

## Differences of Financial Statement Presentation of FDI Firms under Vietnamese Accounting and International Accounting

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### Abstract

*this study is conducted to investigate the differences of financial statement presentation of FDI firms under Vietnamese Accounting and International Accounting (IAS/IFRS). Data were collected by conducting survey of FDI firms, independent audit firms from 2015 to 2017. Descriptive analysis and T-test have been employed for measuring the differences among items presentation of financial statements under Vietnamese accounting and international accounting. The result shows that there is a significant difference of presentation in the financial statements of FDI firms under Vietnamese accounting and international accounting. Based on the results, some suggestions have been given for reducing the gap between Vietnamese accounting and international accounting, including financial statements.*

**Key words:** Vietnamese Accounting, International Accounting, Financial statements

### 1. Introduction

In the last few years, there are a number of important changes in accounting policies and presentation of financial statements. The ultimate purpose is to have the true and fair expressions of financial statements that are accurate and helps financial statement users make sound economic decisions. Under the international perspective, financial statements are prepared for the sake of investors and stakeholders rather than for the government. But in Vietnamese circumstance, financial statements can be prepared for the benefit of government, not for the benefit of stakeholders because the public sector firms in Vietnam overwhelm the private sector.

At present, international financial reporting standards (IFRS) and US GAAP are designed basing on high-developed market economy. The European Union requires EU members' listed firms to employ their own accounting standards in convergence with IFRS (Ha, 2016). Up to now, more than 130 countries and territories in the world apply IFRS (IFAC, 2016), but very interesting Vietnam is an exception.

Vietnam has issued 26 Vietnamese accounting standards (VAS) in the period from 2001 to 2005, mostly based on out of date IAS. Vietnam's law on accounting, Vietnam's accounting framework also are designed basing on international standards, however, current VASs are said to be unsuitable and out of date in comparison with international accounting (Tran, 2016).

Some studies such as studies of Tran (2004), World Bank (2006) investigated the conversion of financial statement (FS) from the Vietnamese Accounting standard (VAS) to the international accounting standard (IAS/IFRS) and show that conversion is a complicated but a necessary task for enterprises doing business in Vietnam. The Vietnamese accounting system still has some gaps, especially for financial services, assessment and interpretation issues. This difference can sometimes be good for the data in the financial statements, but sometimes distorts the information provided to the users that leads to inaccurate decision making. They found that significant differences existed in presentation in the financial statements, but the sample sizes are small, mostly investigated basing on the desk review.

The total number of FDI projects in operation nationwide as of December 31, 2016 is about 22,509 projects, from 116 countries and territories, focusing on 19 groups of industries such as processing industry, manufacturing; construction; technology and services (General Statistics Office of Vietnam, 2016).

FDI firms contribute significantly to economic growth; job creation and labor productivity improvement, investment promotion and contribution to state budget revenues. However, the differences of preparations of financial statements make them difficult in accounting. Presently, FDI firms form two sets of financial statements for complying with Vietnamese accounting standards and IFRS or requirements from mother

firms. This makes FDI firms difficult in accounting in general and in converting financial statements in the perceptions of Vietnam into international accounting.

Difference from other studies, this research looks into the differences of presentation the financial statements under Vietnamese accounting and international accounting with large sample size and focuses on FDI firms that are much influenced by the differences of local and international accounting, then some suggestions will be proposed for reducing the gaps of two types of accounting.

## **2. Literature Review**

Nguyen (2010) used desk review the differences between Vietnamese accounting and IFRS and impact of differences on decision making from stakeholders including investors. Nguyen (2017) found that recording economic events had effects on presentation of financial statements. However, there are deviations between two accounting frameworks because IFRS is designed on principle-based accounting whereas Vietnamese accounting basically is designed on rule based accounting and in the orientation of principle based accounting in the future.

Foreign investment could be shifted from Vietnam to other countries because investors do not clearly understand regulations of accounting and presentation of financial statements in Vietnam, or joint stock firms would face challenges and increase costs when they list stocks and securities in the security market (Ha & Nguyen, 2011). Many differences in accounting of Vietnam and other countries such as financial statement formats, fair value application, recognitions of items, impairments of assets, financial instruments, pensions and others have been pointed out because Vietnam up to now has not employed IFRS and on the way to design own Vietnamese accounting standards.

Pham et al. (2011) assessed the level of harmonization of Vietnamese accounting standards with international accounting standards, considering the degree of convergence based on the Vietnamese accounting standards with the international accounting standards. As a result, the level of measurement is 75.8%, the level of information presented is 61.9%.

Tran (2014) examined hypotheses about the harmony between Vietnamese accounting and international accounting in the preparation of consolidated financial statements of listed firms. The level of harmonization between Vietnamese accounting and international accounting in different periods is different as in 2003, it was 47.6%; in 2008, it was 26.32%; in 2011, it was 26.32%.

Deloitte (2016) pointed the differences between Vietnamese accounting and international accounting into two aspects, i.e. differences in presentation of financial statements and differences in chart of accounts. Differences in financial statements are differences in Vietnamese accounting standards of No. 1, 21, 24, 27, 30, accounting law, accounting system and related circulars and decisions. International accounting standards were been used for comparison including IAS No. 1, 7, 33, 34; IFRS No. 1, 7, 8.

Do & Truong (2017) presented and analyzed similarities and differences in presentation of financial statements by Vietnamese accounting and international accounting at FDI firms. The results show that the similarity is quite small, from 0.69 to 2.5 but the difference is quite high, from 2.5 to 4.31. They used a quantitative research method with descriptive analysis with small sample so the findings are really unpersuasive.

The prior studies have synthesized and analyzed the harmonization, convergence, differences between Vietnamese accounting and international accounting. Almost all studies employed qualitative methods except Pham et al. (2011), Tran (2014) and Do & Truong (2017). However, no research addresses the differences of presentation in the financial statements of FDI firms under Vietnamese accounting and international accounting in the case of the gap is bigger and bigger. FDI in Vietnam has to prepare financial statements under international accounting or mother accounting. As a result, they have to convert financial statements under Vietnamese accounting into international accounting. This make more works from accountants and in many cases they spend much money for this by asking auditors to do. To some extent, this influences FDI attractions, increases the cost of hiring auditors to translate financial statements according to international accounting, affects the provision of information both in Vietnam accounting and in international accounting.

## **3. Financial Statements under Vietnamese Accounting and International Accounting**

### *3.1. Financial Statements under Vietnamese Accounting*

Vietnamese presentation of financial statements experiences significant changes in the history of accounting. In the period before 1995, Ordinance on Accounting and Statistics allowed foreign portfolio investment to apply general accounting and statistics principles and standards accepted by Vietnam's Ministry of Finance. Ordinance on accounting 1990 was adopted by public firms including two parts. First, the data part includes total assets (01/BCKT), income statement (02/BCKT), cost of manufacturing and operating (03/BCKT). Second, the demonstration includes statement of profit or loss (04/BCKT).

In the period from 1995 to present. The general accounting and specific presentation of financial statements have been constantly reformed by Ministry of Finance. Presentation of financial statements has unified with international accounting standards and been more stable. Financial statements provide information not only for the government but also for investors, commercial and investment banks, creditors, partnerships and publicity. Cash flow information in the financial statements becomes important in presenting corporations' wealth. Objectives and economic events were clearly shown in the financial statements. Financial statements system includes four statements of balance sheet, statement of income; cash flow statement and notes to the financial statements.

Purposes, requirements and principles of recording of financial statements are released on VAS 1-Framework, VAS 21 – Presentation of financial statement; VAS 24 – Cash flow statement, Vietnam's Accounting Law (2015) and Circular No. 200/2014/TT-BTC in 2014.

Purposes of financial statement reveal strong structure of financial information and operating income of an entity. The major aim of financial statement is to provide reliable financial information, operating income and inflow and outflow of money of a specific firm for making decisions. Therefore, financial statement has to record some main accounting information such as assets, liabilities, stockholders' equity, revenues, expenses, extraordinary income, profit and loss account, cash flow statement.

Requirements of financial statement's presentation are to provide the reliable and suitable financial information, operating activities income and cash flow of a company. To comply with those requirements, financial statements must comply with Vietnamese accounting standards issued by Vietnam's Ministry of Finance.

Principles of financial statements must obey concepts of accounting such as going concerns concept, accrual concept, consistency, materiality and entity concept, comparable concept.

### *3.2. Financial Statements under International Accounting*

According to IAS1 – presentation of financial statement includes: Statement of financial position, Comprehensive income, Statements of changes in equity, Cash flow Statement and Notes to the financial statements.

#### *Statement of financial position*

+ Assets, short-term and long-term liabilities: A company presents assets, short-term and long – term liabilities accounts, owner's equity separately. If not, assets and liabilities accounts have to be presented in the order of liquidity so as to provide the reliable information.

+ Due date of assets and liabilities: A company has to present due date of assets as well as liabilities in order to evaluate liquidity and their payable ability.

+ Balance sheet sample: do not illustrate balance sheet sample or the order of chart of accounts.

*Comprehensive income statement:*

A company must present recorded revenue account and expenses account in a period as in a statement of all types of income; and in two statements: Net income and other comprehensive income statement.

Reissue of FS in IAS1 requires companies to list accounts in income statement based on the ability to transfer these accounts into profit or loss. The reissue also requests companies to present taxes related to accounts before taxes separately.

A company needs to show income statement in order of costs function or costs essence, depending on which way is more reliable.

*Statement of changes in owner's equity:*

A company has to disclose changes in stockholders' equity:

+ Net profit or Net loss of a period

+ Economic events about owners' equity and dividend of distribution.

+ Opening balance and Ending balance of Accumulated Profit and Accumulated Loss and their changes in a period

+ Compare every type of capital, Share of premium and Reserve Funds in Opening and Ending period.

*Cash Flow Statement:*

The definition of money equivalent does not often include capital investment. Banking borrowing is seen as operating activity. Overdraft accounts are also seen as money equivalent if these accounts are integral to financial control policy of that company.

Exchange rate is used for cash flow from foreign currency economic events and cash flow of a foreign subsidiary. Using the exchange rate of the day cash flow statement is prepared.

Profit and dividends: cash flow from profit and dividends have to be presented separately. Each type should be sorted in operating, investment or financing activities through every period.

#### **4. Data and Research Methodology**

##### *4.1. Data Collection*

The level of differences has been designed basing on the previous studies. Then we interview experts of accounting and auditing for adjusting difference scales of presentation in the financial statements under Vietnamese accounting and international accounting in order to have official questionnaires. Then questionnaires have been sent to FDI such as finance directors, chief accountants, accountants of FDI firms; and independent firms who conduct the audits of financial statements of FDI such as partners and auditors.

450 questionnaires have been sent and we receive 305 questionnaires, accounting for 67%; of these, 165 were from FDI firms and 140 from independent auditing firms. 100% of respondents are chief accountant, general accountant of FDI firms; 75% are auditors of independent auditing firms. The respondents mainly have more than 5 years experience (90%) and have bachelor degree or above (100%). Survey subjects are highly experienced and qualified, ensuring the reliability and quality of the survey responses. FDI firms in the final sample consist of listed and unlisted, different scales of size, different fields of economy.

#### 4.2. Methodology

We use both qualitative and quantitative method in this research. In the qualitative approach, after determining the research objective, we undertake data collection by collecting and examining documents that are prior research works. After that, we develop a questionnaire and interview experts who have expertise in the field. Finally, we analyze the data, synthesize them to produce research results and develop questionnaires for quantitative methods.

In the quantitative method, the questionnaires were re-examined and distributed broadly to the surveyed subjects. Participants commented their opinions on the differences of presentation in financial statements of FDI firms under Vietnamese accounting and international accounting.

We use descriptive analysis basing on the mean levels of differences of questionnaires. The mean level is from 1 to 5 which 1 is no difference and 5 is significant differences (basing on Likert's scale). T-test also has been employed for testing the differences in the financial statements of FDI firms under Vietnamese accounting and international accounting.

#### 5. Results and Discussion

Basing on previous studies, we analyze, evaluate and measure differences of presentation in the financial statements on the perceptions of respondents under Vietnamese accounting and international accounting.

The presentation in the questionnaire includes:

- (i) The concepts underlying the preparation and presentation of financial statements to external users (TB1) include 3 attributes: principles and basic requirements, elements of financial statements, Recognize elements of financial statements;
- (ii) Presentation financial statements (TB2) includes 1 attribute of presentation;
- (iii) Cash flow statement (TB3) includes 1 attribute of presentation;
- (iv) Interim financial statements (TB4) includes 1 attribute of presentation;
- (v) Earnings per shares (TB5) includes 3 attributes of recognition, measurement, presentation.

Research conducted Independent Samples Test with two variable values, to test the average difference with two groups of respondents being accountants at FDI firms and auditors at independent audit firms. The significance of the mean difference test is to determine whether there is an average difference in the quantitative variable for the different values of a qualitative variable. In this case, there are differences in the assessment of differences in financial statements of FDI firms by Vietnamese accounting and international accounting.

Table 1. Differences of Financial Statement Presentation of FDI firms under Vietnamese Accounting and International Accounting

Survey contents			Mean	Std. Deviation	Sig
The concepts underlying the preparation & presentation of financial statements	Principles and basic requirements	K1	3.13	.849	.003 *
		K2	4.06	.648	
		Total	3.56	.895	
	Elements of financial statements	K1	3.03	.978	.000 *
		K2	4.09	.656	
		Total	3.52	.997	
	Recognition of items in the financial statements	K1	3.16	.969	.000 *
		K2	4.01	.646	
		Total	3.55	.938	
Presentation of financial statements	Presentation & disclosure	K1	3.07	.905	.000 *
		K2	4.06	.707	
		Total	3.52	.956	
Cash flow statement	Presentation & disclosure	K1	2.92	.965	.001 *
		K2	3.89	.750	
		Total	3.36	0.997	
Interim financial statements	Presentation & disclosure	K1	2.89	1.012	.000 *
		K2	3.86	.783	
		Total	3.33	1.032	
Earnings per shares	Recognition	K1	2.72	1.151	.000 *
		K2	4.03	.719	
		Total	3.32	1.182	
	Measurement	K1	2.90	.960	.000 *
		K2	4.10	.723	
		Total	3.45	1.047	
	Presentation	K1	2.78	1.101	.000 *
		K2	4.10	.780	
		Total	3.38	1.170	

Notes:K1: Respondents from FDI firms of 165 votes

K2: Respondents from audit firms who audit financial statements of FDI of 140 votes

(\*): Significance level less than 0.05

Table 2. The Results of Differences of Two Respondents

Survey contents		Respondents from FDI	Respondents from audit firms	Mean differences	Sig. (2 tailed)
The concepts underlying the preparation and presentation of financial statements	Principles and basic requirements	K1	K2	-0.937	.000 *
	Elements of financial statements	K1	K2	-1.063	.000 *
	Recognition of items in the financial statements	K1	K2	-0.857	.000 *
Presentation of financial statements	Presentation & disclosure	K1	K2	-0.990	.000 *
Cash flow statement	Presentation & disclosure	K1	K2	-0.971	.000 *
Interim financial statements	Presentation & disclosure	K1	K2	-0.986	.000 *
Earnings per shares	Recognition	K1	K2	-1.307	.000 *
	Measurement	K1	K2	-1.203	.000 *
	Presentation	K1	K2	-1.324	.000 *

The results from Table 1 and Table 2 show that, the respondents assessed the significant differences in presentation of financial statements of FDI firms under Vietnamese accounting and international accounting, as follows:

### **The concepts underlying the preparation and presentation of financial statements:**

First, principles and basic requirements: the average scale of K1 is 3.13; of K2 is 4.06. The results of the analysis showed that the significance level of the test for variance of the "Principles and basic requirements" between K1 and K2  $<0.05$ , reflected the difference in the variance of the two samples K1 and K2. The results of the T-test on the difference in the mean of "Principles and basic requirements" between K1 and K2  $<0.05$ , reflect different and statistically significant.

Second, items in the financial statements: the average scale of K1 is 3.03; of K2 is 4.09. The results of the analysis showed that the significance level of the test for variance of the "Items in the financial statements" between K1 and K2  $<0.05$ , reflected the difference in the variance of the two samples K1 and K2. The results of the T-test on the difference in the mean of "Items in the financial statements" between K1 and K2  $<0.05$ , reflect different and statistically significant.

Third, recognition of items in the financial statements: the average scale of K1 is 3.16; of K2 is 4.01. The results of the analysis showed that the significance level of the test for variance of the "Recognitions of items in the financial statements" between K1 and K2  $<0.05$ , reflected the difference in the variance of the two samples K1 and K2. The results of the T-test on the difference in the mean of "Recognize elements of financial statements" between K1 and K2  $<0.05$ , reflect different and statistically significant.

### **Presentation financial statements**

Presentation & disclosure: the average scale of K1 is 3.07; of K2 is 4.06. The results of the analysis showed that the significance level of the test for variance of the "Presentation, publish" between K1 and K2  $<0.05$ , reflected the difference in the variance of the two samples K1 and K2. The results of the T-test on the difference in the mean of " Presentation, publish" between K1 and K2  $<0.05$ , reflect different and statistically significant.

### **Cash flow statement**

Presentation & disclosure: the average scale of K1 is 2.92; of K2 is 3.89. The results of the analysis showed that the significance level of the test for variance of the "Presentation, publish" between K1 and K2  $<0.05$ , reflected the difference in the variance of the two samples K1 and K2. The results of the T-test on the difference in the mean of " Presentation, publish" between K1 and K2  $<0.05$ , reflect different and statistically significant.

### **Interim financial statements**

Presentation & disclosure: the average scale of K1 is 2.89; of K2 is 3.86. The results of the analysis showed that the significance level of the test for variance of the "Presentation, publish" between K1 and K2  $<0.05$ , reflected the difference in the variance of the two samples K1 and K2. The results of the T-test on the difference in the mean of " Presentation, publish" between K1 and K2  $<0.05$ , reflect different and statistically significant.

### **Earnings per shares**

First, recognition: the average scale of K1 is 2.72; of K2 is 4.03. The results of the analysis showed that the significance level of the test for variance of the "content of variance" between K1 and K2  $<0.05$ , reflected

the difference in the variance of the two samples K1 and K2. The results of the T-test on the difference in the mean of "recorded content" between K1 and K2  $<0.05$ , reflect different and statistically significant.

Second, measurement: the average Likert scale of K1 is 2.90; of K2 is 4.10. The analysis results show that the significance level of the variance of the "content of the variance" between K1 and K2  $<0.05$  reflects the difference in the variance of the two samples K1 and K2. The results of the T-test on the difference in the mean between K1 and K2  $<0.05$ , reflect different and statistically significant.

Third, presentation: The mean Likert scale of K1 is 2.78; of K2 is 4.10. The results of the analysis show that the significance level of the test for variance of "Variation" between K1 and K2  $<0.05$ , reflects the difference in variance of the two K1 samples and K2. The results of the T-test on the difference in mean between K1 and K2  $<0.05$ , reflect different and statistically significant.

From these data analysis, we can affirm that there are a number of differences between Vietnamese accounting and international accounting in FDI firms in Vietnamese context as:

(i) *The convergence between Vietnamese accounting and IAS/ IFRS is negligible.* Tran (2016) stated that Vietnam Accounting Law issued in 2015 and officially in 2017 is not comprehensive and suitable enough for having a full legal framework in accounting. Vietnamese accounting system for enterprises was designed, issued and implemented before reissuing Vietnamese accounting standards. That is why a number of items are not guided and consistent with Accounting law issued in 2015. Besides, 26 Vietnamese accounting standards issued in the period from 2001 to 2005 was out of date and needs to be revised as soon as possible under the orientation of international accounting. Nguyen (2017) concluded that although there are several changes in concepts of Vietnamese accounting, it basically has four aspects of documents, chart of accounts, bookkeeping and financial statements.

Pham (2016) states that Accounting law has a number of drawbacks. Vietnamese accounting has mentioned to financial statements but sparingly and not enough to prepare consolidated financial statements. Accounting law has not stipulated the contents related to the conversion of financial statements from foreign subsidiary firms in financial year, which provide information for consolidated financial statements before publishing the reports. Accounting law has not adequately addressed to derivatives, not provided for the content of environmental accounting, societies and sustainable development. Accounting law has just dealt only with a low level of accounting under computer condition. Accounting law should stipulate the contents related to the internal control of the business decentralization, the exchange of electronic data, vouchers and electronic accounting documents. The accounting law has not been sanctioned in a complete and detailed manner, and therefore it will be unlikely to deter any accounting errors. Accounting law should clearly stipulate penalties for accountants and business managers in specific penalties to enhance deterrence. Accounting rules do not clearly define the functions and responsibilities of relevant agencies in the issuance and application of the law into practice. The government, Ministry of Finance, corporations and training organizations should take responsibility for related principles. Accounting law lacks connection with other laws such as Enterprise law, Law of natural resources and environment, Auditing law, Tax law and others.

(ii) *Using adjustment profession:* IAS/IFRS allows accountant flexibility in making judgment such as choosing estimations of provisions, uncertain future events and others. Meanwhile, Vietnamese accounting requires to apply system of accounts. The Vietnamese accounting limits to apply judgment and policies and others. These differences show Vietnamese accounting is unsuitable, or incomplete, not meet the factual needs of Vietnamese economy nowadays, unsuitable to international accounting. Although, Vietnamese accounting standards had many adjustments about accounting regulation and law of accounting, but they have not been updated and revised.

## 6. Conclusion and Suggestions



This study is conducted for looking into the differences of presentation in the financial statements of FDI firms under Vietnamese accounting and international accounting. The results show that differences of presentation in the financial statements under Vietnamese accounting and international accounting are existed and the gap is rather big. The results are similar to Do and Truong (2017). There are many reasons given for explaining for this big gap between two accounting frameworks. Whatever reasons given, the fact is that the gap is very big. So in order to narrow the big gap, some suggestions have been given basing on the results of interviewing experts in the field of accounting and auditing in Vietnam as:

### **On the side of FDI firms**

First, provide financial support for the training and retraining of accounting staff to work according to the characteristics of the enterprise.

Second, facilitate advanced study accounting in the country and even abroad to gain a deeper knowledge of business in Vietnam's international integration process.

Third, regularly examine and assess knowledge of law and accounting, dealing with practical experience of transactions arising in the enterprise from time to time to ensure that enterprise accountants must always have strong professional work efficiency to avoid material misstatements.

Fourth, develop a salary policy that is consistent with the dedication, contribution of employees in general and accountants in particular.

### **On the part of practitioners**

First, accountants must have good orientation in accounting profession when they are in university or college seats to be aware of this profession and to train professionally when graduating.

Second, accountants must thoroughly understand accounting policies and laws (both domestic accounting standards and international accounting standards) for accounting and presentation of high-performance financial statements.

Third, the accountant must be familiar with international law to handle daily affairs.

Fourth, accountants who are good at this job also have to firmly grasp tax policies and laws; the specialized law related to finance, accounting and tax so that the accounting, financial settlement and tax finalization can meet the requirements of the state inspection agencies to avoid being wrong and sanctioned many times today.

Fifth, accountants, apart from having extensive knowledge, are indispensable part of communication skills, working skills and overcoming difficulties skills of this profession. New and successful in practice and be able to demonstrate the professionalism of Vietnamese accounting.

Last, in the process of international integration, accountants must master foreign languages not only in English but also in other languages such as Japanese, Korean, Chinese and others to study and apply in transactions inside and outside the business with their expertise. Accountants can work at international corporations located in Vietnam or export to foreign countries to work with high income and opportunities.

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