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Update on guidance for enterprise accounting regime in Vietnam

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Grant Thornton Vietnam updates on Circular No. 200/2014/TT-BTC guidance for enterprise accounting regime:

Circular No. 200/2014/TT-BTC was issued on 20 January 2014 by the Ministry of Finance on "Guidance for enterprise accounting regime"

- Circular No. 200/2014/TT-BTC ("Circular 200") will be effective on 5th February 2015 and applicable for the fiscal year starting from 1st January 2015.
- This Circular will **replace the enterprise accounting regime issued under Decision No. 15/2006/QD-BTC** dated 20th March 2006 and **Circular no. 244/2009/TT-BTC** dated 31st December 2009 both of which were issued by the Ministry of Finance. The contents of other Circulars which provide guidance on Vietnamese Accounting Standards which are not in contradictory with this Circular are still valid.
- This Circular is applicable to all enterprises in all fields and of all economic sectors nationwide. The **small medium enterprises (SME)** who are using the accounting regime for SME **can also adopt this Circular** whenever suitable.
- This Circular provides guidance **on accounting, preparation and presentation of financial statements. However this is not to applicable in the determination of an enterprise's tax obligations to the office of the State Budget.**

The key new requirements from Circular 200/2014/TT-BTC are as follows:

General requirements

- Currency in accounting: According to Article 3 of Circular 200, an enterprise meeting the criteria under Article 4 of this Circular is allowed to choose a currency as the currency for accounting purposes provided that such currency is the primary currency to transact payments and collections. Previously, under Article 5 of Circular 244/2009/TT-BTC ("Circular 244") – only **foreign invested enterprises** are allowed to choose a currency for accounting purposes if it meet the criteria under Article 5 of Circular 244.
- **Accounting documents**: According to Article 9, point 3, the use of the suggested accounting documents are not compulsory (the suggested documents are meant to provided guidance only). Enterprises may select to apply any accounting documents as per Appendix 3 of this Circular or design their own accounting documents to suit their operational characteristics and management requirements.
- **Forms of accounting books**: According to Article 9 point 3, the use of the **forms of accounting books** identified therein **are not compulsory**. Enterprises may select to apply forms of accounting books as per Appendix 4 of this Circular or they may modify, revise the forms of accounting books to suit their operational characteristics and management requirements.

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The chart of accounts has the following key updates

- Account No. 1113 and 1123 "Gold, silver, precious metals, gemstone" have been changed to "Monetary gold" and the balances of this account are to classified as follows:
  - Value of gold (those that are not considered as monetary gold), silver, precious metals, gemstone considered as **inventory** have been **transferred** to relevant accounts of Inventory such as **Account 152 – Raw materials** or **Account 156 – Merchandise goods** to meet requirements and classification.
  - Value of gold (those are not considered as monetary gold), silver, precious metals, gemstone which are not considered and used as inventory is transferred to **Account 2288** – Other investment.
- **Account 121 "Short-term investment in securities"** - its name **is changed to "Trading securities"**. According to Circular 200, Account 121 **has now one more class 2 account – 1218** "Securities and financial instruments".
- **Account No. 128** "Other short term investments" is changed to **"Held to maturity investment"**. Account 128 "Held to maturity investments" has three more class 2 accounts – Account 1282 "Bonds", Account 1283 "Lending" and Account 1288 "Other investments held to maturity".
- Account 228 "Other long term investments" consist of class 2 accounts – Account 2281 "Shares", Account 2282 "Bonds" and Account 2288 "Other long term investments" are now going to be carried under new account names under Account level 1 and level 2, respectively and as shown below:
  - Account 228 "Other investments"
  - Account 2281 "Capital investment in other enterprises"
  - Account 2288 "Other investments"

Accordingly, the transfer of account balances from account 121, 128 an 228 are to be done as follows:

- Balances from ordinary bonds, treasury bonds and term bonds accounts which are held to maturity, not holding for trading purpose (buying and selling later to earn profit from price movements) which are reflected on Account 1212 "Short term security investments" are to be transferred to Account 128 "Investment held to maturity" detailed by each appropriate class 2 account.
- Account balances of lending, short term deposits which are reflected in Account 228 "Long term investments" will be transferred to Account 128 "Held to maturity investments" detailed by each appropriate class 2 account.

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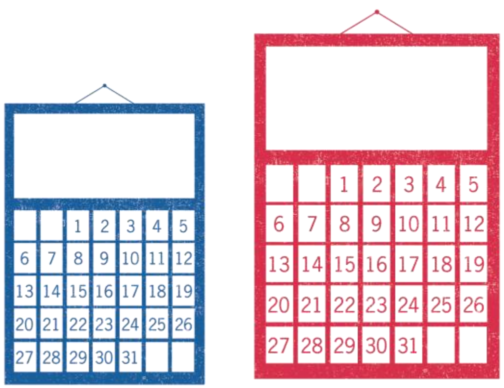
- Some of the account codes which were previously classified as short term and long term under Decision No. 15 are now combined into one account under Circular 200 as follows:
  - **Account 142** "Short-term prepaid expenses" is to be transferred to **Account 242** "Prepaid expenses".
  - **Account 144** "Short-term deposits" is to be transferred to **Account 244 "Deposits"**.

  Under Circular 200, Account 142 and 144 are removed from the chart of accounts, therefore, enterprises need to transfer the balances of Account 142 and 144 as per requirements of this Circular.
- Some accounts are no longer to be used under this Circular and they are transferred to other accounts as follows:
  - **Account 129, 139, 159** are transferred to **Account 229** "Provision for assets impairment" (detailed by each appropriate class 2 account). However, on the financial statements, these provision are still presented under each appropriate class of account: for example Account 2293 "provision for doubtful debts" are presented under Category "Account receivables" – Current Assets on the Balance sheet.
  - **Account 223** "Investment in associate companies" are transferred to **Account 222** "Investment in joint venture, associate companies".
  - **Account 311** "Short-term loan", Account 315 "Current portion of long term loan" are transferred to **Account 341** "Borrowings and finance lease".
  - **Account 415** "Financial reserve fund" are transferred to **Account 414** "Development investment fund".
- The Circular also provides guidance and requirements for accounting of assets, properties and/or products which are self-constructed by an enterprise and merchandise, goods and properties which are bought for trading purposes or more specifically, account class 2 – 1557 "Finished properties" which is used for properties being constructed by an enterprise (not properties bought for selling purposes) and account class 2 – 1567 which is used only for recording of properties bought for selling purposes like other merchandise goods". Therefore, enterprises falling under this category **need to transfer the balance of account class 2 – 1567 for properties constructed by an enterprise to account class 2 – 1557**.
- Added Account 1362 " Intercompany receivables for foreign exchange differences" and Account 1363 "Intercompany receivables for interest expenses eligible for capitalization".



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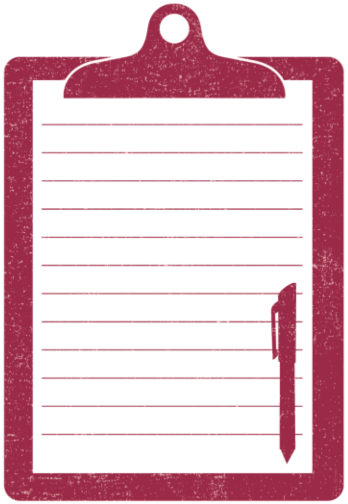
- In addition to the above significant changes, the Circular also modified some parts of class 1 and class 2 accounts to allow the recognition of economic transactions to appropriate accounts such as:
  - Account Class 2 - 1531 "Tools, and equipment"
  - Account Class 2 - 1532 "Packaging"
  - Account Class 2 - 1533 "Equipment for lease"
  - Account Class 2 - 1534 "Components and spare parts for replacement"
  - Account Class 1 - 1171 "Government Bonds for trading"
  - Account Class 2 - 2121 "Finance lease - Tangible fixed assets"
  - Account Class 2 - 2122 "Finance lease - Intangible fixed assets"
  - Account Class 2 - 3361 "Intercompany payables for business capital"
  - Account Class 2 - 3362 "Intercompany payables for foreign exchange differences"
  - Account Class 2 - 3363 "Intercompany payables for interest expenses eligible for capitalization"
  - Account Class 2 - 3368 "Other intercompany payables"
  - Account Class 2 - 3411 "Borrowings"
  - Account Class 2 - 3412 "Finance lease liabilities"
  - Account Class 2 - 3521 "Provisions for goods warranty"
  - Account Class 2 - 3522 "Provision for construction projects warranty"
  - Account Class 2 - 3523 "Provision for enterprise re-structuring"
  - Account Class 2 - 3524 "Other provisions"
- For capital account, there are additional class 2 and 3 accounts as follows:
  - Account Class 3 - 41111 "Common shares with voting rights"
  - Account Class 3 - 41112 "Preference shares"
  - Account Class 2 - 4113 "Convertible bonds with options"



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Circular 200 provides specific guidance on accounting principles for each account in the accounting system

There are modifications in the recognition of accounts as follows:

- Accounting for foreign currency transactions
  - Revaluation of monetary accounts denominated in foreign currencies must be made **every time the financial statements are prepared**.
  - Revaluations are also made for pledges, collaterals and deposits receivable or payable.
- Accounting for financial investing activities
  - Securities for trading– purchase and sale of securities **with maturity dates of over 12 months are also recorded in Account 121 "Securities for trading"**.
  - Securities held to maturity are recorded in Account 128.
  - Share dividends (stock dividends): **The number of shares** has to be disclosed on the Notes to the financial statements.
  - **In the case of liquidation of subsidiaries, its remaining assets and liabilities will be recorded in the parent company's financial statements based on the fair values of such assets and liabilities at liquidation date and the investment account will be reduced accordingly**. The differences between carrying value of investment and value of the identified assets and liabilities of the subsidiaries will be recorded as finance income (gain) or finance expense (loss).
  - Profit distribution to shareholders of parent company will be based on undistributed profit after tax of parent company on the Consolidated financial statements.
- Accounting for Business Corporation Contract (BCC)

  More specific guidance compared with Decision 15 –BBC regulates that parties taking part in BBC are entitled to receive fixed profit, not based on the financial performance of engagement. Even though the legal form of the contract is BCC, the nature of the contract is assets leasing – The enterprise must account this based on the nature of transactions.
- Accounting for receivables
  - Clearer regulations regarding trade receivable, intercompany receivables and other receivables.
  - When preparing the financial statements, the classification of receivables as to whether **long-term or short-term should be based the remaining terms of the receivable or based on its due date**.
  - Provision for doubtful debts is made and presented separately for short-term and long-term receivables on the Balance Sheet.
- Accounting for Inventories
  - The use and application of LIFO is no longer allowed
  - Added retail price costing method.
  - Detailed guidance on **accounting for inventories used for promotion, advertising without monetary consideration or collection of money** in circumstances including or excluding other conditions such as forced purchase of products or goods.

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- Accounting for Fixed assets, Investment Properties and Construction
  - Where an enterprise acquires fixed assets including related **components and spare parts for replacement**, it is required to measure and **recognize related components and spare parts separately** at fair value. Historical cost of fixed assets comprises of cost of purchase less value of components and spare parts.
  - **Repair and maintenance expenses** for fixed assets which are required to be repaired and maintained on recurring basis are **accrued and recorded in Account 352**.
  - Investment Properties for operating lease must be **depreciated**.
  - Investment Properties held **for earning price appreciation, are not depreciated**, but impairment should be assessed and provided for accordingly.
- Accounting for equity
  - Including equity component of convertible bonds (convertible bonds with options to convert to shares).
  - **Preference shares.**
  - When the Investment License states that the charter capital denominated in foreign currency and equivalent to an amount in VND, the basis for the determination of capital contribution of investors should be the actual amount contributed in foreign currency rather than the amount converted to VND indicated in the Investment License.
- Financial statements: new requirements
  - Preparation of interim financial statements: interim financial statements include quarterly financial statements (including quarter IV) and half year financial statements (Article 98). Under decision 15, the preparation of quarter IV financial statements was not required.
  - Signing of financial statements: Enterprise who uses service providers for book-keeping and preparation of financial statements, must require practicing accountants from accounting units to sign, and present information with respects to the Accounting Practicing number, name, address of the accounting units on the financial statements. Individual practicing accountants must present the Practicing Certificate No. when signing on the financial statements (Article 99).
  - Principle and guidance for preparation of financial statements is based on going concern basis. In addition, enterprises who are under liquidation or with going concern issues can now prepare under the liquidation basis.
  - Definition of the Enterprise who does not meet the going concern basis have been added. Enterprise who do not meet the going concern basis would have to prepare their financial statements under the liquidation basis. Under such basis, assets and liabilities should be reclassified from long-term to short-term and present them based on the lower between carrying values and net realisable values unless there is a third party who is assigned to hold the assets or liabilities (Article 106).

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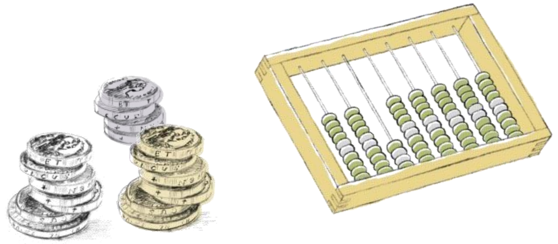
- Principles for preparation and presentation of financial statements when there is a **change in fiscal year (Article 103)**:
  - When there is a change in fiscal year, separate financial statements must be prepared for the period between **the last accounting period and new accounting period**.
  - For Balance sheet: all balances of assets, liabilities and equity accounts are **brought forward** from the last accounting period to new accounting period as **opening balances** of such accounting period and presented in "Opening balances" column.
  - For Statement of Income and Statement of Cash flows: Figures **as of period ended of new accounting period are presented in "This period"**. "Last period" column are presented based on figures of last 12 months as comparative to current accounting period.
- Added guidance on **Conversion of financial statements presented in foreign currency to Vietnamese Dong** to publish information and submit to Government bodies as follows (**Article 107**):
  - **Assets and liabilities: using prevailing exchange rate at balance sheet date**.
  - **Equity** (paid-in capital, capital surplus, other capital sources, convertible bonds with options): **using prevailing exchange rate at transaction date.**
  - **Differences on foreign exchanges and assets revaluation: using prevailing exchange rates at the date of revaluation.**
  - **Undistributed earnings, undistributed reserves funds from profit incurred after investment date** are based on items of the statement of income
  - **Profits and dividends paid**: use prevailing exchange rates at date of dividend payments;
  - **Items of Statement of income and Statement of Cash flows: using prevailing exchange rates at transaction dates**. Where average exchange rate approximates prevailing exchange rate at transaction date (less than 3% discrepancy), it is allowed to apply average exchange rate (optional).
- New regulations on exchange rates applied when the enterprise changes its accounting currency unit (Article 108):
  - First accounting period after change: translation of all balance accounts should be made based on the transfer exchange rate of a commercial bank where the enterprise has frequent transactions at the date of change in currency.
  - Comparative figures ("prior period" column) on the Statement of income and Statement of Cash flows: using average exchange rate of the period prior to the current period where there is a change (if average exchange rate approximates to exchange rate at transaction dates).



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Presentation of financial statements: the items on the financial statements have the following key changes

- The balance sheet is added with key changes on its presentation as followings:
  - **Short-term and long-term financial investments**
    - Investment held to maturity: Code 123 and Code 255: for short-term and long-term, respectively.
  - **Short-term and long-term receivables**
    - Shortage of assets waiting for resolution – Code 139
    - Short-term and long-term lending receivable – Code 135 and 215
    - Long-term prepayments to suppliers – Code 212
  - **Other current assets:**
    - **Government bonds for trading – Code 154**
  - **Long-term work-in process assets**
    - Long-term work in process – Code 241
    - Construction in process – Code 242 (transfer from Code 230 according to Decision 15)
  - **Other long-term assets**
    - Components and spare parts for replacement – Code 263
  - **Current liabilities**
    - Short-term unearned revenue – Code 318
    - Short-term borrowings and finance lease – Code 320 – changed from Borrowings and short-term debts – Code 311 under Decision 15.
    - Price stabilization fund – Code 323
    - Government bonds for trading – Code 324
  - **Non-current liabilities**
    - Prepayments from suppliers - Code 332
    - Long-term unearned revenue – Code 336
    - Long-term borrowings and finance lease – Code 338 – changed from Long-term borrowing and debts – Code 334 according to Decision 15
    - Convertible bonds – Code 339
    - Preference shares – Code 340
  - **Owners' equity**
    - Owners' equity – Code 411 is presented in details by class 2 accounts: Ordinary shares with voting rights – Code 411a and Preference shares – Code 411b
    - Convertible bond with options - Code 413
    - Undistributed earnings after tax – Code 421 include some details such as undistributed earnings after tax as at beginning of period – Code 421a and Undistributed earnings for the current period – Code 421b.

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- **Profit and Loss:** The enterprise has to present "Diluted profit per share" – Code 71
- **Statement of changes in Cashflows (indirect method)**
  - On the item line "Adjustment for" under Cashflows from operating activities – a new code is added, "Other adjustment" - Code 7.
  - Profit from operations before changes in working capital: a new code is added, "Increase, decrease in trading securities" - Code 13.
- **Notes to the financial statements: With the significant changes, modification and revision in the chart of accounts, presentation of financial statements under Circular 200, disclosures of additional information is required.**

Retrospective adjustments (Article 127): Circular 200 also requires enterprises who are impacted by this Circular to make appropriate retrospective adjustments to their financial statements as follows

- Enterprises who are property investment owners (including self-constructed properties) recognised revenue for progress payment from customers, if the construction project has not been finished prior to the issue of the Circular 200, Enterprise must correct the error due to recognition of revenue and adjust retrospectively financial statements.
- Enterprises who recognised revenue from dividends and profit sharing to revaluate the investments, when measuring the value of the enterprises for privatization purpose, it is required to adjust retrospectively financial statements to show the decrease in the investment due to dividends and profit sharing.
- Enterprise ceased making depreciation for Property Investment held for trading and it is not required to adjust retrospectively accumulated depreciation from the previous periods.

The enterprise has to present the relevant changes to the comparative information for those items which have been changed due to the application of this Circular compared to Decision No. 15/2006/QD-BTC dated 20/3/2006 by the Ministry of Finance as well as disclose the reasons for the changes on the Notes to the financial statements.

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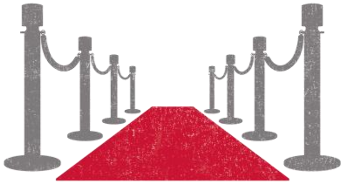

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