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# Vietnamese Accounting System Reform – Review and Prospect

[1]Huynh Tan Dung, [2]Doan Van Dinh and [3]Gong Guang Ming

[1,2,3]Business School Hunan University, Changsha, Hunan 410082, China.

**Abstract:** The Vietnamese accounting system was established after Vietnam gained its independence in 1945. Along with the process of economic development and reforms, the accounting system has also been reformed. This paper researches the process of the Vietnamese accounting system reform from 1954 to present. The process of an accounting system reform in Vietnam is related intimately with the stages of economic reform. In Vietnam, the State uses accounting as an important instrument to control macroeconomic activity. Therefore, the Vietnamese accounting system has its own characteristics, and Vietnamese accounting standards have not fully converged with international accounting standards. By researching the process of Vietnamese accounting reform, this paper finds factors that affect this process. Through the above analysis, the paper offers valuable suggestions for accounting reform in future.

**Key words:** Vietnamese accounting reforms, Vietnamese accounting standards (VAS), rule-based accounting, VAS convergences on IAS/IFRS.

## INTRODUCTION

The accounting environment includes factors affecting accounting, that generally impact the formation of accounting of perspectives, standards, principles and practice methods. Environmental accounting includes the economic environment, the political environment, legal environment, and the social environment. The factors affecting the accounting environment are not identical among different countries, leading to differences between a country's accounting system and accounting standards. Understanding of environmental accounting is very important because it provides the awareness process that forms the views of accounting, accounting standards, accounting principles, methods of accounting, practices in accounting etc., in order to comply with international accounting practices and characteristics in a country. Before 1986, Vietnam had adopted its economy as a centrally planned economy based on a model from the Soviet Union, whereby the State controlled all economic activities. There were no markets, no private ownership, only State ownership and collective ownership. The State played a leading role in the economy through targeting, allocating resources to production, and distributing products to consumers and other production units. The accounting system served mainly a centrally planned economy. According to Dang Van Thanh (1995), the traditional accounting system of Vietnam that was based originally on a Soviet-style planned and centralised economy, which existed for national economic planning and control rather than for microeconomic decision-making, was no longer suited.

In 1986, under initial "Doi Moi", Vietnamese economy has changed gradually from centrally planned economy to market economy with socialist orientation and integrated with the area economy and globe economy. After "Doi Moi", the Vietnamese economy grew rapidly; there was an increase of foreign investment and rapid growth of the private economic sector. Since 1986, the Vietnamese economy has undergone three periods of change starting from a socialist commodity economy (1986-1995) to a socialist commodity economy (1986-1995) and market economy with socialist orientation towards internationalisation (1995 to present).

Economic reform affects strongly the present accounting system. The economic transition has led to the emergence of accounting interest groups alongside the state, such as entrepreneurs, foreign investors and bankers. Thus, the financial statements prepared following the accounting system should "provide useful economic and financial information for evaluation and predicting the financial performance and position of enterprise. Financial information is also useful to owners, managers investors, and creditors in decision-making ". The old accounting system was built to serve in a centrally planned economy so in the new economic environment it revealed many weaknesses and did not meet requirements of the business as well as for the State. Under such conditions, the State forced reform to this accounting system so to serve the development of the economy. According to three periods of the Vietnamese economic development, the Vietnamese accounting system changed: the "uniform accounting system" (from1954 to 1986), which served for the centrally planned economy; the transition accounting norms (from 1986 to 1995); which served for the socialist commodity economy; and the new accounting system (from 1995 to present), which has served the market economy with socialist orientation towards internationalisation. Stages of the Vietnamese accounting reform can compare with the Chinese accounting reform. China has undergone significant economic reform

**Corresponding Author:** Huynh Tan Dung, Business School Hunan University, Changsha, Hunan 410082, China.
E-Mail: huynhtandung_hui@yahoo.com, Tel: 0086 15111133469.

since 1978. The transformation from a centrally planned economy to a socialist market economy created the need for corresponding reform of the accounting regulatory framework (Haoping Chen, Alfred V. Tran, 1995). According to Chiapello, Eve-Yuan Ding (2005), China’s economy has undergone several profound changes. Three major periods can be identified during this evolution: the introduction and application of the communist economic system (1949-1978), economic reform and open door policy (1978-1992), and socialist market economy (1992-present). For each period, the Chinese government also covers the evolution of accounting system.

During the process of accounting reform, Vietnam met many obstacles as lack of adopting principles of international accounting and weakness in accounting practices. Evolution of accounting system must be suitable for cultural, economic and political environment. Chiapello, Eve-Yuan Ding (2005) summarises the information on the contrast between capitalist and communist systems, and the issue raised for examination regarding their reflection in accounting (see table 1)

**Table 1:** The Comparison of Capitalist and Communist Economic Systems, and the Transposition of the Differences into Accounting Terms.

| Capitalism | Communism | Effect on accounting |
|---|---|---|
| Part 1: Definition of business entity | | |
| Focuses on accumulation of capital. Capital invested should give rise to profit, which is reinvested in business to generate further profit the following period. | Organised so as to produce goods necessary for the people by means of centralised planning of production and exchanges between companies. | Definition of the accounting entity Role of accounting<br>Concept of capital and definition of the company's economic income |
| Part 2: Role of market | | |
| There is a market and companies operate in competition.<br>Prices depend on supply and demand.<br>Uncertainty of the markets. | There is no market; businesses are coordinated into hierarchical systems.<br>Prices are fixed bureaucratically. | Signification of receipts and expenses recorded<br>Role of accounting<br>Conservatism principle |
| Part 3: Capital Accumulation and private ownership | | |
| The funds required for economic activity come from private providers of capital. | The funds required for economic activity come exclusively from the State. | Format and definition of balance sheet liabilities |
| The reinvested profit is amalgamated with the initial private capital, and belongs to the same owners.<br>The economic income of individuals comes from their work or their capital and varies widely. | Profit is abolished.<br>The only income is income from work, and the range of incomes is narrower.<br>The distribution of wealth is egalitarian and includes a wide range of social services. | Definition of the company's economic income<br>Methods used for distribution of income<br>Accounting treatment of workers’ incomes |

Adopted from Chiapello, Eve-Yuan Ding (2005)

Many prior researchers who studied factors that affect accounting reform such as Daniel Zeghal and Karim Mhedhbi (2006) identified the factors that could explain the adoption of international accounting standards by developing countries. The following factors were selected: economic growth, education level, the degree of external economic openness, cultural membership in a group of countries, and the existence of a capital market. The results indicate that developing countries with the highest literacy rates, that have capital markets, and that have an Anglo-American culture are the most likely to adopt international accounting standards. Scholars operating from a neoclassical/modernisation perspective, for instance, have suggested that developing countries will shift away from traditional accounting practices and towards Western ones, as the former become incompatible with an increasingly complex and competitive business environment (Chow et al 1995 and Han, 1994). Yunwei Tang (2000) pointed out that two main factors driving Chinese accounting toward internationalisation are its economic reform and increasing international exchange activities.

Vietnamese accounting transitioned from accounting that served a mainly centrally planned economy to serve commodity economy and that now serves a socialist market economy toward to harmonisation with international accounting. Ministry of Finance (MOF) issued Vietnamese law accounting in 2003. From 2001 to

2006 MOF promulgated 26 Vietnamese accounting standards (VAS) but they had a significant gap with IAS/IFRS. PricewaterhouseCoopers (2008) compares IAS/IFRS with VAS to point out that VAS has a significant gap with IAS/IFRS. According to results of comparing with IAS/IFRS, there are 8 VAS fully implemented IAS/IFRS and 12 IAS/IFRS no existing VAS which is equivalent and most of VAS was formulated based on old IAS/IFRS that issued before 1995. Hoai Huong Pham, Greg Tower and Glennda Scully (2011) measured the level of convergence between VAS and IAS/IFRS to show modest level of convergence. Since VAS was issued, it has not been amended although IAS/IFRS has changed. We can see China; the Chinese Ministry of Finance issued new Chinese accounting standards in February 2006 based explicitly on IFRS. Cigdem SOLAS, Sinan AYHAN (2008), the Chinese Accounting System is now closer to International Accounting Standards than the past practice; however, it keeps its collectivist, conservative and long-term characteristic and design. Hongman Zhang (2010) discussed factors that caused a narrow gap between china’s accounting standards and IFRS including economy, law and culture. Y. Ding et al. (2007) analyses determinants and effects of differences between Domestic Accounting Standards (DAS) and International Accounting Standards (IAS).

In short, while many studies are carried out on accounting evolution, adoption and implementation of IAS/IFRS in developed countries and China, less research has been carried out in transitional economies like Vietnam. Therefore, this paper contributes an important research on Vietnamese accounting reform to the literature. It also proposes valuable solutions for Vietnamese accounting reform towards international integration.

## 1 The Process of Vietnamese Accounting Reform:

Along with the process of economic development and reform, Vietnamese accounting system has also been constantly reformed. The accounting system reform in Vietnam is divided into three periods: period one from 1954 to 1986, period two from 1986 to 1995, and period three from 1995 to present.

### 1.1 Period One From 1954 To 1986:

After the war, the North of Vietnam went to recovery infrastructure and built socialism from 1954. The prominent features of the Vietnamese economy in this period were that the economy operated under central planning, the State implemented comprehensive economic management regime by the assigned production - business plan to all enterprises. This was the stage where our country's economy was subsidised; the economic sectors were only state-owned and collective in which the state-owned sector held a dominant economy and there were no commercial activities in free trade on the market.

Due to the above economic characteristics, activities of the accounting system in this period were mainly to comply with the rules and regulations of the Ministry of Finance - the highest authority responsible for management of asset socialist. Accounting was also used as an instrument to reflect and manage operations, business production and use of state capital. The State main regulations related to accounting in this period included the Charter of State Accountancy Organisation, unified accounting charts, accounting documents, books and reporting system.

Firstly, charter of State Accountancy Organisation was promulgated together with Decree No 175-CP of the Government in 1961. In this charter, accounting had a huge effect for the planning and management of the national economy; the accounting work was essential to ensure the ongoing development of the socialist financial economy. Secondly, unified accounting charts were used from 1957 (Ung Buu et al., 1992). In 1970, due to improvements in the enterprise, the Government formed and promulgated a chart of accounts and issued its instructions for manipulating in all business, irrespective of the size and nature of business. On one hand, a unified account system helped enterprises in classifying, recording and monitoring different types of economic transactions. It helped businesses to provide information in a systematic way, comprehensive production plans and status of Government finance using. Through which the state would have a perspective view of economics and financial picture from which to make appropriate decisions for macroeconomic management, implementation plan and set out goals and policies for economic development. Thirdly, accounting documents, books and reporting system were also promulgated in this period. Accounting documents and books were addressed in the first accounting text when Vietnam gained independence in 1945 but these documents were also temporary. In each specific industrial sector, each accounting unit used a different method of recording; accounting documents and books were not uniform. The forms of documents and books were set up arbitrarily so it generated many complexities, were cumbersome and wasted too much time and human resources. To concretise the principles of accounting documents mentioned in charter of State Accountancy Organisation, MoF issued the circular No 07-TC-CDKT in 1964 and the General Statistics Office issued the decree no 200/TCKT-PPCP in 1983. The aims of accounting reporting system addressed mainly detailed information on implementation of comprehensive business - production plan, using the State capital. The accounting reporting system was very complex, each statement required a lot of detailed information in order to meet the State's requirement. The State needed more detail information in order to elaborate, adjust and approve production targets.

At this stage, Vietnamese economy operated under a centrally planned economy. The accounting system in this period provided precise, detailed information for the Government in order to manage the economy comprehensively. In general, the current accounting system met the economy management needs of the State. However, the bureaucratic and centralised mechanisms exposed more and more defect and barrier to develop the economy in Vietnam. Consequently, the Government had changed the economic management policies, gradually changing from centrally planned economy to market economy, with market economy having a socialist orientation. Along with this change, the current accounting system was not appropriate in the new circumstances so the Vietnamese accounting system reform was inevitable.

### *1.2 Period Two From 1986 To 1995:*

At the beginning of the 1980s, Vietnam faced economic difficulties: severe shortage of basic consumer goods even for staple food products, growing external debt, increasing macroeconomic unbalances (increasing inflation, public sector and trade deficits), and economic growth slowdown and faced serious social problems. In order to resolve this difficult situation the Sixth Congress of the Communist Party proposed "Doi moi" ("innovation" in English) in 1986, resulted in a shift of the Vietnamese economy from a centrally planned economy to a market economy with socialist orientation. The state's role in economic management changed from detailed management tasks to indirect interventions via the legal system or macroeconomic regulatory instruments. Under "Doi Moi" the private sectors grew rapidly, private ownership was approved (before Doi Moi just had Sate ownership and collective ownership). Under Decision No 217/HDBT which was issued by Council of Minister on Nov 1987, the autonomy of state enterprises was expanded in aspects of planning production and trade; securing materials and manufacturing techniques; marketing products and fixing prices, finance and accounting, money, credit, labor, and salaries. In this period, three main stages of development can be distinguished as following:

- Reform of Land in 1986: after introducing "Doi Moi", the government decided to give Vietnamese farmers more rights on land and they could decide what to produce on their own. 2 years after "Doi Moi" Vietnam transformed from being rice - importing country to an exporting nation.
- Recognition of private ownership in 1990 and 1991: by issuing the Company Law and the Private Enterprise Law, Vietnam had officially recognised the lawful existence of non-state economic sectors.

The result of economic reform affected the nature and characteristics of the Vietnamese accounting system. This was the first stage of innovating accounting work to serve for a focused removed bureaucratic mechanism, and build new mechanism for managing the economy. To serve and meet the demand of market economy, the course of renewal of Vietnamese accounting was started in 1984 at the first national wide accounting conference. The main aim of the conference focused on the first legal framework for the Vietnamese Accounting. However, the Vietnamese accounting was really renewed and improved since 1988 when the Ordinance on Accounting and Statistic as the first and the highest legal document of Vietnamese accounting was promulgated by the National Assembly and affected since 1989. To complete accounting policies for private sectors and non-State owned enterprises, Decision No 229/QD/CDKT (December 1988) and Decision No 598/QD/CDKT (December 1990) were issued respectively. The chart of accounts and accounting reports were amended through Decision 212/QD/CDKT (December 1989) and Decision 224/QD/CDKT (April 1990) respectively.

The accounting reform had brought the new vitality for Vietnamese Accounting but in this period, the accounting reform was not radical so that it could primary serve State owned enterprises and planning economy. This period might be regarded as intermediate stage to transition from a planned economy to the market economy and the initial integration into the world economy. The accounting system overcame shortages of the old accounting system and gradually removed traces of centralised bureaucratic mechanism. This accounting system was amended from the old system to serve temporarily for transition from central planning to market mechanism. Therefore, when the market mechanism became stable, it exposed many disadvantages. Some of its weakness includes, firstly, lack of chart of accounts and reports. It did not record new types of economic transactions when they happened such as intangible fixed assets, leasing fixed asset, other financial leasing, long-term investment and so on. Secondly its had long a distance and was not consistent with the international accounting standards, international accounting practice as violation of prudence concept, accrual principal, consistency principal etc. At that time, the accounting system did not meet requirements of users. On the other hand, it limited the provision of information for economic management in the new conditions. Therefore, an accounting system reform that was appropriate for the economic development situation of the country was necessary.

### *1.3 Period Three From 1995 To Present:*

Under the renewal of economic policies and changing role of the State in economic management, the Vietnamese economy during the 1990s had been accompanied by rapid economic growth and a substantial reduction in poverty. In this period, two main stages of reform were distinguished as follows:

- Liberalisation of foreign trade in 1995 and 1996: re-establishment of formal diplomatic relations with the USA, opening of international economic relations, allowing private enterprises to engage in import - export activities.
- Right of business freedom in 1999: all organisations and private individuals could do trade in all business sectors that were not forbidden by law.

With the wildly "Open-Door Policy", foreign investment grew rapidly and an increasing large number of foreign companies establishing operations in Vietnam through joint ventures, foreign companies and other forms of direct investment. In parallel with domestic reforms, Vietnam has undergone a process of integrating its economy into the regional and the global economy. Since 1995, Vietnam has become a member of ASEAN, joined APEC in 1998 and has become a member of the ASEAN Free Trade Area (AFTA). It has also been a member of the Asia-Pacific Economic Cooperation (APEC) since 1998. Vietnam also signed a bilateral trade agreement (BTA) with the United States in 2000 that was affected on 10$^{th}$ December 2011. Vietnam's movement in the BTA was a major step toward to fully normalising US-Vietnam commercial relations. Vietnam also became the 150$^{th}$ member of the WTO on 7$^{th}$ November 2006.

The Vietnamese economy was restructured and integrated deeply into the global economy forcing the State reforms to adopt an accounting system that is suitable for economic development and harmonisation with international accounting standards. This accounting system, which had gone through experiences (until 1995), was officially issued on 1$^{st}$ January 1995 by the decision No. 1141-TC/QĐ/CĐKT. With this decision, The Vietnamese accounting system was changed to serve a market economy. New chart of accounts and new accounting reports, which were suitable for market economy, replaced the old chart of accounts and accounting reports. Until 2006, MOF issued Decision 15/2006 (dated 20$^{th}$ March 2006), based on Decision 1141 containing an updated Chart of Accounts and guiding new transaction record and replaced Decision 1141.

In 2003, the Accounting Law (dated 17$^{th}$ June 2003)was promulgated by the National Assembly and affected on 1$^{st}$ Jan 2004. This become an important legal foundation for Vietnamese accounting carrying out activities and growing on a newly high level in the trend of integration and opening. Following promulgation of accounting law, the Ordinance on Accounting and Statistic was ceased from the effective date of this Law. The law affirmed the role and position of accounting in the economic management system as well as establishing and providing the reliable financial information for making decisions, creating a transparent and healthy business environment. Many accounting policies, accounting professions and organisations of accounting work have been legalised. The accounting profession and accounting job as a service activity have been recognised and legalised. In this law, the first time management accounting was officially mentioned. In 2006 MOF issued 53/2006/TT-BTC (dated 12$^{th}$ June 2006) guides to apply and implement management accounting in business.

In 1994 the Vietnam Accounting Association (VAA) was established by Decree 12/TTg (1$^{st}$ Oct 1994), in 1996, it became a member of International Federation of Accountants (IFAC) and was a member of ASEAN Federation of Accountants (AFA) in 1998. The Vietnamese accounting and auditing activities have been known by the international colleagues for being in the course of integration into the world. In 1997, the Vietnam had successfully organised the international conference on accounting and auditing with participating by officials of International Federation of Accountants (IFAC), ASIA Federation of Accountants, European Federation of Accountants and more than 160 leaders of professional associations from the numerous countries over the world. Since 1998, the Vietnamese Accounting and Auditing Association has become the 130$^{th}$ member of the International Federation of Accountants (IFAC) and the 7th member of the ASEAN Federation of Accountants. The Vietnamese Accounting Association has participated in many activities organised by AFA and successfully organised the numerous meeting of AFA Council.

To make the accounting system achieve greater conformity with international accounting practice, Vietnamese accounting standards (VAS) were formed and issued by MOF. From 2001 to 2006, MOF formulated and released 26 VAS (see table 2) that keeps up with development of the Vietnamese market economy and is compatible with International Financial Reporting Standards. VAS was built based on the basic International Accounting Standards (IAS) with certain amendments appropriately for the development of Vietnamese economy market and Vietnamese accountancy experience, proficiency and practice.

**Table 2:** The list of VAS was promulgated by MOF.

| Phase | *Promulgated date* | Decision No. | Vietnamese accounting standards (VAS) with codes and names | Guiding circular |
|---|---|---|---|---|
| 1 | Dec 31st 2001 | 149/2001/QD-BTC (four standards) | 1. Standard No. 02 – Inventories<br>2. Standard No. 03 - Tangible fixed assets;<br>3. Standard No. 04 - Intangible fixed assets;<br>4. Standard No. 14 - Turnover and other incomes | 89/2002/TT-BTC of Oct 9th 2002 |
| 2 | Dec 31st 2002 | 165/2002/QD-BTC (six standards) | 5. Standard No. 01 - General standard;<br>6. Standard No. 06 - Leases;<br>7. Standard No. 10 - Effects of changes in foreign exchange rates;<br>8. Standard No. 15 - Construction contracts;<br>9. Standard No. 16 - Borrowing costs;<br>10. Standard No. 24 - Cash flow statements | 105/2003/TT-BTC of Nov 4th 2003 |
| 3 | Dec 30th 2003 | 234/2003/QĐ-BTC (six standards) | 11. VAS 05 - Investment property<br>12. VAS 07 - Accounting for investment in associates<br>13. VAS 08 - Financial reporting of interests in joint ventures<br>14. VAS 21 - Presentation of financial statement<br>15. VAS 25 - Consolidated financial statements and accounting and accounting for investments in subsidiary<br>16. VAS 26 - Related party disclosures | 23/2005/TT-BTC of Mar 30th 2005 |
| 4 | Feb 15th 2005 | 12/2005/QĐ-BTC (six standards) | 17. VAS 17: Income taxes<br>18. VAS 22: Disclosure in the financial statements of banks and similar financial institutions<br>19. VAS 23: Events after the balance sheet date<br>20. VAS 27: Interim financial reporting<br>21. VAS 28: Segment reporting<br>22. VAS 29: Changes in accounting policies, accounting estimates and errors | |
| 5 | Dec 28th 2005 | 100/2005/QĐ-BTC (four standards) | 23. VAS 11: Business combinations<br>24. VAS 18: Provisions, contingent asset and liabilities<br>25. VAS 19: Insurance contracts<br>26. VAS 30: Earning per share | 21/2006/TT-BTC of Mar 20th 2006 |

According to Vietnamese accounting policies and standards, the legal enforcement is in the hierarchical order, from law on accounting, to decrees, and to decisions and then circulars.

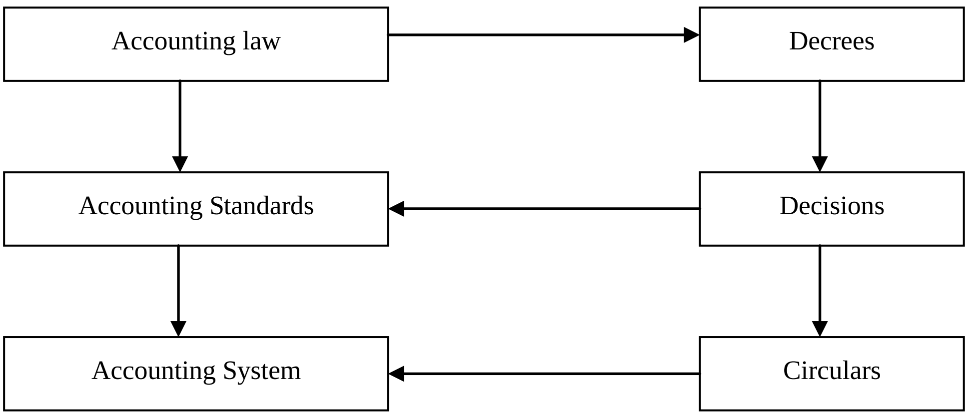


**Fig. 1:** Current accounting regulatory framework.

Accounting law is the highest legal document on accounting that was issued by the National Assembly. It regulates principles serving as a base and background to develop accounting standards and systems. Decrees provide specific regulation on and guidance on implementation to a number of articles of the accounting law applicable in business activities. Decisions and circulars regulate and guide specific accounting content and methods in general and provide special guidance in line with characteristics of some specific sectors or business activities in particular. General and specific matter on supporting documents, accounting accounts, accounting books, and financial statements such as content, modules, accounting treatment etc are stipulated in decisions and circulars.

## 2 *Overview Of VAS Converges On IAS/IFRS:*

With the growing internationalisation of economic trade and the globalisation of businesses and financial markets, financial information prepared according to a national accounting system may no longer satisfy the needs of users whose decisions are more and more international in scope. In some ways, purely domestic information may even be a handicap for businesses as well as investors. According to Richter Quinn (2004), accounting and financial information originating from developing countries is still difficult to trust, despite the urgent need for these countries to attract foreign investment and foreign capital, and despite the pressing demands from individual and institutional investors, lending institutions, and multinational agencies.

During a short time, MOF completed and promulgated 26 accounting standards. Consequently, these standards were largely based on the previous version of international accounting standards. Although accounting standards are important determinants of financial reporting quality, they differ across countries. VAS also has a significant gap with IAS/IFRS as shown in table 3.

**Table 3:** Key Differences between VAS and IFRS.

| IAS/IFRS and VAS | Current status | Key Differences |
|---|---|---|
| IAS 1 Presentation of Financial Statements<br><br>VAS 21 Presentation of Financial Statements | VAS 21 is based on the previous version of IAS 1<br>(revised 2003) | - VAS 21 does not require disclosure of management's key judgments, key assumptions concerning the future and other key sources of estimation uncertainty;<br>- VAS 21 requires an analysis of changes in equity in the notes to the financial statements rather than as a primary statement.<br>- Information to be presented on the face of the balance sheet and income statements are based on the standard VAS financial statement format*.<br>* In addition to the above differences, companies reporting under VAS are also required to apply the VAS chart of accounts and standard financial statements format, prescribed by Decision 15/2006-QĐ-BTC issued by the Ministry of Finance, which are descriptive and inflexible. Therefore, financial statements prepared under VAS may have various classification and presentational differences compared to financial statements prepared under IFRS |
| IAS 2 Inventories<br><br>VAS 2 Inventories | VAS 2 is based on the previous version of IAS 2 | - Estimation techniques such as standard cost and the retail method are not permitted under VAS;<br><br>FIFO, LIFO, specific identification and weighted average methods are all accepted. However, if<br><br>LIFO method is used, disclosure of the effect of using LIFO in comparison to FIFO or weighted average is required. |
| IAS 7 Cash Flow Statements<br><br>VAS 24 Cash Flows Statements | VAS 24 is based on the previous version of IAS 7 | VAS 24 is based on the previous version of IAS 7. There are no significant differences. |
| IAS 8 Accounting Policies, Changes in Accounting Estimated and Errors<br><br>VAS 29 Changes in Accounting Policies, Accounting Estimates and | Fully implemented | - |

| | | |
|---|---|---|
| Errors | | |
| IAS 10 Events after the Balance Sheet Date<br><br>VAS 23 Events after the Balance Sheet Date | VAS 23 is based on the version of<br>IAS 10 (amended in 2005) | - While IAS 10 provides guidance on the determination of the date the financial statements are authorised for issue which will vary depending upon the management structure, statutory requirements and procedures to follow in preparing and finalising the financial statements, VAS 23 is silent on this.<br>- VAS 23 specifically states that the issuing date is the date when the head of the reporting entity (or an authorised person) authorises the issue of the financial statements to outsiders. IAS 10 does not have such specific guidance. |
| IAS 11 Construction Contracts<br><br>VAS 15 Construction Contracts | Fully implemented | VAS 15 is similar to IAS 11 except for the following additional guidance in VAS 15:<br>- For contracts where progress payments are agreed in advance, the entity shall apply the stage of completion as assessed by the contractor;<br><br>For contracts with payments made by reference to amount of work completed, the entity shall apply the stage of completion as certified by the customer. |
| IAS 12 Income Taxes<br><br>VAS 17 Income Taxes | Fully implemented | - VAS 17 does not address temporary differences and deferred tax recognition, in respect of:<br>· Business combinations,<br>· Goodwill,<br>· Assets carried at fair value, and<br>· Government grants<br>- Definition of income tax under VAS 17 includes Business Income Tax ("BIT") being withheld on payments to overseas service providers in accordance with BIT law. |
| IAS 14 Segment Reporting<br><br>VAS 28 Segment Reporting | Fully implemented | - |
| IAS 16 Property, Plant and Equipment<br><br>VAS 3 Tangible Fixed Assets | VAS 3 is based on the previous version of IAS 16 (amended in 2005) | - Property, plant and equipment ("PPE") should be carried at cost less depreciation. Revaluation of PPE is not allowed unless specific approval is obtained from the Government of Socialist Republic of Vietnam ('the Government"). VAS 3 does not include within its scope the measurement and recognition of asset dismantlement, removal and restoration costs. In determining the cost of an item of PPE, VAS 3 only includes the costs incurred as a consequence of installing the item.<br>- IAS 16 requires an entity to measure an item of PPE acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. IAS 16 requires companies to first look at the fair value of the asset received in measuring the value of the transaction. Under VAS 3, an entity measures such an acquired asset at fair value of either the asset received or given up, adjusted by any cash received or paid. Where the exchanged assets were similar and had similar fair values, the carrying amount of the asset given up is used as the cost of the new asset, even if the fair value of these assets can be reliably determined.<br>- Impairment write down of PPE is not allowed under VAS 3 unless specific approval is obtained from the Government. |
| IAS 17 Leases<br><br>VAS 6 Leases | VAS 6 Leases is based on the previous version<br>of IAS 17 | VAS 6 is similar to IAS 17 except that VAS 6 does not provide guidance for accounting for revenue by manufacturer or dealer lessors. |
| IAS 18 Revenue<br><br>VAS 14 Revenue and Other Income | VAS 14 is based on the previous version of IAS 18 | VAS 14 is based on the previous version of IAS 18. VAS 14 provides a specific guidance on what should be considered as other income. |
| IAS 19 Employee Benefits | No effective VAS | No existing VAS which is equivalent to IAS 19 |

| | | |
|---|---|---|
| No Effective VAS | | |
| IAS 20 Accounting for Government Grants and Disclosure of Government Assistance<br><br>No Effective VAS | No effective VAS | No existing VAS which is equivalent to IAS 20. |
| IAS 21 The Effects of Changes in foreign Exchange Rates<br><br>VAS 10 The Effects of Changes in Foreign Exchange Rates | VAS 10 is based on the previous version of IAS 21 (1993) | - Current IAS 21 requires each individual entity included in the reporting entity whether it is a stand-alone entity, an entity with foreign operations (such as a parent) or a foreign operation (such as a subsidiary or branch)—to determine its functional currency and measure its results and financial position in that currency. VAS 10 does not include a requirement to determine "functional currency".<br>- IAS 21 eliminates the requirements in the previous version of IAS 21 for distinguishing between foreign operations that are integral to the operations of the reporting entity (referred to below as 'integral foreign operations') and foreign entities. The requirements are now among the indicators of an entity's functional currency. As a result:<br>· There is no distinction between integral foreign operations and foreign entities. Rather, applying guidance in IAS 21, an entity that was previously classified as an integral foreign operation will most likely to have the same functional currency as the reporting entity.<br>· Only one translation method is used for foreign operations namely that described in the previous version of IAS 21 as applying to foreign entities.<br>· The distinction between an integral foreign operation and a foreign entity and the translation method to be used for the foreign entity has been deleted.<br>- IAS 21 removes the limited option in the previous version of IAS 21 to capitalise exchange differences resulting from a severe devaluation or depreciation of a currency against which there is no means of hedging. Under the Standard, such exchange differences are now recognised in profit or loss. |
| IAS 23 Borrowing Costs<br><br>VAS 16 Borrowing Costs | VAS 16 is based on IAS 23 | VAS 16 is similar to IAS 23 except that VAS 16 requires capitalisation of borrowing costs which are directly attributable to qualifying assets. In contrast, IAS 23 allows entities to elect as an accounting policy choice whether to capitalise or expense off immediately such borrowing costs |
| IAS 24 Related Party Disclosures<br><br>VAS 26 Related Party Disclosures | | The definition of related party under IAS 24 has been expanded to;<br>· Parties with joint control over the entity<br>· Joint ventures in which the entity is venture; and<br>· Post-employment benefit plans for the benefit of employees of an entity, or of any entity that is a related party to that entity.<br>IAS 24 adds a definition of 'close members of the family of an individual' and clarifies that non-executive directors are key management personal.<br>IAS 24 clarifies that an entity discloses that the terms of related party transactions are equivalent to those that prevail in arm's length transactions only if such terms can be substantiated. |
| IAS 26 Accounting and Reporting by Retirement Benefit Plans<br><br>No Effective VAS | No effective VAS | No existing VAS which is equivalent to IAS 26. |
| IAS 27 Consolidated and Separate Financial Statements<br><br>VAS 25 Consolidated Financial Statements and Accounting for Investments | VAS 25 is based on the previous version of IAS 27 | - Under IAS 27, investments in subsidiaries in the parent's separate financial statements can be carried at cost or as a financial asset in accordance with IAS 39. VAS 25 only allows such investments to be carried at cost in the parent's separate financial statements.<br>- Under VAS, a parent is exempted from preparing consolidated financial statements if the parent is a wholly-owned subsidiary, or is virtually wholly-owned, provided in the case of one that is virtually wholly-owned, |

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| in Subsidiary | | the parent obtains the approval of the owners of the minority interest. More conditions must be met under IAS 27 before this exemption is permitted.<br>- VAS 27 allows a subsidiary to be excluded from consolidation when it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent. IAS 27 does not contain such exemption. |
| IAS 28 Investments in Associated<br><br>VAS 7 Accounting for Investments in Associates | VAS 7 is based on the previous version of IAS 28 | - Investment in an associate is not subject to impairment testing under VAS 7.<br>- Investment in an associate that meets the held for sale criteria must be classified as non-current asset held for sale in accordance with IFRS 5. Under VAS, such investment must be classified as investment in an associate until it is sold or disposed.<br>- Under IAS 28, investments in associates in the investor's separate financial statements can be carried at cost or as a financial asset in accordance with IAS 39. VAS 7 requires such investments to be carried at cost if the investor does not have a subsidiary and does not prepare consolidated financial statements. |
| IAS 29 Financial Reporting in Hyperinflationary Economic<br><br>No Effective VAS | No effective VAS | No existing VAS which is equivalent to IAS 29. |
| IAS 31 Interests in Joint Ventures<br><br>VAS 8 Financial Reporting of Interests<br>in Joint Ventures | VAS 8 is based on previous version of IAS 31 | - VAS 8 includes Vietnam-specific references such as Business Co-operation Contracts ("BCCs");<br>- Proportionate consolidation method is not allowed under VAS 8;<br>- Under IAS 31, a venturer accounts for its interest in a jointly controlled entity in its separate financial statements at cost. IAS 31 allows such investments to be carried at cost or as financial assets in accordance with IAS 39.<br>- IAS 31 requires that a venturer must account for its interest using equity method regardless of whether consolidated financial statements are prepared. There is no clear guidance in VAS 8. In practice, companies that only prepare separate financial statements account for their investment in joint ventures at cost. |
| IAS 32 Financial Instruments : Presentation<br><br>No Effective VAS | No effective VAS | No existing VAS which is equivalent to IAS 32. |
| IAS 34 Interim Financial Reporting<br><br>VAS 27 Interim Financial Reporting | Fully implemented | AS 27 is similar to the current version of IAS 34 except VAS 27 specifically states that VAS 27 is applicable for enterprises which are required by law to prepare quarterly financial statements or which voluntarily prepare interim financial statements. |
| IAS 36 Impairment of Assets<br><br>No Effective VAS | No effective VAS | No existing VAS which is equivalent to IAS 36. |
| IAS 37 Provisions, Contingent Liabilities and Contingent Assets<br><br>VAS 18 Provisions, Contingent Assets and Liabilities | Fully implemented | VAS 18 is similar to IAS 37 except IAS 37 states that in the case where it is not clear whether a present obligation exists, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the balance sheet date. In contrast, VAS 18 recognition criteria for such event is based on "certain" threshold which is likely to be a different threshold from "more likely that not" under IAS 37. |
| IAS 38 Intangible Assets<br><br>VAS 4 Intangible Fixed Assets | VAS 4 is based on the previous version of IAS 38 | - Intangible assets recognised in accordance with VAS 4 must be amortised over a useful life of no longer than 20 years, unless there is persuasive evidence that a life over 20 years is appropriate;<br>- Under VAS, intangible assets must be recognised at cost less accumulated |

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| | | amortisation. Revaluation or write down for impairment is not allowed.<br>- Certain pre-operating costs, in relation to an entity's establishment, training, advertisement activities, research and relocation of a business are allowed to be deferred and charged to income statement over 3 years under VAS. |
| IAS 39 Financial Instruments : Recognition and Measurement<br><br>No Effective VAS | No effective VAS | No existing VAS which is equivalent to IAS 39. |
| IAS 40 Investment Property<br><br>VAS 5 Investment property | Fully implemented | VAS 5 is similar to IAS 40 except fair value measurement is prohibited under VAS 5. Investment property can only be carried at cost less accumulated depreciation. |
| IAS 41 Agriculture<br><br>No Effective VAS | No effective VAS | No existing VAS which is equivalent to IAS 41. |
| IFRS 1 First- time Adoption of International Financial Reporting Standards<br><br>No Effective VAS | No effective VAS | No existing VAS which is equivalent to IFRS 1. |
| IFRS 2 Share-based Payment<br><br>No Effective VAS | No effective VAS | No existing VAS which is equivalent to IFRS 2. |
| IFRS 3 Business Combinations<br><br>VAS 11 Business Combinations | VAS 11 is based on IFRS 3 | - Goodwill is amortised over its estimated useful life of no more than 10 years after date of acquisition;<br>- Goodwill is not subject to mandatory annual impairment review. |
| IFRS 4 Insurance Contracts<br><br>VAS 19 Insurance Contracts | Fully implemented | VAS 19 is consistent with IFRS 4 except for amendments to IFRS 4 as a result of the release of IFRS 7 Financial Instruments: Disclosures, which are not reflected in VAS 19.<br><br>VAS 19 does not requires a disclosure of information on insurance risk, either of:<br>(a) a sensitivity analysis that shows how profit or loss and equity would have been affected had changes in the relevant risk variable that were reasonably possible at the balance sheet date occurred; the methods and assumptions used in preparing the sensitivity analysis; and any changes from the previous period in the methods and assumptions used; or<br>(b) qualitative information about sensitivity, and information about those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer's future cash flows. |
| IFRS 5 Non-current Assets Held for Sale and Discontinued Operations<br><br>No Effective VAS | No effective VAS | No existing VAS which is equivalent to IFRS 5. |
| IFRS 6 Exploration for and Evaluation of Mineral Resources<br><br>No Effective VAS | No effective VAS | No existing VAS which is equivalent to IFRS 6. |
| IFRS 7 Financial Instruments : Disclosures<br><br>No effective VAS | | No existing VAS which is equivalent to IFRS 7. VAS 22 - Disclosures in the Financial Statements of Banks and Similar Financial Institutions is based on IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions. It applies only to banks and financial institutions. |

Adopted form PricewaterhouseCoopers (2008)

According to Hoai Huong Pham, Greg Tower and Glennda Scully (2011) analysis level of convergence of VAS and IAS/IFRS, results show in the table 4

**Table 4:** VAS vs Current IAS/IFRS Accounting Rules Convergence Scores (ARCS).

| Standard | Overall ARCS | Measurement ARCS | Disclosure ARCS |
|---|---|---|---|
| Events after the Reporting Period | 100.0% | 100.0% | 100.0% |
| Provisions, Contingent Liabilities and Contingent Assets | 100.0% | 100.0% | 100.0% |
| Accounting Policies, Changes in Accounting Estimates and Errors | 94.7% | 95.2% | 94.9% |
| Revenue | 93.8% | 100.0% | 87.5% |
| Construction Contract | 93.5% | 89.3% | 100.0% |
| Borrowing Costs | 92.3% | 100.0% | 66.7% |
| Insurance Contract | 88.8% | 90.6% | 86.1% |
| Earnings per Share | 86.6% | 89.8% | 81.5% |
| Statement of Cash Flows | 75.2% | 25.0% | 81.5% |
| Interim Financial Reporting | 73.8% | 100.0% | 68.2% |
| Inventory | 72.7% | 76.9% | 66.7% |
| Income Tax | 68.8% | 82.0% | 58.1% |
| Intangible Assets | 66.3% | 81.4% | 54.1% |
| Interests in Joint Ventures | 62.2% | 76.8% | 30.8% |
| Investment Property | 60.8% | 69.2% | 57.9% |
| Leases | 60.3% | 82.4% | 44.0% |
| Property, Plant and Equipment | 58.2% | 59.9% | 56.3% |
| The effects of changes in foreign exchange rates | 55.9% | 66.3% | 40.0% |
| Presentation of Financial Statements | 47.5% | 100.0% | 46.4% |
| Business Combinations | 35.3% | 31.6% | 75.0% |
| Related Party Disclosure | 31.2% | | 31.2% |
| Consolidated and Separate Financial Statements | 28.2% | 40.0% | 21.7% |
| Segment Reporting / Operating Segment | 26.3% | 50.0% | 25.9% |
| Investments in Associates | 21.9% | 37.5% | 10.7% |
| Disclosures in Financial Statements Bank and Similar Financial Institutions | | | |
| Mean | 66.4% | 75.8% | 61.9% |
| Median | 67.6% | 82.0% | 62.4% |
| Minimum | 21.9% | 25.0% | 10.7% |
| Maximum | 100.0% | 100.0% | 100.0% |
| Standard Deviation | 24.8% | 24.3% | 26.6% |

Adapted from Hoai Huong Pham, Greg Tower and Glennda Scully (2011)

Research convergence VAS with IAS/IFRS is important for Vietnam as this country has a rapidly growing economy, but interestingly the VAS rules are not totally converged with IASB rules. According to Mr. Bui Van Mai, Minister of the Accounting Department - Ministry of Finance, Vietnam's target was to make VAS converge with IAS/IFRS at figure of 90% by 2005 (VNexpress 2003). In fact, VAS has a significant gap with IAS/IFRS and has not reached convergence's target. Based upon the result of Hoai Huong Pham, Greg Tower and Glennda Scully (2011), the overall level of accounting rules convergence of VAS and IAS/IFRS could be considered to be at a modest level (66.4%). The standards 'Events after Reporting Period' and 'Provisions, Contingent Liabilities and Contingent Assets' achieve full convergence, followed by the standards 'Accounting Policies, Changes in Accounting Estimates and Errors', 'Revenue', 'Construction Contracts' and 'Borrowing Costs' having overall accounting rules convergence higher than 90%. Conversely, non-current, assets-related standards have modest overall convergence (around 60%). Presentation-oriented standards have even lower overall convergence, below 50%. This paper also shows that measured accounting rules convergence of VAS and IAS/IFRS are significantly higher than the disclosure accounting rules convergence, 75.8% and 61.9% respectively (Hoai Huong Pham, Greg Tower and Glennda Scully, 2011).

## 3 *Discussion:*

In all the phases of the Vietnamese accounting reform, two main factors play an important role that affects the characteristic of the accounting system: to provide information for stakeholders and meet the required macroeconomic control of State. Up to now, the current accounting system still emphasises State management. According to Dang Van Thanh (1995), the accounting system emphasising the needs of the State must be significantly different from a system that focuses on the needs of investors in equity. Besides the above, the process of accounting reform in Vietnam faces many obstacles such as a lack of competent accountants, weak accountancy profession, poor education and poor training.

### *3.1 Vietnamese Accounting Regime And Accounting Practice:*

The Vietnamese accounting regime is still "rules-based": during stages of accounting reform from 1986 to present, Vietnamese accounting reform mainly focuses on chart of accounts, accounting books, accounting rules, accounting documents and reports. Although Vietnam issued VAS, accounting practice is still mainly based on decisions and circulars. In decisions or circulars, MOF issued detailed guide on how to use chart of accounts, record transaction in booking and predetermined format of financial statements. Accounting practitioners do not make judgments; they just practice accounting as they find the business transactions occurring, matching with guiding decisions or circulars and record them in accounting books. In a centrally planed economy, MOF had succeeded in guiding and managing accounting by decisions and circulars. At that time, accounting information served a planned economy and there were no more complex and new business transaction as now. Now, the accounting system not only provides information for the State but also for stakeholders. Furthermore, business transactions are more and more complex, and there are more new transactions occurring so particular guidance on accounting practice is no longer appropriate.

In order to integrate with regional and international accounting, Vietnamese accounting system must move from a "rules – based" to "principles – based" regime, in which accounting practitioners base the VAS and accounting framework to make professional judgment.

### *3.2 VAS Has So Time Lag and Lacks of Quantities:*

Although 26 VAS were promulgated from 2001 to 2006, up to date they are not amendments that were updated while IAS/IFRS is updated (see table 5) in response to rapid changes of business environment.
Table 5 shows 16 VAS, which were issued based on the previous version of IAS/IFRS, have not been updated. Vietnam has integrated its global economy, the time lag and low level of convergence with IAS/IFRS of VAS is not suitable for accounting practices in the new economic dynamic. They must be amended as appropriate for the economic development and convergence with IAS/IFRS. VAS does not only have a time lag but also lacks of quantity. There are many VAS that do not have accounting interpretations equivalent to IAS/IFRS (see table 6). Additional, from 2006 to present IASB has also promulgated new IAS/IFRS (see Table 7) but MOF has not considered to draft and issue VAS that has equivalence to these IAS/IFRS.

The numbers of IAS/IFRS that were mentioned in (table 6, table 7) are difficult standards and not popular in Vietnam. Therefore, the drafting process should proceed gradually, in a certain period sufficient to understand the content of these IAS/IFRS and to determine how to apply them in Vietnam. Based on new IAS/IFRS, MOF should have the drafting and promulgation of new accounting standards that are appropriate to the characteristic of Vietnam to reduce Vietnamese accounting gap with other countries.

### *3.3 Lack of Competent Accounting Personnel:*

Besides economic, legal and cultural environment, accounting human resources play important role in Vietnamese accounting reform. A serious impediment met in the current accounting reform is lack of competent accounting personnel and accounting research to implement and develop the new accounting system. The economic reforms created enormous demands for accounting workers. In fact, among over 400 universities and colleges in Vietnam, there are over 200 universities and colleges supplying accounting courses. Not only economic universities but also engineering ones involve in offering this major.

In spite of the rapid expansion of accounting education, the quality of accounting human resources remains debatable and the supply is still inadequate to meet demands. Statistic data showed that quality of current accounting human resources is low, in which, 66.7% mostly works based on experience and practice (Dang Duc Son 2011).

**Table 5:** IAS, IFRS were revised pronouncement and reissued.

| IFRS/IAS Code | Name | Revised version of IFRS/IAS issued | Amended after Revised issued | VAS Code | Name | Issued | Based on |
|---|---|---|---|---|---|---|---|
| IFRS 3 | Business Combinations | Jan 2008 | May 2010 | VAS 11 | Business Combinations | 2005 | IFRS 3 2004 |
| IAS 1 | Presentation of Financial Statements | Sep 2007 | Feb 2008, May 2008, Apr 2009, May 2010, Jun 2011, May 2012 | VAS 21 | Presentation of Financial Statements | 2003 | IAS 1 revised 2003 |
| IAS 2 | Inventories | Dec 2003 | - | VAS 2 | Inventories | 2001 | IAS 2 revised 1993 |
| IAS 7 | Cash Flow Statements | - | Apr 2009 | VAS 24 | Cash flow statements | Dec 2002 | IAS 7 revised 1992 |
| IAS 12 | Income Taxes | Oct 2000 | Dec 2010 | VAS 17 | Income Taxes | Feb 2005 | IAS 12 2000 |
| IAS 16 | Property, Plant and Equipment | Dec 2003 | May 2008, May 2012 | VAS 3 | Tangible fixed assets | Dec 2001 | IAS 16 1998 |
| IAS 17 | Leases | Dec 2003 | Apr 2009 | VAS 6 | Leases | Dec 2002 | IAS 17 1997 |
| IAS 21 | The Effects of Changes in Foreign Exchange Rates | Dec 2003 | Dec 2005, Jan 2008 | VAS 10 | Effects of changes in foreign exchange rates | Dec 2002 | IAS 21 1993 |
| IAS 23 | Borrowing Costs | - | May 2006, Mar 2007, May 2008 | VAS 16 | Borrowing costs | Dec 2002 | IAS 23 1993 |
| IAS 24 | Related Party Disclosures | Dec 2003, Nov 2009 | - | VAS 26 | Related party disclosures | Dec 2003 | IAS 24 1994 |
| IAS 27 | Consolidated and Separate Financial Statements | Superseded by IFRS 10, IFRS 12 and IAS 27 (2011) effective 1 January 2013 | - | VAS 25 | Consolidated financial statements and accounting and accounting for investments in subsidiary | Dec 2003 | IAS 24 Dec 1998 |
| IAS 28 | Investments in Associated | Superseded by IAS 28 (2011) and IFRS 12 effective 1 January 2013 | - | VAS 7 | Accounting for Investments in Associates | Dec 2003 | IAS 28 Dec 1998 |
| IAS 31 | Interests in Joint Ventures | superseded by IFRS 11 and IFRS 12 effective 1 January 2013 | | VAS 8 | Financial Reporting of Interests in Joint Ventures | Dec 2003 | IAS 31 Dec 1998 |
| IAS 34 | Interim financial reporting | - | May 2010, May 2012 | VAS 27 | Interim financial reporting | Feb 2005 | IAS 34 Jun 1998 |
| IAS 38 | Intangible Assets | Mar 2004 | May 2008, Apr 2009 | VAS 4 | Intangible fixed assets | Dec 2001 | IAS 38 Dec 1998 |
| IAS 40 | Investment Property | Dec 2003 | May 2008 | VAS 5 | Investment property | Dec 2003 | IAS 40 Dec 2003 |

Some problems also exist in the accounting education in Vietnam. There is too much emphasis on financial accounting, and is still largely based on prescribed accounting systems. When developing an accounting course curriculum, education institutions must follow the framework of Ministry of Education and Training. Accordingly, the proportion of major subjects is very small. For instance, the course curriculum of an accounting and auditing full-time bachelor includes 135 credits for the total course, of which general education: 52 credits, professional education: 83 credits. However, with respect to details of the professional education, the number of basic knowledge is 52 credits, major and minor subjects: 53 credits and graduate thesis: 10 credits. The ratio of the major and minor subjects is only 39.26%. Thus accounting education in Vietnam should reform as soon as possible. Accounting education reform is essential to match the ongoing economic and accounting reforms. The focus on financial accounting should be shifted to accounting principles and standards. Additionally, other subjects as management accounting, finance, taxation, auditing, information technology, and business law should be emphasised.

**Table 6:** IAS, IFRS no effective VAS.

| IFRS/IAS Code | Name |
|---|---|
| IFRS 1 | First-time Adoption of International Financial Standards |
| IFRS 2 | Share-based Payment |
| IFRS 5 | Non-current Assets Held for Sale and Discontinued Operations |
| IFRS 6 | Exploration for and Evaluation of Mineral Resources |
| IFRS 7 | Financial Instruments : Disclosures |
| IAS 19 | Employee Benefits |
| IAS 20 | Accounting for Government Grants and Disclosure of Government Assistance |
| IAS 26 | Accounting and Reporting by Retirement Benefit Plans |
| IAS 29 | Financial Reporting in Hyperinflationary Economic |
| IAS 32 | Financial Instruments: Presentation |
| IAS 36 | Impairment of Assets |
| IAS 39 | Financial Instruments: Recognition and Measurement |
| IAS 41 | Agriculture |

**Table 7:** New IAS, IFRS were issued after VAS was promulgated (Dec 28th 2005).

| IFRS/IAS Code | Name | Issued | Last amended |
|---|---|---|---|
| IFRS 8 | Operating Segments | 2006 | Apr 2009 |
| IFRS 9 | Financial Instruments | 2010 | |
| IFRS 10 | Consolidated Financial Statements | 2011 | |
| IFRS 11 | Joint Arrangements | 2011 | |
| IFRS 12 | Disclosure of Interests in Other Entities | 2011 | |
| IFRS 13 | Fair Value Measurement | 2011 | |

Note: IFRS 10, IFRS 12 and IAS 27 (2011) replace IAS 27 issued 2003, IFRS 11 and IFRS 12 replace IAS 31 issued 2003.

### *3.4 The Experience of Accounting Reform In China:*

Besides the difficulties mentioned above, the process of accounting reform in Vietnam also has certain advantages. That is the experience of economic and accounting reform from other countries in the world, particularly experience of accounting reform in China. China and Vietnam are two countries whose economic conditions, politics, culture and social environment are very similar. China began to carry out economic accounting reform before Vietnam. China's experience in accounting reform is a valuable reference lesson for the process of Vietnamese accounting reform. For instance, the experience of implementation of IFRS in China is particularly interesting as China was moving from a “rules – based” to a more “principles – based” regime (The Institute of Chartered Accountants of Scotland, 2010); the experience of forming of accounting Standards for Business Enterprises (ASBEs). Although not complying fully with international Financial Reporting Standards (IFRS), the new ASBEs nonetheless adopt the principles contained in IFRS and therefore considered to be substantially converged with IFRS (table 8).

**Table 8:** ASBE comparison with IFRS.

| ASBE | Equiv. IAS/IFRS | Key differences with equivalent IAS/IFRS |
|---|---|---|
| ASBE Basic Standard | IAS 1 Presentation of Financial Statements<br><br>Framework for the Preparation and Presentation of Financial Statements | *Prudence* - The ASBE specifies an enterprise shall exercise prudence in the recognition, measurement and reporting of transactions or events for accounting purposes. It shall not overstate assets or income, nor shall it understate liabilities or expenses. Under the IASB's Framework for the Preparation and Presentation of Financial Statements, prudence is only one of the qualitative characteristics of financial statements and the information contained in financial statements should also be neutral, that is, free from bias. |
| ASBE 1 Inventories | IAS 2 Inventories | - |
| ASBE 2 Long-term Equity Investments | IAS 27 Consolidated and Separate Financial Statements<br><br>IAS 28 Investments in Associates<br><br>IAS 31 Interests in Joint Ventures | *Separate financial statements of the parent* - IAS 27 requires subsidiaries, associates and jointly controlled entities to be accounted for in the separate financial statements of the parent either at cost or in accordance with IAS 39. ASBE 2 requires: (1) subsidiaries to be stated at cost; (2) associates and jointly controlled entities to be accounted for using the equity method.<br><br>*Consolidated financial statements of the venturer* - Under IAS 31, a venturer shall recognise its interest in a jointly controlled entity either using proportionate consolidation or the equity method. However, ASBE 2 only allows the equity method.<br><br>*Jointly controlled operations/assets* - ASBE 2 does not address the accounting treatment for jointly controlled operations/assets. |
| ASBE 3 Investment Property | IAS 40 Investment Property | *Scope* - In addition to those properties within the scope of ASBE 3, IAS 40 also includes land held for undetermined use and certain property interests under an operating lease provided that certain criteria are met.<br><br>*Measurement* - With certain specific exceptions, an enterprise shall adopt the same accounting policy for all its investment properties. ASBE 3 does not have the same requirement.<br><br>*Land use rights* - Under IAS 40, an enterprise may classify land use rights held for rental purposes as an investment property provided the fair value model is adopted. ASBE 3 allows land use rights held for rental purposes to be classified as investment property using the cost model or the fair value model (provided the fair value can be reliably determinable on a continuing basis). |
| ASBE 4 Fixed Assets (excluding investment properties under ASBE 3) | IAS 16 Property, Plant and Equipment | *Revaluation* - IAS 16 allows both the cost model and the revaluation model. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued. ASBE 4 only allows the cost model. |
| ASBE 5 Biological Assets | IAS 41 Agriculture | *Measurement* - Under ASBE 5, the cost model shall be used to measure biological assets unless there is evidence that the fair value of biological assets can be reliably obtainable on a continuing basis. Under IAS 41, the fair value model shall be adopted for all biological assets, unless the estimate of fair value is clearly unreliable.<br><br>*Disclosure* - An enterprise is encouraged to provide quantified description of biological assets, distinguishing between consumable and bearer biological assets or between mature and immature biological assets. There is no "welfare biological asset" classification. |
| ASBE 6 | IAS 38 | *Revaluation* - IAS 38 allows both the cost model and the revaluation model |

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|---|---|---|
| Intangible Assets | Intangible Assets | (where fair value can be determined by reference to a price quoted in an active market). ASBE 6 only allows the cost model. |
| ASBE 7<br>Exchange of Non-Monetary Assets | IAS 16<br>Property, Plant and Equipment<br><br>IAS 38<br>Intangible Assets | *Scope* - Under IFRSs, there is no specific standard that deals with the exchange of non-monetary assets. The requirements for different type of assets are set out in IAS 16, IAS 38 and also in IAS 18. ASBE 7 deals with all types of non-monetary transactions, including inventories, fixed assets, intangible assets and long-term equity investments. The measurement principle of ASBE 7 is the same as IAS 16 and IAS 38 (i.e. the "commercial substance" test). However, IAS 16 and IAS 38 only applies to fixed assets and intangible assets. IAS 18 adopts a different approach – an exchange of goods or services is measured at fair value only when the goods exchanged or services are dissimilar. |
| ASBE 8<br>Impairment of Assets | IAS 36<br>Impairment of Assets | *Reversal of impairment losses* - ASBE 8 prohibits the reversal of all impairment losses but IAS 36 only prohibits the reversal of impairment loss for goodwill. |
| ASBE 9<br>Employee Benefits | IAS 19<br>Employee Benefits | *Defined benefit plans* - Requires the recognition of a defined benefit liability and an expense throughout the expected service period of the related employees. ASBE 9 does not address the accounting requirements for defined benefit plans. |
| ASBE 10<br>Enterprise Annuity Fund | IAS 26<br>Accounting and Reporting by Retirement Benefit Plans | *Defined benefit retirement plans* - IAS 26 applies to all retirement benefit plans and prescribes the accounting and reporting by defined contribution plans and defined benefit plans. ASBE 10 does not deal with the accounting by defined benefit plans because they are not allowed under the existing PRC rules. |
| ASBE 11<br>Share-based Payment | IFRS 2<br>Share-based Payment | *Scope* - IFRS 2 requires an entity to recognise share-based payment transactions (in which the entity receives goods or services) in its financial statements, including transactions with employees or other parties. ASBE 11 only covers the accounting for share-based payment transactions for which services are received.<br><br>*Equity settled with cash alternatives* - Not addressed in ASBE 11 as this type of share-based payment is very rare in China. |
| ASBE 12<br>Debt Restructuring | IAS 39<br>Financial Instruments: Recognition and Measurement | Accounting for debt restructuring is covered in IAS 39, which is consistent with ASBE 12.<br><br>However, the principles of derecognition of debts are not covered in ASBE 12. |
| ASBE 13<br>Contingencies | IAS 37<br>Provisions, Contingent Liabilities and Contingent Assets | - |
| ASBE 14<br>Revenue | IAS 18<br>Revenue | - |
| ASBE 15<br>Construction Contracts | IAS 11<br>Construction Contracts | *Costs for securing a contract* - IAS 11 allows direct costs incurred in securing a construction contract to be included as part of the contract costs if they can be separately identified and measured reliably and it is probable that the contract will be obtained. ASBE 15 requires such costs to be expensed as incurred. |
| ASBE 16<br>Government Grants | IAS 20<br>Accounting for Government Grants and Disclosure of Government Assistance<br><br>IAS 41<br>Agriculture | *Asset-related grants* - IAS 20 allows either the presentation of asset-related grants as deferred income, and their recognition as income on a systematic and rational basis over the useful life of the asset, or the deduction of the grant from the carrying amount of the asset (i.e. recognition as income over the useful life of the depreciable asset by reducing the depreciation charge). ASBE 16 only allows the former method.<br><br>*Biological asset-related grants* - IAS 41 requires a conditional |

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| | | government grant related to a biological asset measured at its fair value less estimated point-of-sale costs to be recognised as income when the conditions attaching to the grant are met. An unconditional grant is recognised as income when it becomes receivable.<br>ASBE 16 does not provide specific requirements on grants related to biological assets. |
| ASBE 17<br>Borrowing<br>Costs | IAS 23<br>Borrowing<br>Costs | *Capitalise or expense* - ASBE 17 requires the capitalisation approach when the capitalisation criteria are satisfied. Under IAS 23, borrowing costs are either expensed as incurred or capitalised provided the capitalisation criteria are met.<br><br>*Finance charges in respect of finance leases* - ASBE 17 does not deal with finance charges in respect of finance leases which are dealt with under ASBE 21. Whereas, under IAS 23, borrowing costs include finance charges in respect of finance leases.<br><br>(Remark: In May 2006, the IASB has issued an exposure draft on IAS 23 which proposes to eliminate the option to expense immediately borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.) |
| ASBE 18<br>Income Taxes | IAS 12<br>Income Taxes | - |
| ASBE 19<br>Foreign Currency<br>Translation | IAS 21<br>The Effects of Changes in Foreign Exchange Rates | *Presentation currency* - IAS 21 allows a reporting entity to present its financial statements in any currency. ASBE 19 is silent on this issue. However, all PRC enterprises are required to present financial statements in RMB according to PRC laws and regulations. |
| ASBE 20<br>Business<br>Combinations | IFRS 3<br>Business<br>Combinations | Business combinations involving entities under common control are outside the scope of IFRS 3 but addressed in ASBE 20.<br><br>Reverse acquisitions are covered in IFRS 3 but are not addressed in ASBE 20. |
| ASBE 21<br>Leases | IAS 17<br>Leases | *Leasehold Land* - Under IAS 17, leasehold interest in land shall be classified as an operating lease unless it meets certain criteria and is accounted for as an investment property under the fair value model. Under ASBE 6, leasehold interests in land (i.e. land use rights in China) are accounted for as intangible assets except for land use rights that meet certain criteria and are accounted for as investment properties in accordance with ASBE 3. |
| ASBE 22<br>Recognition and<br>Measurement of<br>Financial<br>Instruments | IAS 39<br>Financial Instruments:<br>Recognition and<br>Measurement | - |
| ASBE 23<br>Transfer of<br>Financial<br>Assets | IAS 39<br>Financial Instruments:<br>Recognition and<br>Measurement | - |
| ASBE 24<br>Hedging | IAS 39<br>Financial Instruments:<br>Recognition and<br>Measurement | - |
| ASBE 25<br>Direct Insurance<br>Contracts | IFRS 4<br>Insurance<br>Contracts | *Recognition and measurement* :<br><br>• IFRS 4 does not specify the recognition and measurement requirements with respect to assets, liabilities, income and expenses arising from insurance contracts. In practice, an insurer can continue to use its |

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| | | existing accounting practice. Under ASBE 25, there are specific requirements that apply to income, reserves and costs.<br><br>• With respect to unbundling, IFRS 4 adds additional guidance on the treatments for contracts with insurance risks and/or financial risks:<br><br>- clarifies that an insurer need not account for an embedded derivative separately at fair value if the embedded derivative meets the definition of an insurance contract;<br><br>- requires an insurer to separately account for deposit components (contractual components that are not accounted for as financial instruments under IAS 39 but would be within the scope of IAS 39 if they were a separate instrument) of the insurance contracts if not all obligations and rights arising from the deposit component are recognised under the issuer's original accounting policy;<br><br>- unbundling is permitted, but not required, if all obligations and rights arising from the deposit component are recognised under the issuer's original accounting policy;<br><br>- unbundling is prohibited if the deposit component is not measurable. |
| ASBE 26 Reinsurance Contracts | IFRS 4 Insurance Contracts | IFRS 4 applies to insurance contracts including both direct insurance contracts issued by an insurer and reinsurance contracts issued by an insurer or assumed by the insurer/reinsurer. There is no separate standard dealing with reinsurance contracts under IFRSs. Nevertheless, the recognition and measurement requirements of ASBE 26 are generally consistent with the current market practice.<br><br>Similar to ASBE 26, income/expense and assets/liabilities of reinsurance contracts are presented on a gross basis.<br><br>IFRS 4 requires an impairment test for reinsurance assets. ASBE 8 requires an impairment test for reinsurance assets to be performed only when there is an impairment indication. |
| ASBE 27 Extraction of Petroleum and Natural Gas | IFRS 6 Exploration for and Evaluation of Mineral Resources | *Scope* - IFRS 6 applies to expenditure incurred for the exploration and evaluation of mineral resources (including petroleum and natural gas). ASBE 27 covers the accounting treatment of the exploration for, exploitation and production of petroleum and natural gas.<br><br>*Measurement* - IFRS 6 permits enterprises to continue to use their existing accounting policies for exploration and evaluation assets (either the cost or revaluation model), provided that such policies result in information that is relevant and reliable. At initial recognition, the costs of exploration and evaluation assets include expenditure on topographical, geological, geochemical and geophysical studies. ASBE 27 only allows the cost model and capitalisation of exploratory drilling costs. Costs other than exploratory drilling costs shall be expensed as incurred.<br><br>*Impairment* - Impairment testing is required only when facts and circumstances suggest the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. IAS 36 does not prevent the reversal of impairment losses. ASBE 27 requires an |

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| | | impairment test to be performed for mineral interests in unproved properties at least annually. For mineral interests in proved properties, impairment testing shall be performed when there is an impairment indication. Impairment losses are not reversed in future. |
| ASBE 28<br>Accounting Policies, Changes in Accounting Estimates and Correction of Errors | IAS 8<br>Accounting Policies, Changes in Accounting Estimates and Errors | - |
| ASBE 29<br>Events after the Balance Sheet Date | IAS 10<br>Events after the Balance Sheet Date | - |
| ASBE 30<br>Presentation of Financial Statements | IAS 1<br>Presentation of Financial Statements | *Analysis of expenses* - Under ASBE 30, expenses are analysed by function but IAS 1 allows an enterprise to present an analysis of expenses using a classification based on either the nature of expenses or their function, whichever provides information that is reliable and more relevant. |
| ASBE 31<br>Cash Flow Statements | IAS 7<br>Cash Flow Statements | *Reporting cash flows from operating activities* - ASBE 31 requires the use of the direct method, accompanied by a note showing the reconciliation of profit to net cash flow from operating activities using the indirect method. Under IAS 7, an enterprise is encouraged to use the direct method but may use the indirect method.<br><br>*Dividends and interests* - ASBE 31 specifies the appropriate classification for interest received (cash inflow from investing activities) and paid (cash outflow from financing activities) and dividends received (cash inflow from investing activities) and paid (cash outflow from financing activities). Under IAS 7, these items are required to be classified as operating, investing or financing activities in a consistent manner. |
| ASBE 32<br>Interim Financial Reporting | IAS 34<br>Interim Financial Reporting | *Components of an interim financial report* - Unlike IAS 34, ASBE 32 does not require a statement of changes in equity to be presented. IAS 34 allows the presentation of condensed income statement, condensed balance sheet, condensed statement of changes in equity and condensed cash flow statement. However, ASBE 32 requires the interim balance sheet, interim income statement and interim cash flow statements to be complete statements, i.e. the form and content shall conform to the annual financial statements. |
| ASBE 33<br>Consolidated Financial Statements | IAS 27<br>Consolidated and Separate Financial Statements | *Reporting period* - When the reporting dates of the parent and a subsidiary are different, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent unless it is impracticable to do so. In any case, the difference between the reporting date of the subsidiary and that of the parent shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period. ASBE 33 requires the reporting periods of the parent and the subsidiaries to be the same.<br><br>*Jointly controlled entities* - A venturer may choose the equity method or proportionate consolidation method to account for its interest in a jointly controlled entity. ASBE 33 only allows the use of the equity method. |
| ASBE 34<br>Earnings per | IAS 33<br>Earnings per Share | *Numerator* - IAS 34 requires disclosure of the basic and diluted EPS amounts for profit or loss from continuing operations and those for |

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| Share | | discontinued operations. ASBE 34 only requires the calculation of EPS based on net profit or loss for the current period. |
| ASBE 35<br>Segment<br>Reporting | IAS 14<br>Segment<br>Reporting | *Scope* - Unless stipulated in other laws or regulations, ASBE 35 requires an enterprise which has different operations or operates in different geographical areas to provide segment information. IAS 14 only applies to the published financial statements of enterprises whose equity or debt securities are publicly traded and enterprises that are in the process of issuing equity or debt securities in public securities markets. |
| ASBE 36<br>Related Party<br>Disclosures | IAS 24<br>Related Party<br>Disclosures | *State-controlled entities* - ASBE 36 acknowledges state-controlled entities are not regarded as related parties simply because they are state-controlled. However, state-controlled entities are not exempted under IAS 24.<br><br>*Two parties subject to joint control or significant influence from the same party* - They are clearly defined as related parties under ASBE 36 but this is not specifically addressed in IAS 24. |
| ASBE 37<br>Presentation of<br>Financial<br>Instruments | IAS 32<br>Financial Instruments:<br>Disclosure and<br>Presentation<br><br>IFRS 7<br>Financial Instruments:<br>Disclosures | - |
| ASBE 38<br>First-time<br>Adoption of<br>ASBEs | IFRS 1<br>First-time Adoption of<br>IFRSs<br><br>IFRS 5<br>Non-current Assets<br>Held for Sale and<br>Discontinued<br>Operations | The objective of IFRS 1 (i.e. to prescribe the accounting by an enterprise that adopts IFRSs for the first time) is the same as ASBE 38. Similar to ASBE 38, IFRS 1 contains the transactions and events that require adjustments when an enterprise adopts IFRSs for the first time to prepare its financial statements.<br>IFRS 5 prescribes the classification, measurement and presentation requirements of non-current assets held for sale (including disposal groups) and the presentation requirements of discontinued operations |

Adopted from Deloitte Touche Tohmatsu (2006)

***Conclusion:***

Vietnamese accounting reform has succeeded to date by drawing on the strong support of the State. In accordance with economic reform, the Vietnamese accounting system has changed from serving a centrally planned economy to a serving socialist market economy and integrating with international accounting. The accounting rules have changed to the point that today many of the concepts and principles familiar in the most advanced economies are part of Vietnamese accounting regulations and laws. However, the current accounting system still emphasises the State management and lack of providing information for stakeholders as well as VAS has a time lag and significant gap with IAS/IFRS.

The factors that affect the process of accounting reform are economic conditions, politics, culture and the social environment. Furthermore, the process of accounting reform has met many obstacles as lack of competent accountants, weak accountancy profession, poor education and training. Vietnam must remove these obstacles first, promote initiative accounting practitioners and enhance the role of professional associations.

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