

THE POSSIBILITIES OF ADOPTING IAS/IFRS IN VIETNAM: AN ANALYSIS

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Abstract

It is universally acknowledged that the matter of adoption and its similar process (harmonisation or convergence) has provoked extensively heated debate in the accounting literature, both from advocates and from opponents. Nonetheless, the accounting literature lacks research into the field of Vietnamese accounting, in general, and the nature of Vietnamese accounting systems as well as Vietnamese Accounting Standards (VAS), in particular. This paper in-depth analyses the possibility of adopting IAS/IFRS in Vietnam by critical examining findings of the accounting literature on three aspects: factors influencing the development of accounting practices and accounting standards, factors affecting the adoption of IAS/IFRS by developing countries, and arguments for and against adoption of IAS/IFRS. Based on matching findings in the latent literature, especially those relating to contextual factors that have an impact on adopting IAS/IFRS, with the current situation of Vietnam, this paper proposes that adoption of IAS/IFRS with selection is practically possible in Vietnam.

Keywords: Vietnamese Accounting Standards, Accounting Development, Adopting International Accounting Standards, Adopting IAS, Adopting IFRS, Accounting in Vietnam

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1. Introduction

The Socialist Republic of Vietnam, a developing country¹, is approximately 1,650 kilometres long and has a land area of 329,560 square kilometres. The country shares its border with the People's Republic of China, Cambodia, and the Lao People's Democratic Republic. The population of Vietnam (as estimated in July, 2007) is just over 85 million and its official language is Vietnamese, although English has been increasingly favoured as a second language (Central Intelligence Agency 2007). Its economic growth is impressive, though its gross domestic product per capita – as estimated in 2006 – is only US\$3,100, ranked one hundred fifty seventh in the world. The country has a well-educated population with the literacy rate of over 90 per cent (Central Intelligence Agency 2007; Narayan & Godden 2000).

In terms of the legal system, according to the 1992 Constitution, the National Assembly is legally recognised as the highest representative organ of the

people and the highest organ of State power of the country. Accordingly, the National Assembly has obligations to make or amend laws. More specifically, the authority's order of Vietnamese Laws is as follows: laws (which are passed by the National Assembly), ordinances (which are passed and issued by the Standing Committee), decrees (which are issued by the Prime Minister), and then decisions as well as circulars (which are issued by Ministers). As regard Vietnamese accounting policies and standards, the legal enforcement is in the hierarchical order, from law on accounting², to decrees (providing detailed regulations and guidelines for implementation of the accounting law), and to decisions and then circulars (which are issued and promulgated by the Minister of Finance). Not surprisingly, Vietnamese Accounting Standards (VAS) and Vietnamese Standards on Auditing (VSA) are issued and promulgated by the Minister of Finance, in the forms of decisions, and therefore those

¹ From the International Monetary Fund standpoint, a developing country refers to the bottom group in the hierarchy of advanced economies, countries in transition, and developing countries. Further details of such classifications can be explored at the International Monetary Fund website (see The International Monetary Fund 2007). Chand (2005, p.213) also offers further discussion on the term 'developing countries'.

² Law on accounting was passed by Legislature IX of the National Assembly of the Socialist Republic of Vietnam at its 3rd section on 17th June 2003. Vietnamese law, decrees, as well as circulars or decisions on accounting, can be freely downloaded from the Ministry of Finance of Vietnam's website at <http://www.mof.gov.vn/DefaultE.aspx?tabid=551>. However, it is important to note that not all of the regulations on accounting were translated into English.

accounting rules automatically become mandatory for accounting practices in Vietnam. This issue will be discussed further in the next section of this paper.

Although attempts to make IAS/IFRS fully applicable for accounting practices all over the world are pursued by the International Accounting Standard Boards (IASB), the issues of convergence, harmonisation, and adoption of IAS/IFRS³ have proved spirited debates, not only by academia, but also by accounting practitioners and regulatory bodies. In the case of less developed countries, this debate has become more intense, given that certain influential factors galvanising the momentum for a single set of accounting standards are absent or not strong enough. The phenomena can be understood by clarifying paradigms of accounting harmonisation. According to Saudagaran and Diga (1997a), the IASB, as an advocate of the global paradigm of accounting harmonisation, considers its role as a formulating and promoting body of an internationally acceptable accounting standards set, while the regional paradigm holders perceive accounting harmonisation as a process occurring among geographically proximate countries.

In the case of Vietnam, Narayan et al. (2000) comment that IASs are informally used for private sector reporting. Additionally, in the report providing an assessment of Vietnam's corporate governance practices using the OECD Corporate Governance Principles as a benchmark, World Bank (2006) states that VAS are consistent with IFRS and the enforcement mechanisms, as was noted earlier, by laws, decrees, and circulars of Vietnam. Currently, Vietnamese laws, such as law on investment law on enterprises and commercial law, require enterprises' compliance with VAS, in particular, and Vietnamese accounting policies, in general (The National Assembly 2005a; 2005b; 2005c). According to the World Bank (2006), enterprises in Vietnam, however, insufficiently complied with accounting standards, and their disclosures are limited and untimely.

At the time of writing this paper, there is little or no research that thoroughly examines the nature of Vietnamese accounting systems, Vietnamese Accounting Standards (VAS) and the possibility that Vietnam will harmonise or adopt IAS. More generally, the field of Vietnamese accounting is almost non-existent in the international accounting literature. Despite this fact, some scholars firmly believe the possibility of VAS harmonising with the accounting standards of the other countries in the regions (specifically ones belonging to the Association of South East Asian Nations), and then

with IAS, is quite likely and not far from reality (Phung 2006). Given this, this paper attempts to provide qualitative analysis that enables conclusion to be drawn on whether it is possible for Vietnam to adopt IAS/IFRS or harmonise VAS with IAS/IFRS.

This paper is structured as follows. Section two is a literature review that critically examines findings of the accounting literature on three aspects. The first one is a discussion of factors that have an effect on the development of accounting practices and accounting standards. The second is the clarification of factors that have an influence on the adoption of IAS/IFRS. The third are arguments for and against the adoption of IAS/IFRS. Section three discusses the likelihood of the adoption of IAS/IFRS in Vietnam based on matching findings in the latent literature, especially those relating to contextual factors that have an impact on adopting IAS/IFRS, with the current situation of Vietnam. The paper concludes with section four.

2. Literature review

2.1. Factors influencing the development of accounting practices and accounting standards

It is not difficult to observe the variations in financial reporting practices and accounting standards from country to country that result from differences in the nature of the country's legal system, the prevalence of finance providers, the influence of taxation, and the strength of the accountancy profession (Narayan et al. 2000). From an international accounting perspective, Nobes and Parker (1995) discusses various factors leading to international differences in accounting, such as legal systems, providers of finance, taxation, the accountancy profession, inflation, accounting theory, and accidents. In the same vein, Mueller et al. (1997) outline variables that shape a country's accounting development, including the relationship between business and capital providers, the political and economic connection with other countries, the legal system, the levels of inflation, the culture, and other factors (such as size and complexity of business enterprises, sophistication of management and financial community, and general levels of education). Nobes (1998) summarises a long list of proposed reasons for international accounting differences that consist of the nature of business ownership and financing systems, colonial inheritance, invasions, taxation, inflation, level of education, age and size of accountancy profession, stage of economic development, legal systems, culture, history, geography, language, influence of theory, political systems, social climate, religion, and accidents. Most of these factors were regarded as antecedents of accounting standards by Pagiavlas (2003). This section is devoted to outlining the main factors that have been considered or proved to have

³ Though there are differences in concepts of convergence, harmonization, and adoption of IAS/IFRS, this paper uses these concepts with the meaning that countries' accounting standards have moved towards IAS/IFRS. Ali (2005) provides detailed discussions on the concept of convergence, harmonization, and adoption of IAS/IFRS.

been associated with the accounting practices⁴ and the development of accounting standards in the accounting literature.

The accounting literature witnesses a number of studies discussing the influence of culture on accounting practices. In this context, it is worth noting that research into the relation between a country's culture, in broad terms, and its financial reporting practices is deemed as of particular relevance with the assertion of the boundary of financial reporting models and practices, as well as behaviours influenced by cultural factors on accounting contexts (Doupnik & Tsakumis 2004). The research of Gray (1988) is universally recognised as a pioneering one in this field of research. Deriving from a reviewing of accounting literature and practices, Gray (1988) defines four accounting values: professionalism versus statutory control, uniformity versus flexibility, conservatism versus optimism, and secrecy versus transparency. He proposed, without conducting a test, that these accounting values of a country would be directly linked to its societal cultural values. Subsequently, a number of studies have been conducted to empirically test his theory of cultural relevance⁵.

Interestingly, the mechanism in which culture results in accounting differences is not obvious, as noted in Nobes (1998). Hence, it is reasonable to treat culture as the background factor that leads to more direct influential factors on accounting differences. More specifically, for a country with a strong indigenous culture, Nobes (1998) proposes that the accounting system is for outside shareholders if a strong equity-outsider⁶ system exists, or otherwise accounting is for tax and creditors. Whereas, accounting systems, in a country whose culture is still dominated by or heavily influenced from the outside, are imported from the dominating country, regardless of the strength of the local equity-outsider financial system. Additionally, Nobes hypothesises that when a country establishing a strong equity-outsider market, its accounting system will move from accounting for tax and creditors to accounting for the outside shareholders. Apart from these, accounting systems in

outsider companies⁷ in a country with weak a equity-outsider market are also proposed to move to accounting for outside shareholders. In that case, it is worth noting that Vietnam is the country with strong indigenous culture which can be proved by the fact that Vietnamese culture is cannot assimilated by foreign invaders. However, a strong equity-outsider system has not well existed in Vietnam rather than the close and long-term relationships between Vietnamese companies and their financial providers, especially the government. Holding the viewpoint of Nobes (1998), it appears that Vietnamese accounting systems is not for outside shareholders but for tax and creditors rather.

Examining the extent to which Western accounting systems are relevant to developing countries' accounting systems, Baydoun and Willett (1995) formulate a framework of the relation between measurement levels and accounting disclosure and identify the potential differences in accounting disclosure between Western and developing countries, especially those relating to qualitative information. Their argument appears plausible given that accounting disclosure attempt to provide supplementary information of which someone may be interested. Accordingly, disclosures in Western countries may differ from those in developing countries in terms of the volume of disclosures that can be influenced by cultural forces.

In cross-country research, Cooke and Wallace (1990) provide evidence to support the contention that financial reporting regulations and disclosure practices of developing countries are influenced by a broad range of environmental factors, such as economics, politics, and society. In the European Union setting, Joo and Lang's (1994) study into accounting diversity suggests three primary factors leading to the differences in accounting practices and financial reporting among countries, including the relative importance of the law, the providers of capital, and the linkage between tax and financial reporting. More specifically, the authors argue that the law may have an influence on financial reporting through its directives in accounting policy. Capital providers may have impacts on financial reporting practices; for instance, accounting requirements and practices in countries where capital is mainly financed a few block-holders emphasise the accurate reported profits, but do not emphasise the public reporting of information, whereas accounting practices in countries where companies are largely financed by a relatively small number of banks do focus on conservative accounting. Besides, taxation also has an impact on accounting numbers reported in financial statements because the preparers of financial statements in countries where reported profits are the

⁴ Generally, accounting researchers consider accounting practices as being synonymous with financial reporting practices. In essence, this view is explicitly stated in prior research, for instance, Nobes (1998), HassabElnaby et al. (2003).

⁵ Critical review of research into the cultural dimension of accounting and the effects of national culture on a country's accounting development and practices is not the purpose of this essay. Further details of research in this area can be explored in Chanchani and MacGregor (1999) and in Doupnik and Tsakumis (2004).

⁶ Institutions, such as governments, banks, families, and other companies, that have close and long-term relationships with their investees, are defined as insiders, or otherwise these institutions are defined as outsiders.

⁷ An outsider company is defined as a company whose controlling stake is widely spread among a large number of outside equity-holders.

basis for the calculations of taxable income have more incentives to report lower incomes so as to reduce taxes⁸. As regards Vietnamese setting, laws have proved extremely influential in accounting practices, as was earlier noted by the hierarchical order of accounting regulations. Further, the issuance and promulgation of taxation regulations in Vietnam is similar to that of accounting regulations. Apart from tax laws passed by the National Assembly and tax decrees issued by the Prime Minister, the Minister of Finance has authority and responsibility to issue decisions and circulars on tax. The powerful influence of laws as well as close association between tax and accounting policies enhance proper understanding of the strong link between tax and financial reporting practices in Vietnam that is indeed widely regarded as accounting for tax purposes.

In the research into accounting disclosures in the United States and the United Kingdom setting, Frost and Pownall (1994) indicate the effects of disclosure rules as well as regulatory monitoring and enforcement on accounting disclosures. In the United Kingdom, all foreign listed companies are subject to the same periodic reporting rules and the enforcement of disclosure rules are considered as flexible and practitioner-oriented, whilst in the United States disclosure rules vary across three classes of foreign listed companies and disclosure rules are tightly monitored and enforced by the Securities and Exchange Commission. Their research documents that the compliance and frequency of accounting disclosures is greater in the United States than in the United Kingdom.

The research of Ali and Hwang (2000) into the association between country-specific factors and the value relevance of accounting data (measured by earnings and book value of equity) based on data from manufacturing firms from sixteen advanced countries also suggests several factors that have significant impacts on accounting development and practices. Overall, this work indicates that the value relevance is lower in countries where the usefulness of financial reports for investment decision-making of investors or creditors is not a high priority. Firstly, regarding the financial system, the authors find that the value relevance of financial reports is lower for the countries with a bank-oriented system compared to those with a market-oriented system. Secondly, with respect to the accounting standard-setting process, the value relevance is low in countries where accounting standards and accounting financial regulations were

formulated by governments for the purpose of satisfying regulatory needs, such as tax measures and law enforcement rather than the needs for investment decision-making of investors and creditors. These findings are opposed to the situation where the accounting standard-setting process is considered more objective as the private sector puts in a great deal of effort. Further, the low value relevance is also reported in countries where financial accounting measurements were significantly influenced by tax policies and in countries whose accounting practices were classified into the Continental model⁹. In short, Ali and Hwang's 2000 study suggests at least four factors that have substantial impacts on the development of accounting practices in terms of financial reporting: the legal system of the country, the close ties between financial accounting practices and taxation purposes, the prevalence of financial provider, and the role of accounting professionals in the accounting standard-setting process. Unanimously, these findings firmly back up the view of Narayan et al. (2000) on the influential factors on financial reporting practices and accounting standards among countries.

HassabElnaby et al. (2003) examine the directional and magnitude impacts that environmental factors – including the economic environment, the political environment, stock market development, and the process of privatising state-owned corporations – have on the development of accounting in the Egyptian setting by using a 37-year data set covering the period from 1961 to 1997. The authors provide empirical evidence as to the positive correlation between accounting development (measured by the development of accounting profession and the system of accounting education) and the level of the economy as well as the political environment. Additionally, this work indicates that the influence that environmental factors have on accounting development differs over time changing from democracy to the economic reform period.

In relation to firm disclosure, employing a representative sample of firms from around forty countries, Hope (2003) conducts an empirical test for the association between the roles of the legal system and the national culture, and the level of annual report disclosures. One of observations is that culture is the conditioning factor for legal origins, based on the evidence that the cultural measures behave differently in common law versus code law countries. The overall conclusion of the paper is that the legal system

⁸ In this context, the suggestion of Everson (2005) on the calculus model for owed tax collection is noteworthy. Applying that model, tax dodgers would have to pay the sum of the owed tax, the professional costs, the interests and the penalties instead of only the owed tax and the interest in the old model. Because settlements a tax dodge debt or a tax evasion one is now more expensive, this could discourage and deter taxpayers' non-compliance.

⁹ The continental model of financial accounting is usually characterised by a system of accounting that is heavily influenced by the government and accounting methods tend to be closely associated with taxation policy (see, e.g., Deegan 2006; Joos & Lang 1994). See Mueller et al. (1997) for more details about accounting model classification and D'Arcy (2001) for debate on the classification of accounting models.

is the key determinant for the differences in firm disclosures. Additionally, Hope (2003) performs a test on the effects of national culture on firm disclosure, by controlling the legal origin, and finds that national culture is an important factor for explaining the differences in firm disclosures across countries, that is, culture is an important attribute of the financial reporting environment.

2.2. Factors influencing the adoption of IAS/IFRS by developing countries

As discussed earlier, financial reporting practices vary among countries. This reality, coupled with the need to have a common language of business around the world, lead to the creation of the International Accounting Standards Committee (and now its successor, the IASB) (Epstein & Mirza 2006; Narayan et al. 2000). Moreover, Narayan et al. (2000) state that the development of IAS/IFRS aims to reduce national differences in accounting practices, ultimately to assist not only investors and creditors in making better investment decisions, but also governments in formulating more appropriate policies. In particular, a stronger momentum towards adopting IAS/IFRS has been found in countries who have increasingly participated in international organisations, experienced global capital markets, and the growth of multinational enterprises as well (Ali 2005).

Currently, many developing countries have applied IAS/IFRS directly or adopted IAS/IFRS with little amendment as their national accounting standards. From an economic perspective, adopting or harmonising IAS/IFRS is widely regarded as an extremely useful way for developing countries (Narayan et al. 2000, p.21; Nobes & Parker 1995, p.127), provided that these countries do not have a strong capability, whilst the accounting standard-setting process is enormously costly. Additionally, adopting IAS/IFRS is also a means of avoiding the implicit adoption of politically unattractive alternative accounting standards, for instance those of the US or UK. This assertion is especially supported by the cases of developing countries and those having been colonies of imperial powers that tend to be more sensitive to intrusion (Ali 2005). Apart from those specific reasons, facilitating the international connection between domestic and foreign companies, as well as between domestic and international accountancy professions, is a common driving force for adopting IAS/IFRS (Nobes & Parker 1995). In addition to this, the movement towards IAS/IFRS, from the market standpoint, is perceived as a means of achieving the same level of the more developed capital market's financial requirements (Saudagaran & Diga 1997b).

The accounting literature benefits from quite a few empirical research investigating factors that are favourable or unfavourable for the adoption of

IAS/IFRS. As affirmed by Zeghal and Mhedhbi (2006), most of the current work concerning the adoption of IAS are normative or descriptive of circumstances of a particular country, and are limited to provide a the country's general nature. Accordingly, empirical research on favourable or unfavourable conditions for the adoption of IAS is almost non-existent. Zeghal and Mhedhbi (2006) investigate factors that have effects on the adoption of IAS in developing countries, including economic growth, education level, the degree of external economic openness, cultural membership in a group of countries, and the existence of a capital market. Their major findings are that developing countries having the higher literacy rates, capital markets and an Anglo-American culture¹⁰ are the most likely to adopt international accounting standards. In that regard, the paper suggests at least two main implications. With respect to language, the implication is that developing countries in which English is officially or at least widely used are more likely to adopt IAS. In fact, this implication is not surprising because English is an official langue used in IAS/IFRS. As for the capital-market, the paper implies that high-quality accounting information is critical and strategically vital to the development of both listed companies and the capital market.

Saudagaran and Diga (1997a) investigate accounting regulations in the Association of South East Asian Nations (ASEAN) at a time when the two accounting model paradigms, i.e. the global paradigm and the regional paradigm, are fiercely competing. After performing a comparative analysis of the push for regional accounting harmonisation (forced by the ASEAN Federation of Accountants) and the factors aiding globalisation in ASEAN, along with providing the reasons explaining the advantages of adopting IAS over formulating ASEAN accounting standards¹¹, the authors conclude that the regional harmonisation in ASEAN is deterred. In other words, the global paradigm of accounting harmonisation is still dominant in ASEAN countries.

By examining the user's perception of accounting harmonisation in the Gulf Co-operation Council countries, Naser et al. (2005) reveal that while sharing the same language, and similar economic as well as cultural features are the most important factors that may facilitate accounting harmonization, the lack of professional and legal

¹⁰ A country's culture is categorised as Anglo-American if English is officially used in that country - followed culture classifications of Frank (1979) - or the country's history has been strongly tied with the United Kingdom or the United States - followed culture classifications of Nobes (1998).

¹¹ These reasons include lack of resources for formulating ASEAN accounting standards, ease of IAS implementation (for they are flexible), political considerations, standard-setting structure, and foreign investors' confidence (Saudagaran & Diga 1997a)

requirements and enforcement problems are the most significant obstructions to the harmonization of accounting practices in this region.

Applying IASs is considered as a means of bring consistency to financial statements, at least from the actors' and regulators' viewpoints (Chand 2005). However, the challenge is that though the need to adopt IASs is apparent and the force pushing for adopting IASs is irresistible, the success in adopting IASs only can be achieved if there is a strong commitment and concerted effort by numerous participants, including the regulators, standard setters, financial providers, business community, and of course, the accountancy profession. Given this, Chand (2005) identifies certain preconditions for the adoption of IASs in developing countries with respect to the necessity of resources and skills, as well as the status of the capital and other markets. Ultimately, developing countries should properly assess five strategic factors, including professional expertise, education and training, legal support, the proportion of multinational companies to local companies, and adoption of IASs with amendments, prior to making decisions on adopting IASs. As for language, Abd-Elsalam and Weetman (2003) note that the difference in the country's official language can be one of difficulties in utilising and complying with IAS/IFRS, especially where IAS/IFRS have not been translated into the native language. Apart from this, the difference in the translation of IAS/IFRS can be the other problem, as was exemplified and proposed by Nobes (2006).

Chand and White (2007) seek to identify the underlying reasons behind the Fijian Institute of Accountants' decision on the application of IAS/IFRS to financial reporting prepared on or after 1 July 2002, especially in the context that there were only sixteen listed companies on the local stock market. Interestingly, the authors conclude that the process of adoption of IAS/IFRS in Fiji can result in transferring economic resources in favour of selected private interests while the public interests are usually ignored. Thus, whilst the use of IFRSs in Fiji may be beneficial for reporting entities who engage in the global economy, it is obviously beneficial for the accounting profession and the 'big four'¹² accounting firms.

2.3. Arguments for and against adoption of IAS/IFRS

It is widely acknowledged that the issue of adoption of IAS/IFRS and its similar process – harmonisation or convergence – has provoked extensively heated debate in the literature, both from advocates and from opponents.

The driving force for electing to adopt IAS/IFRS, as was cited in various sources, is to increase international comparability of financial reports (Ali 2005; Mueller et al. 1997, p.40). Accordingly, adopting IAS/IFRS also promises to ensure better analysis of financial statements and improving the accounting system's quality (Mueller et al. 1997, p.53). Besides, preference for IAS/IFRS has sprung from the notion that these standards have been produced by an independent, private-sector body, and developed in response to the demand of capital markets (Whittington 2005). In essence, accounting harmonisation is critical for multinational enterprises, not only because of reducing the costs of consolidating financial statements, but also facilitating the investment decision-making for investors (Nobes & Parker 1995, p.118). Obviously, adopting IFRSs is a vehicle for reducing information cost and stimulating capital flows, especially important for multinational enterprises whose shares are listed on multiple stock exchanges (Copper et al. 2003; Haswell & McKinnon 2003). Further, from the regulatory body's standpoint, adopting IAS/IFRS is the best solution for solving the financial constraints, given that the formulation and promulgation of accounting standards incurs huge costs.

Dumontier and Raffournier (1998) provide empirical evidence as to the potential benefits obtaining from applying IAS/IFRS by indicating that Swiss companies voluntarily comply with IASs so as to reduce political costs and pressure from the outside market. More specifically, the authors document that the firms that are larger, more internationally diversified, less capital intensive, and that have a more diffuse ownership are more likely to voluntarily comply with IASs. In other words, these are voluntary driven from incentives rather than standards per se. By sharing this view, based on an examination of four East Asian jurisdictions including Hong Kong, Malaysia, Singapore, and Thailand, Ball et al. (2003) argue that although those jurisdictions have high quality accounting standards, their financial reporting preparers confront strong institutionally grounded incentives to make implementation decisions leading to low quality reported numbers. The authors further suggest that incentives seem to have dominant influences on accounting standards as a determinant of financial reporting in the jurisdictions.

The accounting literature, on the other hand, documents a number of arguments against adopting IAS/IFRS. Firstly, opponents explicitly state that the explanation for the needs of adopting IAS/IFRS as a response to the demand of the global capital market is unconvincing, because a well developed global capital market, already exists (Goeltz 1991). In so far the global capital market has continually evolved without unified accounting standards; moreover, applying the economic theory, some contend that harmonised international accounting standards and a single set of accounting practices are not really necessary because,

¹² Chand and White (2006) note that the 'big four' accounting firms in Fiji are DeloitteToucheTohmatsu, KPMG, PriceWaterhouseCooper, and Ernst and Young.

under the competitive force, corporations needing funds will provide their financial statements in the best quality so as to enjoy lower interest rates and higher common stock prices or otherwise (Mueller et al. 1997, p.53). In addition, in terms of compliance, unauthoritative implementation guidance provided by the IASB that has broad room for professional judgement may not guarantee the comparability of IFRS-based financial reporting across jurisdictions (Schipper 2005). Nobes and Parker (1995) hold a similar view by stating that a world-wide enforcement agency is lacking.

As IASs are widely considered as high quality (e.g. Ball et al. 2000), one may argue that applying IASs may enhance the quality of financial reporting practices, and accounting systems accordingly. Nevertheless, Ding et al. (2007) suggest that purely adopting IAS does not necessarily advance a national accounting system if the country's economic development policy, corporate governance mechanisms, and financial market functioning do not fundamentally change. In a similar vein, Ball et al. (2000) comment that the high quality of financial statements cannot be achieved if incentives of managers and auditors dominate accounting standards, even such if financial statements are prepared based on high quality accounting standards, i.e. those of the UK, the US, or the IASB. Ashraf and Ghani (2005) share this view by reporting that the adoption of IFRSs in Pakistan as national standards has not led to improvement in the quality of financial reporting.

Further, since the principal purposes of financial statements vary among jurisdictions, it would be reasonably expected that financial reporting should vary rather than being identical, which is prepared based on a single set of accounting standards (Nobes & Parker 1995). In the extreme, one may argue that companies that are exposed to international markets should prepare two sets of financial statements, one for the domestic purposes, and the other for international needs. Moreover, Nobes and Parker (1995) indicate another obstacle to adopting IAS/IFRS which emanates from the economic consequence of accounting standards, as has more recently been highlighted.

3. Discussion

In terms of accounting models, the Vietnamese accounting system is generally classified as a Continental European style (see e.g., Narayan et al. 2000). As was earlier mentioned, the Vietnamese accounting system is strictly regulated by law, from laws on accounting (the highest hierarchical level) to circulars (the lowest hierarchical level). Especially, entry bookkeeping has been guided by the Ministry of Finance, accounting practitioners have to stick to these guidelines rather than make professional judgements based on accounting concepts and

principals. This situation does not change even now VAS has been formulated and promulgated. Given this, it is helpful to understand Vietnamese the financial accounting practice environment compared with Western accounting systems. As a result, it is useful to understand the probability of adoption of IAS/IFRS in the country.

The efforts of formulation and promulgation of VAS somewhat reflects the development of Vietnamese accounting systems. However, it would be worth noting that this is the prime product of the European Union Assistance Project which aims at introducing IASs to the Vietnamese Government and was completed in 1998 (Narayan et al. 2000). As for timeline for issuance of VAS, it was projected that the Ministry of Finance would issue a full set of VASs by the end of the year 2003 (Narayan & Godden 2000). Nevertheless, only fourteen accounting standards were issued up to the end of 2003; the other ten standards were issued in the year 2005, which added up to a total of 26 VASs at the time of this paper (see Appendix 1). Further, according to the Ministry of Finance, issuance of the remaining standards has not been planned due to the resource constraints (Deloitte Touche Tohmatsu 2006). Taken together, it can be safe to concluding that Vietnam has made slow progress on the development of accounting standards, which certainly lets the country lag behind other regional countries, especially whose accounting standards that have been adopted IAS/IFRS. Additionally, given that the financial constraints resulting in the temporary suspension of the development of VAS caused by, adopting IAS/IFRS in Vietnam could be an effective solution.

In comparison with IAS/IFRS, the significant differences between VAS and IAS/IFRS are clearly shown. As was noted by Narayan and Godden (2000), VASs have been established based on IAS/IFRS with significant adjustments for country-specific factors, including economics, finance, and accounting practices. Moreover, concerning measurement, whilst a fair value approach to assets and liabilities has been increasingly recognised under IFRSs, the historical cost method is still dominant in VASs (World Bank 2006). In relation to methodology, it is also worth noting that while IASs provide a number of benchmarks and options, VASs mainly consist of guidelines for a recommended system of accounting practices (Narayan & Godden 2000). Indeed, these deviations can be easily understood in the context of Vietnam in which accounting systems are prescriptive and strictly regulated by laws, as earlier highlighted.

With an attempt to predict the possibility of adopting IAS/IFRS in Vietnam, taking into consideration culture differences when applying IAS/IFRS is crucial because, as was warned by a number of previous studies, national culture may be persistent and resistant to changes in accounting infrastructure (Hope 2003). Furthermore, it would be worth acknowledging that differences in information

needs are recognised among different societies, particularly between developing countries and developed countries as well as the international business community (Taylor 1987), and Western accounting systems may not be appropriate for developing countries (Abd-Elsalam & Weetman 2003).

In Vietnam, the financial reporting system (i.e. financial accounting system) and tax system are closely related. Accounting for income and expenditure has to follow tax regulations. In other words, financial accounting is not distinguishable from accounting systems for tax purpose. Not surprisingly, Dang et al. (2006) report that tax authorities and government agencies are the main users of financial reports of small and medium companies in Vietnam. These findings may be applicable for the cases of the other kinds of enterprises because they are subject to almost same set of Vietnamese accounting regulations. Given this, it is not difficult to understand the reason why new accounting guidelines are often issued following new financial or taxation policies. In this context, it is worth acknowledging the findings from Inoue and Thomas (1996)'s work that accounting choices by managers are significantly influenced by taxation policy given that taxation and accounting systems are closely tied; that is, it seems that loose accounting rules on financial accounting practices, which are based on general concepts and principles, are impractical in Vietnam

As was discussed in early sections of the paper, such dimensions as politics, society, economics, and culture obviously vary among countries. Previous discussions, for instance, those relating to the Anglo-American accounting model and the Continental accounting model, also indicate that the goals and information needs differ from one country to another. Thus, it seems reasonable to suggest that each country should establish its own system to serve its own needs rather than fully adopt IAS/IFRS without any amendment.

In addition, providing that not much has been done by the IASB for the developing countries (Brown 2007), with several researchers suggesting that IASs do not suit the requirements of the majority of societies, especially developing countries (see e.g., Everett 2003; Sikka 2003). Consequently, the wholesale adoption IAS/IFRS in Vietnam would not be advisable. Rather, the Ministry of Finance should select appropriate IAS/IFRS to apply in Vietnam. The advice on transferring the controlling role of the government in the accounting standard-setting process to the private sector should be taken with caution. Currently, Vietnam still needs the control of the government over accounting standard formulation and promulgation to ensure that VAS satisfies the public interests, or otherwise, issues may arise as in the case of Fiji which was earlier mentioned. Indeed, the

Vietnamese accountancy profession does have limited capability to shoulder that heavy burden¹³.

4. Conclusion

Financial accounting practices vary from one country to another. Accounting standards, as was universally known, serve as sound guidelines for preparing financial reporting and tend to move towards a single set – the international accounting standards, known as IASs or IFRSs. Therefore, the research into the possibility of adopting IAS/IFRS in Vietnam is extremely relevant and benefits for the accounting literature, given that research into accounting in Vietnam, is minimal in the accounting literature. This paper is conducted based on an interpretation of the literature in the field of accounting development, accounting standard-setting, and especially the process of adopting accounting standards, and this is part of a long-lasting debate. Considering the findings and recommendations documented in the current literature with, special consideration of the Vietnamese situation, the paper proposes that adoption of IAS/IFRS with selection is practically possible in Vietnam. More specifically, adoption of selected IAS/IFRS which are appropriate to Vietnamese conditions is strongly recommended.

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¹³ See International Federation of Accountants (2004) for further information about the Vietnamese Accounting Association (VAA). Further, it is hard to imagine how the Vietnamese accountancy profession can successfully carry out its role as an accounting standard setter, provided that it have not been actively involved in international accounting standard setting. For instance, the IASB received more than two hundred eighty four letters of comment on the IFRS 3 *Business Combinations* exposure draft in 2005, but not one from the Vietnamese accountancy profession. The letters of comment can be tracked at <http://www.fasb.org/ocl/fasb-getletters.php?project=1204-001>.

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Appendix 1

VIETNAMESE ACCOUNTING STANDARDS (VAS)

VAS 01	Framework
VAS 02	Inventories
VAS 03	Tangible fixed assets
VAS 04	Intangible fixed assets
VAS 05	Investment properties
VAS 06	Leases
VAS 07	Accounting for investments in associates
VAS 08	Financial reporting of interests in joint ventures
VAS 10	The effects of changes in foreign exchange rates
VAS 11	Business combinations
VAS 14	Turnover and other incomes
VAS 15	Construction contracts
VAS 16	Borrowing costs
VAS 17	Income taxes
VAS 18	Provisions, contingent liabilities and contingent assets
VAS 19	Insurance contracts
VAS 21	Presentation of financial statements
VAS 22	Disclosures in the financial statements of banks and similar financial institutions
VAS 23	Events after the balance sheet date
VAS 24	Cash flow statements
VAS 25	Consolidated financial statements and accounting for investments in subsidiaries
VAS 26	Related party disclosures
VAS 27	Interim financial reporting
VAS 28	Segment reporting
VAS 29	Changes in accounting policies, accounting estimates and errors
VAS 30	Earnings per share