

# Case Study “XYZ Commercial Joint-Stock Bank”, Conversion of Financial Statements from Vietnam’s Accounting Standard into International Financing Reporting Standard

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## Abstract

The aim of this study is to update significant differences between Vietnam’s accounting standards (VAS) and International financial report standards (IFRS). Case study “XYZ Commercial Joint-Stock Bank”, conversion of financial statements from VAS into IFRS. Analyzed the case study and status of conversion financial statements from VAS into IFRS of Vietnam listed Joint Stock Companies (JSCs), author found and discussed impediments & challenges to convert IFRS financial statements in Vietnam and suggest to enhance roles of Vietnam Government and listed JSCs on the Vietnam stock market in an effort to convert and adopt IFRS financial statements as well as suggest to establish an IFRS conversion project to have an overview of conversion processes financial statements from VAS into IFRS for Vietnam listed JSCs

**Keywords:** Conversion financial statement, International financial reporting standard, Vietnamese account standard

## I. Introduction

In recent years, some Vietnam listed joint-stock companies have converted of their financial statements from Vietnamese Accounting Standards into International Financial Reporting Standards for requirement by their parent companies or demanding of its strategic investors or these companies wants to list their stocks/ bonds on the International Stock Exchange. Surely, one of first conditions for listing stock/ bond on the International Stock Exchange is must to prepare financial statements in accordance with International Financial Reporting Standards (IFRS)

Author discussed, interviewed and worked directly with Directors, Chief financial officers, Chief accountants of some Viet Nam listed JCSs (Companies are converting their VAS financial statements into IFRS financial statements) and Directors / Senior manager auditors of big-four international audit firms (who are directly manage or preparing conversion IFRS financial statements for their clients). It’s found that there are two methods (manual and automatically generated IFRS financial statements from accounting systems) of conversion IFRS financial statements with some impediments and challenges. The significant differences between VAS and IFRS is one of most impediments and challenges for Vietnam listed JSCs in conversion their IFRS financial statements.

With the above analysis, author want to update significant differences between Vietnam’s accounting standards (VAS) and International financial report standards (IFRS). Analyzed details of conversion financial statements from VAS into IFRS of XYZ Commercial Joint Stock Corporation Bank to find out conversion details of automatically method as well as impediments and challenges in conversion financial statements accordance IFRS of Vietnam listed JSCs then suggest an overview of conversion processes in financial statements from VAS into IFRS, this will help easier for Vietnam listed JSCs in conversion their IFRS financial statements.

Section II Provides a background of VAS development and update significant differences between Vietnam’s accounting standards (VAS) and International financial report standards (IFRS). Section III Literature review. Section IV Methodology. Section V Case study: conversion IFRS financial statements of XYZ Commercial Joint-Stock Bank. Section VI Result and Discussion on status of IFRS conversion with impediments and challenges of Vietnam listed JSCS in conversion of financial statements from VAS into IFRS. Section VII Suggest to enhance roles of Vietnam Government and listed JSCs on the Vietnam stock market in an effort to convert and adopt IFRS financial statements; establish an IFRS conversion project

## II. Background

### A. Vietnamese Accounting System (VAS) development

In the 1990s, Vietnamese Accounting System (VAS) for enterprises was issued by the Ministry of Finance (“MOF”). 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 and International Financial Reporting Standards which existed at the time. However not all IAS/IFRS were adopted in Viet Nam, it’s not significant change has been made to these VASs since their issuance

The MOF of Vietnam also issues circulars that interpret the requirements of the Vietnamese Accounting System for enterprises and the VAS: the guidance includes detailed bookkeeping and journal entries for various type of transactions related to the respective subject. Circular No. 200/2014/TT-BTC is the latest circular stipulating the amended Vietnamese Accounting System for enterprises, which introduces a number of changes to bring VASs closer to IFRSs in a few areas

**B. Significant differences between Vietnamese Accounting System (VAS) and International Financial reporting standard (IFRS)**

Although Circular No. 200&202/2014/TT-BTC are the latest circulars, bring VASs closer to IFRSs in a few areas but still there are significant differences between VAS and IAS/IFRS arise because of: VASs have not been updated since their first issuance, while IFRSs have been continuously developing and certain guidance, circulars and/or interpretation issued of MOF are not based on the substance of transactions

<b>IFRS</b>	<b>VAS/ Circular 200,202/2014/TT-BTC</b>
<p><b><u>Fair value</u></b>  <b>IFRS 13</b></p>	<p><b>No VAS equivalent to IFRS 13 – Fair value measurement</b>                      Vietnamese GAAP are substantially still based on historical cost concept                      Certain VAS, although seems to be similar with IAS/IFRS, prohibits fair value measurement                      -VAS 3: Tangible fixed assets – no revaluation model                      -VAS 5: Investment property – only cost model is available. Fair value of the property is only for disclosure but if entity cannot determine the fair value, it must disclose the reason why fair value cannot be determined  <b>There is little guidance, entity must determine fair value:</b>                      In a business combination for assets acquired and liabilities assumed                      In an exchange of non-monetary assets                      In a share exchange transaction: shares 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 values of spare parts are determined and recognized separately                      An entity shall determine separately the fair value of goods and services to be provided to the buyer for free or at discounted amount when the buyer meets the conditions of the customer loyalty program</p>
<p><b><u>Financial instruments</u></b>  <b>IAS39</b></p>	<p><b>VAS does not have equivalent standards for IAS 39 Financial Instruments: Recognition and Measurement:</b>                      Derivative instruments:                      -Generally off-balance-sheet items                      -If recorded in the balance sheet, it only represents premium paid which is amortized over the term of the instrument                      Hedge accounting cannot be applied                      No requirements to remeasure any financial instrument at fair value at reporting date  <b>Presentation and disclosure of financial instruments</b>                      The Ministry of Finance has issued circular No. 210/2009/TT-BTC (Circular 210) which has contents similar to IAS 32 - Financial Instruments: Presentation and IFRS 7 - Financial Instruments: Disclosures.                      Circular 210 became effective from financial year 2011                      As regulated by Circular 200/2014/TT-BTC, Circular 210 is not mandatory for FY2015 onward until a Vietnamese Accounting Standard on financial instruments would be issued</p>
<p><b><u>Intangible assets</u></b>                      IFRS prohibit deferral of those expenses                      Land use rights fall within the scope of IAS 17 – Leases and are classified as finance or operating lease.</p>	<p>VAS still allows deferral of certain expenditures (as similar to intangible assets)                      Land use rights which meet certain conditions are recognized as an intangible asset; Otherwise they are recognized as a long term prepaid expenses.</p>
<p><b><u>Impairment of assets</u></b></p>	

IAS36	<p>No VAS equivalent to IAS 36, Impairment of Assets                  Certain VAS discusses 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 recognized to P&amp;L and deducted to cost of asset. However, no detailed guidance on impairment testing provided</p>
<p><b><u>Goodwill from business combinations</u></b>                  IFRS3:Business Combinations:                  Goodwill should not be amortized but should be tested for impairment at least annually or more frequent if there is an indication of impairment</p>	<p>VAS11: Business Combinations                  Goodwill shall be amortized over a period not exceeding ten years from initial recognition. Beside, under Circular No. 202/2014/TT-BTC which is effective from 2015, goodwill is also subject to impairment assessment periodically. However, there is not detailed guidance on how to perform impairment testing</p>
<p><b><u>Provisions</u></b>                  IAS16: IFRS allow capitalization of restoration costs if they meet the conditions of IAS16</p>	<p>VAS has a guidance to expense off site restoration cost when providing provision for such cost (not capitalized in cost of related fixed asset).</p>
<p><b><u>Consolidation</u></b></p> <ul style="list-style-type: none"> <li>❖ Definition of control                      IFRS 10: An investor controls an investee when it is exposed, or 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</li> <li>❖ Loss of control                      IFRS 10 requires to revalue any non-controlling interests retained at fair value</li> </ul> <p><b><u>Joint Venture</u></b>                  IFRS 11 defines two types of joint arrangements: joint operation and joint venture.</p> <p>IFRS 11 defines collective control and distinguishes collective control with joint control</p>	<p>VAS 25: <i>Control</i> is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.</p> <p>VAS (Cir 202) requires to remeasure the retained interests with significant influence after loss of control at cost or carrying amount using equity method (as if using cost or equity accounting for such retained interest since the initial investment date)</p> <p>VAS 08 defines three types of jointly controlled activities: jointly controlled operation, jointly controlled asset and joint venture.</p> <p>No equivalent definition in VAS 08</p>
<p><b><u>IFRS</u></b></p> <p><b><u>IFRS issued</u></b>                  Employee Benefits                  Share-based Payments                  Government grants                  Agriculture                  Non-current assets held for sale and Discontinued Operations                  Accounting and reporting by retirement benefit plans                  Financial reporting in hyperinflationary economies                  Exploration for and evaluation of mineral resources                  Disclosure of Interest in other entities (IFRS 12), joint arrangements (IFRS 11)</p>	<p><b>VAS/ Circular 200,202/2014/TT-BTC</b></p> <p><u>VAS: Yet issued</u></p>

Source: Author compiled

### III. Literature review

Vietnam is a member of the WTO, influx of foreign investors into Vietnam is inevitable. Stock market of Vietnam attract more and more foreign investors. In order to attract capital from foreign investors, many Vietnam listed joint- stock companies register to list their stocks/bonds on the International Stock Exchange. Furthermore, many large foreign corporations expand their business in Vietnam. One of conditions for listing

stocks on the International Stock Exchange or consolidated financial statement with parent companies abroad is that financial statements must be prepared in accordance with International Financial Reporting Standards (IFRS). Besides that, some listed JCSs in Vietnam are converting into IFRS financial statements to improve accuracy and transparency, thus contributing to improving the management effectiveness of the company's business operations

In Vietnam, almost studies focused on influences of differences between VAS and IFRS (Nguyen Thi Lien Huong, 2010) or level of harmonization between VAS and IFRS (Pham Hoai Huong, 2010) or Oriented development of Vietnamese financial statements to meet the trend of international accounting convergence (Tran Quoc Thinh, 2013). There are not many studies focused on conversion of financial statements from VAS into IFRS, Author found one study regarding IFRS conversion of Dinh Minh Tuan's study (2013), discussed the first time conversion financial statement from VAS to IFRS of Tan Tao Industry group, the author discussed details of conversion financial statements according IFRS by manual conversion method, this method is prepared at yearend of each financial year after having final VAS audited reports, IFRS conversion of this method is supported by senior management auditor of big-four international audit firms

In this study, author discussed, interviewed and worked directly with Directors, Chief financial officers, Chief accountants of some Viet Nam listed JCSs (companies are converting their VAS financial statements into IFRS financial statements) and Directors / Senior manager auditors of big-four international audit firms (who are directly manage or preparing conversion IFRS financial statements for their clients). Also, Author is preparing conversion of IFRS consolidated financial statements for Author's company (current job). Results of these showed that currently, there are two main conversion methods of financial statements from VAS into IFRS : 1/Automatically generated IFRS financial statements from accounting system and 2/ Manual conversion method

List of Viet Nam listed JCSs have converted financial statements form VAS into IFRS are as follows:

**Table 1:** Vietnam listed joint-stock companies –converting of financial statement from VAS into IFRS

Company name	Year of conversion
Vietnam International Leasing Company Limited	2000
Ngân hàng ngoại thương Việt Nam (Vietcombank)	2008
Ngân hàng TMCP Đông Á Dong A bank (Dong A bank)	2008
Tập đoàn Bảo Việt Group (BaoViet Group)	2009
Tập đoàn Vincom (Vincom Group)	2009
Ngân Hàng đầu tư và phát triển Việt Nam (BIDV Bank)	2009
Công ty cổ phần chứng khoán TPHCM HSC (Hochiminh Security Corporation )	2010
Công ty cổ phần đầu tư và công nghiệp Tân Tạo (TanTao Industry Group)	2011
Sacombank Leasing Company	2012
Ngân hàng TMCP Xuất Nhập Khẩu (Exim bank)	2012
Ngân hàng Nam Á (Nam Á bank)	2012
Ngân hàng TMCP Sài Gòn Thương Tín (Sacombank)	2013
Ngân hàng TMCP Saigon Hanoi (SH Bank)	2014
Công ty CP tài chính ngân hàng Việt Nam thịnh vượng (VPbank Finance Company)	2014
Vietnam Oman Investment Company	2016
Công ty cổ phần điện Gia Lai (Gia Lai Electric joint stock company)	2016
...	

Source: Author compiled

#### IV. Methodology

Author used case study methodology (Case study “XYZ Commercial Joint-Stock Bank” for this study

##### A. Conversion of financial statement from VAS into IFRS

Conversion of financial statements to International Financial Reporting Standards (IFRS) is the conversion of financial statements from Vietnam's accounting standard (VAS) to International Financial Reporting Standards (IFRS). Conversion financial statements into IFRS is common in many countries around the world. Differences between current accounting standards and IFRS depend on the country of operation, the area of operation and the accounting policies that enterprise chooses. The quality and flexibility of the enterprise's current financial reporting structure, scale and impact of national accounting standards changes in business operations is one of the factors that influence the process. Conversion financial statement from Vietnamese Accounting Standards to International Financial Reporting Standards does not only affect the accounting policies and financial position of an enterprise which may have unintended impacts on the business operations of an enterprise. There are many risks to operation of business (E & Y, Global IFRS conversion methodology, 2009).

##### B. Processes of case study: 8 steps

Step 1: Set-up a schedule to work with XYZ bank's Directors and Chief accountant

Step 2: Build discussion questions with the XYZ bank's Directors and Chief accountant on IFRS conversion reasons, impediments and challenges

Step 3: Study design to ensure that objective is to study conversion of financial statements from VAS into IFRS in the form of automated conversion

Step 4: Data collection of this study is IFRS conversion project of XYZ bank (from preparing of conversion project to implement and manage posted implement stage of project)

Step 5: Data analysis through analyzed whole project; analyzed differences of VAS and IFRS; assessed impacts of conversion and build project planning; IFRS conversion methods; build IT systems

Step 6: Discussed with XYZ bank's chief accountant on the specific conversion processes (i.e: how to set up a new accounting policy ; how to build chart of accounts in the systems; how to build IT systems to run in parallel with the current financial statements system according to VAS...)

Step 7: Discussed with XYZ's chief account, general accountant and accountants of bank branches how to enter daily data, how to prepare VAS and IFRS financial statements at each month end , quarterly , year end

Step 8: Shared ,discussed study's result on conversion IFRS financial statements with the Directors and chief account of XYZ bank

## V. Case study "XYZ Commercial Joint-Stock Bank"

✚ Reason to select conversion IFRS financial statements of XYZ Commercial Joint-Stock bank

Author selected conversion details IFRS financial statements of XYZ Commercial Joint- Stock bank with three main reasons:

Firstly, as discussed above, the significant differences between VAS and IFRS are regarded recognition and measurement of fair values. Because business characteristics of banking sector has a significant impact on the recognition, measurement and presentation (bond, loans records ...), conversion of financial statements from VAS into IFRS will significant differences for its business result

Secondly, successfully conversion of financial statement according IFRS has helped XYZ bank attract more foreign investors and foreign loans also increased

Thirdly, conversion of financial statements from VAS into IFRS of XYZ Commercial Joint- Stock bank by *Automatic generated IFRS financial statement from system*. Introducing this conversion method will help reader/ Vietnam listed JSCs have a whole picture of conversion processes into IFRS financial statements

IFRS financial statements of XYZ Commercial Joint-Stock bank is not publicly disclosed for internal management used only, by requested of XYZ's board directors so this study did **not specify name** of XYZ Commercial Joint- Stock bank

✚ Background of XYZ Commercial Joint-Stock bank

XYZ Commercial Joint- Stock Bank is one of the largest banks in Vietnam. The Head Office based in Ho Chi Minh City with 207 branches and transactions nationwide and established agency relationships with banks around the world. The bank converts and prepares IFRS financial statements for providing their foreign counterparties with loan agreements. XYZ bank established a conversion project for its financial statements accordance IFRS, IFRS financial statements were set up in its accounting system and run in parallel with its VAS financial statements.

✚ Conversion IFRS financial statements of XYZ Commercial Joint- Stock bank

In this study, author did not mention detail of 8 steps (processes of case study)

IFRS conversion processes of XYZ Commercial Joint- Stock bank with two main parts:

Part I: processes overview of conversion financial statements from VAS into IFRS and

Part II: implementation details of processes (Part I)

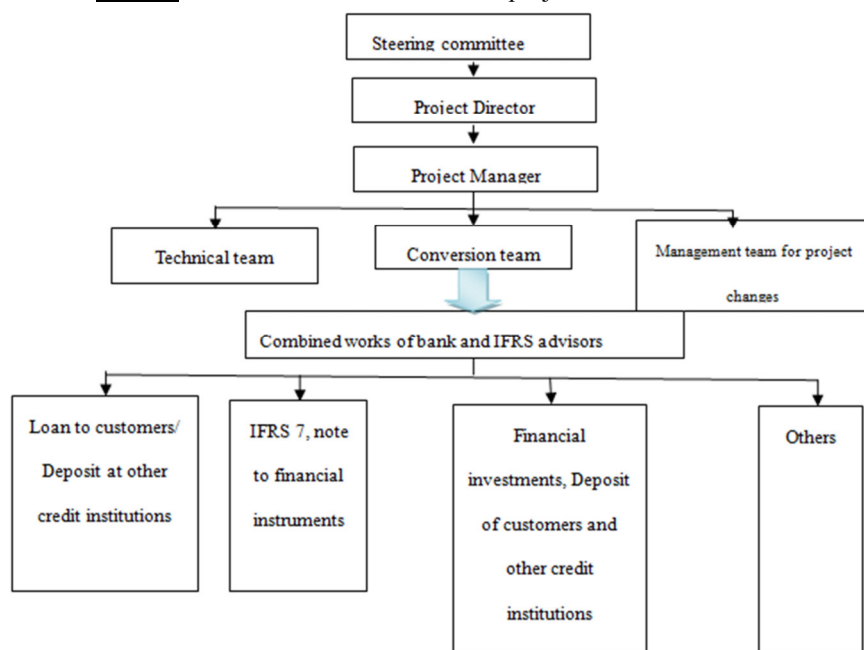


**Part I.** Processes overview of conversion financial statement from VAS into IFRS : 4 stages

Stages	Job details
1.Established IFRS conversion project	<ul style="list-style-type: none"> <li>- Establish a Steering Committee to carry out IFRS conversion project, included Project Director, Project manager to manage activities related to project scope and Implementation teams (Technical, conversion team.) to carry out activities related to project</li> <li>- Define principles for implementation coordination, how to exchange information, transfer documents</li> <li>- Set-up change management process</li> <li>- Start the project</li> <li>- Approved for implement whole project</li> </ul>
2.Analyze differences VAS and IFRS, assess impacts and project planning	<ul style="list-style-type: none"> <li>- Identify accounting differences between VAS Financial statements and related requirements and guidelines issued by State bank and IFRS; and reporting differences analysis.</li> <li>- Analyze impact of IFRS conversion</li> <li>- Details of conversion planning for the project.</li> </ul>
3.Build IFRS conversion method	<ul style="list-style-type: none"> <li>- Established new accounting polices under IFRS</li> <li>- Build chart of accounts under IFRS</li> <li>- Build new financial reporting formats and notes to financial statements under IFRS and update new financial reporting systems for Bank's branches.</li> </ul>
4. Build IT systems, implementing IFRS conversion	<ul style="list-style-type: none"> <li>- Build data requests in transactional systems (core banking, cards, internet banking, FTP, ...) to meet IFRS recording's needs and general ledger reporting's requirements</li> <li>- Build accounting rules according IFRS and valuation method for fair value, amortized cost and other adjustment under IFRS</li> <li>- Build forms for recording accounting entries;</li> <li>- Review, reconcile figures, posted adjustment entries for closing books</li> <li>- Build account mapping for financial reporting under IFRS in the system.</li> </ul>

**Part II:** Implementation details of conversion financial statements from VAS to IFRS

**Stage 1:** Established IFRS conversion project



Source: Accounting Department of XYZ Bank

**Stage 2:** Analyze differences between IFRS and VAS, assess impacts of IFRS conversion and project

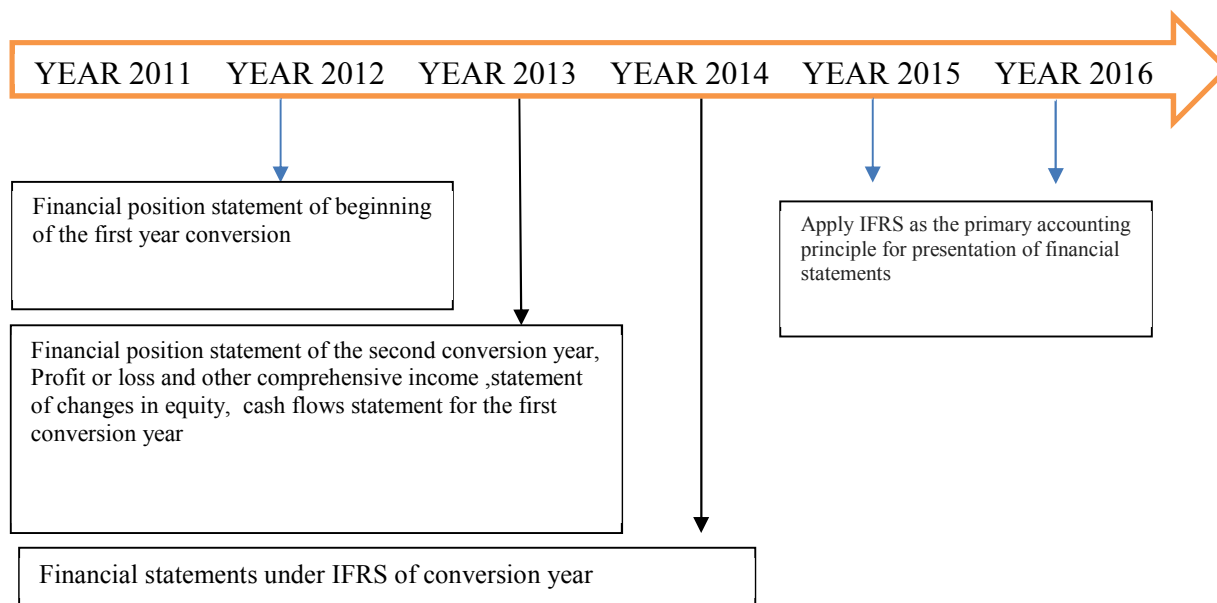
planning

✓ Analyze differences between IFRS and VAS, assess impacts of IFRS conversion

Reference	Bank Activity	Differences	Potential impacts						Potential impacts in financial
			Financial			Non-financial			
			P&L	Tax	Capital/rules	P&D	Procedures/Controls	IT	
<b>Risk of conversion-High</b>									
2.1	Credit	Provision for credit losses	√	√	√		√	√	<ul style="list-style-type: none"> <li>▶ Total outstanding loan accounts –large proportion of total assets</li> <li>▶ Provision for credit losses- large proportion of profit after tax.</li> </ul>
2.2	Credit	Record interest from lending	√	√			√	√	Interest income from lends to customers is a major source of revenue and has a significant impact on after-tax profit
3.1	Capitals and investments	Fair value of investment securities	√	√	√	√	√		Portfolio of investment securities VND14.099 bil 15% total assets
3.3	Capitals and investments	Review decreases value of available for sale securities (AFS) and hold to maturity date(HTM)	√	√			√		The balance of AFS and HTM were VND13.608 bil , 15% of total assets
<b>Risk of conversion-Average</b>									
2.3	Credit	Accrued interest incomes on devalue lends	√	√			√	√	Interest incomes from customers , 405% after tax profit
4.1	Other fields	Notes of risk management				√	√	√	Impacts on notes only
4.2	Other fields	Notes of fair value				√	√		Impacts on notes only
4.3	Other fields	Noted of segmental				√	√	√	Impacts on notes only
4.7	Other fields	Bonus shares for employees	√	√					Impact on the financial statements has not been determined, expected not to be small.
<b>Risk of conversion-Low</b>									
4.5	Other fields	Accounting for concessional lends to employees	√				√		Total employee lend balance accounts for less than 1% of the total credit portfolio.
4.6	Other fields	Bonus and welfare funds	√	√					Balance of bonus and welfare fund 0.03% and 0.002% total of equity
4.8	Other fields	Define provision of severance allowances	√	√			√		Balance of severance allowance funds : 0,004% of total liabilities

Source: Accounting Department of XYZ Bank

✓ Road map to implement IFRS conversion project



Source: Accounting Department of XYZ Bank (Board directors of XYZ Commercial Joint-Stock bank decided 2014 was the year of conversion financial statements under IFRS)

According to International Financial Reporting Standards 1 (IFRS1). For the first time applying IFRS, XYZ Bank restated its IFRS financial statements as at beginning of the first year conversion, this is IFRS's policies. Accordingly, IFRS first-time financial statements of bank were presented a minimum of three years of financial position statements, two-year figures of comprehensive income statement, two-year figures of Changes in owner equity statement and two-year figures of cash flow statement (including comparative figures). IFRS 1 also required XYZ Bank to present equity and other comprehensive income statements according to current VAS with IFRS's figures at the beginning of conversion date and at the end of its latest financial statements

**Stage 3:** Build IFRS conversion method

✓ Established new accounting policies under IFRS

In this study, author mentioned two accounting policies of XYZ bank that significant affects XYZ bank's accounting treatments and business results: **a/** effective interest rate of financial assets/ liability measuring accordance amortized cost and **b/** accounting for bonus and welfare funds

**a.** Effective interest rate of financial assets/ liability measuring accordance amortized cost

Income and expenses of assets / liabilities measured at amortized cost have been recognized in income statement using effective interest method. Effective interest rate is the interest rate used to discount the future cash flows collected and paid out during life of financial asset / liability (or in some cases a short period of time) about the present value of that financial asset / liability. To determine effective interest rate, XYZ Bank estimates future cash flows based on its contractual terms of the financial instrument but excludes future losses. When using effective interest rate method, XYZ Bank normally allocates fees collected or paid, transaction costs, discounts, surcharges included when calculating effective interest rate over a period of time (time effect of financial instruments).

If a financial asset / liability with floating interest rate is initially recognized for receivables and liabilities at maturity, future estimate of interest will not materially affect to book value of that instrument. If the Bank recalculate its recoverable and recoverable amounts, the Bank should make adjustments to the carrying amount of the financial assets / liabilities to reflect the re-estimated cash flows. The Bank calculates its carrying amounts by measuring the present value of expected future cash flows using either initial effective interest rate or redefined effective interest rates. The adjustment of these are recorded in the income statement.

► Income and expense of interests are recognized in the income statement included:

- Gains from measured by amortized cost and calculated on the basis of the effective interest rate from financial assets and liabilities; and
- Interest on available-for-sale investment securities is calculated on the basis of the effective interest rate.

► Accounting entries of accrued interest are as follows:

Debit: Carrying amount of financial assets measured by amortization cost (financial position statement)  
 Credit: Interest income and similar income (income statement)

**b.** Accounting for bonus and welfare funds



According to practice of XYZ Bank as well as other companies in Vietnam, bonus and welfare fund is deducted from after-tax profits as decided by shareholders in Annual General Meeting of Shareholders. Bonus and welfare funds is used to pay for employee's benefits, these benefits are under Bank's Employee Benefits Regulations

According IFRS, amount paid from the bonus and welfare funds are treated as employee expenses and recognized in income statement

<b>Option 1:</b> Non-record appropriation for bonus and welfare fund	<b>Option 2:</b> record appropriation for bonus and welfare fund
<i>When bonus and welfare fund are approved</i>	
No accounting entry	Debit : Retain earnings (Financial position statement) Credit: Bonus and welfare fund (Statement in change equity )

✓ Measurement:

XYZ Bank has two options for recording employees expenses related to the bonus and welfare fund

<b>Option 1:</b> Non-record appropriation for bonus and welfare fund	<b>Option 2:</b> record appropriation for bonus and welfare fund
When costs arise during the year (costs may be incurred before or after the welfare fund is established)	
Debit: employee expenses (income statement) Credit Liability (Financial position statement)	Debit: employee expenses (income statement) Credit Liability (Financial position statement) <i>Also recording:</i> Debit: Bonus and welfare fund (Change of equity statement) Credit: Retain earnings (Financial position statement)
<i>When payment</i>	
Debit: Liability (Financial position statement) Credit: Cash and cash equivalents (Financial position statement)	Debit: Liability (Financial position statement) Credit: Cash and cash equivalents (Financial position statement)

✓ Build chart of account under IFRS

Based on available VAS account system, add specific accounts under IFRS. Also, build IFRS reporting codes for each account. This mapping code is the basis for system to automatically map accounts to prepare financial statements automatically. Build mapping code for both VAS and IFRS at the same time can help system automatically generate reports according to VAS and IFRS.

Account number	Code mapping VAS	Code mapping IFRS	Account name
<b>Account number of financial position statement</b>			
1011	BS01	BS02	Cash on hand Tiền mặt tại đơn vị
1113	BS02	BS02	Cash at bank in VND Tiền gửi thanh toán tại NHNN bằng VND
1311	BS03	BS03	Bank deposit -VNDTiền gửi KKH tại các TCTD trong nước VND
1312	BS03	BS03	Bank deposit VND-Tiền gửi CKH tại các TCTD trong nước VND
1321	BS03	BS03	Bank deposit –USD Tiền gửi KKH tại các TCTD trong nước
1630	BS12	BS05	Debt Securities-CKNợ do các tổ chức kinh tế TNđến đáo hạn
1690	BS13	BS05	Provision - stock losses Dự phòng giảm giá chứng khoán
1691		BS05	Revaluation gains-stocks Chênh lệch tăng giá chứng khoán
1699	BS13	BS05	Provision –Stocks hold for sale losses Dự phòng giảmCK
2131	BS09	BS04	Debt eligibles- Nợ đủ tiêu chuẩn
2132	BS09	BS04	Debt notes-Nợ cần chú ý
2133	BS09	BS04	Debt Substandard-Nợ dưới tiêu chuẩn
2191	BS10	BS04	Provision Details-DỰ PHÒNG CỤ THỂ
2192	BS10	BS04	Provision General DỰ PHÒNG CHUNG
2592	BS10	BS04	Provision Genaral- Dự phòng chung
3012	BS19	BS06	Assets- Tài sản cố định hữu hình-Nhà cửa, vật kiến trúc

3013	BS19	BS06	Assets -Tài sản cố định hữu hình-Máy móc, thiết bị
3014	BS19	BS06	Assets-Tài sản cố định hữu hình-TPVT, thiết bị truyền dẫn
3024	BS23	BS07	Intangible assets-Tài sản cố định vô hình-Phần mềm máyVT
3051	BS20	BS06	Depreciation assets-Hao mòn TSCĐHH-Nhà cửa, vật kiến trúc
3052	BS24	BS07	Depreciation intangible assets-Hao mòn TSCĐVH
3110	BS30	BS09	Tool, equipments-Công cụ, dụng cụ
3210	BS27	BS09	Purchase assets-Mua sắm TSCĐ
3221	BS27	BS09	Cost of construction-Chi phí công trình
3510	BS27	BS09	Deposit, mortgage, pledge-Ký quỹ, thế chấp, cầm cố
3532	BS27	BS09	VAT in-Thuế VAT đầu vào
3539	BS27	BS09	Receivables -Các khoản phải thu về HTLS đã thực hiện NH -
3590	BS27	BS09	Receivables Các khoản khác phải thu
3592	BS27	BS09	Other receivables -Phải thu khác - Phải thu KH bên ngoài
3612	BS27	BS09	Advance for staffs Tạm ứng choCBNVhoạt động VND
3619	BS27	BS09	Other receivables- Các khoản phải thu khác bằng VND
3823	BS30	BS09	Loans to UTĐT, cho vay bằng VND
3911	BS28	BS09	Interest receivable -Lãi phải thu từ tiền gửi CKH TCTDVND
3941	BS28	BS09	Interest receivable from loan-Lãi phải thu từ cho vay bằng VND
3910	BS29	BS08	Deferred income tax- Thuế thu nhập hoãn lại
4112	BS33	BS10	Bank deposit of customers Tiền gửi CKH của các TCTDVND
4212	BS35	BS11	Bank deposit of customer Tiền gửi CKH của KH TCKT VND
4310	BS38	BS12	Certificate of deposit-Phat hanh chung chi tien gui
4531	BS41	BS14	VAT out-Thuế giá trị gia tăng phải nộp Nhà nước – VND
4534	BS41	BS14	Corporation income tax- Thuế thu nhập doanh nghiệp
4538	BS41	BS14	Personal income tax-Thuế thu nhập cá nhân phải nộp
4539	BS41	BS14	Other liabilities -Các khoản phải nộp khác
4599	BS41	BS14	Other liabilities Các khoản chờ TT khác bằng VND
4620	BS41	BS14	Liabilities to employees - Phải trả cho cb,viên TCTD VND
4921	BS39	BS14	Accrued interest paid-DU CHI LAI CHUNG CHI TIEN GUI
4970	BS39	BS14	Other liabilities -Phí phải trả bằng VND
5199	BS30	BS14	Money insurance-TAI KHOAN TREO BAO HIEM KHOAN VAY
6010	BS43	BS15	Charter capital -Vốn điều lệ
6110	BS49	BS16	Reserve funds to supplement charter capital
6121	BS49	BS16	Develop funds-Quỹ đầu tư phát triển
6130	BS49	BS16	Financial reserve funds-Quỹ dự phòng tài chính
6311		BS17	Difference re-valuation Chênh lệch đánh giá lại
6920	BS52	BS17	Undistributed profit of last years Lợi nhuận chưa phân phối nt
6910	BS52	BS17	Undistributed profit of current years Lợi nhuận năm nay chua pp

**Account number of income statement**

7010	PL01	PL01	Interest incomes-Thu lãi tiền gửi KKH tại các TCTD trong nước
7020	PL01	PL01	Interest from loan to customer -Thu lãi cho vay TCTD – NH
7040	PL01	PL01	Income of guarantee services- Thu từ nghiệp vụ bảo lãnh
7090	PL01	PL01	Other income from credit activities-Thu khác từ hoạt động TD
7150	PL03	PL03	Other income form advisoryThu khác từ nghiệp vụ tư vấn-TCKT
7160	PL03	PL03	Income commission from insurance THU PHI HOA HONG BH
7210	PL05	PL05	Income on foreign exchange trading-Thu về kinh doanh ngoại tệ
7900	PL08	PL06	Other incomes- Thu nhập khác-TCKT
8010	PL02	PL02	Interest expenses-Chi phí trả lãi tiền gửi CKH cho các TCTD
8030	PL02	PL02	Interest expenses CHI PHI TRA LAI PHAT HANH GTCG
8090	PL02	PL02	Expenses from credit activities -Chi phí lãi khác về tín dụng
8110	PL04	PL04	Service expenses Chi dịch vụ TT chuyển tiền trong nước TCTD
8140	PL04	PL04	Other expenses Chi về nghiệp vụ uỷ thác
8160	PL04	PL04	Commission expenses CHI PHÍ HOA HỒNG
8190	PL04	PL04	Other expenses Chi dịch vụ khác
8210	PL05	PL05	Expense on oreign exchange tradingChi khác về kinh doanh NT
8310	PL13	PL11	Tax expenses-Chi nộp thuế môn bài
8320	PL13	PL11	Fee and others Chi nộp các khoản phí, lệ phí
8332	PL16	PL13	Deferred tax expenses-Chi phí thuế TN hoãn lại
8331	PL15	PL12	Corporation income tax-Chi phí thuế TNDN hiện hành

8430	PL09	PL06	Debt trading-CHI VE NGHIEP VU MUA BAN NO
8511	PL11	PL08	Staff expense-Chi lương
8549	PL11	PL08	Other allowances -Chi trợ cấp khác
8612	PL13	PL11	Printing expenses-Chi giấy tờ in-Chi phí về các biểu mẫu từ
8614	PL13	PL11	Gas expenses Chi xăng dầu
8619	PL13	PL11	Other tool, supplies -Chi vật liệu khác
8620	PL13	PL11	Business trip expense-Chi công tác phí trong nước
8630	PL13	PL11	Training expenses-Chi đào tạo nhân viên
8650	PL13	PL11	Tel, internet- Chi cước phí điện thoại
8660	PL13	PL11	Advertising Chi quảng cáo, tiếp thị
8670	PL13	PL11	Newspapers, documents -Chi mua sách báo, tài liệu
8691	PL13	PL11	Electric expenses-Chi tiền điện
8693	PL13	PL11	Conference expenses-Chi hội nghị
8694	PL13	PL11	Other expenses-Chi lễ tân, khánh tiết
8695	PL13	PL11	Auditing ,inspection -Chi phí cho việc kiểm toán, thanh tra, kt
8699	PL13	PL11	Consultant fees-CHI THU LAO CHO TU VAN VIEN
8710	PL12	PL10	Depreciation assets -Chi khấu hao TSCĐ hữu hình
8720	PL13	PL11	Maintain fees Chi bảo dưỡng tài sản
8740	PL13	PL11	Tools Chi mua sắm công cụ lao động
8750	PL13	PL11	Insurance for cars-Chi bảo hiểm phương tiện vận chuyển
8760	PL13	PL11	Rental assets -Chi thuê tài sản
8827	PL14.2	PL07	Provision-Chi dự phòng đối với các cam kết đưa ra
8823	PL07	PL07	Provision loss on stocks-Chi dự phòng giảm giá chung khoán
8822	PL14.2	PL07	Provision general-CHI PHÍ DỰ PHÒNG CHUNG
8990	PL09	PL06	Other expenses -Chi phí khác-Chi thanh lý TS
8990		PL14	Income-expenses of other comprehensive Thu nhập – chi phí toàn diện

Source: Accounting Department of XYZ Bank

- ✓ Build new financial reporting formats and notes under IFRS and update new financial reporting systems for Bank's branches : *Income statement ; Financial position statement ; Statement of change in equity ; Cash flows statement (Appendix 1)*

**Stage 4:** Build IT systems, implemented IFRS financial statement conversion

Based on the analysis of VAS - IFRS differences and the accounting policies developed in the previous sections, XYZ Bank developed specific modules to calculate IFRS compliance adjustments. After calculating adjusted data of each part, XYZ bank prepared accounting entries in the system; Converge data review and adjustment entries before closing. The bank also build accounts mapping to make IFRS financial statements automatically in the system

Build data requirements in transactional systems and create accounting rules in accordance with IFRS (fair value measurement methods, allocation values and other adjustments under IFRS)

- Effective interest rates of assets and liabilities measure by amortized cost

Step 1: Build cash flows plan

Step 2: Determine effective interest rates

Step 3: Build spread sheet amortize cost

- Bonus and welfare fund

For purposes of presentation financial statements in accordance with IFRS, XYZ Bank has to conduct a periodic review of the nature of bonus and welfare fund in accordance with the criteria set out in the accounting policy

If the bonus and welfare fund is essentially an item of liability, XYZ Bank made appropriate accounting based on actual figures

- ✓ Build chart of accounts and reporting forms in the system

Based on IFRS reporting system and reporting formats developed in Step 3, install chart of account and report forms into the system. Simultaneously, mapping of accounts with each item on the IFRS financial statements is carried out, so that the system can automatically run IFRS reports according to user requirements.

Accordingly, when business transactions arises under VAS, these transactions will be entered into the system and be recorded in relevant accounts. From here, the system will be based on VAS account mapping to prepare financial statements under IFRS then the system is based on IFRS account mapping for preparation of pre-adjusted IFRS financial statements.

To complete financial reporting system under IFRS, accountant needs to add a list of entries to adjust differences between VAS and IFRS. These adjustment entries will be updated to the corresponding accounts on IFRS financial reporting module without affecting VAS financial reporting module .Financial reporting module

under IFRS will then automatically map accounts and add these adjustment entries to IFRS financial statements

- ✓ IFRS financial statements are generated by system automatically, included:  
Income statement; Financial position statements; Statement of change in equity; Cash flows statement

## VI. Result and Discussion

Analyzed case study “XYZ Commercial Joint-Stock Bank” conversion financial statements from VAS into IFRS. Furthermore, author worked, interviewed and discussed directly with Directors, CFOs, Chief accounts of some listed JSCs (converting IFRS financial statements) and directors/ senior auditors of the big-four international audit firms who direct/manage conversion financial statements into IFRS, the result showed that there are two main methods of conversion into IFRS financial statements 1/ Automatically generated IFRS Financial statements from system & 2/ Manual conversion method by supporting of senior manager auditor of big-four international audit firms at each yearend financial period and. The result of case studies also found that there are some impediments and challenges that Vietnam listed JSCs facing in conversion of their financial statements from VAS into IFRS, including:

- Currently, there are many significant differences between VAS and IFRS, some standards are not in accordance with actual conditions in Vietnam, Vietnamese Accounting Standards have not been updated with changes in the International Accounting Standards (IAS)/ International financial reporting standards (IFRS), the guiding circulars of Vietnam MOF are unclear, some conflicts between Circular and Accounting Standards
- Lack of accountants with IFRS knowledge. In addition, it’s needed using English for IFRS, this is one of barriers for Vietnamese accountants so it is easy to mislead when translating into other languages. Also, there are many English terms that do not have Vietnamese equivalent, especially in the field of accounting.
- Financial reporting formats of IFRS differs from VAS. IFRS requires two additional statements: equity change statement and other comprehensive income statement. Therefore, it requires proficiency and time to prepare IFRS well-formed and accurate financial statements.
- Costs of conversion and adopt IFRS is high such as cost of implementing information system, cost of hiring IFRS consultants, cost of training.
- Companies must develop a new governance reporting system based on IFRS financial reporting to support internal corporate governance and strategy

## VII. Suggestion

With the impediments and challenges in IFRS financial statement conversion of Vietnam JSCs as well as details of conversion financial statements accordance IFRS from XYZ bank and other listed JSCs -studied by author. Author suggest to enhance roles of Vietnam Government and listed JSCs on the Vietnam stock market in an effort to convert and adopt IFRS financial statements:

### ❖ Roles of Vietnam Ministry of finance :

The Vietnam Ministry of Finance need to analyze actual significant differences between VAS and IAS / IFRS in order to coordinate with other related ministries to adjust the standards to make it easier for Vietnam listed joint-stock companies in conversion financial statement from VAS to IFRS

Some Vietnamese accounting standards that have been issued but not yet in line with actual conditions in Vietnam, the Ministry of Finance needs the National Accountancy Council in conjunction with the professional organizations and the State Securities Commission to assess in detail the difficulties that listed joint stock companies are compiling financial statements under IFRS and then issuing clear guidelines to help these companies preparing better IFRS financial statements

### ❖ Roles of Viet Nam universities and accounting professional organizations

Vietnamese universities need to review subject of “international accounting”, improve teaching method in accounting, helping students understand natures of economic transactions rather than its principles. Lecturers in accounting have to be updated with changes of IFRS so students are updated and can apply IFRS when they graduate.

Faculty of accounting is required to work in conjunction with accounting experts and auditors of the big-four international audit firms KPMG, Price Water house, Ernst & Young and Deloitte for advisory, updating IFRS’s changes

Professional organizations need to organize their personnel, improve their expertise, including professionals, lawmakers, financial directors, chief accountants, auditing firms. Professional organization will be training place for managers, issuers of regimes, policies and practicing accountant & auditors. Professional organizations need to link with international professional organizations to improve their level, update international accounting trends, update changes and apply IFRS

### ❖ Roles of Company’s directors:

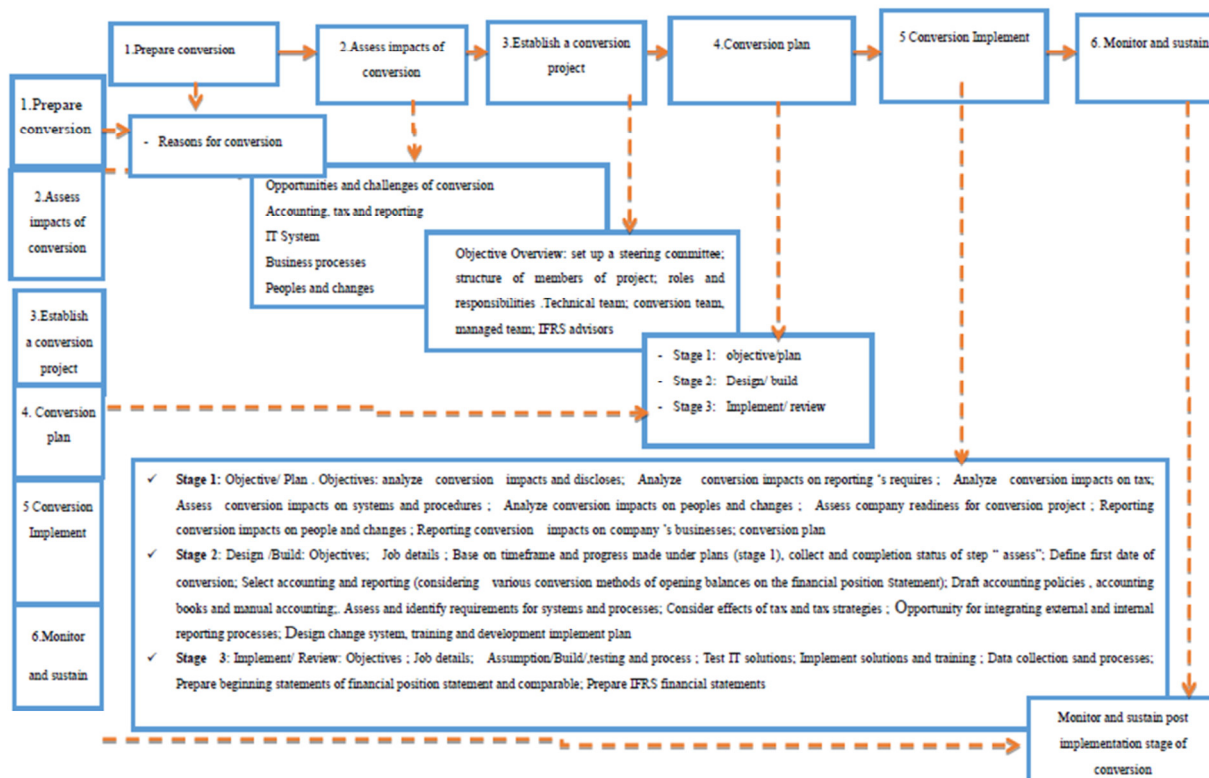
Vietnam Listed joint-stock company’s directors should support human resources as well as financial

resources to prepare conversion and adoption IFRS by training IFRS for accounts for senior managers/directors, building IT systems... need to comprehensive assessment of impact of conversion and application of IFRS to comprehensive planning

Author also suggest that Vietnam Listed JSCs need to establish an IFRS conversion project to have an overview of conversion processes financial statements from VAS into IFRS for Vietnam listed JSC (Conversion method: automatically generated IFRS Financial statements from system)

**Process overview for conversion of financial statement from VAS into IFRS : 6 stages**

- Stage 1: Prepare conversion -IFRS financial statements
- Stage 2 : Assess impacts of conversion -IFRS financial statements
- Stage 3: Establish a conversion project - IFRS financial statements
- Stage 4: Conversion plan - IFRS financial statements
- Stage 5: Conversion implement- IFRS financial statements
- Stage 6: Monitor and sustain post implementation stage of conversion- IFRS financial statements



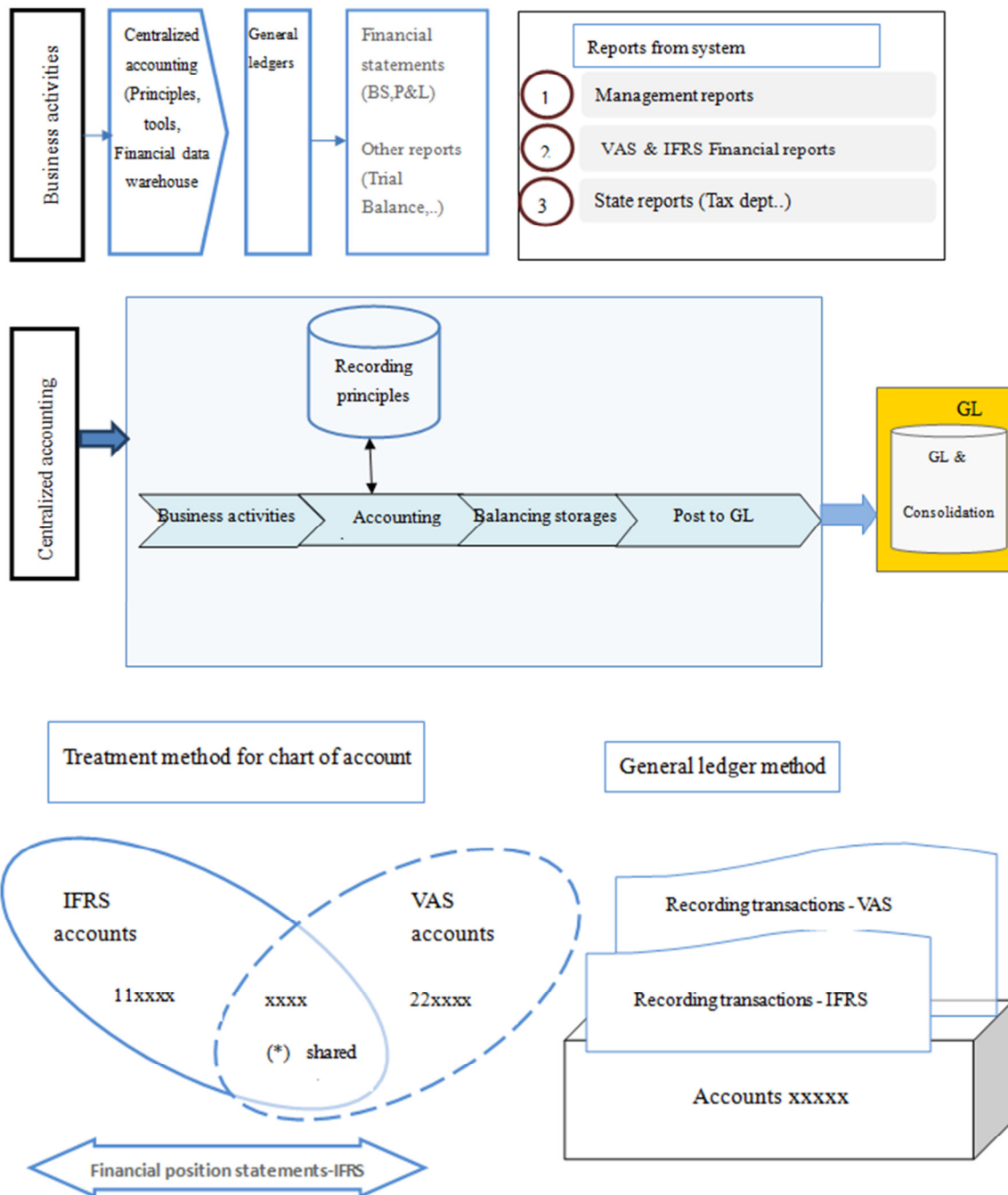
✚ Details of IT system (automatically generated IFRS Financial statements from system)

Based on accounting principles, accounting policies, chart of accounts are designed and approved, build automatically in recording entries following IFRS

Based on mapping chart of accounts following IFRS in the system for automatically preparing IFRS Financial statements



**Fig1 :** IT system (automatically generated IFRS Financial statements from system)



(\* shared accounts are not differences in recording between IFRS và VAS

Source: author complied

- ✓ Explaining processes of fig 1: automatically generated IFRS Financial statements from system
- 1. Business activities are input in the system and other supporting software / tools
- 2. Through accounting principles , accounting transactions are posted “ Centralized accounting” and then be transferred to general ledger
- 3. At the “ Centralized accounting”, once business transactions happened , based on accounting principles stored (accounting principle, accounting policies, chart of accounts ...) following VAS & IFRS will be integrated in the “Centralized accounting” previously entries treated under VAS & IFRS figures will be generated based on chart of accounting principle as the Fig1
- 4. After accounting entries are created under VAS & IFRS , the balance of each terms under VAS & IFRS will be saved and posted to the General ledger. End of day the sys automatically run to reconcile the date in balance
- 5. From the General ledger, based on mapping accounts created in the system, the system will be



automatically generated financial statements following VAS and IFRS accordingly

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13. <https://www.hnx.vn/>

**Appendix 1**

**Income statement**

	<i>Mã Mapping</i>	<i>2015 VND</i>	<i>2014 VND</i>
Interest and similar income	PL01		
Interest and similar expenses	PL02		
<b>Net interest and similar income</b>			
Fees and commission income	PL03		
Fees and commission expenses	PL04		
<b>Net fees and commission income/(expenses)</b>			
<b>Net (loss)/gain from foreign currency exchange</b>	PL05		
<b>Other expenses – net</b>	PL06		
<b>Total operating income</b>			
Net impairment losses on financial assets	PL07		
<b>Net operating income</b>			
Personnel expenses	PL08		
Operating lease expense	PL09		
Depreciation and amortization expenses	PL10		
Other operating expenses	PL11		
Total operating expenses			
<b>Profit before tax</b>			
Current income tax expense	PL12		
Deferred income tax income	PL13		
<b>Net profit for the year</b>			
<b>Other comprehensive income</b>	PL 14		
<b>Total comprehensive income</b>			

**Financial position statement**

	<i>Mã Mapping</i>	<i>31/12/2015 VND</i>	<i>31/12/2014 VND</i>
<b>ASSETS</b>			
Cash and balances with the State Bank	BS02		
Due from banks	BS03		
Loans to customers	BS04		
Financial investments - held to maturity	BS05		
Property and equipment	BS06		
Computer software	BS07		
Deferred tax assets	BS08		
Other receivables and assets	BS09		
<b>TOTAL ASSETS</b>			
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to and borrowings from banks	BS10		
Due to customers	BS11		
Derivatives	BS18		
Debts issued	BS12		
Other liabilities	BS14		
<b>TOTAL LIABILITIES</b>			
<b>OWNER'S EQUITY</b>			
Charter capital	BS15		
Reserves	BS16		
Retained earnings	BS17		
<b>TOTAL OWNER'S EQUITY</b>			
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>			

### **Cash flows statement**

	<i>Notes</i>	<i>2015</i>	<i>2014</i>
<b>OPERATING INCOME</b>			
Income from brokerage			
Advisory service fee income			
Revenues from custodian services			
Interest income			
Dividend income			
Net gain from financial assets at fair value			
Other incomes			
<b>TOTAL OPERATING INCOME</b>			
Commission expenses			
Personnel expenses			
Depreciation and amortization charges			
Other operating expenses			
<b>TOTAL OPERATING EXPENSES</b>			
<b>PROFIT BEFORE TAX</b>			
Current income tax expense			
Deferred income tax expense			
<b>PROFIT FOR THE YEAR</b>			
<b>BASIC EARNINGS PER SHARE</b> (par value: 10.000 VND/share)			
Basic earning per share (VND/share)			
Diluted earning per share (VND/share )			

### **Statement of change equity**

	<i>Charter capital</i>	<i>Statutory reserves</i>	<i>Retained earnings</i>	<i>Total</i>
	<i>VND million</i>	<i>VND million</i>	<i>VND million</i>	<i>VND million</i>
<b>Balance as at 1 January 2014</b>				
Total comprehensive income for the year				
Appropriation to reserves				
Transfers to the former owner				
<b>Balance as at 31 December 2014</b>				
Capital increase				
Total comprehensive income for the year				
Appropriation to reserves				
Other decrease				
<b>Balance as at 31 December 2015</b>				

Source : Accounting department of XYZ bank

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