

# Law on Accounting 2015

## Financial Reporting Alert

February 2016

On 20 November 2015, the National Assembly passed Accounting Law No. 88/2015/QH13 ("Law on Accounting 2015"). This Law is effective from 1 January 2017 and supersedes Law on Accounting No. 03/2003/QH11 ("Law on Accounting 2003"). In comparison with the Law on Accounting 2003, the Law on Accounting 2015 contains the following significant changes.

### 1. Introducing fair value accounting principle

In accordance with the Law on Accounting 2015, assets and liabilities are initially recognised at cost. Subsequent to initial recognition, those assets and liabilities whose values frequently fluctuate following market prices and can be reliably measured shall be stated at fair value at the end of the financial reporting period. This is a fundamental difference from the Law on Accounting 2003 which provides that assets are stated at cost and an accounting entity is not allowed to revalue its assets unless otherwise stipulated by other laws and regulations.

The Law on Accounting 2015 defines fair value as the value determined in line with market price, which would be received from selling an asset or paid to transfer a liability at the measurement dates.

The Law on Accounting 2015 also provides categories of assets and liabilities that are measured and recognised at fair value at the end of the financial reporting period including: financial instruments that are required by accounting standards to be measured and recognised at fair value; monetary items denominated in foreign currencies translated at actual exchange rates; and other assets and liabilities whose values fluctuate regularly, which are required to be remeasured at fair value in accordance with accounting standards. According to the Law on Accounting 2015, revaluation of assets and liabilities at fair value must be supported by a verifiable basis. Where there is no basis to determine fair value reliably, the assets and liabilities shall be recognised at cost. The Law on Accounting 2015 also provides that the Ministry of Finance shall specifically stipulate which assets and liabilities are measured and recognised at fair value and the accounting methods of recognition and measurement at fair value

### 2. Supplementing with the "substance over form" accounting principle

The Law on Accounting 2015 provides that the financial statements must be prepared and presented in a manner that fairly reflects the substances of transactions rather than their forms. This is one of the important accounting principles of the International Financial Reporting Standards which had not been included in the Law on Accounting 2003, accounting standards or relevant regulations which were previously issued. The inclusion of this requirement in legal documents may have significant impacts on the accounting for transactions that have legal forms different from their economic substance and also raise a question: if sub-law documents have not been issued to provide guidance on this new principle, should the reporting entities directly apply this requirement of the law or should they wait until subordinated legal documents are updated and amended as appropriate? For example, an agreement whose economic substance is a finance lease agreement but whose legal form does not reflect as a finance lease agreement (an asset output offtake agreement or a lease agreement, under which substantially all risks and rewards of the leased assets are transferred to the lessee, but is not specified as a finance lease agreement).

### 3. Accounting currency and exchange rates for translation

Similar to the Law on Accounting 2003, the Law on Accounting 2015 also provides that the accounting currency is Vietnam Dong. However, where economic and financial transactions are incurred in foreign currencies, according to the Law on Accounting 2015, the accounting entity must recognise such transactions in original currencies and translate them into Vietnam Dong at the actual exchange rates instead of electing to use actual the exchange rates or the exchange rate announced by the State Bank of Vietnam at the transaction dates as required by the Law on Accounting 2003.

An entity whose receipts and payments are mainly denominated in a certain foreign currency may elect that foreign currency as its accounting currency. In preparation of the financial statements for use in Vietnam, according to the Law on Accounting 2015, the accounting entity is required to translate them into Vietnam Dong at the actual exchange rates instead of the exchange rate announced by the State Bank of Vietnam at the book closing date as required by the Law on Accounting 2003.

### 4. Accounting inspection

The Law on Accounting 2015 specifies agencies who have the authority to decide on carrying out accounting inspections and those who have the authority to carry out accounting inspections. Accordingly, agencies who have the authority to decide on carrying out accounting inspections including the Ministry of Finance; other ministries, ministerial agencies, Government agencies and other Central agencies shall decide on carrying out accounting inspections at accounting entities under their responsibilities; provincial People's Committees shall decide on carrying out accounting inspections at accounting entities in their provinces; superior entities shall decide on carrying out accounting inspections at their dependent accounting units. Agencies who have the authority to carry out accounting inspections include the aforementioned agencies and state inspection agencies, financial inspection agencies, State Audit of Vietnam and tax authorities while performing their inspection, investigation or auditing tasks at accounting entities. Similar to the Law on Accounting 2003, the Law on Accounting 2015 provides that accounting inspections shall only be carried out under a decision of a competent agency as prescribed by law. However, the Law on Accounting 2015 has removed the provision that accounting entities are subject to no more than one inspection of one area within a year that was in the Law on Accounting 2003. According to the Law on Accounting 2015, the duration of an accounting inspection shall be decided by the agency who has the authority to carry out the accounting inspection but not exceeding 10 days, excluding days off and public holidays as per the Labor Law's regulation. If the inspection matter is complicated and thus requires more time for assessment, reconciliation and forming a conclusion, the agency who has the authority to carry out the accounting inspection may extend the duration for up to 05 days, excluding days off and public holidays as per the Labor Law's regulation.

The Law on Accounting 2015 requires that an accounting entity must establish an internal control system to meet the following requirements: its assets are safeguarded and protected from improper and inefficient use; transactions are approved by authorised persons and fully recorded as the basis for preparation and presentation of the financial statements that give a true and fair view. The law also provides for the responsibilities of internal audit function which include: examine the suitability, effectiveness, and efficiency of the internal

control system; examine and certify the quality, reliability of economic and financial information of the financial statements and management accounting reports before they are submitted for approval; examine the observance to the operation and management principles and compliance with law, finance and accounting regimes, policies, resolutions, and decisions of accounting entities' management; detect deficiencies, weaknesses and frauds in management and safeguarding of the entity's assets; propose solutions for improvement of the management and executive system of the accounting entity. These provisions was not included in the Law on Accounting 2003; however, they are consistent with the internal audit regulations for state-owned enterprises promulgated under Decision No. 832-TC/QD-CDKT of the Ministry of Finance dated 28 October 1997.

### 5. Provision of Accounting Services

The Law on Accounting 2015 specifies the requirements for certified accountants and certified practising accountants while the Law on Accounting 2003 only stipulates the overall conditions for being granted with an accounting practitioner certificate. The conditions on professional ethics, degree and passing the exam for certified accountants are regulated similarly to the Law on Accounting 2003. However, the Law on Accounting 2015 does not include the requirement for working experience in accounting and finance area of at least 5 years as provided in the Law on Accounting 2003. It should be noted that certified accountants are not eligible to practise auditing.

Besides, the Law on Accounting 2015 also stipulates the conditions for being granted a certificate of eligibility for provision of accounting services to various forms of enterprises, and the application dossier for a certificate of eligibility for provision of accounting services. Accordingly, enterprises eligible for provision of accounting services are required to be organised in the form of a limited liability company with two or more members, a partnership, a private enterprise and to have at least two certified practising accountants. These requirements were not included in the Law on Accounting 2003; however, they are consistent with those in Circular No. 72/2007/TT-BTC dated 27 June 2007 guiding the registration and regulation of accounting practice ("Circular 72"). In respect of the requirements for individuals to register for providing accounting services, apart from the conditions specified in Circular 72 which are having full civil capacity and having participated sufficiently in update courses as required, the Law on Accounting 2015 supplements another condition of having at least 36 months of working experience in accounting and finance area since graduation from university.

### 6. Other changes

- Changing the name of Balance sheet to Statement of financial position, which is in consistency with the term used in the International Financial Reporting Standards.
- Supplementing with the code of ethics for the accounting profession as a standard to be applied together with accounting standards. In accordance with the Law, the code of ethics for the accounting profession comprises regulations and instructions on principles, application of the code of ethics to person conducting accounting work, certified practising accountants, enterprises and households providing accounting services. The accounting standards and the codes of ethics for accountancy profession shall be regulated by the Ministry of Finance with the reference to the international standards on accounting and suitable to the specific conditions of Vietnam.

- Supplementing with regulations that accounting entities are allowed to round numbers and use abbreviated units when preparing and publishing financial statements. The regulations on abbreviated units were included in Decree No. 129/2004/ND-CP (“Decree 129”) issued by the Government dated 31 May 2004 providing details and guidance for implementation of some articles of the Law on Accounting applicable to business activities. However, in accordance with Decree 129, the usage of abbreviated units are only allowed for consolidated financial statements or combined financial statements of companies who have some dependent accounting units; if the numbers on the financial statements have more than 9 digits, they can be rounded up to thousand or million.
- Supplementing with regulations on financial statements of the State. Accordingly, financial statements of the State are prepared by consolidating financial statements of State agencies, public service agencies, economic organisations, and relevant units belong to the State sector; and used for disclosing financial position, performance and cash flows of the State on a nationwide basis and for each geographical area. This is a new content in accounting which facilitates competent State agencies to grasp the movements in resources and assets of the country and assist the effective management of resources and the transparency of the State’s financial information.

- Supplementing with a number of prohibited acts, including: renting, leasing accountant certificates or certificates of accounting practice registration in any way; maintaining two or more systems of accounting book or providing, publishing inconsistent sets of financial statements in the same accounting period; including the phrase “accounting services” in the enterprise’s name while the enterprise is unable to obtain a certificate of eligibility for provision of accounting services within 06 months from the issuance date of the Enterprise Registration Certificate, or while the enterprise has ceased to provide accounting services; etc.

The Law on Accounting 2015 takes effect from 1 January 2017. With the change from historical cost accounting principle to fair value accounting principle and the supplementation of the “substance over form” accounting principle, the Law on Accounting 2015 is a step closer to the international accounting practice. However, in order to have these accounting principles applied in a proper and consistent manner, the Ministry of Finance needs to provide specific guidance on fair value recognition and measurement. Recently, the Ministry of Finance has introduced the fair value accounting principle in Circular No. 210/2014/TT-BTC providing guidance on accounting system applicable to securities companies. The fair value accounting principle in this Circular becomes effective when the Law on Accounting 2015 takes effect. In additions, the new regulations on financial statements of the State, internal control, accounting inspection are aimed at improving the effectiveness of accounting, finance and the transparency of the State’s financial information.

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