

The reality of converting the financial statements from Vietnamese accounting standards to International financial reporting standards: the case of the Multinational corporations in Vietnam

¹Duc Tai Do, ²Manh Dung Tran, ³Van Luyen Le

¹University of Labor and Social Affairs, Vietnam

²National Economics University, Vietnam

³Banking academy, Vietnam

Abstracts: The main objective of this study was to identify, evaluate, and to measure the attributes of the conversion of financial statements from Vietnamese accounting standards (VAS) to International financial reporting standards (IFRS) in the multinational corporations (MNCs) in Vietnam. The study was based on a field survey using a semi-structured questionnaire on a sample of 200 accountants. But, only 170 filled questionnaires were satisfactory and therefore included in the analysis. By using several statistical analytical tools, i.e. descriptive statistics, Cronbach's Alpha analysis, Independent Ttest and ANOVA, the study has identified and measured six (6) attributes of the conversion of financial statements from VAS to IFRS. Based on the findings, some recommendations are given to improve the conversion of financial statements from VAS to IFRS.

Keywords: VAS, IFRS, financial statements, conversion

JED Class: M41, O15

I. Introduction

Internationally, MNCs are hailed as pioneers in researches and development of new technologies, as a force that accelerates the modernization of international relations and are the sources of hope for poverty reduction in Third World countries. The power of MNCs is also seen through the fact that MNCs are difficult to control. However, Critics argue think that MNCs are accused of depriving national budgets through internal transfer pricing, which is a sophisticated tax evasion method that host countries are difficult to control. MNCs are those who exploit underdeveloped countries, abuse human rights, pollute the environment, etc.

Presently, MNCs form two sets of financial statements for complying with Vietnamese accounting standards and IFRS or requirements from mother firms (Do & Tran, 2017).

Ernst & Young (2009) asserted that: Conversion and preparation of financial statements under IFRS bring many benefits for businesses such as:

(i) The financial statements prepared according to IFRS contain high quality and comparable information because IFRS is a widely accepted set of standards in the world and has been applied in over 130 countries around the world. (Statistics of International Technical Organization, May 2016). Transparency has improved because IFRS requires comprehensive disclosure of accounting policies, judgments, assumptions and accounting estimates when applying IFRS. Therefore, the level of financial statements transparency of the financial situation of the business has increased.

(ii) Contribute to promoting, attracting and mobilizing capital from foreign investors because the financial statements are prepared according to IFRS so that foreign investors can compare and evaluate financial information in the same language which is the international standard. Applying IFRS is one of the conditions for businesses to list bonds and shares on the international stock market because the international stock market requires financial statements to be compulsorily made according to IFRS.

(iii) Financial statements prepared under IFRS accurately and reasonably reflect the business and financial situation of the enterprise. Therefore, the financial statements prepared by IFRS will be very helpful for the board of management in making economic decisions, thereby contributing to improving the quality of corporate governance at all levels.

Vietnam is one of the countries in the world that have not forced businesses to apply IFRS. However, Vietnam has developed a roadmap and implemented IFRS application from voluntary to mandatory application.

From the above reasons, the study of the status of conversion of financial statements from VAS to IFRS is theoretical and practical.

II. Literature Review

In the world, there have been studies on conversion of financial statements from national accounting standards to IFRS, typically:

Elena et al. (2009) stated that: (i) Converting financial statements from national accounting standards to IFRS is a very important task of a company, conversion not only affects financial data but also affects all business activities of the company such as information systems and human resource training. Therefore, the preparation for converting the financial statements to IFRS is very important. (ii) There are many difficulties and challenges of IFRS conversion and application, which is an important change for companies in the US, requiring a preparation roadmap of managers, auditors and changes in processes and systems of the company. The authors have summarized the importance and challenges when converting and gave suggestions for converting the financial statements into IFRS.

Tsalavoutas et al. (2012) collected data of financial statements, surveyed more than 900 companies before and after applying IFRS to research about the conversion of financial statements to IFRS and affects that conversion has on the financial statements of Greece, research about the affect on the book value of capital and net income before and after IFRS application. The results show that there is no significant change in the regression value of the two periods, the book value of capital and net income before and after IFRS application are good, but the book value of capital is better when applying IFRS and there is evidence that there is a decrease in net income when using IFRS.

Kavitha (2014) synthesized and compared national accounting expertise and IFRS, analyzing the similarities and differences of financial statements indicators between IFRS and GAAP of India. These differences affect the profitability and financial position of the business. The author shows the importance of IFRS, the benefits and challenges of using IFRS in India, the need to switch to IFRS. According to the author, the accounting regulations should clearly see the impact on the assets and business performance of the business. In addition, this study presents the advantages and disadvantages of using IFRS in India as lack of manpower, there are many differences between national accounting standards and IFRS.

Smith (2015) surveyed 129 researchers and 127 accountants in the US to study the benefits and challenges of converting the financial statements into IFRS, in which the factors to analyze are the appropriateness of the transformation, benefits of conversion, challenges, conversion methods and differences. This study assesses the potential of IFRS conversion and application, the author compares the views of researchers and accountants on the transformation. However, converting the financial statements to IFRS requires time and conversion costs to design projects, processes and structures for conversion in the US as well as other countries and need to organize training for management, auditors and investors. Research results show that most people believe that converting to IFRS will bring high efficiency for developers, users, auditors and standard writers.

In Vietnam, Dinh (2013) made a research at Tan Tao Group, the author systematized the theoretical basis of VAS, IFRS, first converted to financial statements according to IFRS. The author uses qualitative research methods to evaluate and analyze preparation of separate and consolidated financial statements as well as orientations to convert to the financial statements in accordance with IFRS at Tan Tao Group; illustrating the process of converting financial statements from VAS to IFRS using specific data of Tan Tao Group. The author affirms that the difference between the VAS and IFRS affects the financial statements of the company. From there, the author proposes recommendations to adjust the VAS so that it can be easier to convert financial statements prepared under VAS to IFRS.

Nguyen (2015) illustrates the reality of converting the financial statements to IFRS at the Central Power Corporation through the conversion processes of establishing, classifying accounting differences, making accounting entries for differences, combining accounts presented on the financial statements. Recommendations mentioned by the author are to improve the Vietnamese accounting regime such as: Vietnamese accounting regulations should not conflict with the original standards, should focus on disclosing important information on the financial statements, supplementing some international accounting standards which are currently not yet promulgated.

This study is one of the first studies in Vietnam to convert the financial statements from VAS to IFRS in MNCs in Vietnam. So, the study presented in this paper examines the conversion of financial statements from VAS to IFRS because of three reasons:

- (i), Currently, Vietnam's economy is integrating with the world economy, More and more foreign investors are entering Vietnam.
- (ii), MNCs in Vietnam still have difficulty converting financial statements to IFRS.
- (iii), Vietnam's accounting system is changing a lot, the Ministry of Finance has developed a roadmap and implemented IFRS application in Vietnam.

III. Research Subject and Methodology

III.1. Research Subject

The subject of this research is financial statements in MNCs in Vietnam.

III.2. Qualitative Research Methodology

This research used a qualitative research methodology based on some in-depth interviews with three (3) lecturers with extensive experiences in accounting in MNCs of the National Economics University and University of Labor and Social Affairs. These are the two leading universities in Vietnam in training accounting. At the same time, three (3) experts were also interviewed who are chief accountants in MNCs. The contents of the interviews focused on the subject of converting the financial statements from VAS to IFRS's attributes.

Based on findings from a number of previous studies and findings from the interviews with those experts, this research has identified conversion the financial statements (CFS) in six (6) attributes as presented in Table 1 below.

Table 1. Attributes of converting the financial statements

Code	Scale	Sources
Conversion the financial statements (CFS)		
CFS1	There is a change in the presentation of financial statements when converting financial statements from VAS to IFRS	Elena et al. (2009), Smith (2015), Dinh (2013), Nguyen (2015), Experts agree
CFS2	Prepare the Statement of Owned Equity at the request of IFRS	Dinh (2013), Nguyen (2015), Experts agree
CFS3	Items on the balance sheet change when converting financial statements from VAS to IFRS	Elena et al. (2009), Tsalavoutas et al. (2012), Kavitha (2014), Dinh (2013), Nguyen (2015)
CFS4	Items on the Income statement change when converting financial statements from VAS to IFRS	Elena et al. (2009), Tsalavoutas et al. (2012), Kavitha (2014), Dinh (2013), Nguyen (2015)
CFS5	Items on the Cash Flow statement change when converting financial statements from VAS to IFRS	Elena et al. (2009), Tsalavoutas et al. (2012), Kavitha (2014), Dinh (2013), Nguyen (2015)
CFS6	The degree of changes in explanation and provision of information on the notes of financial statements when converting financial statements from VAS to IFRS	Elena et al. (2009), Tsalavoutas et al. (2012), Kavitha (2014), Smith (2015), Dinh (2013), Nguyen (2015)

III.3. Quantitative Research Methodology

For the purpose of this research, a questionnaire was designed which consisted of six (6) variables with a 5-point Likert scale from 1: "Strongly disagree" to 5: "Strongly agree". The method of data collection was accomplished through the survey with a number of accountants in MNCs in Vietnam. A total of 200 questionnaires were sent and received the filled questionnaires with full information for data entry and analysis from 170 respondents. The size of this sample was consistent with study of Hair et al. (1988) that the research sample must be at least 5 times the total number of indicators in the scales. The questionnaire of this study included six (6) indicators, and therefore, the minimum sample size to be achieved is $5 * 6 = 30$ observations.

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Then, data from these 170 questionnaires was cleaned and coded with the necessary information in the questionnaires, inputted the analyzed by using SPSS23.

The steps of data analysis were as follows:

- (i). Descriptive statistics
- (ii). Cronbach's Alpha to assess the reliability of the scale, and
- (iii). Independent T-test and ANOVA

IV. Research Results

IV.1. Descriptive Statistics

Table 2. Respondents by Gender, Job Description, Work Experience

	Frequency	Percent	Cumulative Percent
Gender			
Male	35	20.6	20.6
Female	135	79.4	100.0
Job description			
General accountants	59	34.7	34.7
Chief accountants	34	20.0	54.7
Accounting staff	77	45.3	100.0
Work experience			
Over 4 years	98	57.6	57.6
To 4 years	72	42.4	100.0
Total	170	100.0	

Table 2 shows that among the 170 respondents, about 20.6% were male while the remaining 135 (79.4%) were female. Among the respondents, accounting staffs accounted for 45.3%, general accounting accounted for 34.7%, while the remaining 20.0% or 34 respondents were chief accountant. Of these, 42.4% of the participants have work experiences for 4 years or less, and over 4 years accounted for 57.6%.

Table 3. Descriptive analysis of attributes of converting the financial statements

	N	Minimum	Maximum	Mean	Std. Deviation
Conversion the financial statements (CFS)					
CFS1	170	2.0	5.0	4.071	.7263
CFS2	170	2.0	5.0	3.976	.7374
CFS3	170	2.0	5.0	4.006	.7418
CFS4	170	2.0	5.0	3.918	.7951
CFS5	170	2.0	5.0	4.071	.7263
CFS6	170	2.0	5.0	3.976	.7374
Valid N (listwise)	170			4.003	

Table 3 indicates that the respondents agree with the dependent variables of "conversion the financial statements", where six (6) attributes were quite high with an average of 4.003 compared with the highest of the Likert 5-point scale.

All these six (6) attributes were rated at an average of 3.918 or higher.

IV.2. Cronbach's Alpha

Conversion the financial statements has been measured by the Cronbach's Alpha. Results of testing Cronbach's alpha of attributes are presented in Table 4 below.

Table 4. Results of Cronbach's Alpha Testing of Attributes

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Conversion of financial statements from to IFRS: .805				
N of Items: 6				
CFS1	19.923	7.107	.640	.759
CFS2	20.018	7.148	.615	.765
CFS3	19.982	7.565	.486	.794
CFS4	20.077	7.667	.412	.802
CFS5	19.923	7.107	.640	.759
CFS6	20.018	7.148	.615	.765

The results also show that attributes of the dependent variables have Cronbach's Alpha coefficients that are greater than 0.6, and the correlation coefficients of all attributes are greater than 0.3. So, all the attributes of the dependent variables are statistically significant (Hoang and Chu, 2008; Hair et al, 2009).

IV.3. Independent T - test

Comparison of the results of the evaluation of converting the financial statements to 4 years work experience with those over 4 years can be seen in Table 5.

Table 5. Differences of converting the financial statements between participants to 4 years work experience and over 4 years -Independent Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
CFS	Equal variances assumed	1.924	.167	1.008	168	.315	.08324	.08260	-.07982	.24630
	Equal variances not assumed			1.029	162.995	.305	.08324	.08090	-.07651	.24299

According to the results shown in Table 5, Sig Levene's Test is 0.167, which is more than 0.05. The variance between the two to 4 years work experience and over 4 years is not different. Moreover, Sig value T-Test = 0.315 > 0.05, which means that there is, statistically, no significant difference in the level of converting the financial statements from these different work experiences (Hoang and Chu, 2008).

VI.4. ANOVA analysis

ANOVA test was needed to make a comparison of the results of the evaluation of converting the financial statements between the three subjects, including accounting staff, general accounting and chief accountant.

Table 6: Test of Homogeneity of Variances

CFS

Levene Statistic	df1	df2	Sig.
.115	2	167	.891

Table 6 shows that Sig Levene Statistic of 0.891 is more than 0.05, which means that the hypothesis of homogeneity variance among the variable value groups (different job descriptions) has not been violated.

Table 7: Anova

CFS

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.029	2	.015	.051	.950
Within Groups	47.830	167	.286		
Total	47.860	169			

Table 7 shows that, Sig. = 0.950 is more than 0.05, which indicates that there is no, statistically, significant difference in the level of converting the financial statements between the mentioned three groups of job descriptions (Hoang and Chu, 2008).

V. Discussion and administration implications

V.1. Discussion

In Vietnam, there are regulations and guidelines for the conversion of financial statements from VAS to IFRS. However, there have not been many studies measuring the dependent variable "conversion of financial statements from VAS to IFRS (CSF)".

The conversion of financial statements to IFRS is necessary and compulsory for MNCs in Vietnam.

There are different levels of change when converting items on the financial statements from VAS to IFRS. Successful conversion of financial statements into IFRS of MNCs depends on whether the company fully implemented the changes according to IFRS financial reporting requirements.

Currently, there are two forms of financial statements conversion from VAS to IFRS: (i) manual conversion: the conversion of financial statements is done at the end of each financial year when the auditing data of financial statements is available according to VAS; direct conversion is exercised by chief accountant and general accountant at the company. (ii) Automatic conversion: The conversion of financial statements is done by preparing two sets of financial statements in accordance with VAS and IFRS, time for conversion is continuous during the year, direct conversion is exercised by accounting department (from accounting staff to chief accountant). Financial statements are converted and prepared in accordance with IFRS so as to provide for foreign investors, parent companies.

The process of converting financial statements from VAS to IFRS manually is done through the following steps:

Step 1: Compare the differences between IFRS and VAS, compare the accounting policies under IFRS related to the financial statements of the company.

Step 2: Merge / Separate items on the balance sheet (financial statement) (Assets, liabilities, owner's equity), income statement (turnover, expenses) prepared according to VAS in order to present in accordance with IFRS's preparation and presentation of financial statements.

Step 3: After obtaining the auditing results in accordance with VAS, making accounting adjustments different from IFRS on measurement of impact on the balance sheet (financial statement), income statements and Cash Flow statement at the date of conversion according to each item.

Step 4: Adjust and supplement the notes of financial statements as required by IFRS.

Step 5: Prepare the financial statements according to IFRS including balance sheet (financial statement), income statement, Cash Flow statement, the notes of financial statements and Statement of Owned Equity.

V.2. Administration implications

In parallel with the proposal of applying IFRS in enterprises, the Ministry of Finance should complete specific regulations to guide enterprises in general and MNCs in Vietnam in particular to convert financial statements from VAS to IFRS. These regulations include: assessing the overall impact of the conversion and providing specific instructions on how to convert each item on the financial statements, presenting the financial statements.

For MNCs in Vietnam: MNCs in Vietnam who are transforming financial statements from VAS to IFRS need to review the conversion process, transformation steps, then assess the advantages and disadvantages to be promoted for the next

transition. In addition, MNCs in Vietnam need to develop internal circulating documents for the conversion of financial statements from VAS to IFRS.

For universities with specialized accounting training, other training institutions: Need to review, change, rebuild and perfect the training program on IFRS, help accounting students and accountants with more in-depth knowledge, update on IFRS as well as knowledge of converting financial statements from VAS to IFRS.

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