VIETNAM'S PATH TO CONVERGING WITH INTERNATIONAL ACCOUNTING STANDARDS

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Abstract

This research investigates Vietnam's approach to converging with international accounting standards using a variety of *de jure* convergence scores between Vietnamese Accounting Standards ('VAS') and International Accounting Standards/International Financial Reporting Standards ('IAS/IFRS'), such as full convergence, partial convergence and non-convergence. Vietnam's initial approach to converging with IAS/IFRS is one of selecting suitable IAS/IFRS issues to fully adopt, but there are few VAS issues modified from IAS/IFRS. The level of convergence between VAS and their equivalent IAS/IFRS is quite high at the beginning (84%), then drops significantly to 63% in 2013 due to non-response to subsequent amendments to IAS and new IFRS. If Vietnam is to effectively compete in the world's capital markets then a resurgence of the convergence program is urgently needed. If the International Accounting Standards Board ('IASB') is to achieve its global convergence goals, then it should consider the implications of IAS/IFRS convergence specific to emerging markets.

Keywords: *De jure* convergence, Vietnamese Accounting Standards, International Accounting Standards, International Financial Reporting Standards, Accounting in developing economies.

Acknowledgment

The authors would like to thank the participants of International Conference on Accounting and Finance (ICOAF) 2016 for their valuable feedback on an earlier version of this paper

1. INTRODUCTION

Globally there has been a clear overall increase in convergence with International Accounting Standards and International Financial Reporting Standards ('IAS/IFRS'), which appeals as an internationally accepted best accounting practice (Chua and Taylor, 2008). Up to now, many countries in the world had adopted IAS/IFRS or used word-for-word equivalents as their generally accepted accounting principles ('GAAP') (IASB, 2010b). Nevertheless, many developing countries are working towards convergence of their accounting systems and IAS/IFRS using a variety of approaches. For instance, Mongolia requires IAS/IFRS for all domestic listed companies. The Philippines has adopted most IAS/IFRS, but with some significant modifications. India, Malaysia, Pakistan and Thailand have adopted selected IAS/IFRS standards quite closely, but considerable differences still exist between domestic and IAS/IFRS standards. Indonesia refers to IAS/IFRS in developing national GAAP, but with significant modifications (Deloitte, 2009). China, an emerging market similar to Vietnam, uses a combination approach of "progressive change" and "direct import" to converging with IAS/IFRS (Peng and Van der Laan Smith, 2010).

Vietnam, a relative newcomer to the world of accounting regulation, began to promulgate their own accounting standards in 2001. Twenty-six Vietnamese accounting standards ('VAS') were issued during the period 2001–2005, which were generally based on IAS/IFRS issued up to 2003, but they have not been updated to reflect subsequent amendments to IAS or new IFRS (IAS Plus, 2009). The aim of this paper is to determine the level of *de jure* convergence between VAS and IAS/IFRS at two points of time: the issuance date of VAS and the research date (31 December 2013). The convergence levels calculated at a variety of scenarios, such as full convergence, partial convergence and non-convergence, assists in exploring Vietnam's path to converging with IFRS.

Convergence is "a worldwide movement currently underway to develop a single set of accounting standards that would provide consistency in financial reporting" and "it aims to produce generally comparably standards with reduced differences over time" (Thomas, 2009, p 371). There are two types of convergence/harmonization in the literature: *de jure* (formal) and *de facto* (material). The former refers to the evolution of accounting rules, while the latter relates to the communication of actual company reporting (Van der Tas, 1988, Tay and Parker, 1990). The *de jure* style study is important because it provides a key starting point for the *de facto* study (Parker, 1996). The International Accounting Standards Board's ('IASB') clearly articulated purpose is to achieve global *de jure* convergence; therefore, *de jure* studies assist the IASB to address significant differences between national accounting standards and IAS/IFRS (Fontes et al., 2005). Moreover, *de jure* convergence may assist in predicting *de facto* convergence as the former is an instrument of achieving the latter (Van der Tas, 1988, Fontes et al., 2005).

This study of *de jure* convergence between VAS and IAS/IFRS is crucially important for both Vietnamese accounting standard makers and the IASB. The research assists Vietnamese accounting standard makers in reconsidering their approach to integrating VAS into IAS/IFRS in their future convergence program. This research contributes to the literature a little known story about *de jure* convergence with IAS/IFRS in Vietnam, one of the fastest growing economies in the world (World Bank, 2012). The story of Vietnam's emerging economy may assist the IASB in pursuing their aim of converging national accounting standards with IAS/IFRS. This research also contributes to the literature a more comprehensive approach to measuring *de jure* convergence between two sets of accounting standards as detailed in Section 3.

The paper is organized as follows. Section 2 reviews the literature relevant to institutional factors affecting IAS/IFRS adoption and previous efforts to quantify *de jure* convergence of accounting regulations/standards. Section 3 describes the research approach. The research findings are discussed in Section 4, with conclusions and implications in Section 5.

2. LITERATURE REVIEW

This research does not investigate institutional factors affecting IAS/IFRS adoption, but a review of the research into how institutional factors influence the acceptance of IAS/IFRS could help understand the adoption of IAS/IFRS in Vietnam. Research relevant to the quantification of *de jure* convergence of accounting regulations provides the background for developing the research method.

2.1. Institutional Factors Affecting The Adoption Of IAS/IFRS

Institutional factors are considered as major determinants regarding the adoption of IAS/IFRS in a country. Important factors documented in the literature are the economic environment, political system, legal and tax system, financing system, and the level of professionalism within the accounting profession.

The major economic factors influencing the adoption of IAS/IFRS encompass economic growth, ownership concentration and economic openness. In countries where the level of economic growth is relatively high, business and economic activities reach a size and complexity that requires more sophisticated accounting standards (Zeghal and Mhedhbi, 2006). Al-Shammari et al., (2008) observe that economic growth motivates the adoption of IAS/IFRS in the Gulf Co-Operation Council Member States. An economy with highly diffused ownership has a greater demand for high quality accounting information. Therefore, such countries tend to adopt IAS/IFRS, which are generally considered more sophisticated and superior to domestic accounting standards (Daske et al., 2008, Barth, 2008). Empirical research conducted by Ding et al., (2007) shows that the extent of the difference between domestic accounting standards and IAS/IFRS is significantly positively associated with a countries' degree of ownership concentration. In addition, economic openness is another important external force behind the adoption of IAS/IFRS. Economic openness may be measured by the level and number of foreign investors, multinational corporations, international accounting firms, and world finance institutions' direct involvement. Empirical evidence shows that countries with a high degree of economic openness are more inclined to adopt IAS/IFRS (Hope et al., 2006, Judge et al., 2010).

Political influence on the accounting system in a country depends on the extent of the government's involvement in standard setting and financial reporting practice (Ball et al., 2003). Chand and Patel (2008) claim that political differences amongst countries is an important reason for the variety of approaches to IAS/IFRS adoption, including full adoption, selective adoption, or adoption with amendments and additions. Macías and Muiño's (2011) research shows that the private sector is usually more involved in the standard setting process in countries that fully adopt IAS/IFRS.

The legal system also has an important influence on the adoption of IAS/IFRS in a country. Regarding the impact on the orientation of accounting standards, legal system types are generally classified as "common law" and "civil law". The financial reporting framework in common-law countries is oriented towards the Anglo-Saxon model which emphasizes investors' needs; whereas, the financial reporting framework in civil-law countries tends to focus more on the satisfaction of regulatory needs (Ball et al., 2003, Branson and Alia, 2011, Ding et al., 2007). Accordingly, civil-law based accounting standards align with taxation-linked accounting rules (Branson and Alia, 2011), while common-law based IAS/IFRS is more independent of tax reporting (Hung and Subramanyam, 2007). Larson and Street (2004) find that the tax-driven nature of many national accounting systems is a major obstacle to IAS/IFRS adoption. Prather-Kinsey et al.'s (2008) research draws the conclusion that common-law based accounting standards are more comparable to IAS/IFRS while civil-law based accounting standards are more divergent from IAS/IFRS.

International accounting divergence is also driven by differences in financing systems (Nobes, 2006). Financing systems may be divided to two types: equity-outsider systems and credit-insider systems (Nobes, 1998). The former is more concerned with outside shareholders/investors protection while the latter is oriented to meet creditors' needs (Nobes, 1998). The aim of IAS/IFRS is to develop a highly transparent and equity market oriented accounting system (Ball et al., 2000). Thus, IAS/IFRS is primarily designed to facilitate the equity-outsider system (Perera and Baydoun, 2007). Empirical evidence shows that equity market oriented countries are more likely to adopt IAS/IFRS (Ding et al., 2007). By contrast, in a creditor-insider financing system, there is less pressure from the capital market to publish high quality financial information (Perera and Baydoun, 2007); therefore, the country does not have as great of an incentive to adopt IAS/IFRS.

The accounting profession is another institutional factor affecting the adoption of IAS/IFRS. The adoption of sophisticated IAS/IFRS requires a strong accounting profession, in particular, a well-developed accounting professional body, qualified accountants and high-quality accounting education. A well-developed accounting professional body is necessary to best facilitate the adoption of IAS/IFRS, keep up-to-date with revisions to the existing IAS/IFRS and new IFRS, or to make necessary amendments to IAS/IFRS for adapting to country-specific context (Chand and Patel, 2008). In addition, the adoption of IAS/IFRS requires qualified and experienced accountants who are able to interpret and apply IAS/IFRS in a consistent manner, and to make the necessary professional judgements (Chand and Patel, 2008, Carmona and Trombetta, 2008). Highly qualified accountants are supplied by a high-quality education system. Empirical evidence also shows a positive relationship between education level and the extent of IAS/IFRS adoption in developing countries (Judge et al., 2010, Zeghal and Mhedhbi, 2006). The lack of a well-established accounting profession and quality education system is a barrier to complete IAS/IFRS adoption in emerging economies (Chand and Patel, 2008).

The stated aim of IASB is to develop a single set of high quality, understandable and enforceable global accounting standards to enable participants in various capital markets of the world and other users of companies' financial reports to make economic decisions (IASB, 2010a). IAS/IFRS thus emphasized the need of existing and potential investors, lenders, and other creditors. Therefore, economic environment and financing system are considered as primary determinants of IAS/IFRS adoption. This view is supported by many arguments in the literature. Bailey (1995), Prather-Kinsey (2006) and Perera and Baydoun (2007) note that the IASB's approach to accounting regulation fundamentally follows the Anglo-American model and therefore may not be suitable for emerging markets due to major differences in business environments between developed and developing countries. For instance, emerging economies face difficulties in adopting a market-based approach to estimation of fair value due to a lack of well-developed markets. In addition, political and legal systems, and accounting profession are secondary institutional factors influencing the level and approach of convergence with IAS/IFRS as explained above.

The next section reviews Vietnam's institutional context to enhance understanding of the environment in which IAS/IFRS were incorporated into VAS.

2.2. Vietnam's institutional context

Vietnam is one of the fastest growing economies in the world. The private sector is growing more and more important, but the state sector still plays a dominant role in the economy (World Bank, 2012). The economy is featured by high state ownership and improving economic openness. Joining the WTO in 2007 was a milestone for Vietnam in their goal of integration into the world economy. Vietnam's attempts to converge with IAS/IFRS during the period 2001–2005 with the World Bank's financial support (Narayan and Godden, 2000) was because of intense pressure to be accepted as a WTO member (Nguyen and Richard, 2011, Nguyen and Tran, 2012).

Vietnam is a communist country having a strong centralized system. The communist government controls all areas including accounting (Nguyen et al., 2012). Accounting standards and other accounting regulations are promulgated by the Ministry of Finance. Accounting regulations is considered as the government's tool controlling firms. Before VAS were applied, the uniformed accounting system ("UAS") was the main guidance for accounting in Vietnam. The Vietnamese Ministry of Finance purposely retained the UAS with certain modifications aligned to the VAS (Narayan and Godden, 2000). This is because the UAS enables government agencies to control and supervise firms' operations more easily, especially for state-owned enterprises (Yang and Nguyen, 2003).

The legal system in Vietnam is a civil-law based system. Similar to other civil-law based countries, Vietnam's accounting system is oriented toward the rule-based and tax driven system under which accountants rigorously follow detailed rules, and professional judgement is not emphasized. Accounting rules closely align with taxation rather than satisfying investors' needs. Accountants' intention mostly focuses on tax outcomes (Nguyen et al., 2012).

Vietnam's financing system is considered to be of the credit-insider system type. Banks are dominant players in finance markets while equity markets are newly established and still immature (Leung, 2009). Consequently, Vietnamese accounting emphasizes creditors' needs rather than investors' demands.

The accounting profession in Vietnam is weak. A survey conducted by Nguyen et al. (2012) finds that the Vietnamese Accounting Association ('VAA') does not play an active role in accounting standards setting and accounting practice. Accountants in Vietnam do not seem to feel the necessity and usefulness of being VAA members. Certified public accountant ('CPA') examinations are set by the Ministry of Finance instead of the professional associations. The government established the Department of Accounting Policy ('DAP'), which is responsible for drafting accounting regulations. However, the DAP staffs seem to have a less than perfect knowledge of accounting practice, leading to a wide gap between accounting rules and accounting practices. Nguyen et al. (2012) also documented that Vietnam lacks professionally qualified accountants as universities in Vietnam mostly train students to be "bookkeepers" rather than "accountants" in the Western sense.

Based on the prior institutional research as reviewed in section 2.1, it can be concluded that the adoption of IAS/IFRS is not an easy task in

Vietnam's institutional context. This conclusion is consistent with Phan and Mascitelli (2014) survey's result indicating that majority of the survey respondents do not support mandatory IFRS adoption in Vietnam due to unfavourable conditions. The coexistence of UAS and VAS reflecting accounting tradition in Vietnam is also an obstacle to adopting IAS/IFRS. Vietnamese accountants are used to the UAS and found it is easier to follow the UAS than the new accounting standards as the former are more detailed and less conceptual than the latter (Nguyen, 2012). Xiao, Weetman and Sun (2004) explore factors explaining the coexistence of a uniform accounting system and accounting standards in the Chinese transitional economy, such as direct government involvement in accounting regulation, strong state ownership, an immature accounting profession, and a weak and imperfect equity market. These circumstances also exist in the Vietnamese transitional economy and therefore Xiao et al.'s (2004) findings are useful in explaining the coexistence of a uniform accounting system and accounting standards in Vietnam.

This research's findings of the path to convergence with IAS/IFRS in Vietnam will contribute to the literature a story of IAS/IFRS adoption in a developing country characterized by high ownership concentration, high government intervention, civil-law system, credit-insider financing system and a weak accounting profession.

2.3. Quantification of de jure convergence

Comparative international accounting research has various foci. Some studies conduct comparison analyses to investigate significant differences between national accounting standards ("NAS") and IAS/IFRS (Street and Gray, 1999, Street, 2002, Shoaf and Zaldivar, 2005, Nobes, 2001, Callaghan and Treacy, 2007, Gornik-Tomaszewski and Millan, 2005). D'Arcy (2001) clusters national accounting systems based on financial reporting requirements. In addition, some research focuses on the quantification of *de jure* convergence of accounting regulations (Rahman et al., 1996, Ashbaugh and Pincus, 2001, Garrido et al., 2002, Fontes et al., 2005, Peng and Van der Laan Smith, 2010, Ding et al., 2007, Qu and Zhang, 2010). The latter stream fits well with this research as it concentrates on measurement of *de jure* convergence between two sets of accounting regulations/standards and therefore it is reviewed in detail below.

Early studies mostly use absolute scores to measure *de jure* convergence of accounting regulations. For instance, Rahman, et al. (1996) employ Mahalanobis distances to reflect the formal harmony of accounting regulations between the two neighbouring countries of Australia and New Zealand. They categorize accounting requirements according to the level of importance, i.e. "required", "recommended or suggested", "allowed or not required or not prohibited" and "not permitted", and then the Mahalanobis distances are calculated to measure the distances between categories. Ashbaugh and Pincus (2001) developed "disclose", "methods" and "iasset" indices, which reflect differences in countries' accounting disclosure, measurement policies, and reporting standards overall relative to IAS respectively. Ding et al. (2007) use "absence" and "divergence" indices to measure the difference between NAS and IAS. "Absence" measures the extent to which the rules, relative to certain accounting issues, are absent in NAS but are covered by IAS; whereas, "divergence" reflects differences in rules relative to certain accounting issues applied by both NAS and IAS.

The above studies on assessment of *de jure* convergence of accounting regulations/standards between countries have some common limitations. First, the absolute distances/scores do not satisfactorily explain the degree of harmony (Fontes et al., 2005, Qu and Zhang, 2010). Second, Ashbaugh and Pincus's (2001) and Ding et al.'s (2007) indices suffer IAS bias because their indices only reflect the difference where IAS has more disclosure requirements or more restrictive measurement methods than a domestic GAAP, but do not show the difference where a domestic accounting standard has more disclosure requirements or more restrictive measurement methods than IAS (Nobes, 2009). However, in their reply to Nobes' comments, Ding et al. (2009) argue that it is quite unlikely that a domestic accounting system would cover some advanced issues relative to IAS, while at the same time miss some basic issues. This assumption is subjective because domestic accounting standards addressing country-specific needs could be superior to IAS (Bova and Pereira, 2012).

Unlike earlier horizontal *de jure* studies (for example, Ashbaugh and Pincus, 2001, Rahman et al., 1996), Garrido et al. (2002) measure formal harmonization progress over three stages in the International Accounting Standard Committee ('IASC') life. Their empirical analysis includes 20 IAS issues that had been improved during the existence of IASC and employs categories identified by Rahman et al. (1996), i.e. "required", "benchmark", "allowed" and "forbidden". Garrido et al.'s (2002) approach is helpful in evaluating the evolution of accounting standards' comparability following revision stages as their measure using Euclidean distances reflects the reduction in alternative accounting methods over different stages. Yet, the Euclidean distances are not suitable to measure *de jure* convergence progress of NAS with IAS/IFRS as they do not reflect "which particular method is adopted nor the strength of the method adopted" (Fontes et al., 2005, p. 427). To deal with the limitations, Fontes et al. (2005) introduce two additional measures of *de jure* convergence progress of NAS with IAS/IFRS. The first approach uses Jaccard's coefficients to measure the percentage of similarity in characteristics between two sets of accounting standards; therefore, it assesses *de jure* convergence more accurately than Euclidean distances. In addition, the authors calculate Spearman's correlation coefficient to ascertain the results produced by Jaccard's coefficients. Fontes et al.'s approach represents a significant evolution in measuring *de jure* convergence progress of NAS with IAS/IFRS in the literature. Nevertheless, their measures are only suitable for accounting issues with alternative methods and therefore they are unable to measure *de jure* convergence for all aspects of accounting standards. Spearman's correlation coefficient helps to understand the trend in similarity between two accounting sets, but it does not reflect the level of similarity.

Peng and Van der Laan Smith (2010) introduce another approach when quantifying *de jure* convergence progress of Chinese accounting standards with IAS/IFRS for the measurement perspective over the period 1992–2006. Key measurement items, identified from the principal (bold type) paragraphs in the IFRS 2006, are categorized as "full convergence", "substantial convergence" and "non-convergence". However, the authors do not clearly define the term "substantial convergence". Moreover, their "non-convergence" category again suffers IFRS bias as it does not include the items that are addressed in Chinese accounting standards but not in IFRS. Another limitation is that the "full convergence" and "substantial convergence" categories have an equal weighting when calculating the level of *de jure* convergence, while they reflect different degrees of similarity. Their results show that the level of *de jure* convergence of Chinese accounting standards with IFRS has improved over the period 1992–2006, and the combination of the "progressive change" and "direct import" approach supported China's development from a central government planning model to a market based model.

Qu and Zhang (2010) at the same time introduce an approach of matching and fuzzy clustering analysis to measuring *de jure* convergence using the case of Chinese accounting standards with a focus on the measurement perspective as an illustrative example. Their approach addresses a wider variety of aspects of accounting measurement than most of the earlier *de jure* convergence studies, such as terminologies, scope of the standard, recognition, measurement criteria, measurement methods and remeasurement by the end of the period. They attempt to quantify the level of *de jure* convergence for each measurement item other than a nominal variable, as is most often observed in the literature. For this purpose, each item or sub-item is assigned 1 (completely match) or 0.7 (substantially match) or 0.3 (substantially different) and 0 (completely different). However, their method of categorizing and coding measurement items has its limitations. They do not define the concepts of "substantially match" and "substantially different". Moreover, the similarity level of an item may be at any point between 0 and 1 rather than having only four degrees as identified by the authors. In addition, it is not reasonable when the authors assign 1 to the items that are both absent in the comparison pair of Chinese accounting standards and IFRS. Such items are not relevant and they should be excluded from the calculation of *de jure* convergence scores. Their results suggest that Chinese accounting standards are moving towards its goal of substantial convergence with IFRS with the overall convergence level of approximately 75%.

Despite the evolution of the approach to measuring *de jure* convergence of accounting rules in the literature, shortcomings still exist, as discussed above. Taking account of the limitations in the extant literature, this research develops a more comprehensive approach to measuring *de jure* convergence of VAS with IAS/IFRS. First, the level of *de jure* convergence is quantified for each accounting item as a continuous variable instead of the nominal or discrete variable as coded in earlier studies. The continuous value reflects more exact levels of convergence of an item and minimizes the subjectivity of coding reflected in Qu and Zhang's (2010) approach. Second, *de jure* convergence scoring is based on looking at accounting standards from two directions, that is, the content of both VAS and IAS/IFRS. This helps avoid the IAS bias reflected in some prior *de jure* studies (for example, Ashbaugh and Pincus, 2001, Ding et al., 2007, Peng and Van der Laan Smith, 2010). Finally, the *de jure* convergence score is measured in a number of different ways. "Full convergence", "partial convergence" and "non-convergence" scores are calculated for each standard, and then the three scores are combined into a single *de jure* convergence score. The "full convergence", "partial convergence" and "non-convergence" scores reflect a country's approach to convergence with IAS/IFRS whereas the single *de jure* convergence score shows a country's IAS/IFRS convergence status.

3. RESEARCH APPROACH

Two time-period based *de jure* convergence scores are calculated. The first time-period based score quantifies the extent of *de jure* convergence between VAS and old IAS/IFRS, which were the latest IAS/IFRS versions issued/revised before equivalent VAS were issued. The second time-period based score quantifies the extent of *de jure* convergence of VAS and current IAS/IFRS that were effective at 31 December 2013.[13] The first time-period based score reflects the extent of *de jure* convergence of VAS and its equivalent IAS/IFRS at the issuance dates of VAS while the second time-period based score indicates the extent of *de jure* convergence of VAS and IAS/IFRS at the latest date of this research. The difference between the two scores thus depicts the changing regulatory gap between VAS and IAS/IFRS over the time period. The approach to calculating the *de jure* convergence scores is listed below.

This research covers all fundamental accounting rules promulgated in VAS and their equivalent IAS/IFRS; therefore, principal (bold type) paragraphs of each standard are analyzed into the details of each possible item. Each item is categorized as "full convergence", "partial convergence" or "non-convergence". The "full convergence" category includes items exactly matched between VAS and IAS/IFRS. The "non-convergence" category includes the items where the accounting treatment is totally different between VAS and IAS/IFRS for an item or where an item is regulated by IAS/IFRS only or VAS only, thereby avoiding the IAS/IFRS bias of prior *de jure* studies noted above. The "partial convergence" category consists of items where accounting requirements are neither exactly matched nor totally different between VAS and IAS/IFRS. All items within each standard are weighted equally as the weight of the

[13] This date is chosen because this research is started in 2013.

importance of an accounting standard is measured through the number of items in a category of requirements (Rahman et al., 1996). Another argument for equal weighting of standard items is that accounting information is provided to all users of financial reports rather than any one particular user group (Akhtaruddin, 2005). It is believed that this approach minimizes subjectivity.

The "full convergence", "partial convergence" and "non-convergence" scores are calculated for each standard as a ratio of the number of items in each category to the total number of applicable items within each standard. A single *de jure* convergence score is then calculated for each standard. For this purpose, the extent of convergence of VAS and IAS/IFRS for each item is quantified within a 0 to 1 item score. At the extreme positions, a "full convergence" item is coded as "1", while a "non-convergence" item is coded as "0". A "partial convergence" item is measured at a point between "0" and "1" depending on the extent of similarity between VAS and IAS/IFRS. An item may be further analysed into sub-items where appropriate. A sub-item is scored as "1" (same sub-item between the two accounting standard systems) or "0" (different sub-item). Then, the item score is calculated as a ratio of the sum of sub-item scores to total sub-items within the item.

An important criterion for the scoring process is to minimize subjectivity. Nevertheless, in some specific circumstances, logical assumptions are still needed. The following assumptions are consistently employed for all standard scoring:

- In the circumstance where IAS/IFRS specifies "benchmark treatment" and "allowed alternative treatment" for a measurement item while VAS allows only one measurement method, the item score is awarded a 0.75 score if VAS adopts the IAS/IFRS benchmark treatment, or a 0.25 score if VAS adopts the IAS/IFRS alternative treatment. This is because the "benchmark treatment", which is the preferred method of IASB, is considered more important than the "allowed alternative treatment".
- In any circumstance where IAS/IFRS allows two equal options of accounting for an item while VAS adopts only one of the two IAS/IFRS options, the item score is given a 0.5 score.
- Where an item is required to be recognized as "directly to equity" by VAS but as "other comprehensive income" under IAS/IFRS, it is deemed to be a 0.75 score.[14]
- A disclosure item is considered as "partial convergence" where the disclosure item is required to be presented as a line item by IAS/IFRS but is required to be split into more than one component and presented as separate line items by VAS or vice versa.

Overall *de jure* convergence scores are calculated separately for each standard as a ratio of the sum of item scores to total applicable items within each standard. Thus, the overall *de jure* convergence score ranges from 0% to 100% with 100% representing complete uniformity of rules between IAS and VAS and 0% representing complete diversity. A detailed example of the process of quantifying *de jure* convergence is provided for the standard Borrowing Costs (see Appendix A). This is a good example for quantifying *de jure* convergence score as it incorporates a variety of scenarios for item categories such as full convergence, partial convergence and non-convergence.

Descriptive statistics (mean, maximum, minimum and standard deviation) are used to provide an overview of the extent of *de jure* convergence between VAS and IAS/IFRS. The mean is calculated on the assumption that each standard is weighted by the number of items, reflecting the level of *de jure* convergence of the 25 VAS standards and their equivalent IAS/IFRS. In addition, paired sample T-tests are applied to compare the means of *de jure* convergence scores of VAS with old IAS/IFRS and VAS with current IAS/IFRS.

4. RESEARCH FINDINGS AND DISCUSSION

As can be seen from Table 1, the overall *de jure* convergence of the 25 VAS standards with their equivalent old IAS/IFRS is 84% (Panel A); however, the overall *de jure* convergence with current IAS/IFRS is much lower, at 63% (Panel B). A paired sample T-test (see Table 1, Panel C) show the difference in *de jure* convergence between two points of time is highly significant (p=0.001). This significantly decreasing convergence is caused by Vietnam's failure to adopt new IFRS or amendments to IAS/IFRS subsequent to their issuance (2001–2005), while IAS/IFRS have been updated in a timely manner.

"Full convergence", "partial convergence" and "non-convergence" scores are also presented in Table 1, reflecting the approach to convergence with IAS/IFRS in Vietnam. The "full convergence" score of VAS with old IAS/IFRS for the 25 standards is 81% (Panel A), but the "full convergence" score with current IAS/IFRS is far lower, only 60% (Panel B). The contrasting figure, the "non-convergence" score, increases from 15% to 35% when the analysis shifts from VAS and old IAS/IFRS to VAS and current IAS/IFRS. The "partial convergence" score is low and increases slightly from 4% to 5%. These findings suggest that Vietnam's initial approach is one of selecting suitable IAS/IFRS issues to fully adopt. There are few VAS issues modified from IAS/IFRS. However, VAS has not been updated for subsequent amendments to IAS and new IFRS, resulting in a dramatic decrease in "full convergence" and concurrent increase in "non-convergence".

[14] Unlike IAS/IFRS, VAS does not classify items recognized directly to equity (outside profit and loss) into "other comprehensive income" or "changes in equity as a result of transaction with owners in their capacity as owners".

Table 1. Descriptive Statistics and T-test

Panel A: VAS-Old IAS/IFRS	***Mean (%)***[1]	***Max (%)***	***Min (%)***	***Standard Deviation (%)***	
Overall *De Jure* Convergence	84	100	60	12	
Full Convergence	81	100	57	14	
Partial Convergence	4	17	0	5	
Non-Convergence	15	37	0	11	
Panel B: VAS-Current IAS/IFRS	**Mean (%)**[1]	**Max (%)**	**Min (%)**	**Standard Deviation (%)**	
Overall *De Jure* Convergence	63	100	24	25	
Full Convergence	60	100	19	26	
Partial Convergence	5	18	0	6	
Non-Convergence	35	76	0	24	
Panel C: Paired Sample T-test			Mean[2] (%)	Mean Difference (%)	Sig. (2-tailed)
Overall *De Jure* Convergence	VAS-Old IAS/IFRS		85	19	0.001
	VAS-Current IAS/IFRS		66		

[1]*Mean is calculated under the assumption that each standard is weighted by the number of items.*
[2]*Mean is calculated under the assumption of every standard being weighted equally.*

Table 2 shows the scores of *de jure* convergence of VAS with old IAS/IFRS (Columns I–IV) and with current IAS/IFRS (Columns V–VIII) for individual standards. Most of standards have high levels of convergence with old IAS/IFRS (over 80%), except for certain standards related to long-term assets and income tax. This is because VAS are generally based on equivalent IAS/IFRS with few modifications. Most of standards have higher 75% "full convergence" score but have very low "partial convergence", lower than 20%. A common type of partial convergence is to select one of IAS/IFRS accounting methods to apply in VAS. For example, old IAS/IFRS allows entities to use revaluation model as an alternative method of cost model to measure property, plant and equipment subsequent to initial recognition while VAS require the cost model as a unique method.

Table 2. De Jure Convergence Scores for Individual Standards

Standards	***VAS vs Old IAS/IFRS (%)***				***VAS vs Current IAS/IFRS (%)***			
	FCS *(I)*	***PCS*** *(II)*	***NCS*** *(III)*	***DJCS*** *(IV)*	***FCS*** *(V)*	***PCS*** *(VI)*	***NCS*** *(VII)*	***DJCS*** *(VIII)*
Events after the Reporting Period	100	0	0	**100**	100	0	0	**100**
Related Party Disclosure	100	0	0	**100**	28	7	65	**31**
Provisions, Contingent Liabilities and Contingent Assets	100	0	0	**100**	100	0	0	**100**
The Effects of Changes in Foreign Exchange Rates	97	0	3	**97**	45	18	37	**55**
Disclosures in Financial Statements of Banks and Similar Financial Institutions[1]	96	0	4	**96**				
Business Combinations	94	3	3	**95**	30	10	60	**35**
Accounting Policies, Changes in Accounting Estimate and Errors	95	0	5	**95**	95	0	5	**95**
Borrowing Costs	92	8	0	**94**	92	0	8	**92**
Revenue	94	0	6	**94**	94	0	6	**94**
Consolidated and Separate Financial Statements	93	0	7	**93**	24	0	76	**24**
Segment Reporting/Operating Segment	87	5	8	**91**	19	11	70	**25**
Construction Contracts	82	9	9	**89**	82	9	9	**89**
Insurance Contracts	87	2	11	**88**	89	0	11	**89**
Earnings per Share	87	1	12	**88**	87	1	12	**88**
Interim Financial Reporting	85	0	15	**85**	73	2	25	**74**
Statement of Cash Flows	80	11	9	**84**	69	14	17	**75**
Presentation of Financial Statements	77	7	16	**82**	46	8	46	**50**
Inventories	80	0	20	**80**	73	0	27	**73**
Investments in Associates	78	0	22	**78**	28	3	69	**29**
Income Tax	73	6	21	**76**	67	5	28	**70**
Intangible Assets	65	9	26	**70**	61	9	30	**66**
Property, Plant and Equipment	57	17	26	**67**	49	18	33	**58**
Investment Property	60	8	32	**64**	57	8	35	**61**
Leases	62	1	37	**63**	59	3	38	**60**
Interests in Joint Ventures	59	6	35	**60**	44	4	52	**46**

DJCS=Overall *De jure* Convergence Score; FCS=Full Convergence Score; PCS=Partial Convergence Score; NCS=Non-convergence Score
[1]The standard 'Disclosures in Financial Statements of Banks and Similar Financial Institutions' was withdrawn by IASB in August 2005; therefore there is no equivalent current IAS/IFRS.

Comparing VAS with current IAS/IFRS, almost all standards have decreasing "full convergence" and increasing "non-convergence" scores. "Partial convergence" scores decrease slightly. This is because the numerous changes between the old and new IAS/IFRS implemented by the IASB have not been adopted in the Vietnamese standards. Decreasing convergence with IAS/IFRS is highlighted for disclosure – related standards, such as "Presentation of Financial Statements", "Related Party Disclosure", "Consolidated and Separate Financial Statements" and "Segment Reporting", and three other standards including "The Effects of Changes in Foreign Exchange Rates", "Business Combinations" and "Investments in Associates". These standards have the lowest overall levels of convergence with current IAS/IFRS (22%-55%) in spite of their initial high overall levels of convergence with old IAS/IFRS (75%-100%). The sharply declining convergence of these critical and complicated standards should be addressed by Vietnam's standard setters in their future project of improving convergence of VAS with IAS/IFRS. Analyzing insight into changes of IAS/IFRS reveals that IASB standards is shifting from cost model to fair-value model while cost model is still the sole measurement base in VAS. The difference in measurement base is also a big challenge for Vietnam in the process of improving convergence with IAS/IFRS.

The research findings thus reflect an unusual path to convergence with IAS/IFRS in Vietnam. At the beginning VAS converge with IAS/IFRS at high level, then the convergence process went into stasis in spite of numerous amendments made to IAS and new IFRS replacing equivalent IAS to improve the global acceptance of IAS/IFRS.

Vietnam's unusual path to convergence with IAS/IFRS could be explained by its institutional context. Vietnam's convergence with IAS/IFRS was mostly driven by external international pressures rather than true internal domestic incentives. Particularly, Vietnam's attempt to converge with IAS/IFRS during the period 2001–2005 was because of intense pressure to be accepted as a WTO member (Nguyen and Richard, 2011, Nguyen and Tran, 2012). However, Vietnam's accounting profession is not strong enough to facilitate convergence with IAS/IFRS. In Vietnam, accounting regulation is not generally delegated to the profession. The government intervenes considerably in accounting standard setting. The Vietnamese Accounting Association (VAA) is not directly involved in setting accounting standards, but the Ministry of Finance is instead responsible for these tasks (Narayan and Godden 2000). As a result, VAS standard setters are not competent enough to make necessary modifications to IAS/IFRS for adapting to Vietnam's practical context. That is the reason why at the beginning, Vietnam highly adopts IAS/IFRS with few modifications. Then, the failure to keep up-to-date with revisions to the existing IAS/IFRS and new IFRS makes the level of convergence between VAS and IAS/IFRS drop dramatically. This is because changes in accounting standards is not an easy task and it needs a lengthy process as in Vietnam accounting regulations are composed by the ministry of finance instead of accounting profession.

The IASB accounting model nevertheless follows that for developed countries, which primarily addresses the needs of investors, rather than for developing countries characterized by high ownership concentration, credit insider financing system, high government intervention, civil-law system, and a weak accounting profession like Vietnam. The institutional differences lead to decreasing convergence. The research's finding is consistent with the view documented in Leuz (2010) that unless institutional factors converge as well, countries adopting a common set of accounting standards are likely to depart from it overtime. Vietnam's approach of initially adopting IAS/IFRS at a high level of full convergence is therefore not reasonable.

5. CONCLUSIONS AND IMPLICATIONS

This study explores Vietnam's unusual and incomplete process of convergence with IAS/IFRS. Vietnam's initial approach is one of selecting suitable IAS/IFRS issues to fully adopt. There are few VAS issues modified from IAS/IFRS. During the "golden standard-setting period" of 2001–2005, Vietnam highly adopted 84% of IAS/IFRS issued up to 2003. Then Vietnam's standard setting went into stasis and therefore the level of convergence of VAS and IAS/IFRS fundamentally decreases to the modest level of 63% in 2013.

The research findings highlight key implications for both the Vietnamese government and IASB. In the context of many countries in the world having fully adopted IAS/IFRS rules, if Vietnam is to effectively compete in the world's capital markets then their convergence program should be restarted. Due to Vietnam's institutional context being unfavourable for converging with IAS/IFRS, if Vietnam repeats the old path to convergence with IAS/IFRS, Vietnam converges with IAS/IFRS in form but not in spirit. Gradual convergence thus may be more suitable. The Vietnamese accounting standards board should carefully examine which IAS/IFRS issues can be fully adopted and which issues need modifications to reflect Vietnam's environment in their future convergence program. In addition, a transition period and proper IFRS training for accountants, auditors, management and investors are crucially necessary. China's approach of a combination of "progressive change" and "direct import" (Peng and Van der Laan Smith, 2010) may represent an appropriate model for adoption by Vietnamese accounting regulators.

From a more global perspective, the research findings may add to the debate of whether IASB is truly achieving its purpose "to bring about convergence of national accounting standards and International Financial Reporting Standards to high quality solutions" (IASB, 2010a), particularly in regards to emerging economies. A falling modest level of *de jure* convergence between VAS and IAS/IFRS implies that if the IASB is to achieve its convergence aim, then it should consider the practical conditions of emerging markets like Vietnam for further accounting convergence improvement.

Our research findings contribute to the literature by providing the little known story of IAS/IFRS convergence in Vietnam—a transitional economy—and by evolving an advanced measurement for the level of *de jure* convergence between two sets of accounting standards. Nevertheless, the research's limitation is to focus on *de jure* convergence perspective only. The *de jure* study would be more meaningful if there is a better understanding of actual practices.

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APPENDIX A. Borrowing Costs–An example of *de jure* convergence scoring

Measurement issues	**VAS 16** Issued Dec 2002 Effective Jan 2003	**Old IAS 23** Revised Dec 1993 Effective Jan 1995	**Current IAS 23** Amended May 2008 Effective Jan 2009	**Convergence score** **VAS 16 vs old IAS 23**	 **VAS 16 vs current IAS 23**
1. Recognition	Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset.(1) Other borrowing costs shall be recognised as an expense in the period in which they are incurred.(2) [paras 6, 7]	**Benchmark treatment**: Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be recognised as an expense in the period in which they are incurred.(1a) Other borrowing costs shall be recognised as an expense in the period in which they are incurred.(2a) [para 7] **Allowed alternative treatment**: Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset.(1b) Other borrowing costs shall be recognised as an expense in the period in which they are incurred.(2b) [paras 10, 11]	An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.(1) An entity shall recognise other borrowing costs as an expense in the period in which it incurs them.(2) [para 8]	(1): 0.25 (2): 1 **Total: 1.25/2** **FC:** 1 item **PC:** 1 item **NC:** 0 item	(1): 1 (2): 1 **Total: 2/2** **FC:** 2 item **PC:** 0 item **NC:** 0 item
2. Borrowing cost eligible for capitalisation	To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.(1) [paras 9, 10] To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation shall be determined by applying a capitalisation rate to the expenditures on that asset.(2) The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.(3) The amount of borrowing costs capitalised during a period shall not exceed the amount of borrowing costs incurred during that period.(4) [para 11]	To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.(1) [para 15] To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation shall be determined by applying a capitalisation rate to the expenditures on that asset.(2) The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.(3) The amount of borrowing costs capitalised during a period shall not exceed the amount of borrowing costs incurred during that period.(4) [para 17]	To the extent that an entity borrow funds specially for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.(1) [para 12] To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset.(2) The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.(3) The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.(4) [para 14]	(1): 1 (2): 1 (3): 1 (4): 1 **Total: 4/4** **FC:** 4 item **PC:** 0 item **NC:** 0 item	(1): 1 (2): 1 (3): 1 (4): 1 **Total: 4/4** **FC:** 4 item **PC:** 0 item **NC:** 0 item
3. Commencement of capitalisation	The capitalisation of borrowing costs as part of the cost of a qualifying asset shall commence when: (a) expenditures for the asset are being incurred;(1a) (b) borrowing costs are being incurred;(1b) and (c) activities that are necessary to prepare the asset for its intended use or sale are in progress.(1c) [para 13]	The capitalisation of borrowing costs as part of the cost of a qualifying asset shall commence when: (a) expenditures for the asset are being incurred;(1a) (b) borrowing costs are being incurred;(1b) and (c) activities that are necessary to prepare the asset for its intended use or sale are in progress.(1c) [para 17]	The commencement date for capitalisation is the date when the entity first meets all of the following conditions: (a) it incurs expenditures for the asset;(1a) (b) it incurs borrowing costs;(1b) and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.(1c) [para 17]	*(1a): 1* *(1b): 1* *(1c): 1* **Total: 1/1** **FC:** 1 item **PC:** 0 item **NC:** 0 item	*(1a): 1* *(1b): 1* *(1c): 1* **Total: 1/1** **FC:** 1 item **PC:** 0 item **NC:** 0 item
4. Suspension of capitalisation	An entity shall suspend capitalisation of borrowing costs during extended periods in which it suspends development of a qualifying asset. [para 16]	Capitalisation of borrowing costs shall be suspended during extended periods in which active development is interrupted. [para 23]	An entity shall suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset. [para 20]	**1/1** **FC:** 1 item **PC:** 0 item **NC:** 0 item	**1/1** **FC:** 1 item **PC:** 0 item **NC:** 0 item
5. Cessation of capitalisation	Capitalisation of borrowing costs shall cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.(1) [para 18] When the construction of a qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, capitalisation of borrowing costs shall cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed.(2) [para 20]	Capitalisation of borrowing costs shall cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.(1) [para 25] When the construction of a qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, capitalisation of borrowing costs shall cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed.(2) [para 27]	An entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.(1) [para 22] When an entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.(2) [para 24]	(1): 1 (2): 1 **Total: 2/2** **FC:** 2 item **PC:** 0 item **NC:** 0 item	(1): 1 (2): 1 **Total: 2/2** **FC:** 2 item **PC:** 0 item **NC:** 0 item
Total measurement item scores				9.25	10
Total measurement items			**FC** **PC** **NC** **Total**	9 1 0 10	10 0 0 10

Disclosure items	VAS 16	Old IAS 23	Current IAS 23	Convergence Score	
				VAS 16 vs old IAS 23	**VAS 10 vs current IAS 23**
1. Accounting policy applicable to borrowing costs.	para 22a	para 29a	Silent*	**1/1** **FC:** 1 item **PC:** 0 item **NC**: 0 item	**0/1** **FC:** 0 item **PC:** 0 item **NC**: 1 item
2. The amount of borrowing costs capitalised during the period.	para 22b	para 29b	para 26a	**1/1** **FC:** 1 item **PC:** 0 item **NC**: 0 item	**1/1** **FC:** 1 item **PC:** 0 item **NC**: 0 item
3. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.	para 22c	para 29c	para 26b	**1/1** **FC:** 1 item **PC:** 0 item **NC**: 0 item	**1/1** **FC:** 1 item **PC:** 0 item **NC**: 0 item
Total disclosure item scores				3	2
Total disclosure items	**FC** **PC** **NC** **Total**			3 0 0 3	2 0 1 3
Total item scores				12.25	12
Total items	**FC** **PC** **NC** **Total**			12 1 0 13	12 0 1 13
Overall Scores	**FC Score** **PC Score** **NC Score** **DJCS**			12/13 **= 92%** 1/13 **= 8 %** 0/13 **= 0%** 12.25/13 **= 94%**	12/13 **= 92%** 0/13 **= 0%** 1/13 **= 8%** 12/13 **= 92%**

Note: FC=Full Convergence; PC=Partial Convergence; NC=Non-convergence; DJCS=Overall *De Jure* Convergence Score. Superscript numbers indicate measurement items (for example (1), (2), etc.) or measurement sub-items (for example (1a), (1b), etc.).

*Although both VAS and IASB standards Presentation of Financial Statements require companies to disclose accounting policies that assist in understanding financial statements, the VAS standard Borrowing Costs more specifically requires companies to disclose accounting policies applicable to borrowing costs while the equivalent IAS/IFRS standard is silent on this requirement. Therefore, this disclosure item is deemed to be non-convergent between VAS and IAS/IFRS.