

An Introduction on Traditional Double Entry Bookkeeping of Korea

~The Sagae Songdo Chibubeob for Practical Use and Self-Study

(實用自修 四介松都治簿法)

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This book is an English-language translation of the original book (1916) by Hyeon Byeongju, which he wrote with Chinese characters and old-style Korean words in mix. This English-language version is largely based on the modern Korean-language translation of the original book by Keysook Jung, published by Kyung Moon Sa (經文社: Seoul, Korea) in 2015. We, the English-language translators, are grateful to Kyung Moon Sa for generously giving us a permission to refer heavily to the Korean-language version for this English translation.

Translators' Preface

Accounting is indispensable to the economic activities of humans, and the two are inseparable partners of each other. Historically, a good record-keeping system has been a key companion of the economy of a country. Since its invention roughly six centuries ago, double entry accounting has played an invaluable role for the growth and prosperity of the economy of many countries where it was used as a financial record-keeping system. This is true especially for the economy of free and capitalistic countries.

The ancient civilization of Chaldea, Babylonia, Assyria, and Sumer, where the human civilization in general is known to have originated from, left the world's oldest characters and mercantile records as invaluable heritage for mankind today. The civilization of Egypt also did so, using its own characters and unique paper called *Papyrus*. Similarly, China is known to have used a well-developed government accounting in the era of Western Zhou Dynasty (西周), 1046 to 771 B.C.). In retrospect, a good record-keeping system (or simply accounting) was not a mere by-product of an economic development; it was invented and used to meet the need for record-keeping so that the economy could flourish and function efficiently. As such, the birth of accounting did not necessarily coincide with the emergence of a free capitalistic economy; rather, accounting did exist even long before. This point can be easily understood if one thinks of various organizations today. All organizations, profit or non-profit, need a good record-keeping system, in order to perform its function and serve its purpose. In old times, accounting was used mainly as a record-keeping tool, so it had an inherent limitation in actively helping the economy grow and function efficiently. Despite the limit, however, the integrity of accounting reflected the ethics of the people who used it in keeping track of their businesses and trades. This was true especially in the Medieval Ages of Europe. The same was also true for merchants in the city of Kaesong during the times of Goryeo (高麗) Dynasty (A.D. 918 to 1392) in Korea. No matter how good it is, an accounting system would be of no use if it were not based on a high level of ethics and honesty of the people who actually use it and generate accounting numbers.

Historically, the modern double entry system came to exist as the economies of the Mediterranean-region countries grew and their international trades flourished during the Medieval Ages. A trade (or transaction), by nature, always involves two parties, one giving something and one taking it. The double entry accounting system is basically a recording mechanism that reflects this duality of a transaction. Thus, reflecting on the history, it is not difficult to understand why double entry accounting came to exist and how it became a logical component of the developed economy. This is particularly true if one thinks of the rationality of a capitalistic economy. Merchants and businessmen of the regions where double entry accounting was originally developed surely had creative ideas and relied freely on different but rational good and rational bookkeeping systems of their own, which eventually resulted in a more structured and uniform recording system, the modern double entry accounting.

It is generally known that the modern double entry system was first developed in medieval Italy and then was widely used in and around the Mediterranean region. Interestingly, it is also known (in the early 20th century) that creative and unique double entry bookkeeping systems were already developed in Asia as well. And one of them was found to be used in Korea. There are several sources of this finding: the scholarly articles by Tamura Ryusui (田村流水) in *Tokyo Keizai Zasshi* (東京經濟雜誌: *Tokyo Economy Magazine*, 1917), Sutoh Bunkichi (須藤生文吉) in *Kobe Shogyo Kotogakko Gakuyu Kaiho* (神戸商業高等學校學友會報: *Kobe Colledge of Commerce- Students Bulletin*, 1917), and an editorial postscript by Editor of *The Federal Accountant* in Australia in 1918. These scholars all claim that a Korean-style double entry system, called Sagae Songdo Chibubeob (四介松都治簿法) and also known as Kaeseong Bugi (開城簿記), was developed and used by merchants in the city of Kaeseong during the Goryeo Dynasty of Korea roughly 200 years earlier than the double entry bookkeeping system of Venice, Italy. Their claim is based on the book *Sagae Songdo Chibubeob for Practical Use and Self-Study* (實用自修四介松都治簿法) by Hyeon Byeongju (玄丙周), published in 1916. While there exist no actual accounting books (or records) using Kaeseong Bugi written in the times of Goryeo, the scholars' claims are based on the fact that Kaeseong was Goryeo's capital city for about 500 years so that commerce and trade among merchants flourished there. The merchants' commercial and trading practices were a dominant force for shaping up and sustaining the economy of Goryeo so that they, along with the merchants' business ethics, continued on even long after the Dynasty ended. Thus, those scholars' claims are quite reasonable. It is the responsibility of future researchers to find out the original books or records of Kaeseong Bugi in the future.

In 2008, a team of researchers from the Institute of Research on Baekje Culture (百濟文化財研究院) of Korea discovered *Mokgan* (木簡), a wood-panel book entitled *Jagwan Daeshikgi* (佐官貸食記), from an ancient burial site (280-5 Ssangbok-Ri, Buyeo, Southern Chungcheong Province) in Korea. This book has records on lending and collecting agricultural grains by a government office (or officer) called *Jaguan* (佐官) on behalf of the government. The discovery of the *Mokgan* book provides a possibility of finding the original books or records of Kaeseong Bugi as well someday. This possibility exists especially if (when) an intense search is conducted to find out the bookkeeping records of old Buddhist temples in Korea. It is well known that temple markets were flourishing at many Buddhist temples in Goryeo, around the time when Kaeseong Bugi was developed in Kaeseong.

The oldest-known accounting book on Kaeseong Bugi is *Tageub Jangchaek No. 3* (他給長冊第三), written in 1786 (about 400 years after Goryeo Dynasty ended). More books have been found since then. Among these are the books that are kept by the family of Park Yeongjin (朴永璣), found in early 2000. The Park family's books contain the most complete set of records on Kaeseong Bugi that exist today. They consist of four sets: *Ilgee Jang* (日記帳), *Tageub Jangchaek* (他給長冊), *Juhoegye* (周會計), and subsidiary books. Of these, the *Ilgee Jang* books remain in their entire collection, with complete daily business transaction records from 1887 to 1912. For some reason, Korea has a more complete set of accounting records of the old times, and in more diverse

forms, than China or Japan does. Specifically, Korea has a variety of rich accounting books and records of royal families and households, government offices, Buddhist temples, private Confucian teaching schools, and even small civilian organizations called Gye (契: a traditional Korean-style private membership-based association or organization) although these books and records are not necessarily prepared using Kaeseong Bugi.

The book *Sagae Songdo Chibubeob* of Hyeon Byeongju is a handbook (or textbook) for the practical use and self-study of Kaeseong Bugi, written in Chinese and old-style Korean words in mix. It is not a book containing the records of actual business transactions among Kaeseong merchants in Goryeo. Using an extensive collection of transaction examples, the book illustrates how Kaeseong Bugi works. Many believe that it is the oldest and most comprehensive accounting book ever found on the Eastern hemisphere. Before the publication of Hyeon's book, Kim Daehee (金大熙) was the first who mentioned about Kaeseong Bugi in the literature via his book *Applied Commercial Bookkeeping with Appendix on Accounting for Manufacturing Industry* (應用商業簿記學全 附工業簿記學) published in 1908. In the Introduction of his book, Kim says, "Our country has the bookkeeping system called Sagaejok Chibu (四介足治簿), invented by the people of Songdo (松都) and widely used in the country" where Songdo is the nickname of Kaeseong (the capital city of Goryeo) and the country means Goryeo. Similarly, in his book, Hyeon also says, "There was a commercial bookkeeping system in Songdo of Goryeo. However, it has received little attention among scholars today. Nor has it been widely used since. Thus, many concerned scholars feel sorry about the situation." He says that this fact motivated him to write his book.

In his book, Hyeon does not say what specific course he followed when he wrote the book. Yet it is conceivable that he has extensively referred to not only some records of commercial transactions among Kaeseong merchants but also experts in this area. This conjecture is based on his claim (in the book) that he consulted his acquaintances, Kim Gyungshik (金璟植) and Bae Junyeo (裴俊汝), when he wrote the book. Both Kim and Bae were the descendants of two Kaeseong merchant families (or experts on Kaeseong Bugi) so that they might have a great deal of expertise in *Sagae Songdo Chibubeob*. On the first page of Chapter 1 of his book, Hyeon indicates that the book was reviewed by both Kim and Bae before publication.

In Kaeseong Bugi, each business transaction is recorded by considering its duality and the balancing feature of the debit and credit named Bongcha (捧次) and Geubcha (給次), similar to the feature of modern double entry accounting. Transactions are recorded in their chronological order in the following books: first in Ilgee Jang (日記帳: Journal), then Jangchaek (長冊: General Ledger), Shisan (試算: Trial Balance), and finally Gyulsan (決算: Book for closing accounts at period end). The Shisan step aims to check the duality of transactions and the balancing of debit and credit entries before closing accounts and books at period end as in modern double entry accounting. The Gyulsan step is explained in Hoegye Chaek (會計冊), the main book for closing accounts at period end, which Hyeon interestingly considers as a subsidiary rather than main book. Hyeon does not explain the procedure of preparing the financial

statements, perhaps because the purpose of Kaeseong Bugi then (in Goryeo) was to generate accounting numbers for internal, rather than external, users. He explains how to close books at period end. In his book, Hyeon explains in great detail many features of Kaeseong Bugi with a wide range of transaction examples and illustrations, many of which are similar to the features of modern double entry accounting. One caveat is that, in various places of the book, there are minor typographical errors, erroneous explanations, missing records, and incorrect records. However, these things are relatively minor, certainly not sufficient to deny the contribution of his book to the literature on Kaeseong Bugi.

Relative to the Western-style double entry system, Kaeseong Bugi has a number of distinctive features. (a) The characters, languages, and terms used to make entries to record transactions are different; the Kaeseong bookkeeping system uses Chinese characters and old-style Korean words in mix as opposed to Western languages such as English or Italian. (b) The way of making entries to record transactions is different. In Kaeseong Bugi, the content of transactions is described (written) vertically, not horizontally as in Western-style bookkeeping. (c) Entries to record transactions are made with respect to cash, a practice similar to the bank accounting in Western double entry as well as a bookkeeping practice in medieval Italy. (d) Kaeseong Bugi uses personal names as account titles to record transactions involving claims to receive and obligations to pay. This is also similar to Western accounting in the medieval times (and even today) in that personal names were often used, especially when the number of the parties involving business transactions is small. (e) The names of the goods traded are also used as account titles in Kaeseong Bugi, but they have gradually changed to the titles reflecting the nature of transactions such as purchases (買得: pronounced “Maedeuk”) and sales (放 or 放入: “Bang” or “Bangib”). (f) Unlike Western accounting, however, the General Ledger in Kaeseong Bugi consists of two separate books, Woesang Jangchaek (外上長冊) for assets (Asset Ledger) and Tageub Jangchaek (他給長冊) for liabilities (Liability Ledger). (g) Kaeseong Bugi has no clear distinction of the process of closing books versus accounts at period end. This ambiguity also existed in early Western accounting. (h) The preparation of period-end financial statements is not clearly explained in Kaeseong Bugi, mainly because accounting numbers in the old times were intended for internal rather than external use. This is also true for Western double entry at its infancy. (i) Many special letters and symbols are used in Kaeseong Bugi, although this is not the case in Western double entry accounting. Besides the differences above, Kaeseong Bugi also has other distinctive features such as the computation of interest on loans and the business Master-Partner system called Dojung Hoegye (都中會計). However, these are related more to the business practices and economic activities of Kaeseong merchants, rather than to their method of bookkeeping. Despite those differences, Kaeseong Bugi is remarkably similar to Western double entry accounting in terms of the fundamentals of bookkeeping: the duality of transactions and the balancing features of debit and credit entries, for example.

Starting in the late 18th century, Western civilization began to influence the Asian culture. Kaeseong Bugi could not remain immune to this influence. Nor did many banks in Korea. Korean banks such as ChosunBank(朝鮮銀行),

Hanseong Bank (漢城銀行), and Daehan Cheonil Bank (大韓天一銀行) used Kaeseong Bugi in their early days (around A.D. 1900). Later (mainly in the early 20th century), however, they were forced to switch to Western accounting as a precondition for loan from Japanese banks. Following this trend, the Japanese Governor General of Korea issued a bank regulation rule called Eunhaeng Jorye (銀行條例, Bank Regulation) in 1906. The rule required Korean banks to use Western double entry accounting, prepare the financial statements (balance sheet and income statement), and publish them in newspapers or other similar media outlets. As a result, Kaeseong Bugi began to gradually fade away from practical use although some accounting books are found to have used it until the 1940s. Despite the above historical fact, however, the creative and rational thinking of Kaeseong merchants underlying Kaeseong Bugi has not been lost altogether; rather, the unique way of thinking behind this accounting system has been carried on implicitly and integrated later with Western double entry accounting in Korea. This view is plausible, since both Kaeseong Bugi and Western accounting have some fundamentals in common, most notably the duality of transactions and the balancing feature of debit and credit entries. which is no longer in use today. One good reason still to care is to recall the existence of this accounting system and see it as convincing evidence that early Korean merchants engaged in sophisticated economic activities and business practices in a rational mindset and developed a good record-keeping system of their own, which turned out to be consistent with Western double entry accounting in many ways. As such, Kaeseong Bugi can be seen as the manifestation of the unique cultural DNA of old Korean merchants for a creative accounting system. Now, it is our task to have a good understanding of this unique accounting system and promote research and study of it to the next level. We view this Korean-language translation of Hyeon's *Sagae Songdo Chibubeob* as one such effort.

As mentioned before, Hyeon's book was written with Chinese characters and old-style Korean words. To translate it into English language, we referred heavily to the modern Korean language version of it by Keysook Jung, published by Kyung Moon Sa (經文社) in Seoul, Korea, in 2015. In the original book, many special concepts, special letters, technical terms, old-style Korean words, and special symbols were used to explain how to record transactions and make entries according to Kaeseong Bugi. Hyeon explains most of the special letters and symbols in Chapter 15 of his book. In this English-language version, we made every effort to explain them to the extent possible, or show them as Hyeon used, while trying to preserve their original meanings. We did so by explaining them in footnotes or in parentheses in the text. To get familiar with them, readers are highly advised to refer to Glossary at the end of this book. Nonetheless, some of them are so technical that we decided to ignore or skip them, whenever considered appropriate. Interested readers can refer to the original text of Hyeon's book or the modern Korean-language version of the book published by Kyung Moon Sa (mentioned above).

This English-language version consists of three Parts for text, Appendix, and Glossary. Part I is the translation of the entire text of *Sagae Songdo Chibubeob* by Hyeon Byeongju. For readers' convenience, the translation of each Chapter is presented along with the original text and Notes as they appear in Hyeon's

book. Also, to help readers' understanding, the translation was done based on the meaning of the words and sentences, or paraphrasing, whenever considered to be desirable, rather than verbatim by verbatim. In addition, simple notes on the meaning of names, special terms, and words are added in parentheses (right next to them) throughout the text of this English version. Part II presents the adaptation of the illustrations of transactions and entries in the original book to the modern (Western) double entry system. It is hoped that this adaptation can help readers understand better not only how Kaeseong Bugi works but also how it is compared to modern double entry accounting. Part III is devoted to explaining the books, thought, life, and career activities of Hyeon Byeongju. Appendix presents a photographic copy of the entire text pages of Hyeon's original book, followed by a Glossary of special concepts and terms used in Hyeon's book as well as Kaeseong Bugi. The first edition of Hyeon's book was published in 1916 (December 15), followed by the second in 1928 (October 15) and the third in 1928 (October 20, only 5 days later), respectively. The present English-language version is based on the third edition, which was also translated into modern Korean language by Keysook Jung in 2015.

During the course of this translation project, we have encountered various hurdles, some being hard enough to almost stop our work. Yet the task has been successfully completed due to the generous permission of Kyung Moon Sa (a publisher, Seoul, Korea) for us to refer heavily to the modern Korean-language version of Hyeon's book it published in 2015. Our English-language version is basically an English translation of the Korean-language version. We are grateful to President Hanheon Joo of the publisher for his generous permission. We are also grateful to Professor Jun Seongho and his affiliated institution, the Academy of Korean Studies (Seoul, Korea), for their unselfish encouragement and support. Without their support, our task would not be made possible. We are responsible for any translation error in this English-language version. We will greatly appreciate comments and suggestions by readers for future improvement.

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May 2016

The Sagae Songdo Chibubeob for Practical Use and Self-Study
(實用自修 四介松都治簿法)

Published by Deokheung Seorim, Seoul, Korea
Edited by Hyeon Byeongju, *Keum Gang Eobu* (錦江漁父)
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1916

Preface

序

余 | 往年에 飄游江湖하야 週觀市巷之細情일새 其交涉也에 必有商業家이오 其關係也 | 亦有商業家이라 第觀商業之規範에 不有不病者하니 何其不規之甚也오 商業諸家는 不知簿記之爲重要하고 凡執文簿에 各其自家所料로 臨時治去하니 記法이 荒雜無律하야 甲家之簿를 乙不能解하고 乙家之記를 丙莫知焉이라 雖然이나 此是非不以簿記爲必要이라 實由於治法之不得聞焉이로다 東方에 初無學術的簿記로 以爲傳授之例也에 何오 噫라 朝鮮松都에 曾有一種商業簿記이나 此亦未嘗以學術傳授하야 用度不博애 深爲識者之所恨이러니 風潮一變以來로 革新諸君이 覺悟時務하고 於是乎 翻之譯之 ② 하야 各種簿記가 別設學術上一世界이나 其圖式及文字가 概是西人之式也 | 라 不有專門之工者이면 反不能釋하니 ③ 不云簿記之不是라 亦如普通知識之不及에 何오 商業簿記는 終不改轍하고 依舊不範일새 余欲因勢而導今하야 畧涉簿記者로 輯此一編하니 須不用新式하고 依倣習例이라 一以供普通自修之便宜하고 一以俟他日大家之加功焉하노니 是可謂朝鮮簿記法之嚆矢也라 覽此諸家는 垂意精涉하면 應用實例에 其則不遠하리라

歲在山曆丙辰之流火節

著者識

Recently, I traveled from cities to seaports of the country. I noticed that there were always merchants behind all trade negotiations and completions thereof. I also noticed that there were no set rules for commercial practices and trades, while irregularities were widely spread. This was because merchants did not realize the importance of a systematic bookkeeping system but relied mainly on their own way of record-keeping, without following consistent rules. As a result, merchant B could not read the books of merchant A, and merchant C could not understand the books of merchant B. This problem was prevailing, not because bookkeeping was not necessary but because merchants did not know

how to enter transactions into books. It has long been believed that no good bookkeeping system existed in Eastern countries, even if there was indeed one in Songdo (松都: the nickname of the city of Kaeseong during the era of Goryeo (高麗) Dynasty). The reason why this bookkeeping system was not widely known was because it was not widely used any more, nor closely followed by scholars, which is truly regretful.

As the world has gone through a swirl of changes, people of innovative minds have undertaken the task of translating books on bookkeeping, in order to keep up with the changing world. As a result, bookkeeping has emerged as a formal field of study. Yet people with no expertise in bookkeeping have a difficulty to understand it, because the figures and the numbers used are mostly in Western style. The point is not that these bookkeeping practices are incorrect but that it is difficult to understand them. What should be done to cope with this problem? It is not a good idea to just let the situation go on. If the situation continues, bookkeeping practices would not be changed or improved so that no standard bookkeeping system could emerge. After realizing the situation, and with some shallow knowledge of bookkeeping, I have written this handbook of bookkeeping. In so doing, I explained things with numerous illustrations but without relying on the new (Western-style) bookkeeping system. I hope that this handbook can be useful for a self-study of bookkeeping on one hand and that future scholars can devote further efforts to improving it on the other. I think that my book *Sagae Songdo Chibubeob* (四介松都治簿法) is the first of its kind explaining Kaeseong Bugi in Korea. Readers will soon be able to understand and apply the bookkeeping rules explained in this book if they study them with commitment and patience.

Hyeong Byeong Ju

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