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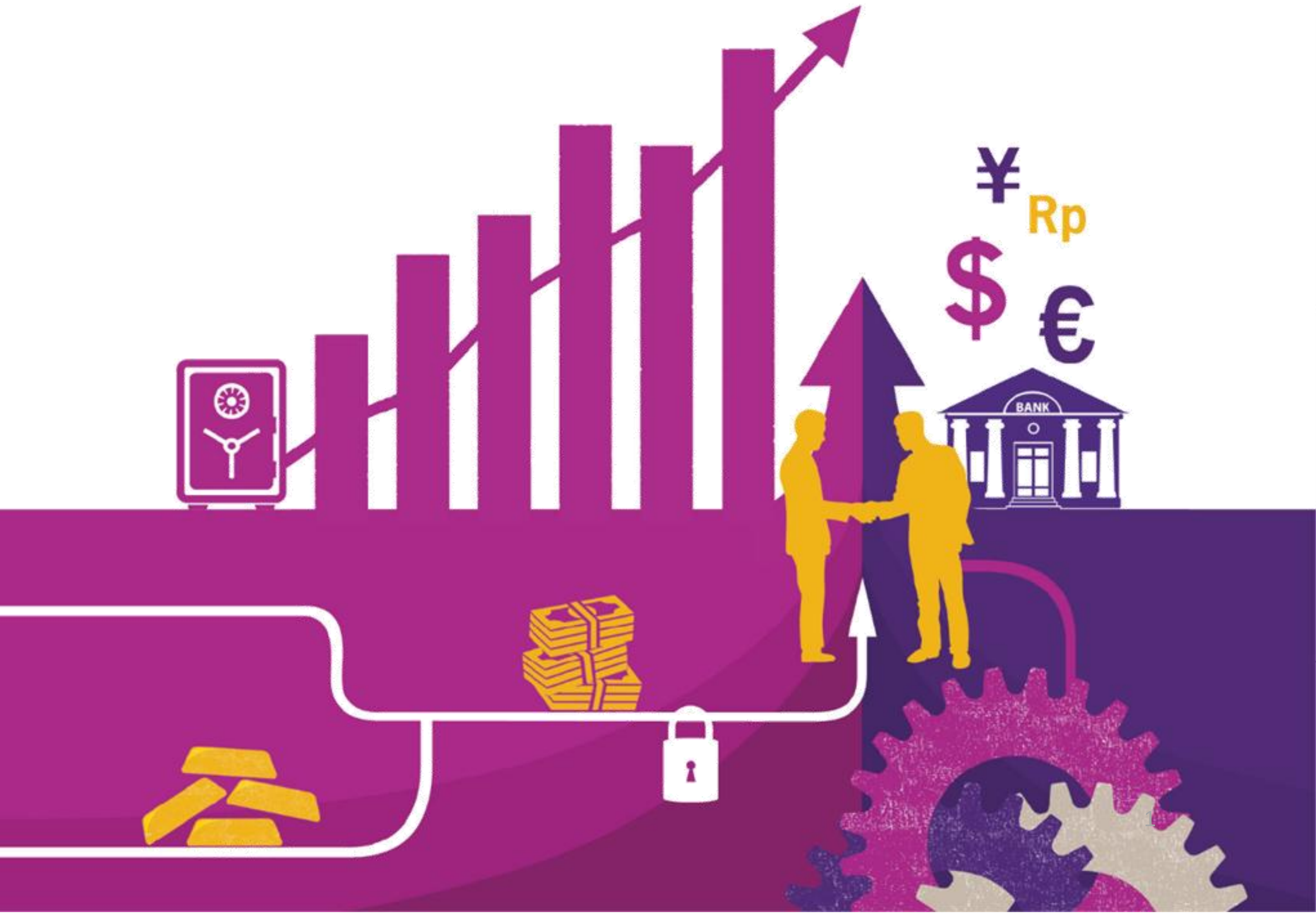
Accounting Alert

Circular No. 133/2016/TT-BTC
The Guidelines of Vietnamese Accounting Systems for Small and Medium-Sized Enterprises

On 26 August, 2016 the Ministry of Finance issued Circular No.133/2016/TT-BTC ("Circular 133") which provides guidance on Vietnamese Accounting Systems for Small and Medium-sized Enterprises ("SMEs"). Circular 133 takes effect for fiscal years commencing on or after 1 January 2017. Circular 133 replaces the contents applied to SMEs of both Decision No.48/2006/QD-BTC ("Decision 48") dated 14 September 2006 and Circular No. 138/2011/TT-BTC ("Circular 138") dated 04 October 2011 as issued by the Ministry of Finance . The SMEs are authorized to proactively design and construct their accounting system in line with SMEs' respective industries, management and decision-making purposes.



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1. Subjects of application

Circular 133 applies to SMEs of all industries and sectors of economy in accordance with legal regulations on supporting SMEs, except for state-owned enterprises, enterprises owned by the State on 50% of charter capital, public companies under the Law on Securities, cooperatives, and federal cooperatives as defined in the Law on Cooperatives.

2. General principles

SMEs can decide to apply the accounting system under Circular 200/2014/TT-BTC dated on 22 December 2014 of the Ministry of Finance ("Circular 200") and relevant amendments, supplements or replacements of regulations, but are required to notify the Tax Authorities as well as to consistently apply this accounting system during the fiscal year. In case the SMEs decide to apply Circular 133, they are required to notify the Tax Authorities and implement the changes as from the beginning of the fiscal year.

3. General advantages of Circular 133 compared to Decision 48 and Circular 138

Compared to Decision 48 and Circular 138, Circular 133 has the following advantages:

Accounting systems applied for SMEs under Circular 133 provides more options for enterprises.

Direct to meet management's needs and operating purposes.

More focus on substance over form and title of transactions.

Aligns more closely with international standards and practices.

Specific changes and supplements of Circular 133 shall be presented in detail as follows.

4. Main differences and supplements of Circular 133 compared to Decision 48 and Circular 138

4.1 Accounting currency unit

Circular 133 allows SMEs, which mainly conduct transactions in currency other than Vietnamese Dong (VND) to select such currency as their accounting currency. When selecting the accounting currency, enterprises are required to notify the local Tax authorities.

Circular 133, in addition to Decision 48 and Circular 138, also provides guidance to determine the accounting currency and permits the following currencies:

Currency used to obtain capital resources (such as issuing shares, bonds);

Currency regularly collected from business activities and retained to use for operations.

4.2 Conversion of financial statements prepared in foreign currencies into Vietnamese Dong

If SMEs use an accounting currency other than Vietnamese Dong, the financial statements are used to announce to the public and file to the Vietnamese governments are required to be presented in Vietnamese Dong. For SMEs' financial statements are mandatorily audited under prevailing regulations, the financial statements submitted to the Vietnamese Governments and announced to the public must be audited.

When converting financial statements prepared in a foreign currency into Vietnamese Dong, SMEs have to disclose the effects (if any) on the financial statements as a result from this conversion.

4.3 Principles of accounting and accounting entries

Compared to Decision 48 and Circular 138, Circular 133 only regulates accounting principles rather than provides detailed guidance on the accounting entries to be made. SMEs are required to record the accounting entries in such a way that is consistent with the sequences of supporting documents.

4.4 Accounting system in the sub-units without legal status (as "dependent accounting units")

In accordance with Circular 133, SMEs are allowed to establish their accounting system and the system at dependent accounting units in line with operational characteristics, management requirements and current regulations. Circular 133 is more flexible than the current regulations, as SMEs can decide on level of dependent accounting units, whether to have a separated accounting system, in which:

- Business capital financed from SMEs to their dependent accounting units is allowed to be recognized as liability or equity.
- Regardless of the accounting document form (invoices or internal transfer documents), SMEs are allowed to decide on recognising revenue and cost from purchase, sale or transfer of goods and services internally at each dependent accounting unit.
- Based on the nature of the accounting system model (aggregated / disaggregated), SMEs can authorize to record only revenue and expense at dependent accounting units, or account for undistributed profit after tax in advance.

4.5 General ledger accounts

The accounting system mainly prescribes to accounts at level 1, and to less extend provides details to accounts at level 2. Each account reflects a category but does not separate the nature of the account into short-term and long-term. SMEs can realise this separation by the traditional method (by reclassifying items into long-term and short-term) or modifying their accounting system by creating a new detailed accounts for management purposes.

The differences in general ledger accounts between Circular 133 and Decision 48

Circular 133	Decision 48
Account beginning by "1"	
None	Account 1113, 1123: Monetary gold
Account 121: Trading securities	Account 121: Short-term Investments
– 1211: Shares	
– 1212: Bonds, bills, notes	
Account 128: Held to maturity investments	None
– 1281: Term deposits	
– 1288: Other held to maturity investments	
Account 136: Intra-company receivables	None
– 1361: Operating capital provided to affiliated entities	
– 1368: Other intra-company receivables	
Account 138: Other receivables	Account 138: Other receivables
– 1381: Assets in shortage awaiting resolution	– 1381: Assets in shortage awaiting resolution
– 1386: Mortgage, collateral & deposits	
	– 1388: Other receivables
– 1388: Other receivables	
None	Account 142: Short-term prepaid expenses
Account 151: Goods in transit	None
None	Account 171: Government bonds purchased for resale
Account beginning by "2"	
None	Account 221: Long-term investments
	– 2212: Joint venture capital contributions
	– 2213: Investment in joint-ventures
	– 2218: Other long-term investments
Account 229: Allowances for impairment of assets	Account 159: Provision
	– 1591: Provision for long-term investment devaluation
– 2291: Allowance for decline in value of trading securities	– 1592: Provision for bad debts
	– 1593: Provision for devaluation of stocks
– 2292: Allowance for impairments in other entities	
	Account 229: Allowances for impairment of short-term investments
– Account 2293: Allowance for doubtful debts	
– Account 2294: Allowance for decline in inventories	
Account 242: Prepaid expenses	Account 242: Long-term prepaid expenses
None	Account 244: Pledges, mortgages or long-term deposits

The differences in general ledger accounts between Circular 133 and Decision 48

Circular 133	Decision 48
Account beginning by “3”	
None	Account 311: Short-term loan
None	Account 315 Long-term loans due to date
Account 336: Intercompany payables	**None**
Account 341: Loans and finance lease liabilities	Account 341: Long-term borrowing and liabilities
	– 3411: Long-term borrowing
– 3411: Loans	– 3412: Long-term liabilities
	– 3413: Issued bond
– 3412: Finance lease liabilities	+ 34131: Bond par value
	+ 34132: Bond discount
Account 343: Bonds issued	+ 34133: Bond premium
– 3431: Common bonds	– 3414: Long-term deposits received
+ 34311: Par value of bonds	
+ 34312: Bond discount	
+ 34313: Bond premium	
– 3432: Convertible bonds	
Account 344: Deposits received	
None	Account 351: Severance allowances
Account 352: Provision for payables	Account 352: Payable provision (Not inclusive sub-account)
– 3521: Provision for product warranty	
– 3522: Provision for construction warranty	
– 3523: Provision for enterprise restructuring	
– 3524: Other payable provision	

4.6 Accounting for Business Cooperation Contracts (BCC)

Article 35 of Circular 133 proposes the definition and fundamental accounting treatments of BCC and accounting basis for BCC transactions.

4.7 Flexibility in accounting documentations and ledgers

Under Circular 133, SMEs are allowed to prepare accounting documents as deemed appropriate to their operational characteristics and management purposes. However, all documents are required to be in compliance with the Law on Accounting and prevailing regulations and maintain fundamental contents and compulsory information. Consequently, accounting documents shall not be required to match with guided documents as per the previous guidelines.

Similarly, all forms of accounting ledgers including general and journal ledgers are in guided type, which means optional). SMEs are allowed to create their own accounting ledgers and cards in compliance with the legal guidelines as long as they are clearly presented and easy to control.

4.8 Financial statements

Article 73 of Circular 133 allows SMEs to select forms of financial statements under the assumption of liquidity diminishing or traditional method to distinguish between short-term and long-term.

In addition, Circular 133 provides guidance on the principles for preparing and presenting the financial statements in such cases whereby SMEs do not meet the assumption of continuing as a going concern. Accordingly, SMEs are not required to present assets and liabilities as short-term or long-term but required to present them as descending order of liquidity. In addition, SMEs are required to revalue all assets and liabilities at carrying value, unless there is a third party inheriting the rights to the assets or the obligations to the liabilities.

4.9 Separation between accounting and taxation

Compared to Decision 48 and Circular 138, Circular 133 has clearly separated accounting and tax to meet the demands of management and business operations. Specifically, the accounting principles of revenues and expenses are specified as follows:

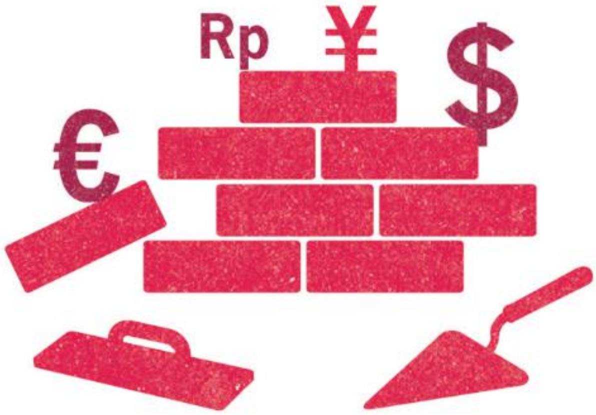
Accounting principles of revenues:

1. Revenues are measured at the fair value of the consideration received or receivable.
2. Expenses associated with these revenues have to be simultaneously recognized in accordance with the matching principle. However, in some cases the principle of consistency might conflict with the principle of prudence. In such cases the accounting must be based on the nature of the transaction and to be presented truly and fairly.
3. Gains and losses arising from the revaluation of assets and liabilities are considered to be realized as, at the moment of revaluation, the SMEs have the rights and obligation associated with those assets and liabilities. For example, unrealized gains and losses arising from the revaluation of assets contributed as capital to invest in other entities, revalued at fair value are considered to be realized.
4. Depending on each specific situation, time and basis of revenue recognition in accounting and taxation may be different. Taxable income is only used to determine the amount of tax payable under relating regulations. Revenue recognized in accounting ledgers or the preparation of the financial statements must be in accordance with accounting principles and depend on the practice, hereby, it may not be necessarily equal to the amount already invoiced on sale.

Accounting principles of cost:

In compliance with the principle of prudency and capital maintenance, costs should be recognised when they occur, regardless whether payments have been made.

Expenses that do not qualify as deductible expenses for Corporate Income Tax ("CIT") purposes, but are supported by sufficient documentation, should not be excluded from the accounting costs. In order to calculate the CIT payable in the CIT finalisation, these expenses should be included in the adjustments made to the taxable amount.



4.10 New items required to make allowance for the impairment of assets

In addition to the requirements from current regulations, Circular 133 requires SMEs to make allowances for the impairment of assets as follows:

1. Allowance for decline in value of trading securities

SMEs are required to make allowance for the value of loss possibly occurring when there is sufficient evidence that the market value of the securities held for trading purposes at present is lower than the book value.

Conditions, bases and adjustments including provision or reversal of allowances must comply with existing regulations on allowances.

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2. Allowance for investment losses in other entities: are allowance for losses incurred from the investment from other entities resulting in loss of investors or impairment loss of the investments may lose the investment.

For investments in associates and joint ventures, investors only make allowances if the investee's loss could lead to investor's loss under current regulations.

For investments held for a long-term period (not classified as trading securities) over which SMEs are not able to exercise control or significant influence, allowances are made as follows:

- In case that investments are in listed shares or the fair value of investments is determined reliably, the allowance is based on the market value of the shares (similar to allowances for the diminution in value of trading securities)
- In case that, at reporting date, the fair value of the investment could not be determined reliably, the allowance is made based on the losses of the investee (allowance for investment loss in other entities).

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