＜論 説＞

Harmonization and Convergence in Accounting System: the Experiment from other Countries for Vietnam

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Abstract

Recently, the accounting harmonization and convergence have became the great topics relevant to international integration in many countries (Backer et al., 2007), especially after issuing of International financial reporting standards (IFRS) by International Accounting Standards Board (IASB) in 2001. One of the reasons is the rising demands for comparability and transparency in financial reports to control the international business activities and the greater participation of multi- national companies in over the world. Being a developing country with the accounting system still lacks of the fundamental conditions for international harmonization (MOF, 2014) Vietnam also has to face the exaggerated pressure of international harmonization comes from the international organizations. Although, the Vietnam' s effort in the changes of accounting regulations has created the fruitful results, the existing differences between Vietnamese accounting standards (VASs) and international accounting standards (IASs) are still as the disadvantages of international integration for Vietnam (Phan et al., 2014, Nguyen et al., 2012). In order to reduce the differences between the Vietnamese and international accounting standards and contribute finding the better solutions for development of accounting system, the study applies the theoretical framework of harmonization and convergence to supply the current convergence and harmonization; identify the leading areas of accounting convergences for Vietnam; as well as provide the empirical development of accounting harmonization from other countries.

Main contents

1. Introduction: the limitation of VASs impacts to improve the accounting system
2. Methodology: the conjunction of literature review, comparison method and theoretical framework of convergence and harmonization.
3. Describe the current situation of Vietnamese accounting harmonization.
4. Identify the leading areas in accounting convergence in Vietnam: Business combination and consolidated financial statements (CFSs)
5. Experiment in accounting convergence from other countries
6. Conclusion: the consistence of different laws, the size of capital market contributes greatly to improve the convergence of VASs with the IASs

Keywords

Accounting harmonization; Accounting Convergence; VASs; harmonization process; leading areas of accounting convergence; experiment of accounting convergence

1. Introduction

As a nature result of the growth of international integration, the topic of harmonization or convergence amongst the different nations in the regulations has attracted many researchers and professional institutions in different aspects recently. For examples the taxation by Frey et al. (1996); the commercial law by Levmore (2012); the public transport by Černá (2012); the technical barrier to trade by Mantovani et al. (2003); etc... Increasingly, the bigger demands on comparability and transparency in financial reports have arisen to control the international activities in business and the greater participation of multi- national companies in the global market leads to require strongly the disclosure of respective financial information. Hence, the theme of convergence of national with international accounting standards has been also growth (Alsharairi et al., 2009). Following the research of Backer et al. (2007), during 1965-2004 there was more than 200 research articles published that related to international accounting harmonization and this theme will be continued in future research, wherein the extent of compliance with IFRS in different countries is expected as the most likely trend in research (Backer et al., 2007, pp. 273- 293). Notably, in the term *"harmonization"*, the convergence and compatibility in the environmental area are often mentioned to identify the harmonization level in the meaning of more convergence and more compatibility means more harmonization. On the other words, the convergence of accounting standards is the key to ensure that realization of accounting harmonization between different nations.

Although, the transaction toward a market economy started 1986 brought the bright success for Vietnam in economic development (Schmidt, 2004) and became the member of the international organizations (WTO, IBM, APEC etc…), its existing economy still lacks of the fundamental conditions for international harmonization (Vietnam Assembly's Economic Committee, 2013). Moreover, the expanding market also means that Vietnam has to face to the strong pressure of international harmonization. It really comes as urgent requirement while Vietnam has not integrated immediately in fulfill with the international market, especially legal framework, because of the typical characteristics of culture, political structure and the existing limits of domestic market (Vo et al., 2011; Tran, 2012).

In the accounting sector, the direct applying all international standards has been also difficult for Vietnam, even this contributes as the disadvantage of international integration (Phan et al., 2014, Nguyen et al., 2012). Therefore, Vietnamese government has efforts to set up fit the alternative accounting treatments between national and international regulation, one plan for improving the current VASs in tendency of raising the international convergence has been announced (MOF, 2014; Chu, 2004). The setting to meet this purpose, nevertheless, an appropriate accounting system for Vietnam situation has not been simple. Many researches was conducted during last time related to accounting topic in Vietnam, such as Chu (2004); Vo et al. (2011); Dao (2010); Pham (2010); Nguyen et al. (2012); Phan et al. (2014); etc... Some of them focused on discovering the convergence of the group of the VASs with the IASs while some others studied in accounting management or the consistence of different levels of Vietnamese accounting regulations for the purpose of international harmonization. However, the fit solutions for Vietnam still have been not appeared and the new version of the VASs has not yet come since the first issue.

In order to continuously contribute finding the appropriate solutions for international accounting integration in Vietnam, this study is designed to concentrate three main objectives as follows: (i) investigate the existing process of accounting harmonization and the current convergence between the VAS and the IAS/IFRS; (ii) identify the leading areas of improving the Vietnamese accounting convergences with IFRSs; (iii) supply

the experiences of accounting system development from other countries.

The remainders of paper were structured including: the first section was introduction; the second section defined the research methodologies; the third section supplied the picture of current accounting harmonization process in Vietnam; the fourth section reviewed the major leading areas of the accounting harmonization; the fifth section presented the main lessons as the significant experience for Vietnam from other countries; The last sections were the conclusion and research references.

2. Methodology

The methodology of this research was the conjunction of literature reviews, comparison method and theoretical framework of harmonization as well as convergence. It was set up as follows:

Firstly, applying the literature review for research was a main methodology. Wherein, the previous studies and the system of accounting standards, policies or any references that relate to harmonization, convergence or accounting harmonization or convergence of accounting theme were collected for the research objectives. The sources of documents are main through internet libraries or direct by the professors of accounting, the professional accountants, and officers of Vietnam Ministry of Finance, the colleagues or students of authors. After collecting, the study identified the references that contribute to the research by the classifying of references has been occurred on the evaluation of different criteria: relevance and quality. Then, the analysis consists of deriving knowledge using the information previously classification;

Secondly, the theories of harmonization and convergence are used as the main theoretical framework of research. Base on the process of harmonization and using the target of convergence to evaluate the international accounting integration in Vietnam through the changes in the VASs and sub-regulation under standards from the first to the present (time of conducting the study) version;

Finally, the method-comparison is designed likely the instrument of measurement to discover the different points between the VASs and IASs or the development of accounting convergence in Vietnam and other countries. The gap between Vietnam and international accounting systems reflects through the results of comparison in detail aspects of accounting among them.

Starting with the theory of harmonization, the study discovered that the term "harmonization" has been used in various levels and aspects of society including the both levels of nation (Alsharairi et al., 2009) and firm (Romero et al., 2012); continent (Prather-Kinsey, 2006) or global (Frey et al., 1996; Oseni et al., 2011); transportation (Černá., 2012), commerce/trading (Mantovani et al., 2003), agriculture (Lindsey et al., 1997), or finance (Arnold., 2012), or accounting (Nobes et al., 2000), or taxation or law (Levmore., 2012); etc… There are no direct document (or I have at least not found any) presented the theory of harmonization like specific or academic one, but, almost of the researchers mentioned the harmonization to discuss or study about the integration or development of their interesting areas. Consequently, the most consensuses about *the meaning of harmonization is likely of process of the adjustment of differences and inconsistence among different methods, procedures, schedules, specifications or systems to make them uniform or mutually compatible*. The concept of harmonization has often used in the literature interchangeable with process standardization (Romero et al., 2012, pp. 3-4).

According to Gomez et al. (2011), the outcome of harmonization process depends on the regimes of harmonization between the pre-existing separate and diverse ones with optimal standards. Following their opinion, there were three different levels of harmonization including*: full, minimum and co-existence of standards*. The full level likes the harmonized standard entirely displaces and

eliminates the national standards, pre-existing or future and regardless of whether they are higher or lower than the harmonized one while the minimum one is that the standards lower than the harmonized ones are automatically eliminated and replace by the harmonized standards but essentially to ignore these standards. In the last one, the harmonized standard would not replace the existing ones, regardless of whether they are higher or lower than the harmonized level (Gomez et al., 2011, pp. 17-18).

Differ from the approach of Gomez et al. (2011), at firm level, Romero et al. (2012) provided a conceptual framework of harmonization with rage of values of harmonization degrees from one standard to all variants of an extreme customization. The highest degree can be achieved is only one global standard where the diversity are replaced by a uniformity. It rises when the variants are reduced to one.

Similar the harmonization, the term "convergence" has been also applied to study in multi aspects of society. In the economic sectors, the emergence of convergence issues was found in the middles of twentieth century (Uddin et al., 2013, p. 134), the term of "convergence" was discussed quite strongly in the 1980s-1990s (Kim et al., 2010, p. 192). However, the research on convergence has only growth as attractive topic over recent few decades (Uddin et al., 2013; Kim et al., 2010). The theory of convergence seems to be discovered more academic than harmonization theory by many famous professors in over the world, including the accounting sector. Evenly, the phenomenon of convergence is complex and mentioned in multiple ways in literature. For example, the term "convergence" in economic growth and income was studied by Uddin et al. (2013) that poorer economies grow at faster rates than richer economies (Uddin et al., 2013, p. 134) while the research in convergence of Kim's group (2010) focused on Information and Communication Technology presented that the concept of digital convergence implies offering the new services, infrastructure or features and integrating various consumer interfaces. Following the research of Richards et al. (1997), the valued theoretical concept of convergence was found by many researches over the world such as Kincaid (1987, 1988), Rogers and Kincaid (1981), Barnett and Kincaid (1983), Becker (1993). Mainly, they mentioned a high level of direct interaction with other similar to oneself would lead to convergence, one would expect to see convergence in highly cohesive cliques (Richards et al., 1997). Following Kim et al. (2010), however, the articles of convergence for micro perspective were still limited while the most of research focused on theoretical at the macro level.

Presentation on the research of growth, Islam (2003) introduced the concept of convergence following the different approaches: *The cross-section approach* includes informal and formal that has generally dealt with convergence across economies and the terms of per capital income level; *The panel approach* has been used to study club-convergence and total factor productivity-convergence; *the time series approach* has been used to investigate convergence both within an economy and across –economies; lastly, *the distribution approach* has been to study the entire shape of contribution and intra-distribution dynamics (Islam, 2003, p. 313). Other research on the same aspect with Islam (2003), Uddin et al. (2013) and Fricdrich-Eckey et al. (2007) presented two main types of convergence for testing economic growth convergence: β-convergence and δ-convergence. Basically on the research of Barro and Sala-Martin (1991, 1995), both two researcher groups explained that the β-convergence occurs when the poor economies grow faster than rich ones, it sometime is also called absolute or unconditional-convergence. On the other hand, the δ-convergence implies as reduction in the dispersion of levels of income across economies. Unlikely, Kim et al. (2010) divided the convergence into four key areas: technological evolution, business and market concerns, users' demand and regulatory

Table 1: The relationship among convergence, harmonization and adoption

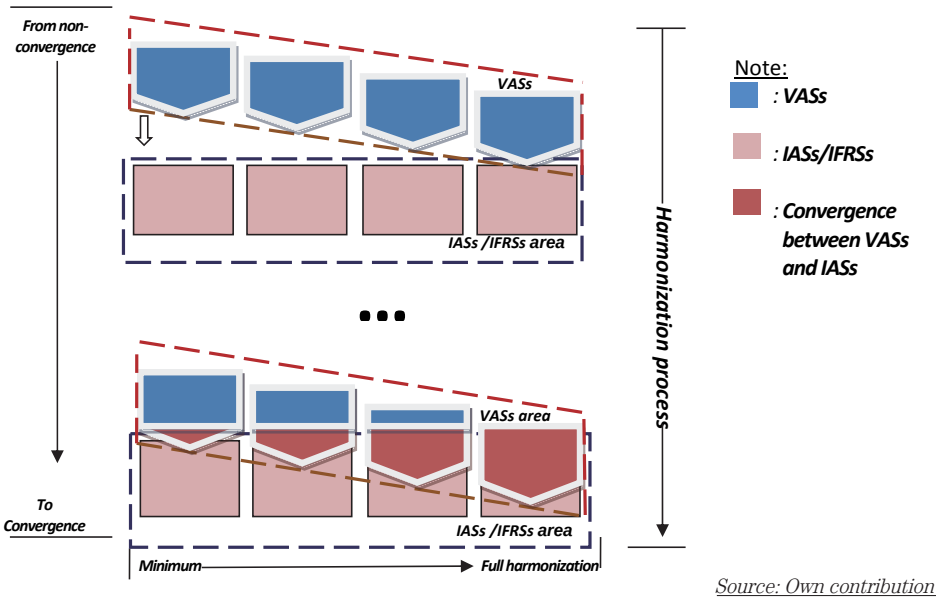
Level of harmonization	Adoption case	Relationship area		Convergence degree
		VASs	IASs/IFRS	
Full-harmonization	Full adoption	likely become one system of standard		Full convergence
Multi-level of harmonization (including minimum harmonization)	Partial adoption	A lot of the same contents (not all) between two systems		Non-full or partial convergence
		Partial same or similar contents between two systems		
Co-existence standards	Non adoption	Separate system-national standards	Separate system - International standards	Non convergence

Source: Own contribution

policies (Kim et al., 2010, p. 192). From these reviews, it is explicit, depending on each area, the convergence labeled with the typical characteristics in the different form of research objectives. Mainly, it has arrived in the markets of many economies and involved various economic layers. Notably, almost researchers agree that the convergence has not created anything new or substantive. It seems to be a linear or area that can be happened during the progress of reconciliation two or more different any options. In the most cases, convergence evolves across legal systems without borrowing and even without knowledge of the other legal system (Levmore, 2012, p. 15).

In the accounting sector, according to Zarzeki (1996) and Nobes (2004), the proponents of harmonization contend that a mandatory setting standards across countries is a reasonable approach for improving comparability among international financial statements (Zarzeki, 1996, p. 18; Nobes, 2004). It also implies that the harmonization of accounting is a process of increasing the compatibility of accounting practices by setting bounds to their degree variation (Nobes et al., 2000, p. 66). The rapid integration of international standard has led to an increasing formal convergence of accounting standards across the world. Relate to the accounting harmonization with international standard, there were significant number of researches mentioned to adoption as element of integration (Backer et al., 2007)

One point should be clarified in the harmonization progress on accounting sector that the convergence is not absolute same meaning of adoption. Although, both the adoption and convergence are mentioned to apply a other standard or policy or regulation for objective one, the adoption puts emphasis on how apply rather than how set up the content of this standard or policy for objective area while the convergence often attached to where the contents of standard can fit or acclimating one in the applied area. Following Zimmermann et al. (2013), the adoption designates the use of national standards (or another one) instead of national standards (or national rule), whereas the convergence depicts the successive alignment of international standard (another one) and national standard. This means that the accounting convergence is a national accounting standard remain in force but that national standards are aligned with national in an either unilateral or a reciprocal way (Zimmermann et al., 2013, pp. 28-29). In the case of Vietnam the adoption IASs in Vietnam implied the taking the IASs to create a similar one while the convergence with IASs focuses on consideration which point of IASs should be put in the Vietnamese system to satisfy the demand of domestic market. Notably, it is difficult to make exactly separate meaning among convergence and adoption because the full adoption also means the full convergence as well as the full harmonization. On the other word, the levels of adoption or harmonization beyond the convergence degree, the relationship among them is summarized in the table 1.



Source: Own contribution

Figure 1: Theoretical concept of harmonization between VASs and IASs

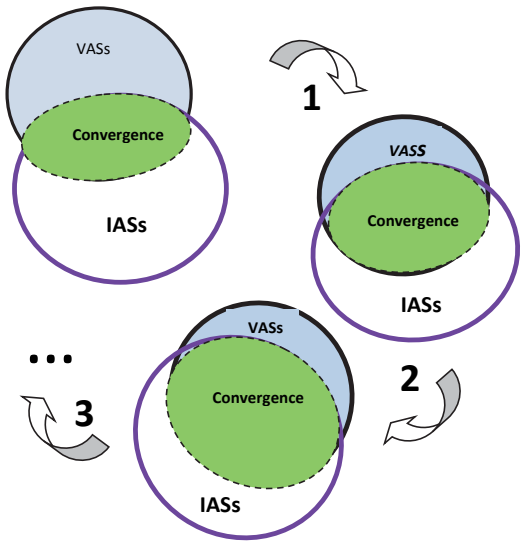
As mentions on the preamble section, this article focuses on the harmonization and the convergence between the Vietnamese and international accounting system. Therefore, the harmonization and convergence meaning will be presented prevalent in the next sections instead of the adoption. Coherently, the harmonization and convergence of the VASs with IFRSs are mentioned as the main points of this research.

3. The process of accounting harmonization in Vietnam

Combination of the harmonization and convergence theories for accounting sector, this study applied the accounting harmonization as the process of conducting a reconciliation of regulations in the IASs and the VASs in Vietnam by the figure 1.

In the figure 1, the IASs play the role of the harmonization standards while the VASs are designed as national standards of process. The co-existing standards is occurred in the first diagram of figure 1 which presents it seems no any same points between the VASs and the IASs and both systems have been together in market. Increasingly, at the early of the second diagram of figure 1, there are some points (not so much) that are same or convergence between two systems –the VASs and the IASs. This situation comes to be larger by the rising convergence at the last of the second diagram of figure 1 where the convergence in full happens as the area of full harmonization situation between the VASs and the IASs. From the first to the second diagram, it is no difficult to describe the relationship between the VASs and the IASs, from the starting point of harmonization as the co-existence standards to the convergence among them.

Basically, the existing contents of the VASs have been designed following the IASs since the 2000s, the convergence between VASs and IASs has been inevitable. However, at the starting point of setting, the VASs were designed gradually (not full at the first) following IASs, the beginning international harmonization process of the Vietnamese standards can illustrate in the first diagram of figure 2. Following the time, this accounting system was intervened by the changes in difference levels of regulations under accounting law and standards (from 2000 to present). Consequence of these changes, the degree of convergence in accounting sector increased following the second and third diagram in figure 2.



Source: Own contribution

Figure 2: The current harmonization process of VASs with IASs in CFSs

Under the government plan of economic development, the market oriented development is the goal of improving (Vietnamese Assembly's Economic Committee, 2013), the accounting system in Vietnam was also developed following the IASs/IFRS in full to contribute the success of plan objectives. In this meaning, the degree of convergence is simulated continuously as the next other diagrams of figure 2. Following that, the gap between the VASs and IFRS has been set shorter by time. In contrast, the reformation of the VASs has not yet conducted since 2005 while the IASs have many changes, especially the upgrade to IFRSs in 2004, the differences between them have been increased. This situation also means the convergence of the VASs with IFRS may be not meet the target of government if the accounting renovation has not happened in Vietnam in the next time. Therefore, according to the final goal of development, the accounting harmonization process of Vietnam is designed that includes multi different stages or the different levels illustration in the continuous different diagrams of figure 2 respectively.

In general, the international accounting convergence occurs by the transfer or diffusion of VASs to the IASs/IFRSs. It has increased strongly when the contents of accounting standards for convergence are identified. On the other words, finding the prudent preconception for convergence will contribute to improve the harmonization quickly. Moreover, the leading area of purpose often plays important role for getting success. In order to discover the appropriate solution for cutting the number stages of process, the leading areas of convergence need to be discovered to create the score stages in developing progress of accounting in Vietnam.

4. Identify the key leading areas for accounting harmonization and convergence

Many researches were conducted in the last decades to document that an accounting regulation system has been often constellated in the relationships of three legal fields: company; securities and tax law (Zimmermann et al., 2013; Nobes et al., 2000). Wherein the company law often address to the side of business organization, the securities law contribute to efficient capital of investors and the tax law presents the controlling

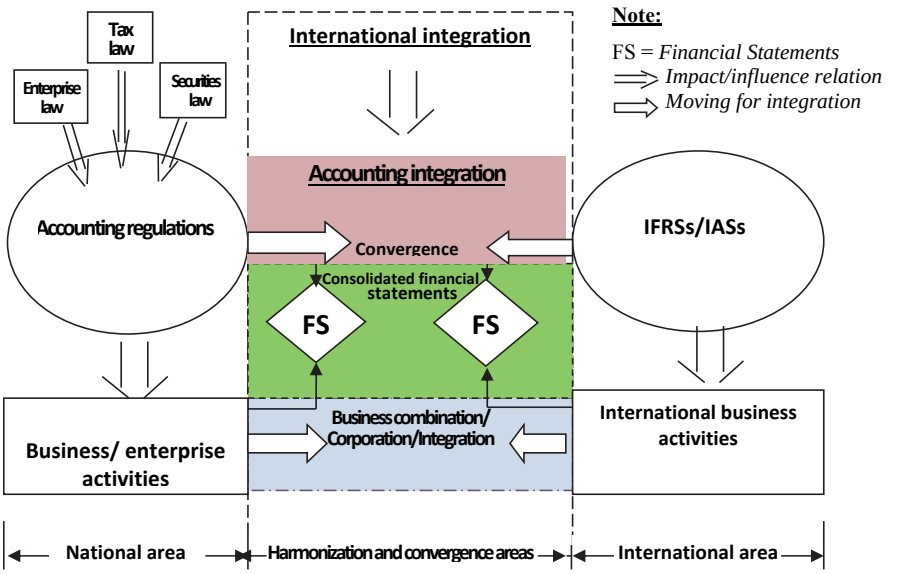
role of government in national economy. Depending on each national objective, the form of accounting system can be designed following the flexible ways in the different conjunctions of three laws. It can be result of strong expression of one or two of three fields rather than one, however, the best accounting function is created by the rigor combination with all of them (Zimmermann et al., 2013). Following this, almost of countries try to set up their accounting rules in the lowest conflicts between three sides: company, government and investor. With the separate conditions of each nation, this was also the main causes of shaping the different accounting systems between different countries.

In Vietnam, the accounting regulations system has been also tweaked base on mitigation of conflicts in relevant different laws (enterprise law; tax law and securities law). Following development of economic mechanism and the attribution of nexus between the economic entity in each period, the Vietnamese accounting system has been built with the significant characteristic of developing countries. Up to August 2013, the accounting system in Vietnam includes one law (2003), 26 standards (issued in 2001 and 2003) and many regulations as the guidance for implementation. Mainly, all enterprises has been required applying this system for their business activities in Vietnam.

The topic of accounting convergence seems less significant when the demand of business combination as well as international transactions does not occur and greatly increase. On the other hand, the globalization is booming more and more in over the world. A result of this tendency is the rising requirement of international integration in economic. Following that, the accounting convergence likes a nature pattern of integration and it has been also fortified in Vietnam.

The other consequence of international integration is that the business activities have been expanding in not only domestic but also international market. The business combination occurs as the unintentional situation of its. On the side of enterprises, the growth of business corporations also means strongly requirement of changes in company law to protect their functions. On the side of government, they need to control successfully the inter-transactions of business entities, especially transaction outside Vietnam borders, it is necessary for improving the tax law. On the side of investors, the rising investment leads to diversify risk of investing. The demand of regulations to minimize their risks has been raise. To guarantee the allocative functions of capital market, business activities and economic development, the intervention in changes of accounting regulation has been applied for any reasons to keep the original functions of accounting.

At the level of macro-economic, one appropriate accounting system need to fulfill three primary objectives: mitigate conflicts between constituencies of a business organization; foster the efficiency of capital market; and assist the sate by means of taxation. In order to meet these functions, the financial statements are designed as the facade of accounting to solve the conflicts in society. Through the financial reports setting as mandatory rule, the business entities often present the accounting information (or financial situation) mainly address conflicts within the group of owners, creditors or employees while the state organizations also determine the taxable base and vice versa that have consequences for the state budget as well as affect political goals. On the side of securities market, moreover, the financial statements also provide the core systematic and quantitative information about the past, present and future of company that are elements to establish the basic for price mechanism of the market. With these explanations, the financial statements standard has been certified important content of accounting system for any nations. Base on the business activities and the reconciliation requirements for different entities, the study presents the relationship between them in the left diagram of figure 3.



Source: Own contribution

Figure 3: The leading area of accounting convergence in Vietnam

It is no doubt that the corporation of enterprise plays as the main cause of encouraging changes in the regulation in any economy. The demand of business integration leads to the closing regulation between national and international area. While the business combination has been increasing the accounting regulations need to improve relevantly in the objectives. Normally, the accounting regulations for enterprises are presented by financial statements. In business combination, the consolidated accounting has been mentioned to reflect accounting regulation. The consolidated financial statements (CFSs) are defined to represent for consolidated accounting. When the developing international integration expands it also means that the business combination has been increased. Moreover, comparing with other aspects of accounting, the business combination seems be faster and greater to harmonize because the demand of financial situation information in the corporation or multinational companies where the business combination often happens dramatically forward the growth of international integration. It is greatly when the managers who work in the different nations want strongly to understand and use their CFSs by themselves. Particularly, one company has been established following the law of one nation but its business activities have been listed in another countries; or one economic group is organized its parent company locates in the original nation whereas the subsidiary companies are operated in different countries. Consequently, the CFSs need to be prepared following the same standards to meet their purpose or it has unfolded in the harmonization process the convergence between different national standards has been required more and more

In the condition of Vietnam, it is difficult for applying all the international accounting regulation as the mentions in the previous sections, the prudent preconception needs to discuss to create the appropriate system of accounting regulations under the convergence meaning. Relevant to this theme, the research of Tran (2012) suggested that should design two separate accounting standard systems in Vietnam: one for listed Companies and other for non-listed Companies. Following this research, the first system should apply direct IFRS/IASs while last system has been existing system

that regulates the accounting technique in less academic than first one. However, the system of accounting standards in Vietnam still have not got any reformation since 2003 while the rapid diffusion of IFRS across to many countries in accounting worldwide, the identification deeply of detail standards has been significant for quickly accounting convergence in Vietnam.

As the analyzing in the last paragraphs, business combination has been the key request of international harmonization. In order to satisfy the business combination, the regulation for business activities between different countries has been improved as the compulsory requirement of international harmonization. Moreover, the convergence process of accounting has been largely confined to the consolidated accounting (Zimmermann et al., 2013, p. 3). This means the accounting convergence in business combination has been a leading area to get the international harmonization for economic in general and specific for accounting sector. That is main reason the study designed the business combination and the CFSs as the leading areas of accounting convergence in Vietnam as the figure 3. Following this, the accounting standards for business combination and the CFSs respectively are identified as the first standards for consideration of full convergence with the IFRS.

The next standards of Vietnamese accounting system for international convergence can be designed following the accounting principle or treatments or the specific accounting techniques for business combination. From that, the detail regulations will discover to contribute the better accounting system that can mitigate the complex nexus of different economic entities as well as meeting the international convergence. However, the setting of specific industries in accounting sector to satisfy all the conflicts of economic elements is not simple. This depends on the goal of macro-economic development as well as the government plan for improve the business combination. It also means that needs more time as well as more discussion or research to create the appropriate accounting system, because the degree of accounting convergences depends on the level difference of tradition, culture, politic, economic structure or size of capital market of nation. While the current accounting system in Vietnam has still limited for international integration (Pham, 2010; Nguyen et al., 2012) it is useful for Vietnam to study the empirical development from other countries where are applying or adopting directly or at least doing the significant changes following the IFRSs.

5. Experiment from other nations

According to Pacter (2014), up to the 1st July 2014, there are 130 countries adopted IFRS, approximately 95% (124/130) have made a public commitment to IFRS as the single set of global accounting standards. Almost countries (81% or 105/130 countries) require the use of IFRS for all or most public companies (listed companies and financial institutions), only 14 nations (11%) permit, instead of require, IFRS; three jurisdictions (2%) require IFRS for only financial institution; two countries (1%) are in the process of adoption in full and seven countries (5%) use national or regional general accepted accounting principles (GAAP) for this kind of companies (Pacter, 2014, pp. 13, 29). These numbers reflect that there are three main current scenarios of converging to IFRS: (1) *convergence by applying direct IFRS(*full or near-full convergence); (2) *convergence by moving local GAAP towards IFRS* (partial convergence) and; (3) *convergence by alignment with IFRS in reciprocal way*.

In general, *the first scenario* occurs mainly in the countries where the capital market has been growth and the "true and fair view" concept is accepted as general standard for financial reporting (Zimmermann et al., 2013). The CFSs are prepared and presented absolutely (or almost main contents)

following the IFRS. Some of them adopted full IFRS as issued by the IASB, meaning that they replace a full national standard by IFRS (Canada, Israel and South Africa are the typical examples of following this scenario). Some others use IFRS for the national area after they amended their national accounting regulations to be familiar with IFRS. In these countries, although their changes to IFRS do not pass seamlessly into national law, these changes are incorporated once in a wide changes of reference norm (Zimmermann et al., 2013; p. 30). At the time of study, the contents of national standards are no long applied or aligned with IFRS in almost of regulations. The bright examples of this group are countries in EU such as Germany, French, and the United Kingdom.

The *second scenario* happens when a local standard is improved, instead of apply or adopt directly, to close following with IFRS in an either unilateral and a mutual way. Normally, the members of this group support the advantages of following IFRS, but they have the separate characteristic of capital market. Some of them do not want to share or reduce their control power of capital market, especially domestic market while others have not enough ability to pass directly to IFRS with the influence of tradition or economic structure. Under the pressure of the international organizations which these countries integrated, they choose carefully the way of gradually moving to IFRS to meet the lowest risks for their domestic market. Consequently, the national standards are applied as the main regulations but the contents of them have changed following IFRS, even having significant distinctions between the existing national standards and IFRS. For the CFS sector, a number of countries in this scenario permit IFRS for their public companies while the local standards are also applied for other companies. Examples of this group include Japan, China, Island, India, Paraguay, Singapore, etc…

The last scenario of convergence occurs in the case which both national and international standards are accepted in a country. Unfamiliar with two previous scenarios, the local standards have been not changed to adopt or apply IFRS. Relationship between IFRS and national standards is reciprocal relation. It likes the cooperation of equals between them. The regulatory implementation permits the registration one of two standards that depends on the separate company's choice without any intervention of others. The United States is a famous country for example of this scenario. With being as one of the biggest capital markets, the US has a significant role in the quest for global accounting convergence. While the US standards (US GAAP) are applied for almost their listed companies, the non-US companies are also accepted to use IFRS in financial reporting in the US market.

In order to collect the specific lessons for Vietnam, the study presents detail three different cases that have significant similar characteristics in tradition, politic as well as economic structure. They are:

China

As a neighbor nation of Vietnam, the development of Chinese accounting system has been chosen because of a similar points in the mechanism of politic (lead by Communist Party), tradition and culture with Vietnam.

Like the many other socialist countries, the Chinese accounting system was also affected by Soviet system of uniform accounting. Following the Cultural Revolution (1978-1976), China had reformed economy, specially the moving from planning to market-oriented economic system. According to the research of Ding et al. (2008), the Chinese accounting system attempted to international practice begging in 1979 when the joint ventures with foreign investment were accepted (Ding et al., 2008, p. 475). However, the regulations of accounting had not launched officially until 1985 when the securities market had the starting operation in the domestic region. The

first regulation on securities in China was found in 1984 by the Shanghai Municipal Government, but it was only become significant around the 1990s after the establishment of the Shanghai Stock Exchange (SHSE) in 1990; the Shenzhen Sctock Exchange (SZSE) in 1991 and the Chinese Securities Regulatory Commission (CSRC) in 1992 (Peng et al., 2008). Immediately, the Ministry of Finance of China issued the Accounting System for Selected Shareholding Companies in May 1992 (Haw et al., 2000, p. 111). In November 1992, the first conceptual framework accounting Standard for Business Enterprises was found. After that around 2 years, the first exposure draft of detail accounting standard for payables was issued in February 1994. These regulations imposed the basic rules and did set the conceptual framework for domestic market, even they were applied mainly for Chinese state enterprises and based on Russian –style fund accounting system (Bao et al., 1999, p. 88). During 1994-1996, the next batch exposure drafts of detail standards including six batches were published, wherein the standard of Consolidated Financial Statements and Business Combination were issued in 1995 and after 1995 respectively. Then, the formal system of Chinese accounting standards became effective for implementation in 1997 or afterwards. Notably, the accounting system of China in this period was largely rule-based accounting regime which was commonly difficult for diversified companies to produce consolidated accounts in full (Lee et al., 2013; p. 9)

In the system of Chinese accounting regulations, the Accounting Law was enacted by National People' Congress. The first Accounting Law was found in 1985 and revised in 1993 and 1999. The Accounting Regulatory Department of Ministry of Finance has responded to set and issue all the accounting standards, the Chinese Institute of Certified Public Accountants (CICPA) was found 1987 that controlled by Ministry of Finance has qualified to engage in the auditing of joint stock companies. Under the Accounting Law, the accounting standards are applied for business enterprises, whereas the listed companies must to disclosure theirs accounting information under not only these system standards but also the regulation of the CSRC. Moreover, the foreign invested enterprises need to prepare more than one financial statements: one following the Chinese accounting system and the other based on the IASs/IFRS (Bao et al., 1999, p. 86). In 2001, the Ministry of Finance implemented a comprehensive Accounting System for Business Enterprises (ASBEs) that replaced the 1998 Chinese Accounting Standards. Specially, this system was built in further toward convergence with the IASs (Peng et al., 2008; Pacter & Yuen, 2001). All enterprises including state-owned enterprises and foreign invested enterprises are required applied ASBEs.

Normally, before the implementation of the ASBE, the accounting regulations were closely aligned to tax law and the taxation system. All enterprises are required preparing the financial statements that need to be audited to account the annual income tax. The tax law and relevant regulations are designed jointly by State Administration of Tax and the Ministry of Finance (Deloitte, 2014). According to Haw et al. (2000), the Chinese accounting regulations have restricted the provision to the rate of accounts receivable prescribed by the State (only limit percentage (3%) of outstanding accounting receivable for enterprises with foreign capital) with many specific government policies. They were designed not specifically identify the primary user or purpose of financial statements, instead of users of government, banks, the public (Nobes et al., 2000, p. 309). Furthermore, they imposed a detail chart of accounts as well as make detail rule of financial reporting. Consequently, most listed companies fulfill only the minimum disclosure requirements mandated by Chinese Securities Regulatory Commission (CSRC) and seldom provide earning forecasts or voluntary information. The investors

have little information available to predict earning and especially no warning of bad news before it is officially released. One discovery of Haw et al. (2000) was that through the annual financial statements of listed companies published on stock markets we can find good news firms earlier than bad news firms and the accounting earning prepared under the Chinese accounting standards are useful for firm valuation across different reporting of large groups (Haw et al., 2000, pp. 109,125,127).

In February 2006, the new system of Chinese Accounting standards was promulgated and affected in January 2007 by the ASBEs. In general, the existing Chinese accounting standards have been set gradually convergence with the IASs (Ding et al., 2008, p. 475). The IFRS was considered as the harmonize standards for Chinese accounting system with significant converging modifications. In December, 2007, the Chinese Accounting Standards were identified equivalence to Hong Kong financial reporting standards. Since December 2010, Hong Kong Stock Exchange has accepted the listed companies which use Chinese Accounting Standards to prepare and present their financial reports. The Chinese Accounting Standards are now compulsory for all entities such as state-owned companies, private companies or public companies (Deloitte, 2012, p. 29), even the required level is different between them. For instance, the current Chinese accounting system has two major issues: First, the issue of related party entities requires IFRS to present financial situation, but it does not include the most state owned enterprises (SOEs) in China while Chinese SOEs operate no different from other companies. Second, the issue is a difference relevant to the reversal of impairments of tangible long-term assets. For the CFSs, all the Chinese companies whose securities trade in the public market in China are required to apply the ASBEs, wherein the historical cost has been uses to record the business transaction between two entities in business combinations. The fair value also introduced in the ASBEs but the regulators in China are very reluctant to follow because it is so hard to determine the price in fair value in unsophisticated market of China (Ding et al., 2008, p. 476)

Although, there are still the significant variety distinctions between the Chinese accounting standards and the IAS/IFRS in the contents, this system was issued with substantially convergence with IFRS. The government intervention through the changes in accounting standards in China contributed the significant improvement the flow of financial statements information to equity investors (Lee et al., 2013, p. 19). Besides the domination of state's role in the Chinese economy, it is no confuse that China is one country in successfully adjusting and bridging the gap between national accounting standards and the IASs.

Japan

Similar to Vietnam, Japanese economy includes a large group of small and medium sized enterprises (SMEs). In case, the consolidated accounting seems to be not necessary for this group and the demand of business combination also does not effects on them, the development of CFSs or the international integration becomes not simple. Therefore, the empirical improvement of Japan in accounting convergence will be one of valuable lessons for Vietnam.

Primary accounting regulation in Japan was found in public regulations through the coordinated existence of the Securities and Exchange Law and the Commercial Code established (Orguri et al., 1990, p. 39). The first Commercial Code was issued in (1890 and 1899), base on a Franco-German model (Nobes et al., 2000, p. 253). With the controlling of company groups, called *zaibatsu* such as Mitsui, Mitsubishi and Sumitomo, the Japanese business environment created the active for economic development. Shortly after the Second World War, the Securities and Exchange Law was enacted. Under this law, the Securities Act and the Securities

and Exchange Act were published in 1933 and 1934, respectively. In that time, the dominated growth of the economic groups ex-zaibatsu, instead of *zaibatsu* (were broken up by the Intensive Economic Power Exclusion Act) and *keiretsu* (Sunder et al., 1999, p. 62) wherein existed the key role of the main or city banks as the core entities in the groups contributed to Japan has became one of largest economy in the world.

In 1948, The Law of Certified Public Accountants was issued. Lately, the Japanese Institute of Certified Public Accountants (JICPA) was found in 1949. In the same year, the Financial Accounting Standards for Business Enterprises were also issued (Oguri et al., 1990, p. 41; Nobes et al., 2000, p. 256). The Business Accounting Deliberation Council (BADC) represents business interests, was established in 1952. In the mid of 1960s, Japan introduced the CFSs in the formally discussions to against fraud and swindle of financial statements. In 1976, Japanese Ministry of Finance issued an ordinance requiring preparation the CFSs (Sunder et al., 1999, pp. 55-57). Under the Commercial Code, the JICPA issued recommendation on accounting matters as well as published a specimen set of financial statements while Ministry of Finance published the Business Accounting Principles. Besides these two laws, all enterprises must to do under the tax law. Respectively with three major laws, there are three legal landscape of accounting in Japan. They are the Financial Instruments and Exchange Act (FIEA), the Companies Act and the Corporation Tax Act. The FIEA applies mainly to companies that are publicly traded while both of the Company Act and the Corporation Tax Act require to all company. Following these regulations, one company listed publicly on the Stock exchange that must prepare two financial statements: one for shareholders in requirement of the Commercial Code; other for filing in requirement of Securities and Exchange Law. Only enterprise subject to FIEA must to prepare the CFSs (Kawasaki et al., 2014). Although, the CFSs were began requiring submission in Japan by Securities and Exchange Law in 1978, they did not become full consolidated reports mandatory until in 1984 (Herrmann et al., 2001, p. 1117). Initially, the Ministry of Finance did not strictly enforce the CFS (Sunder et al., 1999, p. 60), until the 1990s, the CFSs began to serve its active informational function, after the financial system was transformed. The legal accounting system has changed significant. The standards –setting institutions and the material content of accounting standards in Japan have moved closer toward international regulations (Zimmermann et al., 2013, p. 90).

The first changes occurred when the BADC revised a number of crucial accounting standards in 1997. The main competency in accounting regulation shifted from company law to securities legislation and the standard-setting body-the Accounting Standard Board of Japan (ASBJ) that also apply to companies prepared under the Commercial Code. In 2001, the Financial Accounting Standards Foundation (FASF) was found as the driven accounting for listed companies while the ASBJ produces information-oriented accounting standards as a private body (Zimmermann et al., 2013, p. 92). In 2005, the harmonization of Japanese accounting with IAS has been improved when the ASBJ started to make more attractive to international investors to Japanese exchange market. The enterprises that follow FIEA accounting rules are required to prepare the CFS in accordance with the Japanese Generally Accepted Accounting Standards (J-GAAP) or IFRS. In contrast, the companies under the Company Act and the Corporation Tax Act are only required J-GAAP. In case, these companies are classified as the large companies they are required following the ASBJ guideline or the General Accounting for SMEs. In August 2007, the ASBJ and IASB signed together "Tokyo Agreement" as the treaty on the convergence between Japanese accounting standards and IFRS. Although the Japanese accounting standards are still applied

mainly in domestic market for all enterprises, the IFRS is also accepted for appropriate areas. In 2008, the Japanese GAAP is considered as equivalent to IFRS by the European Union (Zimmermann et al., 2013). Since March 31, 2010, Japan has allowed voluntary application of IFRS as the endeavor with the expansion of IFRS in domestic market. However, the number of Japanese companies are adapting to IFRS is not changed, excepted the listed companies.

Germany

As one special situation with feature of accounting strongly interconnection with taxation (Zimmermann et al., 2010), Germany has developed successfully the accounting standards following the IFRS while it is still known as one of big economies in the world. With the similar typical characteristic of the influence of tax law to development of financial accounting, the success of Germany supplied for Vietnam as the good lesson that is the consistence between taxation and accounting policies as well as the capital market plays the important role to create the key shift to align successfully with IFRS.

Under the central planning economy in early of twenty century, the accounting activities in Germany focused exclusively on the preparation of reports required by the planning bureaucracy. As consequence, accounting system was to serve as a useful tool in the ministration of the plan (Young, 1999, p. 161). In that time, the tax legislation became a relevant source of accounting rules in Germany. The first national institution with the name of Institution of Auditors (IDW) was established in 1930. In 1961, the Chamber of Public Accountants (WPK) was found as an organization under public law (following regulation under the public Accountant Act -WPO). The WPK played the role of admission, oversight, quality control and development of auditing standards. The German Commercial Code by the Federal Ministry of Justice was set as accounting rules for company and group accounts. However, the consolidated accounts were dispensable in this system. According to Nobes and Parker (1991), the consolidated accounts was only introduced in Germany in 1965 and supported as the significant accounting after the 1990s when the listed company began to express their concerns (Zimmermann et al., 2010, p. 5).

In December 1985, the Accounting Directive was implemented in Germany. Shortly after that, the Directive versions of various financial institution were issued such as Bank Accounting Directive Law in 1990; the Insurance version in 1994. The Commercial Code presented the regulations for most accounting, auditing and disclosures principle of consolidation. In addition, Stock Corporation law and Private Company law are applies as requirement of Code to follow the extra financial statements. In 1998, the establishment of Corporate Sector Supervision and Transparency Act as well as the amendment of commercial law was passed to accredit, a private standard-setting institution, the endeavor of this organization was created the German Accounting Standards Committee (GASC) in the same year. Lately, the members of German Accounting Standards Board (GASB) were selected to develop recommendation for group accounting and advise the Ministry of Justice in accounting legislation proposal and present Germany in international standardization bodies. Although, the membership of GASB was fully determined by the private sector, but its standards must be approved by the state.

From the tax provision, the tax accounts were required as accounting principles by Commercial Code and based on the commercial balance sheet. The taxable income is also determined by the tax law. Hence, the development of accounting principle has been closeness of the tax. Since 2000, following the Financial Market Promotion Acts, the improving capital market transparency and foster legal framework for investor applied, both the Tax law and Accounting system has been changed significant lead to more extensive differences between financial

and tax accounts (Nobes et al., 2000, p. 235). All the listed companies are required preparing the Consolidated Financial Statements. The German Code also required the standards formats to be used for the CFSs, tax-based valuations can be retained in the consolidated accounts. The techniques of consolidation have been proved in commercial legislation in Germany, including full consolidation, proportional or quota consolidation and the equity method for associated enterprises. The measurement and recognizing any goodwill or negative goodwill are also explained as the key requirement of consolidated accounting in the law. Specially, the Accounting Law Modernization Act (BilMoG) of 2009 has greatly aligned German accounting laws with IFRS (Zimmermann et al., 2010, p. 5). It is explicitly the standard of CFS has been applied fully IFRS for all group accounting.

Although many alternatives remain, Germany has achieved standardization of accounting principles governing. The legal provision takes precedence over the true and fair view. The independent concepts between commercial and tax accounts has been defined. The consolidated techniques of preparing the CFS following the international accounting standards are accepted by German law (Nobes et al., 2000, p. 245).

6. Conclusion

During the process of accounting harmonization, Vietnam got the significant results to improve its accounting system to IFRS from the starting point of no accounting standards (before the 2000s) to the existing system of accounting standard. However, it seems not enough to create the spread international accounting integration because no revolution has been done for existing VAS system since 2005 while the system of IFRS replaced mainly the IASs. Through the investigation the current process of accounting harmonization by applying the conjunction of theoretical framework of convergence and harmonization and the methods of comparison and literature review, the study supplied the main points in the progress of international accounting integration in Vietnam. Although, the study didn't focus on the whole contents of accounting convergence in Vietnam, it provided the key leading areas as the recommendations for improving the convergence in next time between the VASs and the IASs. By reviewing the characteristic of three different countries in the development of accounting system, the study also described the detail success of these nations as the good experience for Vietnam.

Despite of existing the number of differences in accounting, economic, tax, institutional and cultural between different countries, the empirical evidences on the development of accounting system in Japan, China and Germany show that the consistence of different laws in the economy plays the important role for getting the success. Moreover, the national size of capital market as well as the stock exchange market contributes greatly to improve the convergence with international accounting. Typically, the intervention through the changes in the accounting regulation is necessary to reduce the gap between national and international accounting regulations. In this meaning, it is requirement to continuously discover detail areas of intervention as well as the consistence between the laws of company, securities and taxation in Vietnam. The accounting researches relate to the influence of existing regulations in business combination and the CFSs should be greatly conducted in next steps.

7. References

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