New Circular providing guidance on Vietnamese Corporate Accounting System for small and medium-sized enterprises

Circular 133 – Accounting guidance on Vietnamese Corporate Accounting System for SMEs

Circular 133 does not give a definition of very small enterprise and SME. This definition is regulated in Decree 56/2009/ND-CP issued by the Government on 30 June 2009. SMEs regulated under Circular 133 may choose to apply Circular No. 200/2014/TT-BTC (“Circular 200”) issued by the MoF on 22 December 2014. During the fiscal year, if there are changes made SMEs do not meet the conditions to apply Circular 133, SMEs still need to apply this Circular consistently until the end of the current fiscal year then SMEs have to apply the appropriate accounting system in the next fiscal year.

With issuance later than Circular 200, Circular 133 replicates many points of Circular 200 and also has new points to simplify accounting works for SMEs. The key changes of Circular 133 in comparison with Decision 48 and Circular 138 are summarised below:

Application of Vietnamese Accounting Standard (“VAS”)

According to Decision 48, due to the nature of the business, SMEs are allowed to not fully comply with 12 VASs and not apply 7 VASs. Circular 133 allows SMEs not to comply with 7 VASs but have to fully comply with other accounting standards.

7 VASs that SMEs do not apply are as following:

- VAS 11 – Business combination
- VAS 19 – Insurance contract
- VAS 22 – Disclosures on financial statements of banks and similar financial institutions
- VAS 25 – Consolidated financial statements and accounting for investments in subsidiaries
- VAS 27 – Interim financial reporting
- VAS 28 – Segment reporting
- VAS 30 – Earnings per share
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**Accounting documents**

An enterprise is allowed to design the forms of its accounting documents provided that those documents contain sufficient information as stipulated in Vietnamese Law on Accounting. If the enterprise cannot design its accounting documents, it can apply the forms provided in Circular 133.

**Accounting books**

An enterprise is allowed to design its accounting books as long as they provide information about transactions completely, clearly and in a way that is easy to check and control.

**Chart of accounts**

Circular 133 guides the level-1 and level-2 accounts but does not have guidance for level-3, as Decision 48. There are no separate short-term and long-term accounts as Decision 48.

SMEs can either monitor-accounts by short term, long term, or open the detailed accounts in order to serve business operation management. However, when presented in the financial statements, assets and liabilities should be separate to the short-term and long-term according to the normal business operating cycle of the business.

SMEs are allowed to supplement or amend the name, code, content and accounting approach of level-1 or level-2 accounts by obtaining written approval from the MoF.

**No guidance for accounting entries**

Circular 133 only guides the accounting principles without providing details of accounting entry. By applying accounting principles, enterprises will freely decide the accounting entries that are suitable for business operation in order to ensure the preparation and presentation of financial statements will be in accordance with accounting regulations.

**Using exchange rates**

Circular 133 allows using approximate exchange rates to record accounting transactions in foreign currency in the circumstance that the contract does not specify the exchange rate of payment. The approximate exchange rate must ensure its disparity does not exceed +/-1% compared with the average transfer exchange rate of the commercial bank where an enterprise most frequently trades.
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**Financial statements (“FS”)**

- Circular 133 states that the financial statements have to reflect the economic substance of transactions and events, rather than their legal forms.
- SMEs are not required but encouraged to prepare a cash flow statement.
- Assets and liabilities on the Balance sheet are either presented in descending order of liquidity or in short-term and long-term order. Particularly, the balance sheet of a very small enterprise is presented in descending of liquidity.

- Circular 133 provides guidance on recognition of assets and liabilities and a FS template for an enterprise that does not satisfy the requirements of a going concern. Accordingly, when SMEs do not satisfy the going concern assumption, SMEs have to revalue the assets and liabilities except for the circumstance where there is a third party’s commitment to inherit all assets or the obligations to liabilities, the assets and liabilities are at book value. With this, the financial statements must be presented in accordance in descending of liquidity.

- When deciding to change accounting period, an enterprise has to prepare FS for the gap period between the old fiscal year and the current fiscal year.

- Circular 133 prescribes guidelines on FS preparation and presentation for an enterprise which is subject to a conversion of ownership form, division, demerger or merger.

**Conversion of FS that are measured and presented in foreign currencies into Vietnamese Dong (“VND”)**

Converted FS from foreign currencies into VND have to be audited before being made public or submitted to authorities in Vietnam. The guidance to convert FS from foreign currencies into VND in Circular 133 is similar as in Circular 200.

**Other changes**

- Remove revenue deductions account as the result revenue is recognised on a net basis.
- Enterprises can decide either to record or not to record the revenue arising from intercompany transactions which are not based on the supporting documents such as VAT invoice or bill-cum internal transport.
- The enterprise can decide the method of recognition of the transferred capital to the dependent accounting unit either as liability or as equity.
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