

STANDARD 01: FRAMEWORK

Description	Vietnamese Accounting Standards (VAS) issued under Decision 165/2002/QĐ-BTC dated 31 December 2002	Current Accounting Regulations (CAR) issued under Decision 1141TC/QĐ/CDKT dated 1 November 1995
<p>Objective</p> <p><i>The International Accounting Standards Board (IASB) assumes that Framework should not be seen as a separate standard. Rather it is a set of underlying concepts and principles providing guidelines based on which to regulate accounting standards issued and to be issued.</i></p>	<p>Standardizing underlying concepts, principles and setting forth basic financial reporting requirements so as to:</p> <ul style="list-style-type: none"> ▪ set a ground for developing and improving standards to be issued; ▪ Leading to an uniform manner in which to keep accounts and prepare financial statements; and ▪ assist users of financial information in assessing the relevance of financial statements. 	<ul style="list-style-type: none"> • The CAR adheres to fundamental accounting concepts and principles (set out in the VAS) for the accounting and reporting purposes of enterprises. However, the CAR fails to define or standardize such accounting concepts and principles in further details. As a result, accounting guidance deals only with particular class of transactions and respective circumstances.
<p>Scope of Application</p>	<ul style="list-style-type: none"> • The underlying principles and requirements and the financial statement elements set out in the VAS are specially prescribed in individual standards and applied to <u>enterprises of all economic sectors nation-wide.</u> • The VAS serves as a framework and a basis for developing individual standards based on which to address matters arising in circumstances. If the topics have yet to form the subject of an accounting standard, the framework will prevail (or a new standard is required) 	<ul style="list-style-type: none"> ▪ The CAR also applies to <u>enterprises of all business types and economic sectors.</u> However, as may be required under the implementation process and depending on the type of business, the MOF would provide specific instructive documents, such as accounting regulations applicable to the banking, insurance services; electricity and aviation industries etc, which were updated and improved on a continued basis.

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<p>Contents of the VAS</p>	<p><u>The 7 underlying concepts and principles</u> for financial reporting purpose are:</p> <ul style="list-style-type: none"> • Accrual Basis • Going Concern • Historical Cost • Matching Principle • Consistency • Prudence • Materiality <p>In addition, <u>6 requirements</u> are prescribed concerning financial information disclosure:</p> <ul style="list-style-type: none"> • Integrity • Objectivity • Completeness • Timeliness • Understandability • Comparability <p><i>These fundamental requirements on presenting financial information have almost met all the criteria of understandability, transparency, openness and accessibility and controllability required in favor of the users</i></p>	<p>The CAR does not present such concepts but uses them to account for particular cases involving certain class of transactions.</p> <p>The CAR does not properly address such requirements as in the VAS.</p>

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<p><i>Basic elements of financial statements</i></p>	<p>The VAS <u>defines requirements</u> on the elements of financial statements (without specific guidance for each account balance or financial reporting formats or methods), as follows:</p> <ul style="list-style-type: none"> ▪ <i>Financial statements present the entity's financial position and performance results by grouping business, financial transactions into elements according to their economic characteristics.</i> ▪ <i>The elements directly related to the measurement of the financial position in the balance sheet are assets, liabilities and equities.</i> ▪ <i>The elements directly related to the measurement of performance results in the income statement are revenues, other incomes, expenses and profits.</i> ▪ <i>In determining items of the financial statements elements, attention needs to be given to its ownership title and economic reality to Disclose/Not disclose these items in the financial statements and to how to disclose these items (applying 7 principles and 6 requirements).</i> 	<p>The SAV provides <u>specific guidance</u> in terms of account types, accounting procedures and reporting formats.</p> <p><i>Detailed instructions on formats and preparation.</i></p> <p><i>Detailed instructions on formats and preparation.</i></p> <p><i>Detailed instructions on formats and preparation.</i></p> <p><i>Detailed instructions on formats and preparation.</i></p>
<p><i>Definition of some basic elements in the financial statements</i></p>	<p>The VAS presents <u>comprehensive definitions</u> of the following basic elements in the financial statements:</p> <ul style="list-style-type: none"> ▪ <i>Assets</i> ▪ <i>Liabilities</i> ▪ <i>Equities</i> ▪ <i>Revenues and other incomes</i> ▪ <i>Expenses</i> 	<ul style="list-style-type: none"> ▪ <i>The CAR also provides some definitions of financial statement elements; however, these definitions are not broadly used and just limited to specific cases.</i>

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<p><i>Conditions under which to recognize financial statement elements</i></p>	<p>The VAS defines the following key conditions for recognizing financial statement elements:</p> <ul style="list-style-type: none"> ▪ <i>It is probable that any future economic benefit associated with the item will flow to or from the enterprise; and</i> ▪ <i>the item has a cost or value that can be measured with reliability.</i> <p><i>The VAS clarifies that these conditions are required in accordance with the above accounting principles.</i></p>	<p>The CAR also deals with specific cases for each class of transactions.</p>
<p><i>Note on applying VAS 01 in preparing financial statements for 2003</i></p>	<ul style="list-style-type: none"> • <i>VAS 01 provides guidance on underlying accounting principles and requirements of general nature. In practice, for its use in connection with other standards, the MOF would introduce relevant accounting standards or issue guiding circulars. In the absence of such a standard or circular, VAS 01 should be appropriately applied in preparing financial statements.</i> • <i>In the absence of specific guidance and in the context of accounting treatment involving a number of principles and concepts set out in VAS01, considerations should be given as to what principle to apply that best suits the requirement under the circumstances.</i> • <i>In the event that application of VAS 01 results in a change to the accounting policies or significant impacts on the financial information and business results of a period as compared to the prior year, such change should be disclosed in the note to the financial statements.</i> 	

STANDARD 02: INVENTORIES

Description	VAS issued under Decision 149/2001/QĐ-BTC dated 31 December 2001	CAR issued under Decision 1141 TC/QĐ/CDKT dated 1 November 1995
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Description	VAS issued under Decision 149/2001/QĐ-BTC dated 31 December 2001	CAR issued under Decision 1141 TC/QĐ/CDKT dated 1 November 1995
Inventory Costing	<ul style="list-style-type: none"> ▪ Inventories are measured using one of the following methods: <ul style="list-style-type: none"> • Specific identification; • Weighted average (established at each receipt or at month and quarter-end); • First-in, first-out; • Last-in, first-out. 	<ul style="list-style-type: none"> ▪ Similar to VAS
Net Realizable Value	<ul style="list-style-type: none"> ▪ Net realizable value is the estimated selling price of inventory in the normal course of business less (-) the estimated costs of completion and the estimated costs necessary to make the sale. ▪ Estimates of net realizable value of inventories are based on: <ul style="list-style-type: none"> • The most reliable evidence available at the time of estimation; • Subsequent events after balance sheet date; and, • The objective of reserving inventories (raw materials, supplies and tools, goods). 	<ul style="list-style-type: none"> ▪ Net realizable value represents the sellable price of inventories. ▪ No detailed guideline

Description	VAS issued under Decision 149/2001/QĐ-BTC dated 31 December 2001	CAR issued under Decision 1141 TC/QĐ/CDKT dated 1 November 1995
Provision for Inventory	<ul style="list-style-type: none"> ▪ This is under the principle that assets should not be carried in excess of amounts expected to be realized from their sale or use. ▪ Where, by the year-end, the net realizable value of inventories is lower than cost. ▪ Inventories are written down to the net realizable value on an item by item basis. ▪ Differences between net realizable value and cost of inventories are dealt with as Cost of goods sold. ▪ Where provisions were made in the prior year, differences between the amount provided for the current year and that made in prior year shall be debit or credit to Cost of goods sold. 	<ul style="list-style-type: none"> ▪ Provision would help cover loss likely to incur in the planned year and preserve legal capital. ▪ Similar to VAS ▪ No detailed guidelines. However, Circular 107/2001/ TT-BTC of 31/12/2001 provides guidance similar to VAS. ▪ Provision is accounted for as part of Administration expenses, only to the extent of the difference between net realizable value and cost. ▪ If the amount provided for the current year is in excess of that made made the prior year, the excess is charged to administration expenses ; otherwise, reversal is required and extraordinary income is credited.
Recognition of Expense	<ul style="list-style-type: none"> ▪ The cost of inventories sold should be recognized as Cost of goods sold to match with related revenue. ▪ Provisions additionally made, any deficient or loss less (-) personal compensation and unallocated overheads are recognized as Cost of goods sold. ▪ Reversal of inventory provision is offset against Cost of goods sold. 	<ul style="list-style-type: none"> ▪ No specific guideline

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Disclosure	<p>The financial statements should disclose:</p> <ul style="list-style-type: none"> ▪ Policies adopted in measuring inventories and determining the costing method; ▪ Cost of total inventories and of each category appropriately classified by the entity; ▪ The amount provided against inventory decline; ▪ The amount of provision reversal; ▪ The circumstance or events that lead to the addition or reversal of inventory provision; ▪ The carrying amount of inventories (cost less (-) provision for inventory) pledged as security for liabilities. <p>Where inventories are determined using the last-in, first-out method, the financial statements should disclose the difference between the amount of inventories on the balance sheet and either:</p> <ol style="list-style-type: none"> 1. the lower of closing inventories determined under first-in, first-out or weight average methods and net realizable value; 2. the lower of the current value of closing inventory at the balance sheet date and net realizable value. 	<p>Disclosures are as required <u>under Decision 167/ 2000/ QĐ-BTC of 25/10/2000</u>, under “Notes to the Financial Statements”.</p> <p><u>Inventory accounting methods:</u></p> <ul style="list-style-type: none"> - Inventory costing - End-of-period inventory costing - Accounting for inventories - Making and reversal of provisions <ul style="list-style-type: none"> ▪ No guidelines ▪ No guidelines

Standard 03: tangible fixed assets

Description	VAS issued under Decision 149/2001/QD-BTC dated 31 December 2001	CAR issued under Decision 1141 TC/QD/CDKT dated 1 November 1995 (Decision 166/1999 -BTC dated 30 December 1999)
Recognition of Tangibles	<p><u>An item is recognized as a tangible fixed asset if concurrently meeting four criteria:</u></p> <ul style="list-style-type: none"> ▪ <i>It is probable that future economic benefits associated with the asset will flow to the enterprise;</i> ▪ <i>The cost of the asset to the enterprise can be measured reliably;</i> ▪ <i>The estimated useful life is greater than one year; and</i> ▪ <i>It meets the value criteria under the prevailing regulations.</i> 	<p>A fixed asset qualifying as fixed asset should meet these criteria:</p> <ul style="list-style-type: none"> ▪ <i>No definition</i> ▪ <i>No specific guideline (implicit understanding)</i> ▪ <i>Having useful time of over one year</i> ▪ <i>Costing VND5m and higher</i>

Description	VAS issued under Decision 149/2001/QĐ-BTC dated 31 December 2001	CAR issued under Decision 1141 TC/QĐ/CDKT dated 1 November 1995 (Decision 166/1999 -BTC dated 30 December 1999)
Initial Measurement of Tangibles	<p><i>Tangibles should be measured at their cost. Determination of their cost counts on the circumstances:</i></p> <ul style="list-style-type: none"> ▪ <i>Purchased tangibles, which include:</i> <ul style="list-style-type: none"> • Its purchase price (-) trade discounts and rebates; • Taxes, not including refundable taxes such as input VAT deductible); • Any costs directly attributable to bringing the asset to working condition for its intended use; • Installation costs less (-) recoverable value earned from installing work and running test; and, • Expertise fees and other directly related costs. ▪ <i>For building, structure purchased together with land use rights, the value of land use rights shall be separately recognized as an intangible asset.</i> ▪ <i>No guidance is prescribed concerning “Borrowing costs” incurred in connection to tangibles purchased or constructed in the VAS (but in VAS “Leases” issued under Batch 2).</i> ▪ <i>For “interest expenses” incurred an installment sale (on credit term), the interest amount (difference between total payable and the price for cash payment) is proportionally charged to expense over the installment period, unless it is capitalized in accordance with VAS “Borrowing Costs”.</i> ▪ <i>The cost of self-constructed or produced tangibles includes:</i> <ul style="list-style-type: none"> • the cost of constructing or making the asset plus (+) installation and test running costs. • In the case an entity uses its products as tangible fixed assets, the cost of these items comprises the production cost and any cost directly attributable to bringing the asset to working condition for its intended use. • <i><u>In the above cases, no profits internally earned can be included in the cost of the asset.</u></i> • Cost of abnormal amounts of wasted materials, labor, or other resources incurred 	<ul style="list-style-type: none"> ▪ <i>A purchased fixed asset is:</i> <ul style="list-style-type: none"> • similar as defined in the VAS • similar as defined in the VAS • Not explicitly defined, but supported with a list of relevant expenses. • Not specified • Not specified ▪ <i>Interest expenses incurred for investment in tangibles are charged to their cost effective from the date of borrowing to the date prior to putting the assets to use.</i> ▪ <i>No specific guideline</i> ▪ <i>Cost of self-constructed and produced fixed assets is as follows:</i> <ul style="list-style-type: none"> • Basically, it is similar to VAS ; however, internally earned profits from such self-construction is included in the cost of these tangibles. <p>Similar to VAS. It is specifically prescribed in regulations governing</p>

Description	VAS issued under Decision 149/2001/QD-BTC dated 31 December 2001	CAR issued under Decision 1141 TC/QD/CDKT dated 1 November 1995 (Decision 166/1999-BTC dated 30 December 1999)
Expenditure Subsequent to Initial Recognition	<p>These expenditures should be added to the carrying amount of the asset when:</p> <ul style="list-style-type: none"> ▪ It is probable that such expenditures will increase future economic benefits from the use of the asset; and ▪ These expenditures can be restored from the use of these assets in the future. <p>· Expenditure on repairs or maintenance of tangibles (<u>to keep them in order</u>) is directly recognized or allocated to the period's expenses.</p>	<p>Such items should be added to cost if:</p> <ul style="list-style-type: none"> ▪ They help prolong useful life, increase productivity and improve usefulness of the asset; ▪ The VAS stresses on the certainty of increasing future economic benefit from the use of such assets, resulting from expenses incurred after recognition of these tangibles. ▪ Similar to VAS.
Depreciation and Methods	<p>The VAS specifies three (03) depreciation methods:</p> <ul style="list-style-type: none"> · Straight -line method; · Diminishing balance method; and, · Unit of production method <p>Depreciation method in use should be relevant to the <u>economic benefits</u> that the assets bring to an enterprise.</p>	<p>Only straight-line method is permitted using the fixed rates (for brand-new items).</p>
Review of Useful Life	<p>The useful life of a tangible fixed asset should be reviewed periodically – normally at the year-end. <u>If there is any significant difference, depreciation charge should be adjusted.</u></p>	<p>Similar to VAS; however, under the CAR, the entity is not required to make explanatory notes on any change in the financial statements.</p>
Review of Depreciation Method	<p>Depreciation methods applied to tangibles should be reviewed periodically – normally at the year-end.</p> <p>The method used for an asset is consistently applied from one period to another <u>unless there is a change in the expected pattern of using that asset for the entity's economic benefit</u>, to which extent the method and the depreciation rate can be adjusted for the current year and thereafter and should be disclosed in an explanatory notes.</p>	<p>The CAR is silent about the review of depreciation methods applied and only permits the use of straight-line method. (cf. the straight-line method, the diminishing balance method and the unit of production method allowed under the VAS)</p>

STANDARD 04: INTANGIBLE ASSETS

Description	VAS issued under Decision 149/2001/QĐ-BTC dated 31 December 2001	CAR issued under Decision 1141TC/QĐ/CDKT dated 1 November 1995
Definition	<ul style="list-style-type: none"> ▪ An intangible asset is an identifiable asset without physical substance but can be measured which is held for use in the production or for rental to others and satisfies the recognition criteria of tangible fixed assets. (06) <p>Intangible assets should be those eligible to be recognized as intangibles in financial statements.</p>	<ul style="list-style-type: none"> ▪ No definition. <p>Intangible assets are assets without physical substance, representing part of the investment directly attributed to a number of operating periods (Article 22 of Decision 166)</p>
Recognition	<p>An item is recognized as an intangible asset if it meets all the following:</p> <ul style="list-style-type: none"> ▪ The definition of an intangible asset; and ▪ The four (04) recognition criteria below: <ul style="list-style-type: none"> - <i>It is probable that the future economic benefits attributable to the asset will flow to the enterprise;</i> - <i>The cost of the asset can be measured reliably;</i> - <i>The estimated useful life is over one year;</i> - <i>Its value is over VND5m.</i> 	<p>Intangibles represents actual costs incurred by the entity satisfying the following:</p> <ul style="list-style-type: none"> - <i>Having useful life of over one year.</i> - <i>Having a cost of VND5m or higher.</i> - <i>Not capable of constituting a tangible fixed asset.</i>
Cost Recognition	<p><u>The VAS provides guidance for recognizing cost of intangible as follows:</u></p> <ul style="list-style-type: none"> ▪ Intangibles acquired separately ▪ Intangibles formed up from business combination if recognition criteria are met ▪ Intangible asset representing land use rights over a definite term <p>If acquired together with buildings or structures on it, the land use rights shall be separately defined and recognized as intangibles.</p>	<ul style="list-style-type: none"> ▪ Similar to VAS ▪ No specific guidelines ▪ Guidelines on costs of land use <p>The CAR is silent in this connection. However, Circular 89/2002/TT-BTC provides guidance for accounting for land use rights together with property built thereon, to which case, land use rights should be separately recorded.</p>

Description	VAS issued under Decision 149/2001/QĐ-BTC dated 31 December 2001	CAR issued under Decision 1141TC/QĐ/CDKT dated 1 November 1995
	<ul style="list-style-type: none"> ▪ Intangibles acquired by way of government grant or donation. ▪ Intangibles acquired by exchanges of assets ▪ Internally generated goodwill (an item that is not recognized as an intangible asset) ▪ Internally generated intangible assets, such as development costs, if meeting the following criteria: <ol style="list-style-type: none"> 1) <i>Technical feasibility would ensure completing the asset and putting it into use;</i> 2) <i>The entity intend to complete the asset for operation;</i> 3) <i>The entity has ability to use or sell the asset;</i> 4) <i>The asset will generate probable future economic benefits;</i> 5) <i>The entity has adequate technical, financial and other resources to complete the development and to use or sell it;</i> 6) <i>It can measure the expenditure attributable to the asset during its development reliably; and,</i> 7) <i>It complies with current regulation of value and useful life for intangibles.</i> 	<ul style="list-style-type: none"> ▪ The CAR provides no specific guideline. However, Circular 89/2002/TT-BTC provides an accounting method whereby to recognize their cost as other incomes. ▪ The CAR provides no specific guideline. However, Circular 89/2002/TT-BTC provides an accounting method thereon (see Circular attached) ▪ Expenses on goodwill ▪ The CAR is silent in this connection
Recognition and Initial Measurement	Cost of intangibles includes all expenses paid by the entity to acquire an asset and put it to use (sale or lease).	<ul style="list-style-type: none"> ▪ Similar to VAS

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	<p>The VAS provides guidance for particular cases:</p> <ul style="list-style-type: none"> ▪ Cost of intangibles acquired separately comprises purchase price less (-) trade discounts and rebates, taxes and any expenditure directly attributable to preparing the assets for intended use. ▪ If intangibles are acquired in a business combination that is an acquisition, their cost is based on their fair value at the acquisition date. ▪ Cost of internally generated intangibles includes all expenditures incurred from the date when the assets first meet the definition and recognition criteria until they are put into operation previous expenditure is recognized as expense when incurred. 	<ul style="list-style-type: none"> ▪ Similar to VAS ▪ Similar to VAS ▪ No specific guidelines
Expenses not Qualifying as Intangibles	<ul style="list-style-type: none"> ▪ Expenses incurred to provide future economic benefits to an entity, namely, start-up costs, staff training costs, advertising and promotional costs incurred in the start -up phase, expenditures in the research process and for relocating of the entity are recognized as expense in the period or deferred over maximum 3 years. 	<ul style="list-style-type: none"> ▪ No specific guidelines. However, entities keep allocating these items to expenses over a period not exceeding 3 years.
Subsequent Expenditure	<p>Subsequent expenditure on intangibles after initial recognition should be recognized as an expense as incurred except when the following criteria are met:</p> <ul style="list-style-type: none"> ▪ <i>It is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and,</i> ▪ <i>This expenditure can be measured and attributed to the asset reliably.</i> 	<p>The CAR is silent in this connection</p>

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Disclosure	<p>Intangibles are to be disclosed as follows:</p> <ul style="list-style-type: none"> ▪ On the balance sheet: Intangibles are stated at cost, accumulated amortization and net book value. ▪ The following are disclosed in the notes to the financial statements: <ul style="list-style-type: none"> - Costing method - Amortization method: useful lives or amortization rates - Cost, accumulated amortization and net book value at beginning and end of period; - Reasons for changes made to intangibles, such as cost, amortization method, and useful lives. Also reasons for amortization at rates other than provided. - Commitments on intangible disposals and acquisition having larger value in future. 	<ul style="list-style-type: none"> ▪ Similar to VAS ▪ The CAR is silent in this connection. <p>However, in the explanatory notes, entities would disclose intangible assets in terms of cost, accumulated depreciation (opening and closing), additions and disposals (for the year) concerning each group of intangibles.</p>
<i>Note on applying VAS 04 in preparing financial statements for 2002 and 2003</i>	<ul style="list-style-type: none"> • <i>Policies adopted for intangibles should be stated in terms of the qualification of an intangible asset, years of amortization, historical cost, accumulated amortization and net book value. Assessment should regularly conducted as to the flow of future economic benefits to ensure that such items meet the qualifications as intangibles; otherwise they should be charged to expenses.</i> • <i>For first-time application of VAS 04 (2002) thereby accounting policies (estimates) are changed, measurement is required of impacts of the VAS application on the entity's financial position and operating results as to the quantitative and qualitative aspects.</i> 	

Description	VAS issued under Decision 165/2002/QD-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QD/CDKT dated 1 November 1995
<p><i>Finance lease and operating lease distinguished under the VAS</i></p>	<ul style="list-style-type: none"> • <u>Finance and operating leases are reclassified based on the extent to which risks and rewards incident to ownership of a leased asset lie with the lessor or the lessee.</u> • <u>Accordingly, a lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership.</u> • Under the VAS, a lease is a finance lease if falling into either of the following cases: <ul style="list-style-type: none"> ⇒ Upon the lease expiry, the lessee is given the title of the leased asset or continues the lease as agreed with the lessor. or, ⇒ The lease term occupies most of the asset's economic life even without a transfer off title. • The VAS specifies cases where leases are not financing lease but operating leases (no transfers of the major part of risk and economic benefits related to ownership of the asset). The VAS, therefore, provides no fixed criteria as the CAR does. Such criteria should be extended and adjusted taking into account the assessment by the lessee and lessor. • The VAS also specifies classification of leases, which should be made at the inception of a lease and at any time the lessee and the lessor agree to change the lease contract terms that would have resulted in a different classification of the lease. The revised agreement will prevail over its term (excluding changes in estimates of the economic life or of the residual value of the leased property or changes in the repayment capacity of the lessee). • The VAS also specifies classification of leased assets, being land use right and building: <ul style="list-style-type: none"> ⇒ The land use right is reclassified as operating lease, since land is the State's property, and thus can not be transferred). 	<ul style="list-style-type: none"> • Whether an item is classified as finance lease/operating lease depends on whether it meets all the four established criteria. ⇒ Upon completion of the lease contract, the lessee is entitled to transfer of the asset's title or to extension of the lease as agreed between the two parties. ⇒ Upon expiry of the lease term, the lessee can choose to acquire the asset at a nominal price lower than its actual price at the date of acquisition. ⇒ The lease term should at least equal 60% of a time span necessary to fully depreciate the assets. ⇒ The total amount for the asset acquisition set out in the contract should be at least equal to the market price of the asset on the date the contract is reached.

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<p>Leases in the Financial Statements of Lessee s- Finance leases</p>	<p>⇒ However, It is not clear as to whether the lease of a building associated with the right to use land on which the building stands can be classified as finance lease (=> It is advisable to see the building rent and land lease as separate items and to determine, as specified in the lease contract, whether the building rent is an operating lease or finance lease.</p> <p>As finance leases include the transfer of the major part of risks and economic benefits related to the leased assets, the VAS specifies:</p> <ul style="list-style-type: none"> ⇒ Lessees should recognize finance leases as assets and liabilities. ⇒ Cost of leased assets is the lower one between the fair value of the leased property at the inception of the lease and value of the minimum lease payments. ⇒ The VAS also specifies <u>the discount factor</u> used to calculate <u>the present value of the minimum lease payments</u> is the interest rate implicit in the lease, or the interest rate in the lease agreement. If this is practicable to determine; if not, the lessee's incremental borrowing rate should be used. <p><i>(The VAS is not clear as to marginal interest. What interest rate would apply should loans not be committed for leases => Can average rates of long-term loans apply)</i></p> <ul style="list-style-type: none"> ⇒ The <u>initial direct expenses</u> relating to finance leases shall be recognized as cost of leased assets. ⇒ The VAS requires definition of accounts payable <u>on finance leases in the financial statements</u> as long-term loan or short-term loan <i>(based on the maturities of these accounts)</i> 	<p>The CAR provides similar guidelines, that the lessee has to record the leased assets.</p> <ul style="list-style-type: none"> ⇒ Lessee should recognize the lease as a fixed asset. ⇒ Cost of the fixed asset comprises the purchase price and those costs on transport, loading, renewal, installation and test running. ⇒ In practice, cost is determined based on the current amount of lease expenses payable. Interest could also be construed as the rate implied from, or agreed on, the contract. <p>⇒ Similar to VAS</p> <p>⇒ The CAR is silent in this connection.</p>

Description	VAS issued under Decision 165/2002/QD-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QD/CDKT dated 1 November 1995
<p>Accounting by the Lessee - Operating Leases</p> <p><i>Payments for an operating lease is taken as an outside service expense and should be presented in the proper period to meet the matching principle.</i></p> <p>Accounting by the Lessor – Finance Leases</p>	<p>⇒ <u>Lease payments should be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge should be allocated to periods during the lease term at a constant periodic rate of interest on the remaining balance of the liability for each period.</u></p> <p>⇒ <u>Depreciation of leased asset.</u> The depreciation policy for leased assets should be consistent with that for similar depreciable assets which are owned by the lessee. Duration of the depreciation is the shorter of the lease term or its useful life. However, in the case evidences supporting to ownership of asset at the end of lease agreement, the lessee can calculate depreciation of the leased assets under its useful life.</p> <p>⇒ <u>Presenting finance leases in the financial statements:</u> Under VAS 03, Tangible Fixed Assets, a fixed asset should be stated on the balance sheet in terms of cost and depreciation, depreciation method, depreciation time, additions and disposals and depreciation charge for the year.</p> <p>⇒ Cost of an asset so leased is not recorded.</p> <p>⇒ Lease payments under an operating lease (excluding costs for services such as insurance and maintenance) are recognized as an expense in the income statement on a straight-line basis over the lease term, regardless of the mode of payment, unless another systematic basis is more relevant.</p> <p>As finance leases transfer substantially to the lessee all the risks and rewards incident to ownership of an asset, the guidelines for lessor accounting for finance leases are as follows</p>	<p>⇒ Similar to VAS</p> <p>⇒ No specific guideline is available but that the lessee entity should manage, use, record and depreciate the asset as its own property. However, in practice, the contract term is taken as the depreciation time.</p> <p>⇒ Similar to VAS.</p> <p>⇒ The CAR provides no separate guidelines available but instructs on making entries in account 142. It is similar to VAS as regards the matching of revenue and expenses → No significant changes of VAS from the CAR for operating leases.</p>

Description	VAS issued under Decision 165/2002/QD-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QD/CDKT dated 1 November 1995
Accounting by the Lessor - Operating Leases	<ul style="list-style-type: none"> ⇒ Lessors should recognize assets held under a finance lease in their balance sheets and present them as a receivable at an amount equal to <u>the net investment</u> in the lease and finance income to reimburse and reward the lessor for its investment and services. ⇒ The recognition of finance income should be based on a pattern reflecting a <u>constant periodic rate</u> of return on the lessor's net investment outstanding in respect of the finance lease. ⇒ Expenses relevant to leased services should be recognized immediately or allocated under appropriate principles. 	<ul style="list-style-type: none"> ⇒ No separate guidelines are available but leases are recorded based on the prevailing accounting regulations on revenue → receivables of relevant capital invested and finance income from the lease. Finance income is earned based on the finance lease interest. ⇒ Recording related expenses: no separate guidelines are available and related regulations apply → the matching principle is followed → similar to VAS.
New Guidelines: Sales and re-lease of fixed assets	<ul style="list-style-type: none"> - A sale and leaseback transaction involves the sale of an asset by the vendor and the leasing of the same asset back to the vendor. 	<ul style="list-style-type: none"> - The CAR is silent in this connection.

Description	VAS issued under Decision 165/2002/QD-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QD/CDKT dated 1 November 1995
<p><i>In all cases, the matching principle and prudence concept should be respected.</i></p>	<ul style="list-style-type: none"> - If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount should be deferred and amortized over the lease term. - A sale and leaseback transaction resulting in an operating lease is specified as follows: <ul style="list-style-type: none"> ⇒ If the price is established at fair value, any profit or loss should be recognized immediately; ⇒ If the sale price is below fair value, any profit or loss should be recognized immediately except that, if the loss is compensated by future lease payments at below market price. This loss should be deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used; or ⇒ If the sale price is above fair value, the excess over fair value should be deferred and amortized over the period for which the asset is expected to be used. ⇒ For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value should be recognized immediately. 	
<p><i>Note on applying VAS 06 in preparing financial statements for 2003</i></p> <p><i>The use of VAS 06 for 2003 will largely assist in classifying leases (operating and finance), and thus the notes to financial statements shall be more comprehensive and relevant.</i></p>	<p>VAS 06 requires detailed presentation of the following</p> <p>a. For lessees of a finance lease:</p> <ul style="list-style-type: none"> - the net carrying amount of the leased asset at the balance sheet date; - contingent rents recognised in expenses for the period; - the basis on which contingent rent payments are determined; and, - provision on further leasing or right to purchase the leased assets. 	

Description	VAS issued under Decision 165/2002/QD-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QD/CDKT dated 1 November 1995
	<p>b. For lessees of an operating lease:</p> <ul style="list-style-type: none"> - The total of future minimum lease payments under non-cancelable operating leases for each of the following periods: not later than one year , later than one year and not later than five years , and later than five years ; and, - the basis on which contingent rent payments are determined <p>c. For lessor of a finance lease:</p> <ul style="list-style-type: none"> - a reconciliation between the total gross investment, and the present value of minimum lease payments receivable in lease at the balance sheet date for each of the following periods: not later than one year, later than one year and not later than five years and <i>later than five years</i>; - unearned finance income; - the unguaranteed residual values accruing to the benefit of the lessor; - the accumulated allowance for uncollectible minimum lease payments receivable; and - contingent rents recognized in income. 	

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Description	VAS issued under Decision 165/2002/QD-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QD/CDKT dated 1 November 1995
<p>Contents of the VAS</p> <p><i>Transactions recognized immediately</i></p>	<ul style="list-style-type: none"> • A foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying the exchange rate between the reporting currency and the foreign currency at the date of the transaction. <p>⇒ The VAS suggests that entities could use a rate that approximates the actual rate at the date of the transaction. For example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the enterprise should not use the average exchange rate for all transactions during that week, or month.</p>	<ul style="list-style-type: none"> • Similar to VAS
<p><i>Reporting at Balance Sheet Dates</i></p>	<p><i>At each balance sheet date:</i></p> <ol style="list-style-type: none"> a. Foreign currency monetary items should be reported using the closing rate; b. Non-monetary items denominated in a foreign currency should be reported using the exchange rate at the date of the transaction; and c. Non-monetary items which are carried at fair value denominated in a foreign currency should be reported using the exchange rates that existed when the values were determined. 	<ul style="list-style-type: none"> • No separate guidelines are available on accounting for exchange rates fluctuating remarkably • Similar to VAS • Similar to VAS • No specific guidelines.

Vietnamese Accounting Standards
VS. Current accounting regulations
VAS10 THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

Description	VAS issued under Decision 165/2002/QD-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QD/CDKT dated 1 November 1995
<p><i>The VAS introduces the principle of recognizing foreign exchange differences</i></p>	<p>Exchange differences arising on <u>the settlement of foreign currency monetary items or on reporting an enterprise's foreign currency monetary items</u> at rates different from those at which they were initially recorded or reported in previous financial statements, should be recognized as follows:</p> <p>a. During the construction stage to form the enterprise's property, plant and equipment, exchange differences arising from the settlement of foreign currency monetary items serving the construction purpose and from the translation of foreign currency monetary items at the balance sheet date are <u>recorded cumulatively and presented as a separate</u> component on the balance sheet. When the construction work is completed and the property, plant or equipment are put into use, <u>the exchange differences arising during the construction phase are deferred and amortized to production and operating costs over a maximum period of five (05) years.</u></p> <p>b. During the course of the business, exchange differences arising from the settlement of foreign currency monetary items and from the translation of foreign currency monetary items at the balance sheet date are <u>recognized as incomes or expenses of the period</u>, except for exchange differences resulting from the fact that:</p> <ul style="list-style-type: none"> • Entities use financial instruments for hedging against foreign exchange risk; • Exchange differences arising on a monetary item that, in substance, form part of an entity's net investment in a foreign entity; and, • Exchange differences arise relating to a foreign currency liability accounted for as a hedge 	<p>a. Construction stage</p> <p>⇒ The CAR fails to provide uniform guidelines for all types of business in the national economy,</p> <ul style="list-style-type: none"> • For FIEs, the CAR is similar to VAS (see Circular 55) in that exchange differences arising in the investment phase shall be accumulated and immediately charged to expenses of the year when the asset is put into use; Unrealized exchange gains and losses at the final account date are dealt with as part of financial income or expenses over maximum 5 years from the date the asset is brought into use. • For SOEs and other types of business, the CAR provides similar guidelines but that the period is <u>not less than 5 years from</u> the date the work is put in use (Circulars 44 and 38). <p>b. Operating phase</p> <ul style="list-style-type: none"> • Similar to VAS as to exchange gains and losses actually arising. • For unrealized exchange gains and losses (from revaluation of monetary items in foreign currency): <ul style="list-style-type: none"> - For FIEs: similar to VAS (Circular 55); - For SOEs and those of other types: unrealized exchange gains and losses at year end are disclosed on the balance sheet, except for any loss from re-translating long-term loans, which should be presented as finance expense for the period.

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Description	VAS issued under Decision 165/2002/QD-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QD/CDKT dated 1 November 1995
<p><i>The VAS provides guidelines on how to treat exchange differences concerning investments in foreign operations.</i></p>	<ul style="list-style-type: none"> • Exchange differences arising on a monetary item that, in substance, forms part of an enterprise's net investment in a foreign entity should be classified as equity in the enterprise's financial statements until the disposal of the net investment, at which time they should be recognized immediately in the income statement of an enterprise having investment activities. • Exchange differences arising on a foreign currency liability accounted for as a hedge of (provision for risks) an enterprise's net investment in a foreign entity should be classified as equity in the enterprise's financial statements until the disposal of the net investment, at which time they should be recognized immediately in the Income Statement of an enterprise having investment activities. 	<ul style="list-style-type: none"> • The CAR is silent about exchange differences concerning investment in foreign operations. • The CAR is silent about exchange differences concerning investment in foreign operations.

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 VAS10 THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

Description	VAS issued under Decision 165/2002/QD-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QD/CDKT dated 1 November 1995
<p><i>The VAS provides guidelines for translating the financial statements of a foreign entity for incorporation in the reporting entity's financial statement.</i></p>	<p><i>The financial statements of a foreign operation that is integral to the operations of the reporting entity should be translated using the guidance mentioned above. For such translation, the following should be adhered to:</i></p> <ul style="list-style-type: none"> ⇒ The assets and liabilities, both monetary and non-monetary, of the foreign entity should be translated at the closing rate; ⇒ Revenue, income and expense accounts of the foreign entity should be translated at exchange rates at the dates of the transactions, except when the foreign entity reports in the currency of a hyperinflationary economy, in which case these revenue, income and expense accounts should be translated at the closing rate; and ⇒ All resulting exchange differences should be classified as equity of the reporting entity until the disposal of the net investment ⇒ Lease payments under an operating lease (excluding costs for services such as insurance and maintenance) are recognized as an expense in the income statement on a straight-line basis over the lease term, regardless of the mode of payment, unless another systematic basis is more relevant. 	<ul style="list-style-type: none"> ⇒ The CAR is silent in this connection.

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Description	VAS issued under Decision 165/2002/QD-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QD/CDKT dated 1 November 1995
<p><i>The VAS provides guidelines on how to treat exchange differences as a result of disposal of a foreign entity and classification of foreign operations.</i></p>	<ul style="list-style-type: none"> • <u><i>On the disposal of a foreign entity, the cumulative amount of the exchange differences which have been deferred and which relate to that foreign entity should be recognized as income or as expenses in the same period in which the gain or loss on disposal is recognized.</i></u> • <i>When there is a change in the classification of a foreign operation, the translation procedures applicable to the revised classification should be applied from the date of the change in the classification.</i> 	<p>⇒ No guidelines</p>
<p><i>Note on applying VAS 10 in preparing financial statements for 2003</i></p> <p><i>Application of VAS 10 for 2003 would mainly impact the treatment of exchange differences for the reasons referred to above (Degree of difference counts on the types of business))</i></p>	<ul style="list-style-type: none"> • <i>The entity should disclose the accounting policies adopted in 2003 for treatment of transactions affected by exchange differences arising from actual occurrences or revaluation on the reporting date or during the phases: investment or operation.</i> • <i>The entity should measure the effects of changes in the accounting policies on treatment of exchange differences for 2003 from the past years (both quantity and quality), in particular, their impacts on the operating results for the year and thereafter.</i> • <i>The entity should separate the exchange difference included in the profit and loss account and disclose it on the balance sheet as part of owners' equity.</i> • <i>For entities with foreign operations, considerations should be given to applying the VAS in an appropriate manner or seeking specific guidance from the Ministry of Finance.</i> 	

Standard 14: revenues and other incomes

Description	VAS issued under Decision 149/2001/QĐ-BTC dated 31 December 2001	CAR issued under Decision 1141TC/QĐ/CDKT dated 1 November 1995
Definition	<ul style="list-style-type: none"> Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an enterprise when those inflows result in increase in equity. 	<ul style="list-style-type: none"> Revenue is the total amount earned from sales of goods and services as a result of the entity's business operations.
Measurement of Revenue	<ul style="list-style-type: none"> Revenue should be measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts, <i>sales discounts</i>, volume rebates and sales returns. <p>Circular 89/2002/TT-BTC dated 9 October 2002 removes "<i>sales discounts</i>" from the paragraph.</p>	<ul style="list-style-type: none"> Revenue is determined as total amount earned from sales of goods and rendering of services less (-) sales allowances, sales returns (if appropriately supported), for which customers agree to pay, whether cash is received or not <p>Under Clause 1.1 Part II of Circular 63/1999/TT-BTC, cash discounts are charged to financial expenses</p>
<ul style="list-style-type: none"> <i>Revenue to be received in the future</i> <i>Goods and services exchanged for dissimilar goods and services</i> 	<ul style="list-style-type: none"> Recognized revenue is determined by converting the future amount into the fair value at the date of recognition using current interest rates. The revenue is measured at the fair value of the goods or services received (or at the fair value of goods, services given up if the fair value of the goods or receives is not determined), adjusted by the amount of any cash or cash equivalents additionally paid or received. 	<ul style="list-style-type: none"> The CAR is silent in this connection No specific guidelines
<ul style="list-style-type: none"> <i>Goods and services exchanged for similar goods and services</i> 	<ul style="list-style-type: none"> The exchange is not regarded as a transaction which generates revenue. 	<p>The CAR requires that goods-for- goods exchange should be regarded as revenue generating transaction but fails to provide specific guidance as to how to record exchange for similar goods.</p>
Recognition of Revenue	<p>Sales revenue should be recognized when the following criteria have all been satisfied:</p>	<p>Sales revenue is recognized when:</p>

Description	VAS issued under Decision 149/2001/QĐ-BTC dated 31 December 2001	CAR issued under Decision 1141TC/QĐ/CDKT dated 1 November 1995
<ul style="list-style-type: none"> ▪ <i>Criteria for sales revenue to be recognized</i> 	<ul style="list-style-type: none"> ▪ The enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods; ▪ The enterprise retains neither continuing managerial involvement as a owner nor effective control over the goods sold; ▪ The amount of revenue can be measured reliably; ▪ The economic benefits associated with the transaction has flown or will flow to the enterprise; ▪ The costs incurred or to be incurred in respect of the transaction can be measured reliably. 	<ul style="list-style-type: none"> ▪ Goods are delivered or title passed to buyer; ▪ Buyer has paid or agreed to pay for the goods;
	<p><u>Special cases:</u></p> <ul style="list-style-type: none"> - If an enterprise retains only an insignificant risk of ownership, the transaction is a sale and revenue is recognized. - Where economic benefits from the sale of goods depends on uncertainty, recognition of revenue may not be probable until the uncertainty is removed. 	No specific guidelines
<ul style="list-style-type: none"> ▪ <i>Criteria for services rendered to be recognized</i> 	<ul style="list-style-type: none"> ▪ Revenue of a transaction involving the rendering of services is recognized when <i>the outcome of this transaction can be estimated reliably (see below)</i> ▪ Where a transaction involving the rendering of services is attributable to several periods, <i>each period's revenue should be recognized by reference to the stage of completion at the balance sheet date.</i> 	<ul style="list-style-type: none"> ▪ Recognized as the services are completed and buyer agrees to pay;

Description	<p style="text-align: center;">VAS issued under Decision 149/2001/QĐ-BTC dated 31 December 2001</p> <p>The outcome of a transaction can be estimated reliably when the following criteria are all satisfied:</p> <ul style="list-style-type: none"> ▪ The amount of revenue can be measured reliably; ▪ It is probable that the economic benefits associated with the transaction will flow to the enterprise; ▪ The stage of completion of the transaction at the balance sheet date can be measured reliably; ▪ The costs incurred for the transaction and the costs to complete the transaction can be measured reliably. 	<p style="text-align: center;">CAR issued under Decision 1141TC/QĐ/CDKT dated 1 November 1995</p>
<p>Recognition of Interest, Royalties and Dividends</p>	<p>Revenue from interest, royalties and dividends earned by the entity should be recognized when these two criteria are met:</p> <ul style="list-style-type: none"> - It is probable that the economic benefits associated with the transaction will flow to the entity; - The amount of the revenue can be measured reliably. 	<ul style="list-style-type: none"> ▪ No specific guidelines
	<p><u>Basis of recognition:</u></p> <p>Revenue from interest, royalties and dividends earned by the entity should be recognized as follows:</p> <ul style="list-style-type: none"> ▪ Interest is recognized on a time proportion basis and interest rates applied; ▪ Royalties are recognized on an accrual basis in accordance with the relevant agreement; ▪ Dividends are recognized when the shareholder's right to receive payment is estimated. 	<ul style="list-style-type: none"> ▪ Similar to VAS ▪ No specific guidelines ▪ Similar to VAS
<ul style="list-style-type: none"> ▪ <i>What is the difference?</i> 	<p>Finance incomes are recognized in the period's expenses</p>	<p>Financial income is recognized as a financial item.</p>

Description	VAS issued under Decision 149/2001/QĐ-BTC dated 31 December 2001	CAR issued under Decision 1141TC/QĐ/CDKT dated 1 November 1995
<ul style="list-style-type: none"> ▪ Other incomes 	<p>Other incomes in this VAS include receipts from non-recurrent and irregular activities, other than those generating revenue, including:</p> <ul style="list-style-type: none"> - Disposals and sales of fixed assets; - Penalty against a customer for contract breaches; - Insurance compensation received; - Previously written-off accounts which has been collected; - Accounts payable whose payee no longer exist; - Tax reimbursement and reduction; - Others. 	<ul style="list-style-type: none"> ▪ Similar to VAS

Description	VAS issued under Decision 149/2001/QĐ-BTC dated 31 December 2001	CAR issued under Decision 1141TC/QĐ/CDKT dated 1 November 1995
<p>Allowance for Bad Debts</p> <ul style="list-style-type: none"> ▪ <i>Reasons</i> ▪ <i>Signs and provision</i> ▪ <i>Implementation date</i> ▪ <i>Allowance reversal</i> ▪ <i>Treatment of bad debts</i> 	<ul style="list-style-type: none"> ▪ Bad debt allowances are made as required under the prudence principle in view of unforeseen loss likely to occur as receivables are no longer collectible, thus impairing the entity's financial performance and presentation of financial statements. ▪ At signs of uncollectible items, allowances are provided and charged to expenses, rather than debiting revenue. <p>VAS is not clear whether to charge the sum to costs of goods sold or operating expenses.</p> <ul style="list-style-type: none"> ▪ No ceiling limit is set for allowances. <p><i>Circular 89 provides guidance on accounting for allowances in administrative expenses</i></p> <ul style="list-style-type: none"> ▪ On the financial statement date ▪ For allowance reversal, expenses (administrative expense) are credited ▪ Bad debt allowances are provided out of funds earmarked for this purposes 	<ul style="list-style-type: none"> ▪ Assist in covering likely loss in the future and conserving working capital . ▪ At signs of doubtful items, allowances are provided and charged to administrative expenses. ▪ Maximum amount provided should be at 20% of total receivables at the financial statement date. ▪ Similar to VAS ▪ Allowances reversed are added to other income. ▪ Bad debt allowances provided are charged to administrative expenses.

Description	VAS issued under Decision 149/2001/QD-BTC dated 31 December 2001	CAR issued under Decision 1141TC/QD/CDKT dated 1 November 1995
Disclosure	<p>The financial statements should disclose:</p> <ul style="list-style-type: none"> ▪ The accounting policies adopted for recognizing revenue, including the method of determining the stage of completion of transactions involving the rendering of services. ▪ Revenues of each type of transactions and events: <ul style="list-style-type: none"> - Sale of goods; - Rendering of services; - Interest, royalties, dividends. ▪ Revenue arising from exchanges of goods or services included in each of the above transactions or events. ▪ Other incomes, with items separately disclosed. 	<ul style="list-style-type: none"> ▪ No specific guidelines <p>According to Decision 167/2000/QD-BTC dated 25 October 2000, this is to be disclosed by the entity.</p>

STANDARD 15: CONSTRUCTION CONTRACTS

Description	VAS issued under Decision 165/2002/QD-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QD/CDKT dated 1 November 1995
Objective	To prescribe the <u>accounting treatment</u> of revenue and costs associated with construction contracts.	<ul style="list-style-type: none"> • The CAR provides guidelines for use by construction companies (Decision 1864/QD/BTC dated 16 December 1998). However, these are general regulations on accounting records and documents, accounts and financial reporting, and not dealing with the principle and method of recognizing construction revenue and costs. • Revenue and costs of construction activities of construction companies (normally referred to as contractors or Party B) are specified in accounting regulations applicable to enterprises of all sectors.
<i>Definition and classification of construction contracts</i>	<u>The VAS classifies construction contracts into two types:</u> <ul style="list-style-type: none"> - Fixed price contracts - Cost plus contracts 	<ul style="list-style-type: none"> • Almost no regulations are available on construction contracts and classification of construction contracts for accounting purposes. Practice is mainly based on Economic Contract Ordinance.

Description	VAS issued under Decision 165/2002/QĐ-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QĐ/CDKT dated 1 November 1995
<p>Combining and Segmenting Construction Contracts</p> <p><i>(Objective of combination and segment of construction contracts is to determine accounting basis for recognition of revenue and expense collection related reliably).</i></p>	<p>The VAS specifies conditions for <u>combining and segmenting construction contracts</u></p> <ul style="list-style-type: none"> - <i>When a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when all the following conditions are satisfied:</i> <ul style="list-style-type: none"> ⇒ Separate designs and estimates have been submitted for each asset and each asset can operate independently; ⇒ Each asset has been subject to separate negotiation and the customer has been able to accept or reject that part of the contract relating to each asset; and ⇒ The costs and revenues of each asset can be identified. - <i>A group of contracts, whether with a single customer or with several customers, should be treated as a single construction contract when all the following conditions are satisfied:</i> <ul style="list-style-type: none"> ⇒ the group of contracts is negotiated as a single package; ⇒ the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and, ⇒ the contracts are performed concurrently or in a continuous sequence. - <i>In addition, the VAS established that a contract, which may provide for the construction of an additional asset (or may be amended to include the construction of an additional asset), should be treated as a separate construction contract when:</i> <ul style="list-style-type: none"> ⇒ the asset differs significantly from the asset(s) covered by the original contract; or 	<ul style="list-style-type: none"> • The CAR fails to provide guidelines on combining and segmenting construction contracts for accounting purposes and set out any benchmarks for determining revenue recognition and expense addition.

Description	VAS issued under Decision 165/2002/QĐ-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QĐ/CDKT dated 1 November 1995
<p>Determination of Construction Revenue</p> <p><i>Under VAS 15, contract revenue is not fixed but flexibly determined counting on the certainty of future events. The Prudence principle should apply in recognizing revenue.</i></p>	<p><u>Contract revenue should comprise:</u></p> <ul style="list-style-type: none"> ⇒ the initial amount of revenue agreed in the contract; and ⇒ variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and they are capable of being reliably measured. <ul style="list-style-type: none"> - Under the VAS, construction revenue is measured at the fair value of the consideration received or receivable. The measurement of contract revenue is affected by a variety of uncertainties that depend on the outcome of future events. - The VAS requires that the estimates often need to be revised as events occur and uncertainties are resolved. - Construction revenue is equal to <u>initial revenue</u> noted in the contract and <u>increases and decreases</u> in the contract implementation, incentive payments and other increase and decrease that can <u>change revenue and be measured reliably.</u> 	<ul style="list-style-type: none"> - Revenue of construction activities is not defined separately but construed under the concept assigned to revenue earned by enterprises in all industries. Construction revenue is therefore inconsistently recognized. - Nor does the CAR provide any separate guidance on other incomes not covered in the contract such as incentives. In reality, these incentives are recognized as earned and recorded as irregular items, rather than construction revenue. .

Description	VAS issued under Decision 165/2002/QĐ-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QĐ/CDKT dated 1 November 1995
<p>Determination of Construction Costs</p>	<p><u>Construction costs should comprise:</u></p> <ul style="list-style-type: none"> ⇒ Costs that relate directly to the specific contract, including labor, materials and tools, equipment depreciation as well as transportation and installation. ⇒ costs that are attributable to contract activity in general and can be allocated to the contract; and ⇒ such other costs as are specifically chargeable to the customer under the terms of contract. <p>- <i>The Standard also regulates costs that cannot be attributed to contract activity or cannot be allocated to a contract are excluded from the costs of a construction contract.</i></p> <p><i>In addition, the VAS rules that costs that relate directly to a contract and which are incurred in securing the contract are also included as part of the contract costs if they can be separately identified and measured reliably and it is probable that the contract will be obtained.</i></p>	<p>The CAR provides guidelines on classification of construction costs similar to VAS.</p> <p>The CAR does not see such costs as eligible expenses for the contract.</p> <p>The CAR provides no guidelines on this issue, and accordingly, these costs are discretionarily accounted for.</p>

Description	VAS issued under Decision 165/2002/QĐ-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QĐ/CDKT dated 1 November 1995
<p>Recognition of Contract Revenue and Expenses</p> <p><i>Revenue and expenses are recognized when the outcome of a construction contract can be estimated reliably.</i></p> <p>⇒ Whether assessment of outcomes of a construction contract is reliable is a matter of judgement by management following the principles of Prudence, Accrual accounting and Objectivity.</p>	<p><i>Under the VAS, contract revenue and expenses shall be recognized on the accrual and prudence basis as follows:</i></p> <p>⇒ Where it is specifies in the contract that progress payment are made, when the outcome of a construction contract <u>can be estimated reliably</u>, contract revenue and contract expenses associated with the construction contract should be recognized as revenue and expenses <u>respectively by reference to the stage of completion of the contract activity determined by the contractors</u> at the balance sheet date without regard to whether the progress payment is invoiced and how much it is billed.</p> <p>⇒ Where it is specified that payments are made by reference to the amount of work completed, when the outcome of a construction contract <u>can be estimated reliably</u> and certified by the customer, revenue and contract costs associated with the construction contract should be <u>recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity as certified by the customer in the invoice</u>.</p> <p>Thus, when the outcome of a Construction contract can be estimated reliably, revenue and expenses shall be recognized under the percentage of completion method, that is, the revenue and expenses related to amount of work completed in the reporting period.</p> <p><u>The VAS also specifies conditions on which the outcome of a construction contract can be estimated reliably</u></p> <p>For fixed price contracts, four conditions are concurrently satisfied:</p> <p>⇒ total contract revenue can be measured reliably;</p> <p>⇒ it is probable that the economic benefits associated with the contract will flow to the</p>	<ul style="list-style-type: none"> - The CAR provides no specific guidelines on recognizing revenue when the outcome of a contract can be estimated reliably and otherwise. - Under relevant guidelines on revenue recognition, revenue is recognized as finally settled between Part A and B concerning the service rendered and upon the customer's agreement to pay. Such a final account should be reached for each work item or the construction work as a whole. - Cost of sales is determined corresponding to the amount of work finally settled and recognized as revenue; however it is often the case that actual costs are taken into account. - No specific guidelines.

Description	VAS issued under Decision 165/2002/QD-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QD/CDKT dated 1 November 1995
<p><i>Revenue and cost are recognized when the outcome of a construction contract cannot be estimated reliably.</i></p>	<p><u>The VAS specifies that :</u></p> <ul style="list-style-type: none"> ⇒ Revenue should be recognized only to the extent of contract costs incurred that it is <u>probable</u> will be recoverable; ⇒ Contract costs should be recognized as an expense in the period in which they are incurred. ⇒ As the outcome of the contract cannot be estimated reliably, no profit is recognized. ⇒ During the early stages of a contract when it is often the case that the outcome of the contract cannot be estimated reliably, revenue and expenses are recognized under this method. <p>When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue and expenses associated with the construction contract should be recognized in accordance with the volume of work completed. (In this context, expense is synonymous to cost)</p>	<p>- The CAR is silent in this connection.</p>

Description	VAS issued under Decision 165/2002/QD-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QD/CDKT dated 1 November 1995
<p><i>Note on applying VAS 15 in preparing financial statements for 2003</i></p>	<ul style="list-style-type: none"> • <i>VAS 15 requires presentation of:</i> <ul style="list-style-type: none"> - the method used to determine the contract revenue and the stage of completion of contracts in progress. - the amount of contract revenue recognized as revenue in the period; - the aggregate amount of costs incurred and recognized profits to date; - progress receipts due from customers/ progress payments due to customers (required for those contractors to which progress payments are made as originally agreed). • <i>For first-time application of VAS 15 (for 2003) which may result in changes in accounting policies (accounting estimates), the entity should evaluate the effects of VAS 15 on its financial position and operating results in qualitative and quantitative terms.</i> • <i>Revenue and costs should be estimated reliably otherwise revenue should be recognized equal to costs incurred (no profit).</i> • <i>VAS 15 provides guidance on the accounting principles and methods for recognizing construction revenue and costs, which, in effect, differ from those followed by the tax authorities or applied by industries (especially enterprises with specialized business lines or state run corporation). Accordingly, uniform and specific guidelines are required.</i> 	

STANDARD 16: BORROWING COSTS

Description	VAS issued under Decision 165/2002/QD-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QD/CDKT dated 1 November 1995
<p>Objective</p>	<p>To prescribe the <u>accounting treatment</u> for borrowing costs including:</p> <ul style="list-style-type: none"> • <i>the recognition</i> of borrowing costs in the period's operating expenses; • <i>the capitalization</i> of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset <p>This VAS should be applied in accounting for borrowing costs.</p>	<ul style="list-style-type: none"> • The CAR provides guidelines on recognizing loan interest and related expenses in connection with business operation and capital expenditure.
<p>New Concepts</p>	<p><u>Borrowing costs</u>, which include</p> <ul style="list-style-type: none"> • interest on short-term and long-term borrowings and bank overdrafts; • amortization of discounts or premiums relating to borrowings; • amortization of ancillary costs incurred in connection with the arrangement of borrowings; and • finance charges in respect of finance leases <p><u>A qualifying asset</u>, defined as an asset under construction or in the production process that necessarily takes <u>a substantial period of time</u> (12 months plus) to get ready for its intended use or sale.</p> <p><i>Example of a qualifying asset may be building, machinery and equipment under construction or installation, or materials, products by order which take over one year to complete</i></p> <p><u>Capitalization</u>, which is the recognition of borrowing costs directly relating to investments in a qualifying asset, where by the costs are allocated over the useful life of an asset.</p>	<ul style="list-style-type: none"> ▪ The CAR provides no definition of borrowing costs but simply denotes the concept in terms of interest payable, service charges and fees etc. • The CAR sets out the concept of costs on investment in and acquisition of fixed assets. However, it fails to distinguish between short-term investment (under 12 months) and long-term items (over 12 months). • No concept of capitalization.

Description	VAS issued under Decision 165/2002/QĐ-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QĐ/CDKT dated 1 November 1995
Contents of the VAS	<ul style="list-style-type: none"> • <i>Borrowing costs should be recognized as an expense in the period in which they are incurred, except to the extent that they are capitalized in accordance with regulations.</i> • <i>Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be included (capitalized) in the cost of that asset when meeting the qualifications required under this VAS.</i> <p>The condition for capitalization is that it is probable that borrowing costs will result in future economic benefits to the entity and the costs can be measured reliably.</p>	<ul style="list-style-type: none"> • The CAR provides guidance that loan interest and expenses relating to qualifying assets are recorded as part of the assets; however it does not provide for criteria as VAS 16 does.
Borrowing Costs Eligible for Capitalization	<ul style="list-style-type: none"> • For funds borrowed specifically for investing in a qualifying asset, borrowing costs eligible for capitalization on that asset should be determined as the amount actually incurred less (-) any income earned from the temporary investment of those borrowings. <p><i>I.e. Total loan interest directly relating to qualifying assets less (-) interest from idle funds deposited in bank shall be deemed as borrowing costs for capitalization.</i></p> <ul style="list-style-type: none"> ▪ The VAS establishes guidance on borrowing costs capitalized in the case that borrowings are acquired for various qualifying assets and on the rate of capitalization. ▪ The rate of capitalization is the average rate of borrowing costs incurred and accumulated cost of qualifying assets. ▪ On the prudent principle, the VAS suggests that the amount capitalized should not exceed borrowing costs actually arising in the period. 	<ul style="list-style-type: none"> ▪ <i>The CAR provides separate guidelines, namely accounting for Employer entities, but fails to set out regulations that broadly applicable to other types of business.</i> ▪ The CAR is silent in this connection.

Description	VAS issued under Decision 165/2002/QĐ-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QĐ/CDKT dated 1 November 1995
<p>Commencement of Capitalization, Suspension of Capitalization and Cessation of Capitalization</p>	<p><u>Capitalizing borrowing costs as part of the cost of a qualifying asset should commence when:</u></p> <ul style="list-style-type: none"> ▪ Expenditures for acquiring, constructing or producing the asset are being incurred; ▪ borrowing costs are being incurred; and, ▪ activities that are necessary to prepare the asset for its intended use or sale are in progress. <p><u>Capitalization of borrowing costs is suspended when the development of the asset is sub-normally interrupted.</u></p> <ul style="list-style-type: none"> ▪ The VAS deals with cases where construction or production of the asset is interrupted. The amount of borrowing costs incurred should then be recognized as operating results until the construction and production of the asset is resumed. This is to ensure that the prudence principle is complied with. <p><u>Capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset (or part of qualifying asset of which each part of the asset can be operated independently) for its intended use or sale are complete. Subsequent borrowing costs should be recognized as part of the period's expenses.</u></p>	<ul style="list-style-type: none"> ▪ The CAR is silent in this connection. ▪ The CAR is silent in this connection. ▪ The CAR is silent in this connection.
<p><i>Note on applying VAS 16 in preparing financial statements for 2003</i></p>	<ul style="list-style-type: none"> • VAS 16 requires presentation of <ul style="list-style-type: none"> ▪ accounting policy adopted for borrowing costs; ▪ total borrowing costs capitalized during the period; and ▪ the rate used to determine the amount of borrowing costs eligible for capitalization. • For the first-time application of VAS 15 (for 2003) which may result in changes in accounting policies (accounting estimates), the entity should evaluate effects of VAS 15 on its financial position and operating results in qualitative and quantitative terms. • Capitalization method should be consistently adopted for all borrowing costs relating to purchase, construction and production of qualifying assets. 	

STANDARD 24: CASH FLOW STATEMENTS

Description	VAS issued under Decision 165/2002/QD-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QD/CDKT dated 1 November 1995
Objective	<ul style="list-style-type: none"> To prescribe principles and methods of preparing and presenting the cash flow statement. 	<ul style="list-style-type: none"> The CAR provides specific guidance on preparing the cash flow statement applicable to each type of business.

Description	VAS issued under Decision 165/2002/QĐ-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QĐ/CDKT dated 1 November 1995
<p>Contents of the VAS</p>	<ul style="list-style-type: none"> • <i>The VAS requires that the cash flow statement should report cash flows during the period classified by operating, investing and financing activities.</i> 	<ul style="list-style-type: none"> • The CAR sets out requirements similar to VAS.
<p><i>Cash flows arising from operating activities are the cash flows relating to revenue-producing activities of an enterprise.</i></p>	<ul style="list-style-type: none"> a. Cash flows from operating activities: <ul style="list-style-type: none"> - cash receipts from the sale of goods and the rendering of services; - cash receipts from royalties, fees, commissions and other revenue (except for cash receipts from investing and financing activities identified under this Standard); - cash payments to suppliers for goods and services; - cash payments to and on behalf of employees, such as salaries, wages, bonuses, insurance, allowance etc; - cash payments of loan interest; - cash payments of income taxes; - cash refunds of taxes; - Cash receipts and payments of compensation; - Cash flows arising from the purchase and sale of trading securities are classified as operating activities. 	<ul style="list-style-type: none"> • The CAR provides similar guidelines, which does not deal in details as VAS, however.
<p><i>Cash flows arising from investing activities represent the cash flows relating to the acquisition, construction and disposal of long-term assets and other investments other than cash equivalents.</i></p>	<ul style="list-style-type: none"> b. Cash flows from investing activities: <ul style="list-style-type: none"> - cash payments to acquire and construct fixed assets and other long-term assets, including those relating to development costs capitalized as tangible fixed assets; - cash receipts from sales of fixed assets and other long-term assets; - cash loans made to other parties (other than loans made by banks and financial institutions); cash payments to acquire debt instruments of other enterprises (other than payments for those instruments considered to be cash equivalents or those held for trading purposes); - cash receipts from the repayment of 	<ul style="list-style-type: none"> - No specific guidelines

Description	VAS issued under Decision 165/2002/QĐ-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QĐ/CDKT dated 1 November 1995
<p><i>The VAS provides guidance for preparing cash flow statement on the operations of banks, credit and finance institutions and insurance companies.</i></p>	<ul style="list-style-type: none"> - As banks and credit institutions deals in a special kind of goods, money, the VAS requires the cash flow statement of these entities should be prepared <u>based on actual cash flows and business nature so that cash flows can be appropriately classified.</u> 	<p>⇒ The CAR provides guideline similar to VAS.</p>
<p><i>The VAS provides guidance on the methods of preparing cash flow statement</i></p>	<ul style="list-style-type: none"> • For business activities, the VAS prescribed two methods: <i>direct and indirect.</i> • The VAS requires that an entity should report separately cash flows from investing and financing activities, except to the extent that cash flows are reported on a net basis including: <ul style="list-style-type: none"> - cash receipts and payments on behalf of customers; - cash receipts and payments for items in which the turnover is quick and the maturities are short; - cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date; - the placement of deposits with and withdrawal of deposits from other financial institutions; and, - cash advances and loans made to customers and the repayment of those advances and loans. 	<ul style="list-style-type: none"> • The CAR provides guideline similar to VAS.
<p><i>The VAS provides guidance on disclosure of changes in cash flows by foreign exchange difference</i></p>	<ul style="list-style-type: none"> - Unrealized gains and losses arising from converting foreign currencies into the reporting currency <u>are not cash flows.</u> However, the effect of exchange rate changes is for adjusting cash and cash equivalents <u>reported separately in the cash flow statement</u> in order to reconcile cash and cash equivalents at beginning and end of period. 	<p>⇒ The CAR provides guideline similar to VAS.</p>

Description	VAS issued under Decision 165/2002/QĐ-BTC dated 31 December 2002	CAR issued under Decision 1141TC/QĐ/CDKT dated 1 November 1995
	<p><u>The VAS also provides guidance on presentation of special cash flows in relation to:</u></p> <ul style="list-style-type: none"> - interest and dividends; - income tax; and, - acquisitions and disposals of subsidiaries or other entities. <p><u>The VAS suggests investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement:</u></p> <ul style="list-style-type: none"> - the acquisition of assets either by assuming directly related liabilities or by means of a finance lease; - the acquisition of an enterprise by means of an equity issue; and - the conversion of debt to equity. 	<p>⇒ The CAR fails to provide specific guidelines.</p> <p>⇒ The CAR fails to provide specific guidelines.</p>
<p><i>Note on applying VAS 24 in preparing financial statements for 2003.</i></p> <p><i>Application of VAS 24 in 2003 will mainly effect the classification of transactions from operating, investing and financing activities.</i></p>	<ul style="list-style-type: none"> • <i>It should be assumed that cash flow statement is a statutory report.</i> • <i>Classifying of targets and transactions by operating, investing and financing cash flows should be relevant to the business's operation.</i> • <i>Transaction unrelated to cash should be excluded from cash flow statement.</i> • <i>An entity should disclose the amount of, complementary for, significant cash and cash equivalent balances held by the entity but not available for use because of legal restriction or other constraints set upon the entity.</i> • <i>In the case of change of the method of preparing cash flow statement, the entity is to provide a complementary for, and assessment of, its impacts (if any).</i> 	

LIST OF VIETNAMESE ACCOUNTING STANDARDS HAVE BEEN ISSUED

(Under Decision No. 149/2001/QD-BTC on December 31, 2001 and Decision No. 165/2002/QD-BTC on December 31, 2002 of the Minister of Finance)

VAS 01	FRAMEWORK
VAS 02	INVENTORIES
VAS 03	TANGIBLE FIXED ASSETS
VAS 04	INTANGIBLE FIXED ASSETS
VAS 06	LEASES
VAS 10	THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES
VAS 14	REVENUE AND OTHER INCOMES
VAS 15	CONSTRUCTION CONTRACTS
VAS 16	BORROWING COSTS
VAS 24	CASH FLOW STATEMENT