

LAW OF THE REPUBLIC OF ARMENIA ON ACCOUNTING

Adopted on 26 December 2002

CHAPTER 1

GENERAL PROVISIONS

Article 1. Purpose of the Law

This Law defines the uniform principles for organisation and maintenance of accounting system, for preparation and presentation of general purpose financial statements (hereinafter referred to as “financial statements”); regulates other relations pertaining to accounting.

Article 2. Scope of the Law

This Law shall apply to legal entities (including institutions established thereby) having acquired, in accordance with the prescribed procedure, state registration in the Republic of Armenia, as well as to branches and representations of foreign entities (hereinafter referred to as “entities”).

The peculiarities of distribution of rights and duties between the management bodies and the chief accountant or person performing such duties in banks, investment companies, insurance undertakings, regulated market operator, as well as of the Central Depository shall be defined respectively by the laws of the Republic of Armenia on Banks and Banking, on Insurance and Insurance Activities, and on Securities Market.

The Government shall define a special regulation for tax accounting for the taxpayers with the receivable revenue as of the previous calendar year not exceeding AMD100 million.

Entities defined by the third paragraph of this Article may apply the special regulation for tax accounting instead of the International Accounting Standards and International Standards Guide.

(Article 2 supplemented by LA-231-N of 15 November 2005, LA-188-N of 9 April 2007; edited by LA-207-N of 11 October 2007; supplemented by LA-152-N of 21 August 2008; edited by LA-226-N of 26 December 2008)

Article 3. Legal Acts Regulating the Field of Accounting and the International Financial Reporting Standards

Legal acts regulating the field of accounting include this Law, other laws of the Republic of Armenia pertaining to accounting, other legal acts adopted by the state body, prescribed by this Law, regulating the field of accounting.

The International Financial Reporting Standards, as well as the principles issued by the International Accounting Standards Board for preparation and presentation of financial statements, and the guidelines for application of standards and other mandatory application documents (hereinafter referred to as “the International Standards Guide”) shall be in effect in the territory of the Republic of Armenia in accordance with the procedure prescribed by this Law.

The International Financial Reporting Standards include the International Accounting Standards, the International Financial Reporting Standards and interpretations thereof adopted by the International Accounting Standards Board and the further amendments thereto (and the interpretations thereof), as well as the standards and interpretations thereof to be adopted in the future by the International Accounting Standards Board.

(Article 3 amended and supplemented by LA-226-N of 26 December 2008)

Article 4. Regulation of the Field of Accounting

1. Accounting shall be regulated by a state body authorised by the Government, unless otherwise provided for by law; whereas in banks, credit institutions, payment and settlement organisations, entities engaged in insurance activities and pawn-brokerage, entities specialised in the securities market and in self-regulatory entities thereof it shall be regulated by the Central Bank jointly with the body authorised by the Government (hereinafter referred to as “the state body regulating the field of accounting”)

2. Within the scope of its competence the state body regulating the field of accounting shall approve the following:

(a) *(sub-point repealed by LA 226-N of 26 December 2008)*;

(b) charts of accounts and directives for the application thereof;

(c) methodical instructions and directives for calculating production costs (cost value).

2.1. The state body regulating the field of accounting may approve the sample forms of financial statements and the instructions for filing out the sample forms on the basis of International Financial Reporting Standards and the International Standards Guide. The state body regulating the field of

accounting shall define the sample forms of financial statements and the instructions for filling out the sample forms for entities defined by the third paragraph of Article 2 of this Law.

3. Other legal acts on accounting adopted by the state body regulating the field of accounting shall comply with the International Financial Reporting Standards and the International Standards Guide, except for cases prescribed by this Law.

(Article 4 supplemented by LA-247-N of 08 December 2005; amended and supplemented by LA-226-N of 26 December 2008)

CHAPTER 2

ACCOUNTING AND FINANCIAL STATEMENTS

Article 5. Accounting

1. Accounting is a system of collecting, recording and summarising information - in cash equivalent - on the position and flow of assets, equity, and liabilities through a comprehensive and continual documented accounting of economic transactions.

2. All entities are obliged to maintain accounting.

3. Accounting of an entity shall be maintained by observing the requirements of the Law of the Republic of Armenia on Anti-Money Laundering and Combating Financing of Terrorism.

(Article 5 supplemented by LA-85-N of 26 May 2008)

Article 6. Financial Statements

1. Financial statements are the structured financial presentation of events effecting upon the entity and of transactions of the entity.

2. Financial statements shall be signed by the chief executive and the chief accountant of the entity. They shall be sealed with the seal of the entity, if any.

(Article 6 edited by LA-226-N of 26 December 2008)

Article 6.1. Entities presenting financial statements in accordance with the International Financial Reporting Standards and the International Standards Guide

1. Banks, credit institutions, payment and settlement organisations, issuers of the securities market, investment companies, regulated market operator, the Central Depository, insurance undertakings, reinsurance undertakings, insurance brokers shall prepare and present financial statements to the founders and participants in accordance with the articles of association of the entity or the law, and to the state bodies, by the procedure prescribed by law, in compliance with the International Financial Reporting Standards and the International Standards Guide.

Entities not indicated in the first paragraph of this part may prepare and present financial statements in compliance with the International Financial Reporting Standards and the International Standards Guide through making relevant disclosures thereon in the financial statements.

2. Entities not indicated in the first part of this Article, except for entities applying the special regulation for tax accounting in the case prescribed by the third paragraph of Article 2 of this Law, shall be obliged to prepare and present financial statements - to the founders and participants in accordance with the articles of association of the entity or the law, and to the state bodies, by the procedure prescribed by law, in compliance with the International Financial Reporting Standards and the International Standards Guide - from 1 January of the year following the end of a six-month period after the publication, in the manner prescribed by the Government, of the International Financial Reporting Standards, the International Standards Guide and amendments thereto.

(Article 6.1 edited by LA-226-N of 26 December 2008)

Article 7. The Objective of Financial Statements

(Article 7 repealed by LA-226-N of 26 December 2008)

Article 8. Recognition of Elements in Financial Statements

(Article 8 repealed by LA-226-N of 26 December 2008)

Article 9. Measurement of Elements in Financial Statements

(Article 9 repealed by LA-226-N of 26 December 2008)

Article 10. Principles for Maintaining Accounting and Preparing Financial Statements

(Article 10 repealed by LA -226-N of 26 December 2008)

CHAPTER 3

ORGANISATION AND MAINTENANCE OF ACCOUNTING

Article 11. Rights and Duties of the Chief Executive of an Entity in Organising Accounting

1. The head of the executive body of an entity (hereinafter referred to as “the chief executive of an entity”) shall bear responsibility for organising accounting in compliance with the requirements of legal acts regulating the field of accounting.

2. Depending on the accounting workload, the chief executive of an entity shall be entitled to maintain the accounting:

- through accounting service regarded as a structural unit;
- through accountant regarded as an employee of the entity;
- through organisation providing accounting services or through individual entrepreneur, and in case of political parties, non-governmental and religious organisations - through natural persons that are not individual entrepreneurs; as well as
- personally.

3. The chief executive of the entity shall be obliged to:

- (a) define the accounting policy of the entity: the entirety of principles, fundamentals, methods, forms and protocols used for maintaining accounting and preparing financial statements;
- (b) ensure maintenance of accounting, preparation and presentation of financial statements.

(Article 11 amended by LA-190-N of 14 December 2004)

Article 12. Rights and Duties of the Chief Accountant

1. General maintenance of accounting and preparation of financial statements in an entity shall be carried out by the head of the accounting service, and in case of maintaining accounting through an organisation providing accounting services - by the person authorised by that organisation or other person provided for

by Article 11(2) of this Law (hereinafter referred to as “the chief accountant”) in accordance with legal acts regulating the field of accounting.

2. The chief accountant shall be responsible for maintenance of accounting, timely preparation and presentation of financial statements.

It is mandatory to have a chief accountant in an entity with the exception of cases when the chief executive of an entity exercises also the duties of a chief accountant. The chief accountant or the chief executive of an entity exercising also the duties of the chief accountant shall be a hired employee (except for cases when accounting in an entity is maintained through another organisation providing accounting services or by an individual entrepreneur, and in case of political parties, non-governmental and religious organisations - by natural persons that are not individual entrepreneurs).

3. The fulfilment of the requirements of the chief accountant related to the presentation of the information and documents necessary for accounting shall be binding for all the employees of an entity.

4. Where disagreement between the chief executive and the chief accountant of an entity occurs with respect to the implementation of certain economic transactions, the chief accountant shall take on documents for execution upon the written administrative order (assignment) of the chief executive of the entity, and the responsibility for the consequences of implementing such transactions shall be borne by the chief executive of the entity.

5. The right of signing the published financial statements of commercial entities shall be exercised by a qualified chief accountant as well as by a natural person holding a qualification of an auditor in the manner prescribed by legislation. For this purpose, qualification of chief accountants shall be carried out either by the state body regulating the field of accounting or by a specialised entity selected in accordance with the standards defined by the state body regulating the field of accounting.

Where the qualification is carried out by the state body regulating the field of accounting, the procedure for qualification shall be defined by the Government of the Republic of Armenia, while the composition of the qualification commission and the programme of qualification examinations shall be approved by the state body regulating the field of accounting.

Where the qualification is carried out by a specialised entity, the procedure for qualification, the composition of the qualification commission and the programme of qualification examinations shall be approved by the specialised entity in coordination with the state body regulating the field of accounting.

The procedure for qualification and the programme of qualification examinations shall be subject to publication.

(Article 12 amended by LA-87-N of 26 May 2004, supplemented by LA-190-N of 14 December 2004)

Article 13. Ground Rules for Maintaining Accounting

1. Accounting shall be maintained:
 - (a) in the currency of the Republic of Armenia - the Armenian Dram;
 - (b) based on double account system, in accordance with the chart of accounts;
 - (c) on a continuous basis - from the moment of state registration of the entity till the reorganisation or liquidation thereof by the procedure prescribed by legislation.
2. Analytical accounts and general ledger accounts shall be consistent.
3. The effects of all economic transactions shall be recorded in the accounts in time so that they are reflected in the financial statements of the periods to which they relate.

Article 14. Initial Accounting Documents

1. Accounting entries are recorded on the basis of initial accounting documents which evidence that the economic transaction has been performed.
2. The initial accounting documents shall have the following mandatory requisites:
 - (a) the name of the document;
 - (b) the serial number;
 - (c) the date of preparation;
 - (d) the name (first name, last name) of the participant (participants) in the transaction;
 - (e) the subject matter of the economic transaction;
 - (f) the measurement bases of the economic transaction: in cash and in kind; and
 - (g) the positions and signatures of responsible persons.

The initial accounting documents may contain additional requisites depending on the nature of transaction and the system of data processing. Additional requisites may be defined by the state body regulating the field of accounting and/or by the entity.

3. The initial accounting documents shall be prepared at the moment of execution of the transaction and, where it is not possible, immediately upon completion of the transaction.

The responsibility for the timely and complete preparation of initial accounting documents and their delivery in the prescribed manner and time limits for the reflection thereof in the accounting shall be borne by the persons who prepare and sign those documents.

4. Correction of an error in initial accounting documents shall be agreed with the participants of the economic transaction and shall be approved by the signatures of persons entitled to sign the given document, with an indication of the date of correction. Corrections in cash and bank documents shall not be permitted.

5. The state body regulating the field of accounting may define sample forms of initial accounting documents. The entity may use these sample forms or, pursuant to part 2 of this Article, define them independently.

Forms of initial accounting documents subject to mandatory application may be defined pursuant to legal acts regulating the field of accounting.

Article 15. Account Books

1. Information existing in initial accounting documents shall be collected and classified in account books (hereinafter referred to as “the books”).

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

3. Persons, keeping the books, shall bear responsibility for the timely and complete preparation thereof.

4. Unnotified corrections in the books shall not be permitted. The correction of an error shall be approved by the signature of the person entitled to sign the given book, with an indication of the date of correction.

5. The state body regulating the field of accounting may define sample forms of books from among which the entity, at its discretion, shall choose the form applicable for it or, based on this Law and general methodological principles of accounting, shall define self-developed books.

Forms of books subject to mandatory application may be defined by legal acts regulating the field of accounting.

Article 16. The Right of Signature in Accounting Documents

The persons entitled to sign the accounting documents shall be determined by the chief executive of the entity; moreover, a gradation of authorised signatures may be defined depending on the position of the given person as well as the sphere, essence and cash value of transaction.

Article 17. Inventory of Assets and Liabilities

1. For the purpose of ensuring the reliability of data in accounting and in statements, the entity shall carry out inventory of assets and liabilities.

2. Inventory shall be mandatory in the following cases:

(a) prior to the preparation of annual financial statements;

(b) reorganisation and liquidation of an entity;

(c) emergency situations resulting from natural disasters, fires and other causes; d) disclosure of facts of stealing, spoiling and loss of property; and

(e) replacement of inventory custodian.

In case of mandatory inventories the list of items subject to inventory, the procedure and terms of inventory shall be defined by the Government of the Republic of Armenia.

3. With the exception of cases referred to in part 2 of this Article, the list of items subject to inventory, the procedure and terms of inventory shall be determined by the chief executive of the entity.

Article 18. Confidentiality of Accounting Information

1. The information contained in initial accounting documents, in the books, and in reports designated for internal use shall be considered a commercial secret and may be accessed upon the permission of the chief executive of an entity in cases and the manner provided for by the articles of association of the entity and by the law.

2. Persons and organisations that have become acquainted with information considered as a commercial secret shall be obliged to keep the confidentiality thereof. In case of publication of such information, they shall bear responsibility in the manner prescribed by law.

Article 19. Custody of Accounting Documents

1. Accounting documents, as well as information on electronic carriers - initial accounting documents, the books, financial statements, documents on accounting policies, accounting software - shall be kept in custody by the entity in the manner and in the time limits prescribed by the legislation of the Republic of Armenia but not less than for five years.

2. Seizure of accounting documents shall be carried out in the manner prescribed by law. The entity shall have the right to make copies of seized documents and keep them.

3. The responsibility for organising the custody of accounting documents shall be borne by the chief executive of the entity.

CHAPTER 4

PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

Article 20. Layout of Financial Statements

(Article 20 repealed by LA-226-N of 26 December 2008)

Article 21. Requirements for the Preparation of Financial Statements

(Article 21 repealed by LA-226-N of 26 December 2008)

Article 22. Reporting Period

1. The reporting period shall mean the reporting year or the interim reporting period.

2. The reporting year shall be the period from 1 January through 31 December of the given year. The first reporting year for newly established entities shall be the period starting from the day of their state registration to 31 December of the given year. Annual financial statements shall be prepared for the reporting year on a mandatory basis.

3. The interim reporting period shall be shorter than one year. Financial statements for an interim reporting period shall be prepared in cases prescribed by the legislation or at the discretion of entities.

Article 23. Presentation of Financial Statements

1. Entities shall present annual financial statements:

(a) to founders and participants - pursuant to the articles of association of the entity or the law;

(b) to the state bodies - by the procedure prescribed by law.

2. Entities shall present the annual financial statements prior to 15 April of the year following the reporting year, whereas the interim financial statements shall be presented not later than within 60 days after the end of the interim reporting period unless other deadlines are prescribed by law.

Deadlines for the presentation of financial statements to the Central Bank by the banks and branches of foreign banks shall be defined by the Central Bank of the Republic of Armenia.

3. The day of presentation of financial statements shall be considered the day when they are submitted or mailed to the recipients.

Article 24. Publicity of Financial Statements

1. Entities, presenting financial statements subject to publication in accordance with the law, shall be obliged to publish annual statements prior to 1 July of the year following the reporting year, and the interim financial statements - not later than within 60 days after the end of the interim reporting period unless other deadlines are prescribed by law.

Banks and branches of foreign banks shall publish their financial statements in accordance with the procedure and within the time limits prescribed by the Law of the Republic of Armenia on Banks and Banking.

1.1. Large-scale entities shall be obliged to publish their annual financial statements.

Within the meaning of this Law, an entity shall be considered as a large-scale entity if it meets at least one of the following two indicators:

(a) proceeds generated from the activities of the previous year exceed AMD 500 million;

(b) book value of assets as of the end of the previous year exceeds AMD 500 million.

2. Financial statements may be published in printed media, Internet or disseminated in brochures. Annual financial statements may be published only after undergoing an audit, together with the audit opinion.

(Article 24 supplemented by LA-226-N of 26 December 08)

CHAPTER 5

FINAL PROVISIONS

Article 25. Responsibility for Infringing Legal Requirements on Accounting

The chief executive of an entity and other persons responsible for organisation and maintenance of accounting shall bear responsibility for infringing the legal acts on accounting in the manner prescribed by law.

Article 26. Entry into force of this Law

1. This Law shall enter into force from the tenth day following its official publication.
2. The requirement of the second paragraph of Article 21(1) of this Law shall refer to the period extending after 31 December 2002.
3. The Law of the Republic of Armenia on Accounting of 16 June 1998 shall be repealed from the day of entry into force of this Law.
4. Legal acts adopted on the basis of the Law of the Republic of Armenia on Accounting of 16 June 1998 shall remain in force.

President of the Republic of Armenia

R. Kocharyan

31 January 2003

Yerevan

LA-515-N