

Article 1. The purpose of the Law

This Law defines the uniform basis for the organization and execution of accounting, the preparation and presentation of general purpose financial statements (hereinafter referred to as financial statements) in the Republic of Armenia, regulates other relations pertaining to accounting.

Article 2. The scope of the Law

This Law applies to legal entities (including institutions founded by them), subjected to state registration in the Republic of Armenia in a stipulated manner, branches and representations of foreign organizations (hereinafter referred to as organizations).

The peculiarities of distribution of the rights and duties, envisaged by Chapter 3 of this Law, of a bank chief executive and a chief accountant, or a person with similar responsibility for accounting are established by the law of the Republic of Armenia “On Banks and Banking”. The peculiarities of distribution of such rights and duties of an insurance company management and a chief accountant, or a person with similar responsibility are established by the law of the Republic of Armenia “On Insurance and Insurance Activities”.

Article 3. Legislation pertaining to accounting

The legislation of the Republic of Armenia on accounting includes this Law, other laws of the Republic of Armenia pertaining to accounting, other normative regulations for the accounting adopted by a state regulatory body established pursuant to this Law.

Article 4. Regulation of accounting

* LA-515-S, adopted 26.12.2002, in force 22.02.2003 (ARDB 2003/9(244), 12.02.03).
Includes amendments and changes pursuant to the laws of the Republic of Armenia:
LA-81-S, ARDB 2004/3493330, 30.06.04,
LA-190-S, ARDB 2004/7393720, 30.12.04,
LA-231-S, ARDB 2005/7994510, 21.12.05,
LA-247-S, ARDB 2005/8194530, 28.12.05,
LA-188-S, ARDB 2007/27(551), 30.05.07.

1. The regulation of accounting in the Republic of Armenia shall be executed by a state body authorized by the government, unless otherwise envisaged by the law, and in the banks, credit organizations, payment and settlement organizations, parties, executing insurance activities, pawnshop business, professional activities in the securities market and in self-governing parties thereof - by the Central Bank of the Republic of Armenia together with the body authorized by the government of the Republic of Armenia (hereinafter referred to as the state regulatory body on accounting).

2. The state regulatory body on accounting, within its jurisdiction, shall endorse the following:

- a) the accounting standards,
- b) the accounting charters of accounts and instructions of the application thereof,
- c) methodical guidelines, instructions pertaining the application of accounting standards, making notes and supplementary schedules to financial statements, accounting policies, production cost (cost price) accounting.

3. In case of lack of an accounting standard or other legal regulatory act pertaining to any issue on executing accounting or completion of financial statements, the organization shall develop them on its own, reasoning from:

- a) relevant requirements and instructions, established by the accounting standards and other normative regulations on accounting,
- b) principles of executing accounting and presentation of financial statements, established by this Law, definition of elements of financial statements, recognition criteria and evaluation basis,
- c) own expertise, to such an extend as it agrees with provisions in points (a) and (b) herein.

CHAPTER 2.

ACCOUNTING AND FINANCIAL STATEMENTS

Article 5. Accounting

1. Accounting is a system for collection, registration and generalization of information in monetary expression concerning the state and flow of the assets, equity, liabilities of an organization through comprehensive and continual documented accounting of all economic transactions.

2. All organizations must carry out accounting.

Article 6. Financial statements and elements of financial statements

Financial statements are formal financial disclosures of events influencing on the organization and the transactions of organization.

The elements of financial statements are organization's assets, equity capital, liabilities, income and expenses.

1. An asset is a resource controlled by the entity as a result of past transaction (event) and from which future economic benefits are expected to flow to the entity.

2. A liability is a present obligation of the entity arising from past transactions or events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

3. Equity is the assets of entity after deducting its liabilities.

4. Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

5. Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

Article 7. Objective of financial statements

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an organization to the users of financial statements (present and potential investors, the management and employees, state bodies, suppliers and other creditors, loan issuers, the general public and other users) that is useful in making economic decisions.

Article 8. Recognition of the elements of financial statements

1. The recognition of the elements of the financial statements is the process of including in the balance sheet or in the statement on financial results of such items that meet the definition of an element and satisfy the following criteria:

a) it is probable that any future economic benefit associated with the item will flow to or from the entity,

b) the item's cost can be measured reliably.

2. An asset is recognized in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost that can be measured reliably.

3. A liability is recognized in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.

4. An income is recognized in the statement on financial results when an increase in future economic benefits related to an increase in assets or a decrease of a liability has arisen that may be measured reliably.

5. Expenses are recognized in the statement on financial results or directly in the equity in the balance sheet when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Article 9. Measurement of the elements of financial statements

1. Measurement involves assigning monetary amounts at which the elements of the financial statements are to be recognized and reported in the balance sheet and the statement on financial results.

2. The measurement of the assets and liabilities of an organization is carried out to different degrees and in varying combinations through the application of the principles outlined below:

a) Historical cost:

- assets are registered at the amount of the sum paid (payable) for their acquisition as of the moment of acquisition, in case of other forms of disbursement – at fair value of disbursement,

- liabilities are registered at the amount of the sum of assets (services) received against them or if no assets (services) have been received - at the amount of the sum that is probable to be paid to repay the liabilities in the course of current operations;

b) Current (restoration) value:

- assets are registered at the amount of the sum that would be paid if an identical or another similar asset were acquired at the present moment,

- liabilities are registered at the amount of the sum that would be necessary to repay these liabilities at the present moment;

c) Realizable (settlement) value:

- Assets are registered at the amount of the sum that would be currently received if assets were normally sold,

- liabilities are registered at their repayment value, that is at the amount of the sum that is probable to be paid to repay the liabilities during ordinary activities of the organization,

d) Present value:

- assets are registered at the amount of the discounted sum of future net inflows that are probable to generate these assets during ordinary activities of the organization,

- liabilities are registered at the amount of the discounted sum of future net outflows that are probable to be necessary to repay these liabilities during ordinary activities of the organizations.

3. An income is measured at the amount that is used to measure the corresponding increase in assets or the corresponding decrease of liabilities.

4. Expenses are measured at the amount that is used to measure the corresponding decrease of assets and the corresponding increase in liabilities.

5. The methods of application of measurement are defined by accounting standards.

Article 11. The principles of accounting and financial reporting

1. The principles of accounting and financial reporting are:

a) going concern - the organization is going to continue in operation in the foreseeable future and has no tendency or need to liquidate itself or to substantially curtail its operations,

b) consistency - accounting policies should not change from one reporting period to another, with the exception of cases when the nature of organization's operations

undergoes substantial changes, or when the changes in accounting policies provide for more essential information, or when changes have taken place in the legislation regulating accounting,

c) accrual - the results of economic activities (events) (assets, equity, liabilities, income and expenses) are recognized and registered in the accounting when they occur, irrespective of the date when cash or its equivalent is received or paid, and they are reported in the financial statements of the periods to which they relate,

d) understandability - information in financial statements must be understandable to the users who have a reasonable knowledge of economic activities and accounting,

e) relevance - information is relevant if its non-disclosure influences the economic decisions of the users of financial statements made on the basis of such statements,

f) uniformity - accounts similar in the accounting and functional nature thereof shall be joint in financial reporting, unless their separate presentation would contain relevant information,

g) reliability - the financial statements are reliable if they satisfy the following:

- prevalence of the substance over the form - the results of economic activity shall be recorded and presented in accounting and financial statements based on their economic substance and conditions, rather than on their legal form only,

- neutrality - financial statements shall not be aimed at satisfaction of interests of a separate user group, and shall not provide selective information to produce a predictable result,

- prudence – is a keeping of a degree of caution, so that assets or income are not overstated and liabilities or expenses are not understated, at the same time not allowing deliberate underestimation of assets and income and overestimation of liabilities and expenses,

- integrity - information presented in the financial statements shall be integral within the limits of relevance and value,

h) comparability - the financial statements of the same organization for different reporting periods, as well as the financial statements of different organizations shall be comparable,

i) offset – it is prohibited to offset the items on assets, equity and liabilities, income and expenses, except for the cases envisaged by legislation regulating accounting,

j) differentiation - the assets and liabilities of an organization shall be detached from the assets and liabilities of the founders, participants thereof and from the assets and liabilities of other organizations.

Other principles may be defined in accordance with the accounting standards.

CHAPTER 3.

ORGANIZATION AND EXECUTION OF ACCOUNTING

Article 11. The rights and duties of the chief executive for accounting

1. The head of the executive body of an organization or (hereinafter referred to as organization's chief executive) shall be responsible for accounting pursuant to requirements of the legislation on accounting.

2. Subject to the volume of accounting workload, the organization's chief executive may execute the accounting:

- through an accounting structural division,
- through an organization's employee as accountant,
- through an accounting firm or a private entrepreneur, and for political parties, non-government and religious organizations – also through an individual who is not a private entrepreneur,
- personally.

3. The chief executor shall be obliged to:

a) define the accounting policies of the organization, that is to constitute the integrity of principles, basis, modes, rules, forms and procedures of accounting and financial reporting,

b) ensure execution of accounting and preparation and presentation of financial statements.

Article 12. The rights and duties of the chief accountant

1. General accounting and preparation of the financial statements of the organization is executed by the manager of the accounting department or by another person pursuant to clause 2, Article 12 (hereinafter referred to as the chief accountant), pursuant to the legislation of the Republic of Armenia on accounting.

2. The chief accountant is responsible for the execution of accounting, the timely completion and presentation of financial statements.

Except for the cases when the chief executive performs also the duties of the chief accountant, the position of a chief accountant in the organization is obligatory. The job of the chief accountant or chief executive who also performs the duties of the chief accountant should be remunerative (except for cases when another organization or a private entrepreneur execute the accounting in the organization, and for political parties, the public and religious organizations - the accounting is executed by an individual who is not a private entrepreneur).

3. The fulfillment of the requirements for the chief accountant concerning the presentation of information and documents necessary for accounting is peremptory for all employees of the organization.

4. In case of disagreement between the organization's chief executive and the chief accountant concerning the performing of certain economic activities, the documents are accepted by the chief accountant for execution by a written instruction (order) of the organization's chief executive, and the chief executive shall bear the responsibility for the consequences of the execution of such activities.

5. The published financial statements of commercial organizations shall be signed by a qualified chief accountant, as well as by an individual qualified as an auditor pursuant to the legislation. The state regulatory body on accounting or a professional

body, chosen according to criteria set by the body, shall give qualification to chief accountants.

If the qualification is given by the state regulatory body on accounting, the procedure of qualifying examination shall be established by the government of the Republic of Armenia. The state regulatory body on accounting shall approve the members of the examination board and the program of qualifying examination.

If the qualification is given by a professional body, it shall approve the members of the examination board and the program of qualifying examination solely, submitting them to the approval of the state regulatory body on accounting.

Article 13. Basic rules of accounting

1. The accounting shall be executed:

a) in the currency of the Republic of Armenia - the dram,
b) by way of double entry pursuant to the accounting charter of accounts,
c) continuously from the moment of state registration of the organization until the moment of its reorganization or liquidation pursuant to the legislation.

2. The data in the analytical (detailed) accounting and in the synthetic (generalized) accounts must correspond to each other.

3. The results of all economic activities shall be registered in the accounts in time and be reported in the financial statements of the periods to which they relate.

Article 14. Initial accounting documents

1. Accounting entries shall be made on the basis of initial accounting documents, which show the fact that the economic operation has been performed.

2. The initial accounting documents must possess the following mandatory requisites:

a) the name of the document,
b) the record number,
c) the date (y/m/d/) of compilation,
d) the name (name, surname) of the operation participant(s),
e) the substance of the economic operation,
f) the units of measure of the economic operation in monetary and in-kind expression,
g) the positions and the signatures of responsible individuals.

The initial accounting documents may also include additional requisites depending on the nature of the operation and the system of data processing.

3. The initial accounting documents are compiled at the moment of the execution of the operation and, in if it is not possible, immediately upon the completion of the operation.

The persons who compile and sign the initial accounting documents bear the responsibility for timely and integral compilation of documents and their transfer in order to be registered duly and timely.

4. The correction of an error in initial accounting documents shall be coordinated with the participants of the economic transaction and endorsed by the signatures of the individuals authorized to sign it, with an entry of the date of correction. Corrections in cash and banking documents are prohibited.

5. The state regulatory body on accounting may define standard forms of initial accounting documents. The organization may use these standard forms of the initial documents or define the forms solely pursuant to the requirements of clause 2 of this Article.

The mandatory standard forms of initial accounting documents may be defined by normative regulations on accounting.

Article 15. Account books

1. The information in the initial accounting documents shall be collected and systematized in the account books (hereinafter referred to as the books).

2. Economic activities shall be entered in the books in chronological order.

3. Persons who keep the books shall bear the responsibility for the timely and accurate compilation of the books.

4. Unnoted corrections in the books are prohibited. The correction of an error shall be endorsed by the person authorized to sign the book, with an entry of the date of the correction.

5. The state regulatory body on accounting may define standard forms of the books. The organization shall choose a standard form among them or define the forms of books solely pursuant to this Law and general methodological principles of accounting.

The mandatory standard forms of books may be established by normative regulations.

Article 16. The right of signature in accounting documents

The persons authorized to sign accounting documents are nominated by the organization's chief executive. Moreover, a subordination of the right of signature may be defined depending on the position of the individual, the field of transactions, the content and amount of monetary value.

Article 17. Stocktaking of assets and liabilities

1. In order to ensure the reliability of data in accounting and statements the organization shall execute stocktaking of assets and liabilities.

2. Stocktaking is mandatory in the following cases:

a) prior to the compilation of annual financial statements,

b) in case of the reorganization or liquidation of the organization,

c) in case of emergency due to natural disasters, fires or other reasons,

- d) in case of revelations of theft, deterioration and loss of property,
- e) in case of a change of the person in charge.

In case of mandatory stocktaking the scope of the objects of stocktaking, the procedure and the time-frame shall be defined by the government of the Republic of Armenia.

3. With the exception of cases referred to in the clause 2 of this Article, the scope of the objects of stocktaking, the procedure and the time-frame shall be defined by the organization's chief executive.

Article 18. Confidentiality of accounting information

1. The information in the initial accounting documents, account books, as well as in the reports for internal use is considered to be a commercial secrecy and can be accessed upon the permission of the organization's chief executive in cases and by the procedure provided for by the founding documents of the organization and the legislation.

2. The persons and organizations that have received information comprising commercial secrecy must preserve the secrecy thereof. In case of the publication of such information they bear responsibility pursuant to the legislation.

Article 19. Archiving of accounting documents

1. The accounting documents, as well as information in electronic carries, i.e. the initial accounting documents, the books, financial statements, documents on accounting policies, accounting software shall be archived in the manner and in the time-frame provided for by the legislation of the Republic of Armenia not less than for five years.

2. Confiscation of accounting documents shall be carried out pursuant to the procedure defined by the law. The organization has the right to make the photocopies of the confiscated documents and archive them.

3. The organization's chief executive shall be responsible for archiving the accounting documents.

CHAPTER 4.

COMPILATION AND PRESENTATION OF FINANCIAL STATEMENTS

Article 20. The content of financial statements

The financial statements of an organization shall include:

a) the balance sheet indicating the financial position of the organization as of the reporting date The elements directly pertaining to the assessment of the financial position are the assets, equity and the liabilities,

b) the statement on financial results indicating the financial results of the organization's activities within the reporting period. The elements directly pertaining the results are the income and expenses,

c) the statement on change in equity indicating the balance of equity items for the reporting date and their flow during the reporting period,

d) the statement on cash turnover indicating cash balance for the reporting month and cash flow during the reporting period,

e) the notes to financial statements, which disclose the accounting policies of the organization and, in accordance with the requirements of accounting standards, other additional information.

If financial statements are subject to mandatory audit pursuant to the legislation, an auditor's opinion must be attached to the financial statements.

Article 21. Requirements for financial statements

1. All organizations must complete financial statements in the currency of the Republic of Armenia based on data of analytical and synthetic accounting.

In cases provided for by the legislation and accounting standards the directing agency must prepare consolidated statements.

2. The requirements for data presentation in financial statements shall be defined by accounting standards.

3. The financial statements of an organization must include data on its structural divisions, including branches and representations outside the Republic of Armenia.

4. The financial statement must contain the following requisites:

a) the name,

b) the reporting date or the reporting period, for which the report has been compiled,

c) the name of the organization,

d) the legal address,

e) data unit,

d) the signatures of responsible persons.

Other requisites also may be set by normative regulations on accounting.

5. The state regulatory body on accounting shall define the standard forms of financial statements and the guidelines for their completing. The state regulatory body on accounting shall set the minimum requirements for financial statements and the guidelines for their completion. The organizations may use these forms or define new ones solely by meeting the minimum requirements of the state regulatory body on accounting.

6. The financial statements shall be signed by the organization's chief executive and the chief accountant and shall be sealed by the seal of organization.

Article 22. The reporting period

1. The reporting period is the reporting year or the interim reporting period.

2. The reporting year is the period between January 1 and December 31 of the given year. For newly established organizations the first reporting year is the period between the day of their registration and December 31 of the same year. Annual financial statements for the reporting year are mandatory.

3. The interim reporting period is shorter than a year. The financial statements for an interim reporting period shall be completed in cases stipulated by the legislation or at organization's discretion.

Article 23. Presentation of financial statements

1. Organizations shall present annual financial statements:

a) to their founders, participants pursuant to the constituent documents or the legislation,

b) to the state bodies pursuant to the legislation.

2. Organizations shall present the annual financial statements prior April 15 of the year succeeding the reporting year. Interim financial statements shall be reported within 60 days upon the end of the reporting period unless otherwise established. The date of presentation of financial statements of banks and branches of foreign banks to the Central Bank shall be determined by the Central Bank of the Republic of Armenia.

3. The day of presentation of financial statements is the day when they are delivered or mailed to their destination.

Article 24. Publicity of financial statements

1. The organizations, whose financial statements are subject to publication according to law, must publish the annual statements prior to the 1st of June of the year succeeding the reporting year, and the interim statements – within 60 days upon the end of the reporting period, unless otherwise established.

Banks and the branches of foreign banks publish their financial statements in accordance with the procedure and the time-frame determined by the law of the Republic of Armenia “On Banks and Banking”.

2. Financial statements may be published in the press, Internet or in form of booklets.

CHAPTER 5.

FINAL PROVISIONS

Article 25. Responsibility for violating the requirements of the legislation on accounting

The organization's chief executive and other persons responsible for organization and execution of accounting bear responsibility in the manner prescribed by law for violation of normative regulations on accounting.

Article 26. Entry into force

1. This law shall enter into force on the tenth day upon official publication.
2. The requirement of the second paragraph of clause 1 of Article 21 refers to the period after December 31, 2002.
3. Legal documents adopted on the ground of the law of the Republic of Armenia "On Accounting" (June 16, 1998) shall remain effective.

*The President of the Republic of Armenia
Robert Kocharyan
June 31, 2003
Yerevan*