Newsflash | December 2024

VAS versus IFRS: Battle of the Forms

As one of the particularities of the Vietnamese business environment, Vietnamese Accounting Standards (**VAS**) must be observed when operating a commercial entity in Vietnam. There are distinct discrepancies when compared to the widespread International Financial Reporting Standards (**IFRS**) and investors that operate businesses in Vietnam should be familiar with the core differences of the two systems. Especially multinational enterprises with Vietnamese operations customarily operate the two systems (VAS and IFRS accounting) in parallel, which enables them to match their offshore reporting templates and international best practices. While the Vietnamese administration has declared the mission to start the transition from VAS to IFRS, not much progress has been made since this announcement.

As the end of the year approaches, Luther Vietnam is pleased to introduce our readers to the latest newsflash that shall assist clients in their business process operations. At Luther Vietnam we take pride in helping foreign investors navigate Vietnam's legal landscape effectively, efficiently, and expeditiously. In addition to legal consultancy, we are confident that our experience and expertise in tax, accounting, and human resources related matters bring great value to our clients' businesses and allow them to unlock new efficiencies and opportunities in this exciting and fast-paced market.

This article is to give our readers a preview of the extremely important and relevant transition from the VAS to the more business-friendly adoption of the IFRS in the coming years. We are confident that our readers and clients will find valuable insights and guidance into these new and relevant accounting standard principles impacting all businesses. This is also a primer on the depth and diversity of Luther Vietnam's Business Process Outsourcing (BPO) offerings.

Our team remains committed to supporting and improving our clients' Vietnamese operations. In this mission, we always observe the latest developments and keep clients apprised of potential impacts on their businesses. Maintaining best practices in the domestic business environment by providing the best and most competitive BPO support services enables us to deliver excellent advice that you can always rely on.

We trust that you will find the contents of this publication informative and helpful.

Sincerely,

Leif D. Schneider
Counsel (Attorney-at-Law)
Country Head Vietnam

Thang Duong
Accounting Manager
BPO Executive

I. Comparison between VAS and IFRS

The below table breaks down the key differences between IFRS and VAS standards and helps you to understand what the reporting and recording requirements are according to each system.

Aspect	VAS	IFRS
Principles-based vs. Rules-based Approach	**Rules-based**: Applies rigid rules for evaluating and handling accounting issues.	**Principles-based**: Provides a flexible framework focusing on fundamental principles for financial reporting, allowing for adaptable evaluation and treatment.
Presentation of Financial Statements	**Standardised forms:** Companies reporting under VAS are required to apply the VAS chart of accounts and standard financial statements format, prescribed by Circular 200 issued by the Ministry of Finance in 2014, which are descriptive and inflexible. Financial statements are based on the following standard VAS financial statement format: ▪ A statement of financial position (balance sheet) at the end of the period. ▪ A statement of income. ▪ A statement of cash flows for the period. ▪ Notes attached to financial statements.	**Flexible format**: No mandatory forms, allowing companies to design financial statements to suit their business characteristics and needs.
Reporting currency	**Vietnamese Dong (VND)**: Requires the use of VND as the official reporting currency to the reporting authorities (with conversions disclosed in the notes).	**Various currencies**: Allows various reporting currencies (with conversions and exchange rates disclosed).
Minimum value threshold of fixed assets	**VND 30,000,000:** Fixed assets must meet the minimum value mentioned above.	**No specific guidelines**: There are no specific guidelines for minimum value threshold of fixed assets.
Measurement after initial recognition of P(roperty) P(lant)E(quipment)	Two accounting models: cost model and revaluation model.	Only allows cost models
Asset impairment	**No specific guidelines**: Does not provide explicit requirements for recognising asset impairment, mainly applying the historical cost principle.	**Impairment recognition**: Recognises impairment when the fair value is lower than the carrying amount, adjusting the carrying amount accordingly.

Aspect	VAS	IFRS
Revenue Recognition and Financial Reporting	**Flexibility**: Allows revenue recognition when risks and rewards are transferred, which can vary timing and result in less comparability.	**Stringent requirements**: Follows IFRS 15, which requires a detailed five-step process for recognizing revenue based on the transfer of control, ensuring consistency, and comparability.
Classification of leases	**Operating leases and finance leases:** For operating leases, the lessee only records the periodic rental as an expense incurred during the period. For finance leases, the lessee will record the financial lease assets and liabilities. The lessee will then allocate the financial lease assets and liabilities to the following period's reports.	**No longer distinguish between operating leases and financial leases:** A right-of-use asset and lease liability is recorded in the financial statements except for special cases.
Financial instruments	**Historical cost method**: Primarily records financial instruments at their original purchase price, providing simplicity and stability but potentially outdated valuations.	**Fair value approach**: Measures financial instruments at fair value, reflecting current market conditions and enabling better comparability across companies.
Consolidation and Investment Reporting	**Simplified approach**: Mandates consolidation with some exemptions; investments are often treated using a cost-based approach.	**Comprehensive consolidation**: Requires parent companies to present consolidated financial statements, emphasising control for consolidation, with investments in associates and joint ventures accounted for using the equity method.
Cash Flow and Taxation	**Less detailed reporting**: Cash flow statements are less detailed, with limited guidance on derivatives and changes in liabilities; bank overdrafts treated as bank loans.	**Detailed cash flow reporting**: IAS 7 requires comprehensive disclosure of cash flows, including changes in financing activities and clear classification of operational, investing, and financing activities.
Recognition and Measurement of Assets and Liabilities	**Historical cost**: Primarily uses historical costs, reflecting simplicity and safety but not current market value.	**Fair value**: Emphasises fair value for more accurate and reliable asset and liability valuation, guided by standards like IAS 16, IAS 38, and IFRS 9.
Capitalisation of borrowing costs	**Long-term assets:** The capitalisation of borrowing costs for only long-term assets is allowed	**No specific guidelines**: The qualifying assets for capitalisation necessarily take a substantial period of time to get ready for their intended use or sale, but there are no specific guidelines for this period.

II. Adopting IFRS in Vietnam

The government aims to make the transition to the IFRS by 2025 through a draft IFRS roadmap published in 2020. The roadmap divides the IFRS implementation into the following two phases:

- **Phase I:** Voluntary application period (from 2022 to 2025)
  Entities with demand and sufficient resources will apply IFRS in preparation of consolidated financial statements, such as parent entities that are state-owned enterprises, listed companies, large public entities, and 100 percent foreign-invested companies that are pre-approved by the Ministry of Finance.

- **Phase II:** Compulsory application (after 2025)
  After the voluntary period, enterprises are either subject to IFRS (compulsory consolidated financial statements and/or compulsory/voluntary separated financial statements) or compulsory adoption of the revamped Vietnam Financial Reporting Standards (VFRS) beginning in 2025.

III. Conclusion

The intricacies of the Vietnamese accounting system – while in transition towards IFRS – remain difficult to navigate. To ascertain compliance and smooth operations in Vietnam, investors must pay attention to the latest developments in this domain and advise their accounting staff to stay alert.

For any specific questions about what this means for your business, please contact Luther Vietnam's BPO team. We can share the latest updates, provide bespoke assistance, and customise our advice based on your specific needs.

As always, our team of experts is on hand to provide tailored advice to meet your unique needs. Do not hesitate to send an inquiry for further assistance and to start a conversation with one of our advisers.

Leif D. Schneider
Counsel / Foreign Lawyer
Country Head Vietnam
leif.schneider@luther-lawfirm.com

Quoc Vuong
Counsel / Foreign Lawyer
quoc.vuong@luther-lawfirm.com

Thang Duong
Accounting Manager / BPO Executive
thang.duong@luther-services.com

Thang Vu
Tax Advisor
thang.vu@luther-lawfirm.com

Quy Le
Vietnamese Lawyer, LL.M. (Toulouse)
quy.le@luther-lawfirm.com

Release: December 2024