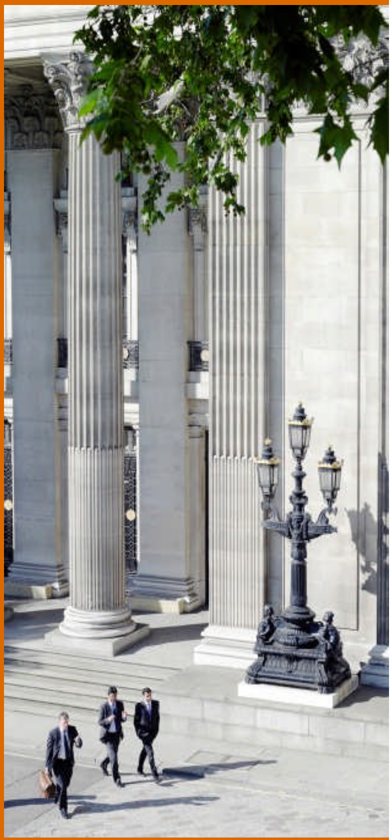
22 October 2015

PwC Vietnam News Brief

Official letter of Ministry of Finance responding to questions relating to Circular 200/2014/TT-BTC



On 9 September 2015, the Ministry of Finance ("MoF") issued Official Letter 12568/BTC-CĐKT answering some questions raised by the Big 4 regarding Circular 200/2014/TT-BTC issued by the MoF on 22 December 2014 ("Circular 200"). The MoF's answers and PwC's interpretation of these can be summarised as follows:

Selection of reporting currency in accounting

Enterprises which conduct selling and purchasing activities primarily in foreign currency and satisfy the conditions for selection of foreign currency as the reporting currency for accounting may still choose Vietnamese Dong as their reporting currency if they so wish.

Conversion of Financial Statements prepared in foreign currencies into Vietnamese Dong

Enterprises do not have to apply Circular 200 retroactively by converting Financial Statements in foreign currencies into Vietnamese Dong. Therefore, the comparative figures of the first year Financial Statements converted to Vietnamese Dong according to Circular 200 will be converted under the guidance of Circular No. 244/2009 / TT-BTC issued by the MoF on 31 December 2009.

Opening balances of undistributed earnings as at 1 January 2015 are converted into Vietnamese Dong using the opening balances of undistributed earnings plus/ minus the movement of earnings during the year.

- Nguyen Hoang Nam – Partner +84(8) 3823 0796 (Ext. 1006), nguyen.hoang.nam@vn.pwc.com
- Luong Thi Anh Tuyet – Director +84(8) 3823 0796 (Ext. 2036), luong.t.anh.tuyet@vn.pwc.com
- Tong Thu Huong – Senior Manager +84(4) 3946 2246 (Ext. 2009), tong.thu.huong@vn.pwc.com

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Investment properties

According to Circular 200, companies should not continue to calculate depreciation on investment properties held for price appreciation. The accumulated depreciation balance is presented on the financial statements without being offset against the historical cost of investment properties.

Circular 200 requires companies to record impairment losses on investment properties in line with international accounting practices and then allow to revert as maximum the provision of impairment losses already made.

Where there is evidence that value of the investment property has fallen against market fair value, and the decrease is determined reliably, companies can record the decrease in cost of the investment property and record the loss in costs of goods sold. If the decreased amount is not determined reliably, companies cannot record the devaluation but must disclose it in the notes to financial statements.

Earnings per shares "EPS"

Under Circular 200, the formula for calculating EPS changed in comparison with Vietnamese Accounting Standard No. 30 – Earnings per shares. The MoF does not have clear guidance on whether companies need to calculate the previous year's EPS according to Circular 200. In our view, companies should recalculate the previous year's EPS according to Circular 200 to ensure the comparability of financial statements and disclose the method of calculation in the notes to financial statements.

For businesses with bonus and welfare funds approved at the Annual General Meeting ("AGM") held the following year, the bonus and welfare fund used to calculate EPS is the current figure (usually planned bonus and welfare fund number), and companies should not use the previous year figure (figure was approved at the previous year AGM). The difference (if any) between the planned and approved figure at the AGM will be used to recalculate the previous year's EPS (restated) and companies should disclose this in notes to financial statements.

- Nguyen Hoang Nam – Partner +84(8) 3823 0796 (Ext. 1006), nguyen.hoang.nam@vn.pwc.com
- Luong Thi Anh Tuyet – Director +84(8) 3823 0796 (Ext. 2036), luong.t.anh.tuyet@vn.pwc.com
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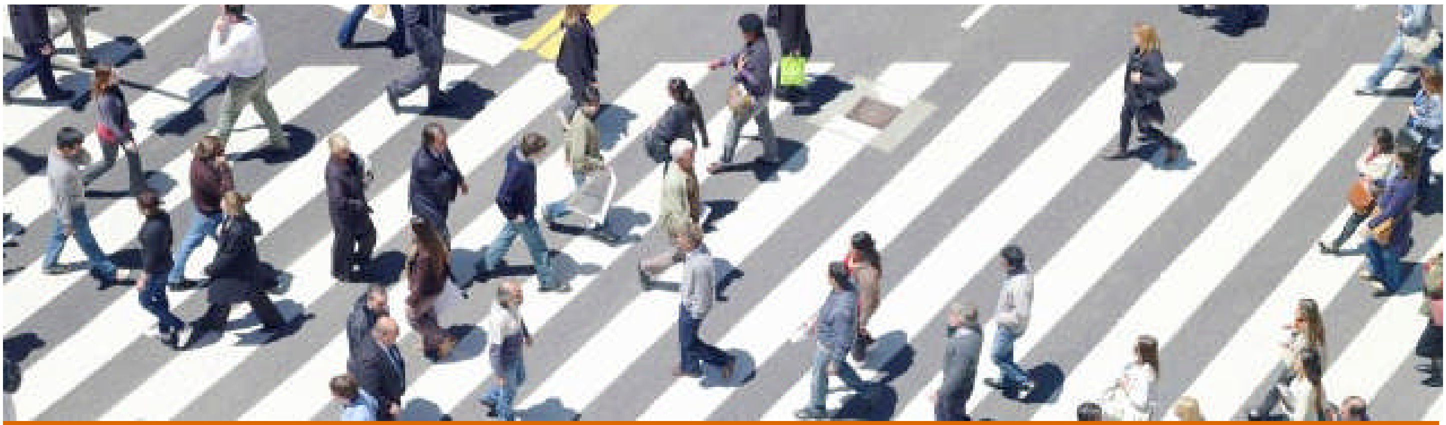

Exchange rates

Circular 200 requires companies to apply different types of exchange rates, such as buying exchange rates and selling exchange rates, the exchange rate at the time of contribution, etc. which causes difficulties for enterprises because the majority of existing accounting software does not support recording under different types of exchange rates. However, according to the MoF, the application of different types of exchange rates under Circular 200 reflects more accurately the nature and content of financial economic transactions than application of only one exchange rate. Moreover, according to the MoF, the difficult reason to apply different types of exchange rates under Circular 200 because of accounting software is not reasonable. According to Circular No. 103/2005 / TT-BTC, one of the requirements of accounting software is to have the ability to upgrade, modify, and supplement with changes in accounting regulations and financial policies without affecting the current accounting database.

In our view, if enterprises encounter problems in the application of different types of exchange rate, they should assess the level of risk that may occur, such as the risk of additional tax payable and risk of non-compliance with Vietnamese accounting regulations.

Provision of environmental reconstitution

According to Circular 200, provision for environmental reconstitution must be recorded as expenses. According to the MoF's guidance, the provision amount, the start and end period of making provision etc. must comply with regulations applied for each relevant industry. However, the MoF does not give clear guidance on whether provision of environmental reconstitution should be recognised only once on costs when applying Circular 200 or allocated in a certain time period.

In our view, enterprises can refer to international accounting practices to estimate the provision of environmental constitution. PwC will continue to research this matter.

Prepayments

The classification of short-term prepayment or long-term prepayment is based on the original maturity of each category of prepaid expenses and is not based on residual maturity. Enterprises should not reclassify long-term prepayments as short-term prepayments.

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 For further information please contact:

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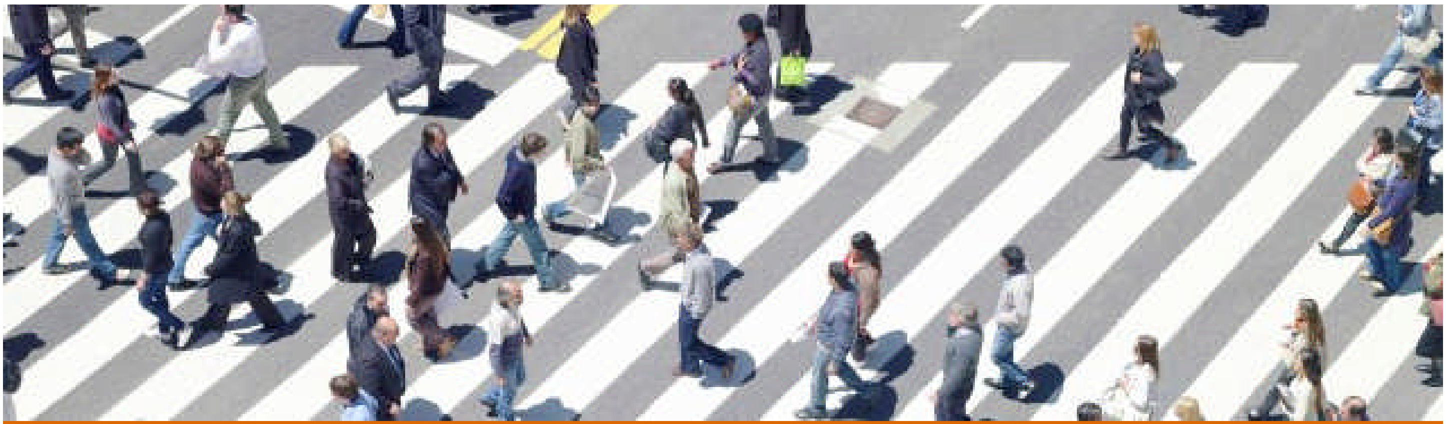

Revenue

If a company sells goods with promotion goods, the company has to allocate the revenue for goods and promotion goods. If the company has delivered goods to customers but not yet delivered the promotion goods, it records only revenue attributable to sale of goods. The company will record the revenue attributable to sale of promotion goods when the company delivers the promotion goods to the client.

According to the prudence concept, the company can only accrue for expenses not for sales deductions (such as sales discounts) because if the company can identify the sale deduction amount, the revenue must be record at net basis immediately. If products, goods or services were sold in the previous period but sales deductions incurred in the next period, enterprises should apply accounting standards under Events after balance sheet date. If sales deductions meet requirements for adjustment events occurring after balance sheet date, then they should be adjusted under the revenue of prior period in which revenue incurred. Otherwise sales deductions are adjusted in the current period in which sales deductions were incurred.

In terms of recognition for sales transactions among dependent accounting units with no legal status, enterprises will decide whether or not to recognise the revenue and cost of sales without depending on the form of documents (invoices or bill-cum internal transport.

Corresponding account

Under Decision No 15/2006/ QD-BTC issued by the MoF on 20 March 2006 ("Decision 15"), enterprises (especially foreign invested enterprises using accounting software designed by foreign suppliers) will have difficulties in complying with the Vietnamese accounting regulations regarding requirement of corresponding accounts. However, Circular 200 replaces Decision 15 and does not require the accounting ledger account to have corresponding accounts. Circular 200 allows enterprises to decide freely the form of accounting ledger as long as the company reflects a true and fair view of the financial information.

Others

Circular 200 has some errors which make it somewhat misleading. In guidance for preparing cash flow statements according to the indirect method, the correct guidance of indicator of Increase/decrease prepaid expenses (code 12) is "land rentals **unqualified** for being recorded as intangible assets are related to cash flow from investment activities and need to be excluded from this indicator" rather than "land rentals **qualified** for being recorded as intangible assets are related to cash flow from investment activities and need to be excluded from this indicator".

In addition, according to Circular 200, other incomes (code 31) and other expenses (code 32) are calculated based on the difference between the proceeds from the liquidation or sale of fixed assets, investment properties. Here, the inclusion of investment properties is error. Revenue and the carrying value of investment properties are recorded in account code 5117 – Revenue from investment properties and account code 632 – Cost of goods sold respectively.

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