

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Trade and Accounting



Diploma Thesis Abstract

Comparison of the Czech and Vietnam Accounting System

Author: Nguyen Thuy Dung

Supervisor: Ing. Enikő Lőrinczová, Ph. D.

© 2018 CULS Prague

Summary

This diploma thesis deals with the comparison of the Czech and Vietnamese accounting system. The theoretical part focuses on the accounting harmonization in the world and on the history and characteristics of the accounting systems in the Czech Republic and Vietnam. The practical part focus on the accounting principles and financial statements of two companies, one of which is operating in the Czech Republic and the other in Vietnam. On the basis of findings in the practical part, the results of this diploma thesis focus on the comparison of the legal framework of accounting and the form and content of the financial statements in these two countries, discussing similarities and differences. The diploma thesis also compares selected areas of accounting procedures and principles used in the Czech Republic and Vietnam with the international accounting standards IAS/IFRS

Souhrn

Diplomová práce se zabývá srovnáním českého a vietnamského účetního systému. Teoretická část se zaměřuje na harmonizaci účetnictví ve světě, na historii a charakteristiku účetnictví v České republice a ve Vietnamu. Praktická část se zaměřuje na charakteristiku účetnictví a účetních výkazů dvou společností, z kterých jedna působí v České republice a druhá ve Vietnamu. Na základě zjištění v praktické části, výsledky práce se zaměřují na srovnání účetního systému těchto dvou zemí ohledně právního rámce, formy a obsahu účetních výkazů a podobností a rozdílů mezi nimi. Práce také srovnává vybrané oblasti účetnictví České republiky a Vietnamu s mezinárodními účetními standardy IAS/IFRS.

Keywords: Accounting system, Financial Statements, legal frame, Balance sheet, Income Statement, Notes, Cash-flow statement, International Financial Reporting Standards, Income tax.

Klíčová slova: Účetní systém, účetní závěrka, právní rámec, rozvaha, výkaz zisku a ztráty, poznámky, přehled o peněžních tocích, Mezinárodní standardy účetního výkaznictví, daň z příjmů.

Objectives

The aim of this diploma thesis is to compare the legal framework of the Czech and the Vietnamese accounting systems, especially the presentation, form and content of Financial statements, analyse the similarities and differences with international accounting standards IAS/IFRS and apply theoretical knowledge on case studies.

Regarding to the purpose of the diploma thesis, the research questions are:

- What are the characteristics of accounting systems of the Czech Republic in legal framework, and requirement on financial statements?
- What are the characteristics of accounting systems of the Socialist Republic of Vietnam in legal framework, and requirement on financial statements?
- What are the main differences in accounting regulations in the Czech Republic and the Socialist Republic of Vietnam?
- What are the main differences in requirements on financial statements in the Czech Republic and the Socialist Republic of Vietnam?
- What are the main similarities and differences in legal framework, principles based on the particularly comparison of the companies?
- What could to be improved in accounting system of two countries according to IFRS and bases on the result of the comparison?

Methodology

Methodology for the literature overview is based on data collection from the relevant legal framework, specialized publications and other written or online sources. The methods of analysis, synthesis, comparison and deduction will be used to prepare the practical part and to formulate the conclusions of the thesis.

The diploma thesis structure includes two main parts: the first one is the theoretical part with literature review about IFRS and harmonization process, the Czech accounting's legal framework, requirements for financial statement as well as the Vietnamese accounting's legal framework, requirements for financial statement; the second one is the practical part with the case study analysis of two companies, one from the Czech Republic and one from socialist republic of Vietnam. This part contains the short introduction of two research subjects, its accounting policies, and the financial analysis. Then, there will be the discussion and conclusion based on previous parts.

The methodology used for the literature overview is mainly synthesis and deductive method based on data collection, which is mostly from the relevant laws or regulations, specialized publications, study books, and online sources. To answer the first two research questions about Czech and Vietnamese accounting characteristic, secondary information is collected from studies about Czech accounting regulations, standards along with the Vietnamese accounting reform, laws, or standards. Additionally, the research about the differences between the Czech accounting system with IFRS, or between the Vietnamese accounting system with IFRS are considered. In addition, information of laws and regulations is collected from national, or academic websites.

For the practical part, the classification analysis, relation analysis, and synthesis method will be used based on primary data source from the annual financial statements of two studying companies in 2014, 2015, 2016. Information about these companies' accounting policies and their figures in the balance sheet, income statement, and note to the financial statement will be focused on. Additionally, financial performance ratios together with comparison method are used to analyse and make sure that the financial statements of two entities are comparable.

Finally, by using the combination of the synthesis, deductive, comparison method, answers for other research questions about the differences between two accounting systems will be prepared and presented in the discussion and conclusion.

Findings

Regarding the purpose of the diploma thesis, and on the research related to this diploma thesis, the answers for the research questions are:

- What are the characteristics of the accounting system of the Czech Republic in legal framework and requirements on financial statements?

The Czech accounting system in the past was influenced by the central planning system in politics. From 1990, there has been changes towards the European style of accounting and the new Act on Accounting was based on the principles of the Fourth European Directive regarding the annual accounts of companies. After the entry of the Czech Republic into the European Union in 2004, the changes in accounting leaned towards the principles of the international accounting standards IAS/IFRS. There are still differences, regarding for example these areas: the leased assets (where the owner reports and depreciates the asset, rather than the user), creating provisions for future repairs of property (which are not allowed according to IAS/IFRS), capitalization of research and development costs (where are strict rules according to IAS/IFRS, but not according to IAS/IFRS), until 2016 changes in own inventory and capitalization of own services were part of revenues (according to IAS/IFRS these items are reported as expenses) and other areas shown in Table 7. From 2016 there has been some changes to implement more of the principles of IAS/IFRS, but there are still areas, which do not comply with the international accounting standards. Listed companies on international markets have to prepare their financial statements according to IAS/IFRS from 2005, but other companies follow the national accounting legislation.

- What are the characteristics of the accounting system of the Socialist Republic of Vietnam in legal framework and requirements on financial statements?

The Vietnamese accounting legal framework, similar to the Czech Accounting system, is according to code law system or continental law, which means it is strictly regulated from the law, including law from accounting and other relative law such as taxation, or civil law. The economic crisis in the 1980s marked a significant step in the reform process of accounting in Vietnam when it changed from a command economy to a market economy. After that, under "Open-door" policy and the accession to international organizations, such as WTO, ASEAN, the Vietnamese accounting system has been influenced and modified toward international standards IAS/IFRS in many years. Till now, due to the local economic environment and legal system, there are still many differences between VAS and IFRS. This can be seen easily in

some aspects, for instance, the rigid, strict format of financial reporting of Vietnamese accounting system, eliminating the flexibility and diversity of financial reporting. Additionally, in the valuation method for inventory, while LIFO is permitted in the Vietnamese Accounting, it is not allowed in accordance to IFRS; or only historical and realizable cost is accepted before the fair value has been applied from 2017, which reduce the transparency of the information. These differences are not permanent and expected to modify in the future when the Vietnamese economy in the high position, thus, will be more consistent with using IFRS.

- What are the main differences in accounting regulations in the Czech Republic and the Socialist Republic of Vietnam?

Both countries have national legislation in form of Act on Accounting and accounting standards. The main difference is in the area of financial lease, where Vietnam is more in compliance with the IAS/IFRS. In the Czech Republic, the owner (the lease company) reports and depreciates the leased assets. In Vietnam, the company who uses the leased asset reports and depreciates the leased assets, which is in compliance with the IAS/IFRS requirements. In the Czech Republic, the format and structure of the balance sheet and the income statement is prescribed and the income statement in most reported cases reports operating expenses by nature. In Vietnam, the income statement is commonly prepared by function.

- What are the main differences in requirements on financial statements in the Czech Republic and the Socialist Republic of Vietnam?

In the Czech Republic, until 2016, the complete set of financial statements (annual accounts) represented a balance sheet, an income statement and notes to the financial statements. The cash-flow statement and the statement of changes in equity were optional. From 2016, these two statements are mandatory for medium and large companies. In Vietnam, a mandatory set of financial statements include a balance sheet, income statement, notes and a cash-flow statement. The statement of changes in own equity is not required as a primary statement and it can be presented as part of Notes to the financial statements.

- What are the main similarities and differences in the accounting principles based on the particular comparison of the case-study companies?

Differences were found in the area of depreciation (mainly goodwill) and the presentation of the income statement. The main difference is in reporting the leased assets. The Czech company does not include the leased assets in its balance sheet and the Vietnamese company

does. This can be the main difficulty when comparing the results of the financial analysis. Both companies report their assets in a historical cost.

- What could be improved in the accounting system of the two countries according to IFRS and based on the result of the comparison?

The main thing remaining to be implemented in the Czech Republic is the leased assets presentation. There is also a lack of legal definition of the components of the financial statements (definition of assets, liabilities, equity, expenses and revenues). Capitalization of the costs of research and development is also different from the IAS/IFRS requirements.

The similarities of the accounting systems of both countries are in the continental style of the accounting system, meaning a strong compliance with the national legal regulations. Both countries use historical cost as the main valuation method. Requirements on the financial statements are similar: the balance sheet, the income statement, notes to the financial statements, the cash flow statement and the statement of changes in own equity are required, but for a different type of companies. The difference is in the legal requirements as to what is considered a primary statement.

The main differences in the accounting principles are related to the definition of the components of the financial statements. In the Czech Republic, there is no definition of assets, therefore the main difference between the Vietnamese accounting system and the IAS/IFRS requirements is the accounting treatment of the leased assets. This can be a main obstacle when comparing two companies operating in different countries.

References

- Doan, N. P. A. & Nguyen, D. T. (2013). Accounting in a developing transitional economy: the case of Vietnam. *Asian Review of Accounting*, 21(1), 74-95. Retrieved from <https://doi.org/10.1108/13217341311316959>
- Duong, T. T. (2015). *Khoa Ke toan*. Retrieved from Dai Hoc Duy Tan: kketoan.duytan.edu.vn
- ERNST & YOUNG. (2013). *Overview of Differences between International Financial Reporting Standards and Czech Accounting Legislation*. Ernst & Young Publications.
- Gitman, L. J. (2006). *Principles of Managerial Finance*. Boston: Pearson Education, Inc.
- Miková, T. & Žárová M. (2015). Important Changes in the Czech Accounting Regulatory System. *16th Annual Conference on Finance and Accounting* (pp. 185-191). Prague: Elsevier B.V. doi:10.2016/S2212-5671(15)00727-3
- Ministry of Finance, V. (n.d.). Government Decree No. 215/2013/ND-CP. *The Accounting Law*. Retrieved from <http://moj.gov.vn>
- Ministry of Finance, Vietnam. (n.d.). Government Decree No. 03/2003/QH11. *The Accounting Law*. Retrieved from <http://moj.gov.vn/vbpq/en/lists/>
- Nguyen, A. T. & Gong, G. (2012). Vietnamese Accounting Reform and International Convergence of Vietnamese Accounting Standards. *International Journal of Business and Management*, 7, 26-36.
- Nguyen, A. T. & Gong, G. (2014). Measurement of Formal Convergence of Vietnamese Accounting Standards with IFRS. *Australian Accounting Review*, 24(2), 182-197. doi:<http://doi.org/10.1111/auar.12033>
- Nguyen, C. P. & Tran, D. K. N. (2012). International harmonization and national particularities of accountig: Recent accounting development in Vietnam. *Journal of Accounting & Organizational Change*, 8(3), 431-451. doi:<https://doi.org/10.1108/18325911211258371>
- Nguyen, X. (2015, May). Overview of Vietnamese Accounting SYstem Since 1975 and the Process of Vietnam's Convergence to IFRS. *Journal of Modern Accounting and Auditing*, 11, 260-268. doi:10.17265/1548-6583/2015.05.002
- Nobes, Ch., Parker, R. (2008). *Comparative international Accounting* (10th ed.). London, United Kingdom: Pearson Education Limited.
- Pacter, P. (2017). *Pocket Guide to IFRS Standards: the global financial reporting language*. London: IFRS Publications Department.

- Poznanski, J. et al. (2013, December). *Demonstrating value*. Retrieved from www.demonstratingvalue.org
- PricewaterhouseCoopers. (2008). *Similarities and Differences. A Comparison of IFRS and Thai GAAP, Vietnamese GAAP, Cambodia GAAP and Laos GAAP*. PwC publications.
- PwC. (2009). *IFRS and Czech GAAP, Similarities and Differences*. PricewaterhouseCoopers Audit, s.r.o.
- PwC. (2016, January 15). *PwC Vietnam Newsbrief*. Retrieved from PwC Vietnam: <https://www.pwc.com/vn/en/publications/2016/pwc-vietnam-newsbrief-accounting-law-2015-en.pdf>
- Russell Bedford. (n.d.). *Vietnamese Accounting Standards*. Retrieved from Russell Bedford KTC Associates: <http://russellbedford.vn/>
- Starová et al. (2014). *Asymmetries in accounting information*. (First, Ed.) Praha: The Book was published with the scientific editors.
- Thư viện học liệu mở Việt Nam*. (n.d.). Retrieved from Voer: <https://voer.edu.vn/>
- World Population Clock*. (2018, March). Retrieved from <http://worldpopulationclock.info>
- Žárová, M. (2011). Impact of International Financial Reporting Standards on Development of Accounting Regulatory System in the Czech Republic. *Trend in International Business* (pp. 255-263). Lyon - Prague: University Jean-Moulin Lyon 3.