Differences between Vietnamese GAAP & IFRS

KPMG in Vietnam

—

November 2023

KPMG

Contents

01

Background of Vietnamese GAAP ("VAS") & IFRS

Background of Vietnamese GAAP & IFRS

During the period from 2001 to 2005, 26 Vietnamese Accounting Standards (VAS) were issued.

These VASs were developed based on the old International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) which existed at the time

IFRS	Conceptual framework	25 IAS	16 IFRS	15 IFRIC	5 SIC
VAS	Vietnamese Accounting System for enterprises	26 VAS	Circular 200/202	Circulars and certain ad-hoc interpretation guidance	

Note: as at October 2023

Significant differences between VAS and IFRS arise because:

- ✓ The approach when adopting IAS/IFRS (e.g. modifications, not adopting all IAS/IFRS)
- ✓ Not all IAS/IFRS were adopted
- ✓ Certain guidance, circulars and/or interpretation issued are based on local regulators' view of the transactions which might be different from how similar requirements are interpreted under IFRS
- ✓ IFRSs have been continuously developing while VASs have not been updated since their first issuance

GAAP Hierarchy

AREA	VAS	IFRS
Position of framework	• VAS placed its Framework at the same level as the other VASs. During the development of individual standards, there may be deviation from the basic principles of the framework	• IFRS placed its Framework as an important source of reference in developing the standards
Dealing with area where there is lack of guidance in accounting standards	• General practice when dealing with areas for which there is lack of guidance in Vietnamese GAAP is to write a letter to the Ministry of Finance (MoF) to seek their interpretation and guidance. • The current Vietnamese Accounting System was issued using the same type of regulations (same authority level) as those covering VAS and was issued after the standards were issued. In some cases, MoF has indicated that the Vietnamese Accounting System shall prevail the standards if there was any contradiction between the two.	• IFRS allows management to consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices.

02

Significant differences between Vietnamese GAAP and IFRS

Significant differences between VAS and IFRS

AREA	VAS	IFRS
Components of financial statements	• VAS only requires four components: — Balance sheet — Income statement — Cash flow statement — Notes to the financial statements (including note on changes in equity)	• Under IFRS: — Statement of financial position (or called Balance sheet) — Income statement together with other comprehensive income form or statement of profit or loss and other comprehensive income — Statement of cash flows — Statement of changes in equity (SOCE) — Notes to the financial statements
Period of financial statements	• VAS allows entity to present their financial statements for a period up to a maximum of 15 months for the first fiscal year	• IFRS requires entity to present its financial statements at least annually. Financial statements with period longer or shorter than 1 year are allowed only if the entity changes the end of its reporting period (i.e. its accounting year-end)

Significant differences between VAS and IFRS

AREA	VAS	IFRS
Chart of accounts and standard form of financial statements	• VAS requires entity to apply the stipulated chart of accounts (COA) to record transactions. Any supplements or amendment to level 1 and level 2 accounts specified in the COA must be approved by the Ministry of Finance (MoF) • Enterprises must use the standard form of financial statements stipulated by the MoF. Additions of items or amendments to forms, narrative and content of financial statement captions must be approved by the MoF.	• IFRS does not prescribe the order or format of chart of accounts or fixed form of financial statements.
Accounting currency and Functional currency	• VAS have not fully adopted the concept of functional currency: — The default "accounting currency" is Vietnam Dong (VND) — An entity may use a foreign currency for accounting and presentation of financial statement provided that the foreign currency meet specified conditions similar to functional currency concept under IFRS and must translate their financial statements into VND for the purpose of submission to Vietnamese authorities	• IFRS requires: — A reporting entity maintains its accounting record in its functional currency (i.e. currency of the primary economic environment in which entity operates) — If the reporting entity want to present its financial statements in a currency different from its functional currency, apply the translation method in IAS 21 - The Effects of Changes in Foreign Exchange Rates

Significant differences between VAS and IFRS

AREA	VAS	IFRS
Fair value	• No VAS equivalent to IFRS 13 – Fair value measurement — VAS are substantially still based on historical cost concept — Certain VAS, although seems to be similar with IFRS, prohibits fair value measurement: (1) VAS 3 – Tangible fixed assets – not revaluation model (2) VÁ 5 – Investment property – only cost model is available. Fair value of the property is only for disclosure but if entity can not determine the fair value, it must disclose the reason why fair value cannot be determined. • Although there is little guidance, entity must determine fair value: — In a business combination for assets acquired and liabilities assumed — In an exchange of non-monetary assets — In a share exchange transaction: share received are measured at fair value at date of exchange — In a purchase of fixed assets or inventories together with supplies or spare parts for future replacement, fair value of spare parts are determined and recognised separately	• Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. • A fair value measurement requires an entity to determine all the following: — the particular asset or liability that is the subject of the measurement; — for a non-financial asset, the valuation premise that is appropriate for the measurement; — the principal (or most advantageous) market for the asset or liability; — the valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorised.

Significant differences between VAS and IFRS

AREA	VAS	IFRS
Financial instruments – recognition	• VAS does not have equivalent standards for IFRS 9 — Financial Instrument: Recognition and Measurement — Derivative instruments: (1) generally off-balance sheet items (2) if recorded in the balance sheet, it only represented premium paid which is amortised over the term of the instrument (different accounting treatment is provided for banks) — No requirements to re-measure any financial instrument at fair value at reporting date (except for securities companies and securities investment funds)	• An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument. • Under IFRS 9 all financial instruments are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs. • Under IFRS 9, derivative financial instruments are measure at fair value at initial recognition as well as at subsequent reporting dates. Gain/loss due to change in fair value of derivative financial instrument is recognised in profit or loss, except where hedge accounting is applied.

Significant differences between VAS and IFRS

AREA	VAS	IFRS
Financial instruments – classification	• In Circular 210/2009/TT-BTC ("Cir 210"), financial assets and liabilities are classified to the following categories solely for presentation and disclosure purpose (but not mandatory), which was developed based on IAS 39: — Financial assets at fair value through profit or loss — Held-to-maturity investments — Loans and receivables — Available-for-sale financial assets — Financial liabilities at fair value through profit or loss — Financial liabilities carried at amortised costs	• An entity shall classify financial assets as subsequently measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL") on the basis of both: — the entity's business model for managing the financial assets (i.e. Business model Test); and — the contractual cash flow characteristics of the financial asset (i.e. SPPI test). • An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for financial liabilities at fair value through profit or loss.

Significant differences between VAS and IFRS

AREA	VAS	IFRS
Financial instruments - Impairment	• VAS has not adopted ECL model, instead, provisioning under guidance of Circular 200 is applied, as follows: — Provision for trade account receivables are based on the overdue status, normally using a preset percentage for each overdue tenue. — Provision for investment securities are by comparing the carrying value and the market value. — Provision for the long-term equity investment: provision is made when the investees make losses. • As a common practice, measurement of allowance usually follows Circular No. 48/2019/TT-BTC (“Cir 48”), a part of the tax regime. In accordance with Cir 48, allowance for overdue debts is made using the specific allowance rates that are applied corresponding to how long the debt is overdue.	• IFRS 9 introduces a new impairment model based on expected credit losses (“ECL”) rather than incurred loss as per IAS 39. • Under the general principle of ECL, impairment would be measured as either: — 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or — lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument) The measurement basis would depend on whether there has been a significant increase in credit risk since initial recognition. The assessment should be made at each reporting date.

Significant differences between VAS and IFRS

AREA	VAS	IFRS
Financial instruments – Hedge accounting	• Hedge accounting is generally not applied under VAS. • According to VAS 10,12(c), where an enterprise uses financial instruments for hedging against foreign exchange risk, the hedged loans and liabilities are recognized at the exchange rate ruling on the transaction date; the enterprise is must not revalue such loans and liabilities.	• Hedge accounting under IFRS is subject to complex requirements including: — Criteria for qualified hedging instruments; — Criteria for qualified hedged items; — Criteria for qualified hedge accounting, including evaluating effectiveness of hedging; and — Three types of hedging relationships, including fair value hedge, cash flow hedge and hedge of a net investment in a foreign operation.
Financial instruments – presentation and disclosure	• Presentation and disclosure of financial instruments: — The MoF has issued Circular Cir 210 which has contents similar to IAS 32 – Financial Instruments: Presentation and IFRS 7 – Financial Instrument: Disclosures — Cir 210 became effective from financial year 2011 — As regulated by Cir 200, Cir 210 is not mandatory for FY2015 onward until a Vietnamese Accounting Standard on financial instruments would be issued.	• IFRS 7 requires entities including banks to provide comprehensive disclosures in their financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance; the nature and extent of risks arising from financial instruments to which the entity is exposed during the period; and how the entity manages the risks. • IFRS 9 requires additional disclosures for impairment including but not limited to amounts arising from the ECL model, the effect of changes in credit risk, etc. • Extensive new disclosures are also required for those risk exposures to which an entity applies hedge accounting under IFRS 9.

Significant differences between VAS and IFRS

AREA	VAS	IFRS
Property, plant and equipment (PPE)	• Circular 45/2013/TT-BTC ("Cir 45") of the MoF require cost of a fixed assets must be VND30 million or more. Assets held for use by the Company in the normal course of business whose costs of individual items are less than VND30 million are considered tools and supplies and recognised as long-term prepaid expenses. • Only cost model is applied for measurement of subsequent expenditure. Revaluation model is not provided under VAS. • The repair costs of fixed assets are recorded directly as an expense or amortised over the period of not more than 3 years. • For fixed assets whose repair is cyclical, the enterprises shall be allowed to make provision for major repair and maintenance.	• An asset regardless of its value that satisfies the recognition criteria is recorded as PPE. • An entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. • Cost of the day-to-day servicing PPE are recognised in profit and loss as they are incurred.

Significant differences between VAS and IFRS

AREA	VAS	IFRS
Intangible asset	• VAS permits to defer of certain expenditure items (which are similar to intangible fixed assets) such as: — establishment expenses — training expenses, advertising costs incurred in pre-operation stage, — costs of research stage — reallocation costs which are characterised as long-term prepaid expenses. These expenses are amortised over a period of maximum 3 years. • Under Vietnamese law, entities and individuals are not permitted to own land but only land use rights. Land use rights are recognised as intangible fixed assets or long-term prepaid expenses in accordance with prevailing regulations.	• IFRS prohibits deferral of these expenses. • Under IFRS, land use rights are considered to be within the scope of IFRS 16 – Leases. Indefinite land use right is considered as Tangible fixed asset

Significant differences between VAS and IFRS

AREA	VAS	IFRS
Investment property	• Property under construction or development for future use as an investment property (investment property under construction) is not classified as investment property under VAS until it completes and is transferred to investment property. • After initial recognition, investment property held to earn rental should be measured at cost, less accumulated depreciation to arrive at net book value in the holding period.	• Property under construction or development for future use as an investment property (investment property under construction) is accounted for under the requirements of IAS 40 – Investment properties, using the measurement model elected for investment property. • An entity shall choose as its accounting policy either the fair value model or the cost model and shall apply that policy to all of its investment property.

Significant differences between VAS and IFRS

AREA	VAS	IFRS
Impairment of assets	• No VAS equivalent to IAS 36: Impairment of Assets • Certain VAS discussed the concept of “recoverable amount” which is the key principle in the application of accounting for impairment of assets • Under Cir 200, investment property held for price appreciation shall not be depreciated but subject to assessment of whether it is impaired. Impairment loss (if any) is recognised to profit or loss and deducted to cost of asset. However, no detailed guidance on impairment testing provided.	• Under IFRS, assessment has to be made at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the asset’s recoverable amount is estimated. • An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in IAS 16). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard. • After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Significant differences between VAS and IFRS

AREA	VAS	IFRS
Lease	• A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. • An entity is permitted to enter into a finance lease as lessor in Vietnam only if it has a finance leasing license issued by Vietnamese authority. Certain entities do not have such license but enter into leases that are classified as finance leases in accordance with VAS 6 – Leases. There is no clear guidance about whether the application of VAS 6 could be conflict with the licensing requirement and therefore acceptable or not. Actual practices may vary from entity to entity due the lack of guidance.	• IFRS 16 has similar requirements for lessors. However, for lessees, IFRS 16 introduces a single lessee accounting models for which no distinction between finance lease and operating lease is required. Entity is required to bring most leases on-balance sheet, recognised right-of-use asset and lease liability • There is no similar guidance, IFRS focuses on substance of transaction instead of form of transaction.

Significant differences between VAS and IFRS

AREA	VAS	IFRS
Separate financial statements	• In the separate financial statements, investments in subsidiaries are initially recognised at cost which includes purchase price plus any directly attributable transaction costs. Subsequent to initial recognition, these investments are stated at cost less allowance for diminution in value.	• In the separate financial statements, investment in subsidiaries shall be accounted for either at cost or in accordance with IFRS 9. Investments carried at cost should be measured at the lower of their carrying amount and fair value less costs to sell.
Provisions	• Cir 200 requires the provision for environmental restoration costs, cleanup costs, recovery and return of premises to be expensed off in profit or loss. • Cir 200 allows the entity to make provision for technology development funds that can be utilised for spending on technology development.	• IAS16.16 allows the capitalisation of the initial estimate of the costs of dismantling and removing the item and restoring the site into the cost of related assets. • IFRS does not permit such provision since an entity does not have any present obligation in relation to spending on technology development.

Significant differences between VAS and IFRS

AREA	VAS	IFRS
Revenue	• VAS requirements are generally similar to those of IAS 18 - Revenue and IAS 11 – Construction contract which have been superseded by IFRS 15 from 1 January 2018. • However, there are certain guidance under IFRS 15 which have been included in VAS via guidance provided under Cir 200, including the following: — Revenues on sales transactions which are bundled with free products/services, then revenues should be allocated to the free products/services. — Revenues on real estate sales are not allowed to apply VAS 15 - Construction contract, but follows the conditions of risks and rewards transfers for sales of goods as guided under VAS 14 - Revenue and other income — Revenues on transactions with customers under loyalty programmes where some considerations would need to be deferred to match with the subsequent free goods/services to be delivered. — Revenues on construction contracts to take into account variable considerations.	• Entity recognizes revenue when (or as) it transfers control of goods and services to a customer, and at the amount to which the entity expects to be entitled to. • IFRS 15 introduces 5-step model: — Step 1 - Identify the contract with a customer Step 2 - Identify the separate performance obligations in the contract — Step 3 - Determine the transaction price — Step 4 - Allocate the transaction price to each of the separate performance obligations — Step 5 - Recognise revenue when (or as) each performance obligation is satisfied • An entity assesses whether it transfers control over time. If criteria to recognise revenue over time is not meet, the entity recognises revenue at the point in time at which it transfers control. Amounts and timing of recognising revenue may be significantly different under VAS. • IFRS 15 contains extensive quantitative and qualitative disclosure requirement including more disaggregated information at the reporting date.

Significant differences between VAS and IFRS

AREA	VAS	IFRS
Employee benefits – Defined benefit plans	• Under the Vietnamese Labour Code, when an employee who has worked for 12 months or more voluntarily terminates his/her labour contract, the employer is required to pay the eligible employee severance allowance calculated based on years of service and employee's compensation at termination. This scheme has the characteristic of a defined benefit plans. There are difference views about accounting for severance allowance as follows: — View 1: Provision for severance allowance is required and should be estimated base on expected amounts to be paid by the employer in the future. Time value of money is generally not taken into account in the estimate. — View 2: Provision for severance allowance is not required and not to be made. • View 1 appears to be generally accepted.	• Accounting by an entity for defined benefit plans involves the following steps:IFRS 15 introduces 5-step model: — Estimate of ultimate cost to the entity. This involve estimates about demographic variable (such as employee turnover and mortality) and financial variable (such as future increases in salaries). — Discounting the estimated future costs to determine the present value of the defined benefit obligation and the current service cost. The discount rate is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. — Fair value of plan assets is deducted from the present value of the defined benefit obligation; — Any re-measurement of defined benefit obligation (e.g. due to changes in assumption) should be recorded in other comprehensive income.

Significant differences between VAS and IFRS

AREA	VAS	IFRS
Share-based payments	• Under VAS, there is no specific accounting standard or guidance on recognition and measurement in respect of share-based payments. • In practice, if an entity offers ESOP schemes, share-based payments are generally recognised at nominal value, rather than fair value, of shares granted at the grant date rather than over the vesting period and may results in higher expense in that year but lower total expense reported over the vesting period in the statement of income, compared to IFRS. However, when employees are granted with options to purchase shares at a price lower than market price, no expense is recorded in the income statement for such options. This cause a dilution of shareholders' value not being reflected in the financial statements. • Unvested shares issued to employees may be recognized as equity at the grant date. If they are subsequently not vested then they would be reversed out from equity.	• For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. • For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall re-measure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

Significant differences between VAS and IFRS

AREA	VAS	IFRS
Business combination - control	• Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. • Control exists when the parent company: — holds more than 50% voting right in a subsidiary; — has power to remove or appoint the majority of members of Board of Management or General Director; — has power to cast the majority of votes at meetings of the Board of Management; — has power to govern the financial and operating policies of the enterprise under a statute or an agreement; — has power over more than one half of the voting rights by virtue of an agreement with other investors; — has power to amend the Charter of a subsidiary.	• An investor controls an investee when the investor is exposed to (has rights to) variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Control requires power, exposure to variability of returns and a linkage between the two. • The step to be followed when determining whether control exists comprises: — Identifying the investee, consideration of its purpose and design — Identifying the relevant activities of the investee — Identifying how decisions about the relevant activities are made — Assessing whether the investor controls the investee

Significant differences between VAS and IFRS

AREA	VAS	IFRS
Consolidated financial statements	• At initial recognition, NCI is recognised at their proportion of identifiable net assets which are recognised at fair value on acquisition date.	• When less than 100% of a subsidiary is acquired, the acquirer can elect on a transaction-by-transaction basis to measure ordinary NCI on initial recognition either at: — fair value at the date of acquisition, which means that goodwill, or the gain on a bargain purchase, includes a portion attributable to ordinary NCI; or — the holders' proportionate interest in the recognised amount of the identifiable net assets of the acquiree, which means that goodwill, or the gain on a bargain purchase, relates only to the controlling interest acquired.
Goodwill from business combinations	• Goodwill shall be amortised over a period not exceeding 10 years from initial recognition. Beside, under Cir 202, goodwill is also subject to impairment assessment periodically. However, there is no detailed guidance on how to perform impairment testing • Negative goodwill to be recognised as income immediately after reassessment and measurement of identifiable assets acquired and liabilities assumed.	• Goodwill should not be amortised but should be tested for impairment at least annually or more frequent if there is an indicator of impairment. • Same guidance.

Significant differences between VAS and IFRS

AREA	VAS	IFRS
Other topics	• There is currently no VAS dealing with the following major topics which are already covered by IFRS — Government grants (IAS 20) — Agriculture (IAS 41) — Non-current asset held- for sales and discontinued operations (IFRS 5) — Financial reporting in hyperinflationary economies (IAS 29) — Accounting and Reporting by Retirement Benefit Plans (IAS 26) — Exploration for and revaluation of mineral resources (IFRS 6) — Disclosure of interest in other entities (IFRS 12); joint arrangements (IFRS 11) — First-time adoption of IFRS (IFRS 1) • Except for certain principles extracted from IFRIC 13 — Customer loyalty program, the MoF of Vietnam has not adopted any other IFRIC/SIC into VAS	• There are many IFRSs that cover specific topics as listed.

Contact us

Lam Thi Ngoc Hao
Partner, Head of Business Transformation

Pham Thi Hoang Anh
Partner, IFRS Conversion Services Lead

Scan to visit our website: kpmg.com.vn

Email: kpmghcmc@kpmg.com.vn