Deloitte.

# The conversion of VAS to IFRS

## Volume one: Scoping the effort

# Content


**Preface** 5

**Introduction** 6

**Part 1: Beginning the conversion journey** 7

Where does your journey begin? 8

Scoping the effort: A question of priorities 12

IFRS 1 – First-time adoption of IFRS 14

Example IFRS conversion note 17

Terminology – An IFRS phrasebook 19

The financial reporting framework 20

**Part 2: Vietnamese accounting standards (VAS) to IFRS - important standards to be considered** 27

VAS to IFRS - Important standards to be considered 28

Group 1: Standards on financial statement presentation and disclosure 31

*IAS 1 Presentation of Financial Statements* 31

*IFRS 7 Financial Instruments: Disclosures* 34

*IFRS 17 Insurance contracts* 36

Group 2: Standards on the items of the financial statements 39

*IAS 12 Income Taxes* 39

*IAS 16 Property, Plant and Equipment* 42

*IAS 19 Employee benefits* 44

*IAS 36 Impairment of Assets* 48

*IAS 37 Provisions, Contingent Liabilities and Contingent Assets* 50

*IFRS 9 Financial Instruments* 52

*IFRS 13 Fair Value Measurements* 56

*IFRS 15 Revenue from Contracts with Customers* 59

*IFRS 16 Leases* 53

| | |
|---|---|
| Group 3: Standards on group accounting | 66 |
| *IAS 27 Separate Financial Statements* | 66 |
| *IAS 28 Investments in Associates and Joint Ventures* | 68 |
| *IFRS 3 Business Combinations* | 70 |
| *IFRS 10 Consolidated Financial Statements* | 73 |
| **Part 3: Conversion revisited - A comprehensive viewpoint** | 76 |
| Conversion revisited: A comprehensive viewpoint | 77 |
| The path to IFRS Conversion | 78 |
| A Well-Organized Conversion | 79 |
| Learn from The Past Experiences from other countries | 80 |
| Information Technology Impacts and Preparation | 81 |
| **Part 4: How Deloitte Vietnam can help** | 82 |
| How Deloitte Vietnam can help | 83 |
| Examples of ways in which Deloitte can help you at each phase of IFRS convergence | 84 |
| Sample IFRS training offering | 85 |
| IFRS-ERP Implementation Engagement Overview | 86 |
| Post-Merge Integration Services - IFRS Transition | 87 |
| Contact us | 88 |
| Our Offices | 88 |

# Preface

This publication is the first in a series of guides published by Deloitte Vietnam to assist Vietnamese enterprise in transitioning from Vietnamese Generally Accepted Accounting Principles (VAS) to International Financial Reporting Standards (IFRS).

According to the Decision 345/QD-BTC, issued in March 2020, the relatively long conversion period (2022 – 2025) means that entities will have time to approach the task in a deliberate fashion considering the scope of the exercise and all its ancillary impacts before plunging into the details of the conversion. Our series intend to provide guidance that is relevant to the deliberate approach to those matters that are in our judgment of a higher priority than others on this IFRS convergence journey . Adopting IFRS  is not an improvement alone in the field of financial reporting accounting, but more like a transformation that has a wide impact on all other aspects of a business, including the production and operation procedures, information technology systems, related control procedures, evaluation and reward systems, and other tax related issues, etc.

To prepare for this conversion, we use the travelling analogy as an example, beginning by thinking about what you need to take on the trip and the order of things to be packed. Things that are needed to be addressed first should not be left to last, while there are other important things that can be addressed later in the process.

This guide focuses on scoping and planning for the journey. In subsequent volumes, we will address other aspects of the road ahead in details, with more specific guidance on issues that are relevant to the timing of the process.

# Introduction

This guide aims to assist Vietnamese financial statement preparers in scoping out the significant tasks of the conversion from VAS to IFRS. Full convergence is anticipated after 2025 but several critical tasks need to be completed earlier either to satisfy financial reporting and regulatory requirements or to ensure that when mandatory application period arrives, everything is in place to ensure a smooth transition.

The objective of this guide is to help financial statement preparers in determining what conversion tasks are important now and which tasks can wait until later. By careful planning and through the implementation of a well-thought-out implementation strategy, the conversion to IFRS can be a smooth and cost-effective exercise.

This guide is divided into four parts as outlined in the next page. After finishing the final section, we hope you will have the tools, or the ability to access tools, to address the first phase of IFRS conversion – scoping the effort.

**Part 1**

Provides an overview on IFRS, key considerations for financial statement preparers in Vietnam, and an introduction to key terms and concepts.

**Part 2**

Focuses on important conversion issues. These are financial reporting areas that Deloitte has identified as being of importance at an early stage in the conversion process. This may be based on the existence of a significant technical difference between VAS and IFRS or it may be due to transitional or ongoing requirements to compile data that entities will need to plan for to implement on a timely and cost-effective basis.

**Part 3**

Reconsiders the overall conversion process after reviewing the important conversion issues raised in Part 2 of the guide. Part 3 also looks at the phases in the conversion process which follow the first phase, scoping the effort, and which will be the subject of future publications.

**Part 4**

Guidance and resources are available from Deloitte Vietnam. This includes a series of related publications, lists of our IFRS professionals in each Vietnamese province, and how to access training modules on each key subject matter, free of charge through our IFRS website www.IASplus.com.

This publication is provided as an information service and does not address all possible fact patterns and the guidance is subject to change. Information provided on conversion issues is based on our assessment of areas that may be important to many entities. We recognize that many further additional conversion issues exist and may have or greater importance to individual entity circumstances. Deloitte Vietnam is not, using the publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services.

This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consider consulting a qualified professional advisor. Deloitte Vietnam shall not be responsible for any loss sustained by any person who relies on this publication.


# Part 1: Beginning the conversion journey

# Where does your journey begin?

## Beginning the journey

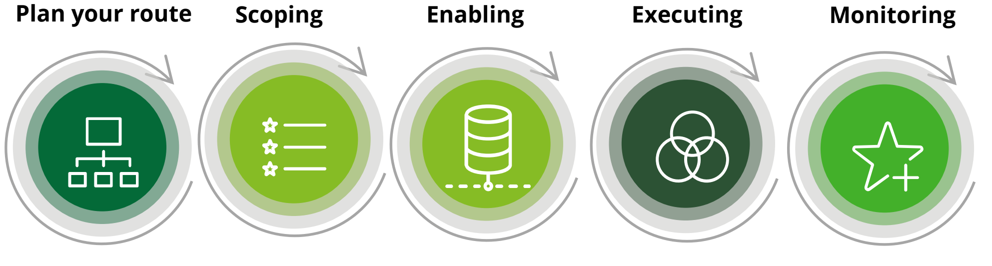
In Decision No. 345/QD-BTC, The Ministry of Finance ("MOF") has announced its intent to replace VAS with IFRS for all accountable entities (as defined by the MOF). According to the roadmap, the implementation of replacing VAS with IFRS after 2025. Between now and then, entities will have to manage the conversion from VAS to IFRS.

"Converting to IFRS from Vietnamese standards is a journey, not a revolution"

Does this mean that those who understand current VAS become obsolete after 2025? Does it mean that there will be a seismic shift on that date that will require overtime efforts to comply after 2025? The answer to both above is "No".

This is not an accounting revolution, but a journey from one comprehensive basis of GAAP to another.

This new basis involves important conversion issues that should be addressed immediately, some that while important, may be addressed later in the conversion process and other items that are expected to be converged with VAS before the overall convergence date. Also, there are a whole host of details, including enhanced disclosure requirements that will need to be addressed before the conversion date. Beneficially, many areas are already closely aligned with the current Vietnamese financial reporting framework – and some Vietnamese standards will fall away.




## What's the destination?

The ultimate destination is a complete conversion of all financial statements from VAS to IFRS for fiscal years beginning after 2025, with a restatement of the immediately prior year's results (including quarterly results).

The scenery at this destination includes all operations, resources, and systems converted. The market, including all stakeholders, will be fully aware of the change, as this will be communicated to them well in advance.

Key viewpoints along the way are disclosures of the likely effects, if known, in the financial statements for the years ended on or after 31 December 2024, 2025, and 2026.

## How to get there?

With some careful route planning and a good map, any journey can be made more manageable. As we see it, there are essentially four phases to the journey to IFRS: scoping the effort, enabling the resources, executing the plan, and monitoring the process. This guide is the first in a series of annual travel guides on the journey to IFRS – focusing on the elements of conversion that are important at this initial stage.

### The four phases of conversion

| Scoping the effort | Enabling the resources | Executing the plan | Monitoring the process |
|---|---|---|---|
| Determining the scale and breadth of the exercise, setting deadlines and priorities, and assigning responsibilities | Providing those responsible for the entity's financial reporting with the skills to execute timely and error-free conversion statements – and to prepare IFRS-compliant financial reports continuously thereafter | Drawing up specific plans and undertaking those activities to gather data, analyze transactions, measure, classify and disclose those transactions in accordance with IFRS | Ensuring that the quality expected of the process is in fact achieved, providing assurance that internal controls – an important element of the Vietnamese public entity environment – are embedded in the process, and providing those in charge of governance with the ability to execute their oversight role of the process |

A related and complementary Deloitte publications "Unlock value through your Chart of Accounts" and "What firms need to know about IFRS compliance in ERP system" outlines our views on making the journey as efficient and as effective as possible.

This guide addresses the first phase of the conversion – Scoping the Effort. It considers the factors that determine the scale and breadth of the exercise, provides advice on setting deadlines and priorities, and assigning responsibilities – as well as on acquiring the appropriate resources. Subsequent editions will focus on the enabling, execution, and monitoring elements as well as those areas of work effort that become more important as the conversion date approaches.

### How much time will this journey take?

The first order of business is to determine what has to be physically prepared and by when. Specific items that will be required on the first-time adoption are as follows (timelines below assume a Company with a calendar year-end):

**2023**

Disclosure of expected effects of the conversion of the financial statements

**2024**

Disclosure and quantification of expected effects of the conversion of the financial statements

**2025**

- Preparation of opening IFRS balance sheet at the date of transition (01 January 2025)
- Preparation of comparative figures for annual and interim reporting periods

**After 2025**

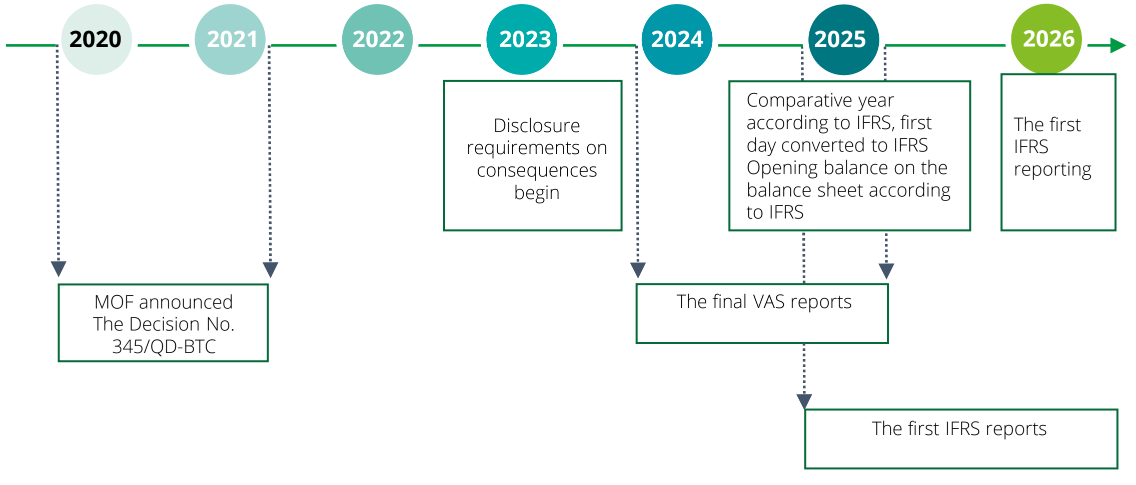
- Preparation of the interim and annual conversion note required by IFRS 1 in the "conversion year" detailing elective accounting policy choices and the reconciliation of income statements and equity accounts for the prior fiscal year, and
- Full implementation of an IFRS compatible financial reporting process, including financial statements.

Throughout the transition period, the Company's IFRS reporting will be covered by disclosure controls and procedures.

Later in this guide, we will provide some guidance on those areas where the work effort is expected to be the greatest, and thus the initial effort may be focused. Obviously, in any case, the issues may be more complex or simpler than they generally appear, the speed of execution may vary from expectations and aspects such as accounting standards, business models, financial conditions, and the like may change during the process. This guidance is not intended for a specific use but to illustrate general principles. The decisions on scoping, enabling, executing, and monitoring are yours alone to make – and for which you alone will be responsible.

## Key departure dates

In determining the timing, you should look at two factors:
Destination points – see the timeline below




Disclosure requirements for IFRS conversions begin in 2023, that is not too far away. The likely effects of conversion must be disclosed every year thereafter.

The consensus from the past experiences, for example from entities in Europe that have converted to IFRS, was that they did not start early enough, even though they were aware of the upcoming conversion date well in advance. Many also did not scope out their efforts well during the planning stage and did not address the more difficult issues first.

How long is conversion likely to take? There is probably no easy answer, but experience on conversions provides the following observations:

- Conversion efforts that begin early and involve continuing personnel that will be responsible for the preparation of the conversion note and the financial statements preparation afterward will both reduce the expenses of involving others and produce benefits which may persist after the conversion date;
- If impairment issues are lurking on the VAS horizon in any group of assets, then these issues are likely to be accelerated under an IFRS regime: determining their consequences early is the more prudent course of action than a surprising result on conversion that leaves little room for constructive responses from users of financial reports;
- The more decentralized an organization's reporting functions, the greater degree of difficulty in ensuring compliance with a conversion program. This will be exacerbated with entities for which you do not exercise control, and which are under no compulsion to convert, such as private investees and joint ventures with non-converting entities;
- Gathering data and preparing new spreadsheets or changing general ledger programs can be very time consuming as well as revealing. Many times, the opportunity or necessity will arise for changing process as well as measures;
- Drafting disclosure may be as time-intensive as converting balances;
- Significant lead times are required when resources other than those under the control of the financial reporting function are involved, such as information technology, financial process; and
- Remember to think outside of the accounting box and consider such matters as the Management Discussion & Analysis (MD&A), non-GAAP measures, debt agreements, compensation, and stock option plans.

# Scoping the effort: A question of priorities

### What needs attention now?

Scoping is determining the scale and breadth of the exercise, setting deadlines and priorities, and assigning responsibilities.

There are two main facets of conversion that need to be addressed in scoping the conversion efforts:

**The process of conversion** 01

**The process of conversion** involving such matters as the number of entities that are involved, their locations, the ability to get timely data for the reporting entity's purposes, the controls (both internal and quality over those processes) and having a plan to get people sufficiently knowledgeable about IFRS in time before conversion.

**The accounting principles** 02

**The accounting principles** and how they are applied in the conversion process – and identifying those principles that may need attention early from those that are not so urgent in the timing of things

## 01 The process of conversion

Management of the process may be ultimately as important as the selection of accounting principles.

Where there are reporting requirements by management on the internal controls over the process when new accounting principles are applied. When considering the scope of the task, experience has shown that it is often a challenge to assemble data on a timely basis from all the locations and entities that form the consolidated reporting entity. This means the conversion plan should include:

- All divisions, branches, and locations that prepare inputs to the consolidation that might be affected by the change to IFRS;
- All investees and joint ventures for which accounting and financial reporting data are included in the consolidated results; and
- All off-balance-sheet entities, such as securitization trusts and variable interest entities that may be consolidated under IFRS.

Besides, a scoping exercise should consider the need for inputs from all providers of data inputs for reporting purposes, such as actuaries for pensions and benefits and business valuators for impairment testing. Standards should be reviewed with an eye to process to see if these individuals may need to prepare new inputs into the consolidated financial statements. Their lead times may significantly reduce the amount of lead time that you have available.

# 02 Accounting principles

Where do you start? Not at first glance an easy task but made easier by identifying which areas are likely to be more problematic or challenging for your entity. And by that we mean which areas require more upfront planning, preparation, and more data gathering ahead of 2025.

This guide has been prepared with the VAS preparer in mind, and incorporates the following key elements:

- Vietnamese standards are identified as the starting point – the logical place for you to start your implementation process.

- The triage – used to prioritize your time:

| Needs attention now | Needs attention later | To be converged |
|---|---|---|
| These areas are the subject of this publication and are important differences between VAS and IFRS which are either not expected to be converted before 2025 or will otherwise require significant time and preparation to fulfill the requirements of the new guidance. This includes some guidance that will have particular significance to certain industries. Related Deloitte publications will provide an industry-specific focus. | These areas, while important, represent areas where the differences are less significant or widespread. Also, they may be tackled after other items since the preparation and upfront time required to address these areas is typically less than the preceding category. | Areas where VAS is already or is expected to be converged with IFRS ahead of 2025. Efforts here may be contingent on the pace of these convergence activities |

There are also items where additional disclosure requirements apply under IFRS – that will require a separate stream of work effort and should not be overlooked in the planning process. Some of these are referred to in this guide where they relate to an item which in our view "**Needs attention now**". A related Deloitte publication – "**IFRS model financial statements**" – provides a comprehensive review of disclosure requirements under IFRS.

This guide is focused on the items which in our view "Need attention now". This is done to assist you in scoping your efforts at the start of your journey. As future guides are available, the other areas will become more prominent in our discussions.

# IFRS 1 – First-time adoption of IFRS

### Your map to successful conversion

Before you begin your journey from VAS to IFRS, your ultimate destination, you need to pick up a map that will guide you along the way and ensure that you reach your destination with minimal disruptions. Your "map" to successful conversion is IFRS 1 "First-time Adoption of IFRS" and it is full of directions, options, and requirements which if not reviewed will most certainly result in you losing your way – as well as time and money – on the road to conversion. Like any map, you need to take some time to study it carefully , etc. especially given its well over 90 pages long

.

IFRS 1 shows several paths that you could take on your journey towards conversion. The paths come in the form of exemptions and exceptions and provide relief from the general principle of retrospective application. The exemptions are elective, thus providing you with several paths to choose from, and the exceptions, if applicable, are mandatory. You must study your "map" at the outset, plan your route and thus select which paths are best for you, especially those that reduce the work effort required.

In addition to planning your route, you need to plot your route so that a navigator can tell where your starting point is, where the stops are along the way, and where the path ultimately comes to an end. The plotting of your route comes in the form of disclosures and reconciliations.

To help you through the lengthy maze of IFRS 1, here is a summary of the standard, its requirements, and its importance on convergence to IFRS. It is important to note that the IFRS 1 map is subject to change itself.

### Overview

IFRS 1 is applicable for entities preparing financial statements following IFRS for the first time. Accordingly, it will be applicable for all Vietnamese entities who adopt IFRS under the MOF's Strategic Plan

.

The objective of IFRS 1 is to guide financial statement preparers as to how to establish a starting point for accounting under IFRS. This is done through an opening balance sheet where opening balance sheet entries generally flow through equity to record adjustments necessary on the first-time adoption.

To arrive at a consistent starting point for all first-time adopters, the International Accounting Standards Board (IASB) included in the standard a fairly prescriptive list of "dos'" and "don'ts" that are applicable when initially adopting IFRS.

This includes a list of disclosure requirements designed to ensure that not only is a consistent approach applied but also to ensure the impact of the first-time adoption of IFRS is communicated to financial statement users.

We have outlined the basic steps of IFRS 1 below. This is not a substitute for reading the standard itself but will hopefully help the interpretation of this important piece of guidance.

## First-time implementation actions

### 01 Preparation of opening balance sheet

- The starting point for IFRS is the preparation of an opening balance sheet at the "Date of Transition". This is the first day of the first year for which comparatives are presented under IFRS (e.g. 1 January 2023 for calendar year-end companies).
- This must be prepared but does not have to be disclosed in the financial statements. However, reconciliations of equity reported under previous GAAP to equity under IFRS both (a) at the date of transition to IFRSs and (b) the end of the last annual period reported under the previous GAAP must be disclosed (see disclosure section below).
- The opening balance sheet will reflect all adjustments from Vietnamese GAAP to IFRS on the date of transition. These are typically made through retained earnings unless another account is specified.
- The opening balance sheet is typically prepared on the basis of retrospective application of all IFRS guidance that is in force on the final conversion date. However, there are a number of elective exemptions to the general rule. In addition there are a number of mandatory exceptions to the general rule.

### 02 Identify elective exemptions retrospective application

There are some further optional exemptions to the general restatement and measurement principles. The following exceptions are individually optional. They relate to:

- business combinations,
- share-based payment transactions,
- insurance contracts,
- fair value, previous carrying amount, or revaluation as deemed cost,
- leases,
- cumulative translation differences,
- investments in subsidiaries, jointly controlled entities, associates and joint ventures,
- assets and liabilities of subsidiaries, associated and joint ventures,
- compound financial instruments,
- designation of previously recognized financial instruments,
- fair value measurement of financial assets or financial liabilities at initial recognition,
- decommissioning liabilities included in the costs of property, plant and equipment,
- financial assets or intangible assets accounted for in accordance with IFRIC 12 Service Concession Arrangements,
- borrowing costs,
- transfers of assets from customers,
- extinguishing financial liabilities with equity instruments
- severe hyperinflation,
- joint arrangements, and
- stripping costs in the production phase of a surface mine.

### 03 Identify exceptions to retrospective application

There are currently 5 exceptions on first-time adoption. These are as follows:

- IAS 39 – De-recognition of financial instruments
- IFRS 9 – Hedge accounting
- IAS 27 – Non-controlling interest
- Full-costs oil and gas assets
- Determining whether an arrangement contains a lease

## 04 Prepare interim financial statement disclosures

The interim disclosure requirements are as follows:

- A reconciliation from equity under Vietnamese GAAP to IFRS at the date of transition and at the last annual balance sheet date;
- A reconciliation from equity under Vietnamese GAAP to IFRS at the balance sheet date;
- A reconciliation from profit or loss under Vietnamese GAAP to IFRS for that period;
- This applies for both the period (i.e. quarter) and for the year to date;
- A reconciliation from profit or loss under Vietnamese GAAP to IFRS for the most recent annual period presented;
- Details of any material adjustments to the cash flow statement; and
- Details of any impairment losses or reversals of impairment on first-time adoption of IFRS.

## 05 Prepare annual financial statement disclosures

The annual disclosure requirements are as follows:

- A reconciliation from equity under Vietnamese GAAP to IFRS at the date of transition (and at the last annual balance sheet date if different);
- A reconciliation from profit or loss under Vietnamese GAAP to IFRS for the most recent annual period presented;
- Details of any impairment losses or reversals of impairment on first-time adoption of IFRS; and
- Details of any material adjustments to the cash flow statement.

**Notes:**

- FRS 1 opening balance sheet is the starting point for accounting under IFRS
- Adjustments from VAS to IFRS typically made through equity
- Important to review exemptions from a retrospective application – will reduce the time and costs involved!
- Carefully monitor the status of IFRS 1 for Vietnamese entities throughout the conversion process as some exemptions or elections may be eliminated or amended by the MOF
- Certain exceptions to a retrospective application must be compiled with
- Adjustments from VAS to IFRS typically made through equity
- Don’t Forget! Interim, as well as annual, disclosures, are required in the year of convergence
- Plan to gather data to meet these requirements

The disclosures are intended to explain as to how you went from VAS to IFRS. The example IFRS 1 note which follows illustrates how long the process can be and emphasizes that careful planning is required at the outset.

# Example IFRS conversion note

The following note provides an overview of the disclosures that are required on the first-time adoption of IFRS. Since the impact of conversion may vary considerably from one entity to another, no data has been included in this example. A Deloitte publication "International Financial Reporting Standards: Model financial statements and disclosure checklist" provides examples of financial statement presentation and disclosure requirements under IFRS.

### Explanation of transition to IFRS

This is the first year that the company has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under VAS were for the year ended December 31, 20YY and the date of transition to IFRS was therefore January 1, 20YY.

**Reconciliation of equity at 1 January 20YY (date of transition to IFRS)**

| Key Items | Vietnamese GAAP | Effect of transition to IFRS | IFRS |
|---|---|---|---|
| Property, plant, and equipment | | | |
| Goodwill | | | |
| Intangible assets | | | |
| Financial assets | | | |
| Total non-current assets | | | |
| Inventories | | | |
| Other receivables | | | |
| Cash and cash equivalents | | | |
| Total current assets | | | |
| 1. Total assets | | | |
| Interest-bearing loans Trade and other payables | | | |
| Employee benefits | | | |
| Restructuring provision | | | |
| Current tax liability | | | |
| Deferred tax liability | | | |
| Total liabilities | | | |
| 2. Total assets less total liabilities | | | |
| Issued capital | | | |
| Revaluation reserve | | | |
| (Hedging reserve) | | | |
| Retained earnings Minority interest | | | |
| 3. Total equity | | | |

### Notes to the reconciliation of equity at 1 January 20YY

Appropriate notes should be given to the reconciliation of equity to explain how the transition from VAS to IFRS affected the financial position of the entity. Sufficient detail should be given to enable users to understand the material adjustments. Some example notes are given in the Implementation Guidance to IFRS 1 but these would not necessarily apply to the circumstances of a Vietnamese company.

### Reconciliation of equity at 31 December 20YY (date of last VAS financial statements)

The reconciliation, which is required by IFRS 1, would be like the one set out above except that the information would be at the end of the latest period presented in the most recent financial statements under VAS. The related notes are also required.

### Explanation of transition to IFRS Reconciliation of profit or loss for 20YY

| Note | Vietnamese GAAP | Effect of transition to IFRS | IFRS |
|---|---|---|---|
| Revenue | | | |
| Cost of Sales | | | |
| Gross profit | | | |
| Distribution costs | | | |
| Administrative expenses | | | |
| Financial income | | | |
| Financial cost | | | |
| Profit before tax | | | |
| Tax expense | | | |
| Net profit (loss) | | | |

### Notes to the reconciliation of profit or loss for 20YY

Appropriate notes should be given to the reconciliation of profit or loss to explain how the transition from VAS to IFRS affected the financial performance of the entity. Enough detail should be given to enable users to understand the material adjustments. Some example notes are given in the Implementation Guidance to IFRS 1 but these would not necessarily apply to the circumstances of a Vietnamese company.

### Explanation of material adjustments to the cash flow statement for 20YY

Appropriate notes should be given to explain how the transition from VAS to IFRS affected the cash flow of the entity. Enough detail should be given to enable users to understand the material adjustments.

# Terminology – An IFRS phrasebook

| Acronym | Definition | Guidance |
|---|---|---|
| **IAS** | International Accounting Standards (e.g. IAS 1, IAS 2, etc..) | Standards pronounced by the predecessor body and which were approved and adopted by the IASB as the starting point for IFRS. Equal authority as standards introduced by the IASB |
| **IFRS** | International Financial Reporting Standards (e.g. IFRS 1, IFRS 2, etc.) | Standards pronounced by the current standard-setting body, i.e. the IASB, e.g. "IFRS 1" |
| **IFRIC** | International Financial Reporting Interpretations Committee or Interpretations of the IFRIC, e.g. "IFRIC 5" | Interpretations made by the Sub-committee of the IASB.<br>Refer comments under "SIC" |
| **Date of transition** | The first day of the earliest period for which an entity presents full comparative information under IFRS in its first IFRS financial statements | For an entity with a 31 December year-end adopting IFRS in 2025, the date of transition is 1 January 2024 |
| **Opening balance sheet** | An entity's balance sheet (published or unpublished) at the date of transition to IFRS | The IFRS compliant balance sheet which incorporates all IFRS 1 adjustments made at the date of transition |
| **Retrospective application** | Retrospective application means the application of IFRS as if they had been applied since the inception of the entity | Requires an entity to go back to inception and apply IFRS from that point onwards. Generally required for elective changes in accounting principles, IFRS 1 provides several options, exemptions, and prohibitions to this rule for first-time adopters |

## The financial reporting framework

Looking for directions? What's the difference between IFRS and IAS? Is there an IFRS equivalent to our VAS? We have mapped the financial reporting standards and interpretations for you below so that you have a better sense of direction.

| | IFRS | VAS |
|---|---|---|
| **Assets** | | |
| Non-current assets | | |
| Property, plant, and equipment | IAS 16 | VAS 3 |
| | IAS 20 | No equivalent VAS |
| | IAS 23 | VAS 16 |
| | IAS 36 | No equivalent VAS |
| Right-of-use assets | IFRS 16 | VAS 6 |
| Investment property | IAS 40 | VAS 5 |
| Goodwill | IFRS 3 | VAS 11 |
| Other intangible assets | IAS 38 | VAS 4 |
| | IAS 36 | No equivalent VAS |
| Financial assets | IFRS 9 | No equivalent VAS |
| Investments accounted for using the equity method | IAS 1 | VAS 21 |
| Contract assets | IFRS 15 | VAS 14 |
| Contract costs | IFRS 15 | VAS 14 |
| Current assets | | |
| Biological assets | IAS 41 | No equivalent VAS |
| Inventories | IAS 2 | VAS 2 |
| Trade receivables | IFRS 9 | No equivalent VAS |
| Contract assets | IFRS 15 | VAS 14 |
| Contract costs | IFRS 15 | VAS 14 |
| Derivative financial instruments | IFRS 9 | No equivalent VAS |
| Other current assets | IAS 1 | VAS 21 |
| Cash and cash equivalents | IAS 7 | VAS 24 |
| Assets held-for-sale | IFRS 5 | No equivalent VAS |
| **Total assets** | | |

| | IFRS | VAS |
|---|---|---|
| **Equity and liabilities** | | |
| Equity attributable to owners of the parent | | |
| Share capital | | |
| Share premium | | |
| Retained earnings | | |
| Other components of equity | | |
| Non-controlling interest | IFRS 10 | VAS 25 |
| | | |
| Total Equity | | |
| | | |
| **Liabilities** | | |
| | | |
| Non-current liabilities | | |
| Long-term lease liability | IFRS 16 | VAS 6 |
| Long-term borrowings | IFRS 9 | No equivalent VAS |
| Deferred tax liability | IAS 12 | VAS 17 |
| Long-term provisions | IAS 37 | VAS 18 |
| Deferred income - government grant | IAS 1 | VAS 21 |
| Contract liability | IFRS 15 | VAS 14 |
| | | |
| Current liabilities | | |
| Trade and Other payables | IFRS 9 | No equivalent VAS |
| Current tax payables | IAS 12 | VAS 17 |
| Current portion of long-term lease liabilities | IFRS 16 | VAS 6 |
| Short-term borrowings | IFRS 9 | No equivalent VAS |
| Current portion of long-term borrowings | IFRS 9 | No equivalent VAS |
| Derivative financial instruments | IFRS 9 | No equivalent VAS |
| | | |
| Other financial liabilities | IFRS 9 | No equivalent VAS |
| Short-term provisions | IAS 37 | VAS 18 |
| Deferred income - government grant | IAS 1 | VAS 21 |
| Contract liability | IFRS 15 | VAS 14 |
| | | |
| **Total liabilities** | | |

| | IFRS | VAS |
|---|---|---|
| Revenue | IFRS 15 | VAS 14 |
| Cost of sales | IAS 1.99 - 103 | VAS 21 |
| Gross profit | IAS 1.85 | VAS 21 |
| Other income | | |
| Distribution costs | IAS 1.99 - 103 | VAS 21 |
| Administrative costs | IAS 36 | No equivalent VAS |
| Other expenses | IAS 1.99 - 103 | VAS 21 |
| Finance costs | IAS 23 | VAS 16 |
| Share of result of associate | IAS 1.82 | VAS 21 |
| Gains and losses arising from the de-recognition of financial assets measured at amortized cost | IFRS 7 | No equivalent VAS |
| Gains and losses on the reclassification of financial assets from amortized costs to FVTPL | IAS 1.82 | VAS 21 |
| Gains and losses on the reclassification of financial assets from FVTOCI to FVTPL | IAS 1.82 | VAS 21 |
| Impairment losses and gains (including reversals of impairment losses) on financial assets | IAS 1.82 | VAS 21 |
| Other gains and losses | | |
| Profit before tax | | |
| Income tax expense | IAS 12 | VAS 17 |
| Profit for the year from continuing operations | | |
| Loss for the year from discontinued operations (net of tax) | IFRS 5 | No equivalent VAS |
| **Profit for the year** | | |

| | IFRS | VAS |
|---|---|---|
| Other Comprehensive Income: | | |
| Items that will not be reclassified to profit or loss | | |
| Gains/(losses) on property revaluation | IAS 16 | VAS 3 |
| Re-measurement gains (losses) on DBS plans | IAS 19 | No equivalent VAS |
| Fair value gain/(loss) on investments in equity instruments designated as at FVTOCI | IFRS 7 | No equivalent VAS |
| Fair value gain/(loss) on financial liabilities designated as at FVTPL attributable to changes in credit risk | IFRS 9, IFRS 7 | No equivalent VAS |
| Share of gain (loss) on property revaluation of associates | IAS 28 | VAS 7, VAS 8 |
| Income tax relating to items that will not be classified | IAS 12 | VAS 17 |
| | | |
| Items that may be reclassified subsequently to profit or loss | | |
| Exchange differences on translating foreign operations including reclassified adjustments | IAS 21 | VAS 10 |
| Cash flow hedges including reclassified adjustments | IFRS 9, IFRS 7 | No equivalent VAS |
| Fair value gain/(loss) on investments in debt instruments measured at FVTOCI | IFRS 7 | No equivalent VAS |
| Income tax relating to items that may be reclassified | IAS 12 | VAS 17 |
| Other Comprehensive Income for the year, net of tax | | |

| | IFRS | VAS |
|---|---|---|
| Exchange differences on translating foreign operations including reclassified adjustments | IAS 21 | VAS 10 |
| Cash flow hedges including reclassified adjustments | IFRS 9, IFRS 7 | No equivalent VAS |
| Fair value gain/(loss) on investments in debt instruments measured at FVTOCI | IFRS 7 | No equivalent VAS |
| Income tax relating to items that may be reclassified | IAS 12 | VAS 17 |
| Other Comprehensive Income for the year, net of tax | | |

**Total comprehensive income for the year**

| | | |
|---|---|---|
| Profit attributable to: | | |
| Owners of the parent | IAS 1 | VAS 21 |
| Non-controlling interest | IAS 1 | VAS 21 |
| | | |
| Total comprehensive income attributable to: | | |
| Owners of the parent | IAS 1 | VAS 21 |
| Non-controlling interest | IAS 1 | VAS 21 |
| | | |
| Earnings per share | | |
| Basic and diluted | IAS 33 | VAS 30 |

**XYZ Group - Statement of Changes in Equity for the year ended 31 December 20xx**

| | Share capital | Share Premi-um | Retained earnings | Translation of foreign operations | Inestment in Equity Shares | Cash flow hedges | Revaluation and Surplus | TOTAL | Non-controlling interest | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|---|---|---|
| | P&L + IAS 19 | | | IAS 21 | IFRS 9 | | IAS 16 | | IFRS 10 | |
| | No equivalent VAS | | | VAS 10 | No equivalent VAS | | VAS 3 | | VAS 25 | |
| Balance as at 1 January 20xx-1 | | | | | | | | | | |
| Changes in accounting policies | | | | | | | | | | |
| Restated balance | | | | | | | | | | |
| Changes in equity20xx-1 | | | | | | | | | | |
| Dividends | | | | | | | | | | |
| Equity Share-based payment - IFRS 2 | | | | | | | | | | |
| Total comprehensive income for the year | | | | | | | | | | |
| Balance as at 31 January 20xx-1 | | | | | | | | | | |
| Changes in equity for 20xx | | | | | | | | | | |
| Issue of share capital | | | | | | | | | | |
| Dividends | | | | | | | | | | |
| Transfer of cash flow hedging (gains)/losses and costs of hedging to the initial carrying number of hedged items | | | | | | | | | | |
| Transfer of credit risk reserve upon de-recognition of the related financial liabilities | | | | | | | | | | |
| Transfer of investment revaluation reserve upon disposal of investments in equity instruments designated as at FVTOCI | | | | | | | | | | |
| Own shares acquired in the year | | | | | | | | | | |
| Total comprehensive income for the year | | | | | | | | | | |
| Transfer to retained earnings | | | | | | | | | | |
| Balance as at 31 January 20xx | | | | | | | | | | |

| XYZ Group - Statement of Cash Flow for the year ended 31 December 20xx | | |
|---|---|---|
| | IFRS | VAS |
| Profit for the year | | |
| Adjustments for: | | |
| Share of profit of associates | | |
| Share of profit of joint ventures | | |
| Finance income | | |
| Other gains and losses | | |
| Finance costs | | |
| Income tax expense | | |
| Gain on disposal of discontinued operations | | |
| Depreciation of property, plant and equipment | | |
| Impairment loss on property, plant and equipment | | |
| Depreciation of right-of-use assets | | |
| Impairment losses, net of reversals, on financial assets | | |
| Amortization of intangible assets | | |
| Impairment of goodwill | | |
| Share-based payment expense | | |
| Fair value gain/loss on investment property | | |
| Gain on disposal of property, plant and equipment | | |
| | | |
| Increase/(decrease) in provisions | | |
| Fair value gain/loss on derivatives and other financial assets held for trading | | |
| Difference between pension funding contributions paid and the pension cost charge | | |
| Operating cash flows before movements in working capital | | |
| Decrease/(increase) in inventories | | |
| Decrease/(increase) in trade and other receivables | | |
| Decrease/(increase) in contract assets | | |
| Decrease/(increase) in contract costs | | |
| Decrease/(increase) in right to returned goods assets | | |
| Increase/(decrease) in trade and other payables | | |
| Increase/(decrease) in contract liabilities | | |
| Increase/(decrease) in refund liability | | |
| Increase/(decrease) in deferred income | | |
| Cash generated by operations | | |
| Income taxes paid | IAS 7.35-36 | VAS 24 |
| Cash received from the settlements of the derivative financial instruments used to hedge interest rate risk | | |
| Cash paid due to the settlements of the derivative financial instruments used to hedge interest rate risk | | |
| | | |
| Net cash (used in)/from operating activities | IAS 7 | VAS 24 |
| | | |
| Investing activities | | |
| Interest received | IAS 7.31 | VAS 24 |
| Dividends received from associates | IAS 7.38, IAS 24.19 | VAS 24 |
| Dividends received from joint ventures | IAS 7.38, IAS 24.19 | VAS 24 |
| Dividends received from equity instruments designated at FVOCI | IAS 7.31 | VAS 24 |
| Proceeds on disposal of equity instruments held at FVOCI | | |
| Disposal of subsidiary | IAS 7.39 | VAS 24 |
| Proceeds on disposal of property, plant and equipment | | |
| Purchases of property, plant and equipment | | |
| Acquisition of investment in an associate | IAS 7.39 | VAS 24 |
| Purchases of equity instruments designated at FVOCI | | |
| Purchases of patents and trademarks | | |
| Acquisition of subsidiary | | |
| Cash received from the settlements of the derivative financial instruments held for hedging purposes | | |
| Cash paid due to the settlements of the derivative financial instruments held for hedging purposes | | |
| | | |
| Net cash (used in)/from investing activities | | |
| | | |
| Financing activities | | |
| | | |
| Dividends paid | IAS 7.31, 7.34 | VAS 24 |
| Interest paid | IAS 7.31, IFRS 16.50 | VAS 24 |
| Transaction costs related to loans and borrowings | IAS 7.21 | VAS 24 |
| Repayments of loans and borrowings | IAS 7.17(d) | VAS 24 |
| Proceeds from loans and borrowings | IAS 7.17(c) | VAS 24 |
| Repurchase of treasury shares | IAS 7.17(b) | VAS 24 |
| Repayment of lease liabilities | IAS 7.17, IFRS 16.50 | VAS 24 |
| Proceeds on issue of convertible loan notes | IAS 7.17(c) | VAS 24 |
| Proceeds on issue of shares | IAS 7.17(a) | VAS 24 |
| Proceeds from sale of own shares | | |
| Proceeds on disposal of partial interest in a subsidiary that does not involve loss of control | | |
| | | |
| Net cash (used in)/from financing activities | | |
| | | |
| Net increase/(decrease) in cash and cash equivalents | | |
| Cash and cash equivalents at beginning of year | | |
| Effect of foreign exchange rate changes | IAS 7.28 | VAS 24 |
| | | |
| Cash and cash equivalents at end of year | IAS 7 | VAS 24 |

# Part 2:
# VAS to IFRS Important standards to be considered

# VAS to IFRS – Important standards to be considered

The objective of financial reporting is to monitor, support analysis, and report the business' income. The purpose of these reports is to examine resource usage, cash flow, business performance, and the financial health of the business. This helps the management and the investors make informed decisions about how to manage the business. The identified three main goals are as follow:

**Provide information to investors**

Investors will want to know how cash is being reinvested in the business, and how efficiently capital is being used. Financial reporting helps investors decide whether your business is a good place for their investment, any risk and uncertainty persist with the performance of the entity, and also their investment. Also, the financial report depicts the current investment status of the entity, evaluating its performance as individuals and as a Group consolidated aspect.

**Monitoring cash flow**

The source of the income generated by the business, the current status, and performance, comparing with other entities in the same industry and the market, the profit in terms of cash that the business currently generated – comparing to the costs of financing the activities.

**Analyzing the financial health of the business**

The Financial Statement presents the current level of Current and Non – current assets, also the level of debts and liabilities to finance it. By monitoring these, and any changes and fluctuation to them, managements and investors can work out the potential scenarios in the future, and what the management can change now to take advantage or prepare for the future difficulties and threats. This also shows the availability of resources for the future growth of the business.

IFRS standards set-out the globally accepted rule of financial statement presentation to most effectively identify and support the above purpose of the financial statement. In the era of Globalization, Vietnam is a potential Foreign Investment center, Business and Group should familiarize themselves with the global standard and the level of transparency, also making adequate preparation to take the advantage of the upcoming opportunities.

This guide assists you to obtain an overview of both VAS and IFRS in the financial statements, which are prepared following IFRS, and then, to focus on standards that may have a significant impact on your IFRS adoption journey. Our approach is to divide into three (03) groups, in which:

**01** **Group 1: Standards on financial statement presentation and disclosure:** Point out basic guidance for the presentation structure of the Financial Statements under the requirement of IFRS. A clear view of overall changes with the level of information presented.

**02** **Group 2: Standards on the items of the financial statements:** Giving the ideal changes related to the current performance/position recognition under IFRS requirements, what the differences between the performance and financial position under VAS and IFRS are, giving a picture of what the business will look like as if IFRS standard is applied.

**03** **Group 3: Standards on Group accounting:** Depicts the differences related to the information presented to the investor as a Group of business as a whole. Significant differences related to the view of business as a Group in the idea of Investor under the current Local Regulations and the IFRS standards.

The below context contains standards that will impact most significantly to the information presented by business in Vietnam, focus mainly on the Framework of the Presentation, Value of Asset controlled by a business under the view of Global standards, and what is required for a consolidated Group report.

### Presentation and Disclosure

| IFRS | Equivalent VAS | Contents |
|---|---|---|
| IAS 1 | VAS 21 | Presentation of Financial Statements |
| IAS 7 | VAS 24 | Statement of Cash Flows |
| IAS 8 | VAS 29 | Accounting Policies, Changes in Accounting Estimates and Errors |
| IAS 10 | VAS 23 | Events after the reporting period |
| IAS 20 | No equivalent VAS | Accounting for Government Grants and Disclosure of Government Assistance |
| IAS 29 | No equivalent VAS | Financial reporting in hyperinflationary economies |
| IAS 32 | No equivalent VAS | Financial Instruments: Presentation |
| IAS 24 | VAS 26 | Related Party Disclosures |
| IAS 33 | VAS 30 | Earnings per Share |
| IAS 34 | VAS 27 | Interim Financial Reporting |
| IFRS 1 | No equivalent VAS | First-time adoption of IFRS |
| IFRS 7 | No equivalent VAS<br>(partly addressed in VAS 22 & Circular No. 210/2009/TT-BTC) | Financial Instruments: Disclosures |
| IFRS 8 | VAS 28 | Operating Segments |
| IFRS 17<br>(replace IFRS 4) | VAS 19 | Insurance Contracts |

### Accounting for Financial Statements Items

| IFRS | Equivalent VAS | Contents |
|---|---|---|
| IAS 2 | VAS 2 | Inventories |
| IAS 12 | VAS 17 | Income Taxes |
| IAS 16 | VAS 3 | Property, Plant, and Equipment |
| IAS 19 | No equivalent VAS | Employee Benefits |
| IAS 23 | VAS 16 | Borrowing Costs |
| IAS 36 | No equivalent VAS | Impairment of Assets |
| IAS 37 | VAS 18 | Provisions, Contingent Liabilities, and Contingent Assets |
| IAS 38 | VAS 4 | Intangible Assets |
| IAS 40 | VAS 5 | Investment Property |
| IAS 41 | No equivalent VAS | Agriculture |

| IFRS | Equivalent VAS | Contents |
|---|---|---|
| IFRS 2 | No equivalent VAS | Share-based payment |
| IFRS 5 | No equivalent VAS | Non-current assets held for sale and discontinued operations |
| IFRS 6 | No equivalent VAS | Exploration for and evaluation of mineral resources |
| IFRS 9 (replace IAS 39) | No equivalent VAS | Financial Instruments |
| IFRS 13 | No equivalent VAS | Fair value measurement |
| IFRS 15 (replace IAS 11&18) | VAS 14 | Revenue from Contracts with Customers |
| IFRS 16 (replace IAS 17) | VAS 6 | Leases |

### Group Accounting

| IFRS | Equivalent VAS | Contents |
|---|---|---|
| IAS 21 | VAS 10 | The effects of changes in foreign exchange rates |
| IAS 27 | No equivalent VAS | Separate financial statements |
| IAS 28 | VAS 7, VAS 8 | Investments in associates and joint ventures |
| IFRS 3 | VAS 11 | Business combinations |
| IFRS 10 | VAS 25 | Consolidated financial statements |
| IFRS 11 | VAS 8 | Joint arrangements |
| IFRS 12 | No equivalent VAS | Disclosure of interests in other entities |

---

We then will outline in additional detail of some standards that we believe are the significant differences between VAS and IFRS, with specific on reference on the effort required to convert existing balances to IFRS compliant balances by conversion date. In any specific circumstances, other standards may be equally challenging: this is not a definitive list, and users are reminded that they alone are responsible for their decisions.

# Group 1: Standards on financial statements presentation and disclosure

## IAS 1 – Presentation of Financial Statements

### General Impact

IAS 1 presents the requirement of the Statement of Comprehensive Income into two parts: Other Comprehensive Income (OCI) and the statement of Profit or Loss (P/L).

With the recognition of Other Comprehensive Income, IAS 1 also presents an item on the Equity of the Balance Sheet, which is known as the "Other Components of Equity". The recognition of Other Comprehensive Income suggests that some items which were originally recognized as Profit or Loss under the current standard will now be recorded to Other Comprehensive Income, giving a stable trend of Financial Performance results of the company.

As a requirement of the IAS 1 – Statement of Profit or Loss presents all incomes and expenses of the entity during the period, except for the circumstances where incomes or expenses arising from the change in the carrying amount of an asset or liability should be included in Other Comprehensive Income, and "Other Components of Equity" on Balance Sheet. Items recorded in "Other Components of Equity" shall be transferred to the Profit or Loss statement in the subsequent accounting period where they meet the condition to be recognized in the statement of Profit or Loss.

By this requirement, the current Profit or Loss statements will change, some gain/loss will be excluded and transferred to Others Comprehensive Income statement.

**Illustrative examples:** Actual Other Comprehensive Income statements:

| **For The Year ended 31 December 2020** | | | |
|---|---|---|---|
| Items | Notes | 2020 | 2019 |
| Other Comprehensive Income, net of tax: | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Re-measurement of post-retirement obligations | a | xx | Xxx |
| The net change in fair value through OCI investments | a | xx | Xxx |
| Items that may be subsequently reclassified to profit or loss: | | | |
| Currency translation differences | a | xx | Xxx |
| Change in fair value of net investment hedges | a | xx | Xxx |
| Change in fair value of cash flow hedges | a | xx | Xxx |
| Cash flow hedges reclassified to profit or loss | a | xx | Xxx |
| The net change in fair value through OCI investments | a | xx | Xxx |
| Cost of hedging | a | xx | Xxx |
| Share of Other Comprehensive Income of associates/joint ventures | a | xx | Xxx |
| Other Comprehensive Income, net of tax | a | xx | Xxx |
| Total comprehensive income | a | xx | Xxx |
| | | | |
| Attributable to: | | | |
| Shareholders of the Company | a | xx | Xxx |
| Non-controlling interests | a | xx | Xxx |
| Total comprehensive income | a | xx | xxx |

Statement of OCI presenting two specific categories:

- An item that subsequently be re-classed to Profit or Loss statements – which includes the Currency transaction differences, Changes in fair value (except for the revaluation of PPE), Cash-flow hedge, etc.
- An item that subsequently not be reclassified to Profit or Loss statement: Revaluation of PPE, Gains and losses from financial assets, etc.

**Overview**

**IAS 1 - Presentation of Financial Statements** sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their contents and overriding concepts such as going concern, the accrual basis of accounting, and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and Other Comprehensive Income, a statement of changes in equity and a statement of cash flows.

**Conversion issues**

| Topic | IFRS | VAS |
|---|---|---|
| **IAS 1 vs VAS 21 - Presentation of Financial Statements** | | |
| **Components of financial statements** | Minimum statements require:<br>a) a statement of financial position at the end of the period,<br>b) a statement of Profit or Loss (P/L) and Other Comprehensive Income for the period (separated or combined),<br>c) a statement of changes in equity for the period,<br>d) a statement of cash flows for the period,<br>e) notes, comprising a summary of significant accounting policies and other explanatory information,<br>f) comparative information in respect of the preceding period, and<br>g) a statement of financial position as of the beginning of the earliest comparative period (when applying change/retrospective in accounting policy, restatement, reclassify items). | Minimum statements require:<br>a) balance sheet,<br>b) income statements,<br>c) statement of changes in equity is presented as a note in financial statements,<br>d) statement of cash flows for the period, and<br>e) notes to financial statements. |
| **The current/ non-current distinction** | An entity shall present current and non-current assets and current and non-current liabilities as separate classification in its financial statements.<br>Except when a presentation based on descending order of their liquidity provides information that is reliable and more relevant. | An entity should present current and non-current assets and current and non-current liabilities as separate classification in its financial statements.<br>When the entity is unable to classified, a presentation based on descending order of their liquidity. |

| Content | IFRS | VAS |
|---|---|---|
| **Maturities date of assets and liabilities** | An entity should disclose the realization dates of both assets and liabilities to assess its liquidity and solvency. | Different requirements for each element of the financial statement, which depend on the original term or the remaining liquidity period. |
| **Statement of financial position/balance sheet format** | No order required on presentation. | Bảng cân đối kế toán được trình bày trong các quy định và hướng dẫn cụ thể. |
| **Income statements/ Statement of Comprehensive Income** | 2 options of the report:<br>a) In a single Statement of Comprehensive Income<br>b) In 2 separate statements: Income statement (P/L) and Other Comprehensive Income (OCI)<br>Classification: Function of expense or the nature of expense (whichever is reliable and relevant). | In a single Statement of Comprehensive Income.<br><br>Classification: Function of expense then nature of the expense. |
| **Dividends disclosure** | Disclose in the notes or the statement of changes in equity. | An entity should disclose the amount of dividend per share declared or proposed for the period. This information is allowed to disclose in the notes. |
| **Change in Equity** | Disclosure should include (4):<br>a) the net P/L,<br>b) capital transactions with owners and distribution to owners,<br>c) the balance of accumulated profits or losses at the beginning of the period and the end of the period and any movement, and<br>d) A reconciliation between the carrying amount of each class of contributed equity capital, share premium, and each reserve at the beginning of the period, separately disclosing each movement. | As a note to financial statements. |

### What must be done?

- To include Statement of Changes in Equity at the transition date;
- To understand the nature and requirements of Other Comprehensive Income statements, clearly classify the differences between "non-reclassified items" and "subsequent reclassify items";
- To identify items under Other Comprehensive Income at the transition date;
- To estimate the impact of applying the changes to Profit or Loss and Other Comprehensive Income, and
- Identify key differences between Short-term and Long-term Balance Sheet items, impact on the financial ratios, and Loan covenants condition.

## IFRS 7 – Financial Instruments: Disclosures

### General Impact

IFRS 7 - Financial Instruments: Disclosures requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required relating to transferred financial assets and several other matters.

### Overview

IFRS 7 requires disclosure of (a) the significance of financial instruments for an entity's financial position and performance and (b) qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk, and market risk. The qualitative disclosures describe management's objectives, policies, and processes for managing those risks. The quantitative disclosures provide information about the extent to which an entity is exposed to risk, based on information provided internally to the entity's key management personnel.

### Conversion issues

In Vietnam, there is no VAS equivalent to IFRS 7. However, on 06 November 2009, the Ministry of Finance issued Circular No. 210/2009/TT-BTC which requires those entities to disclose financial instruments under IFRS 7. The requirements in Circular No. 210 become optional under Circular No. 200, which is applicable from the financial year commencing on or after 01 January 2015..

| Topic | IFRS |
|---|---|
| **IFRS 7 – Financial Instruments: Disclosure** | |
| **Objective** | To prescribe disclosures that enable financial statement users to evaluate the significance of financial instruments to the financial position and results of an entity, the nature and extent of its risks, and how the entity manages those risks. IFRS 7 and Circular No. 210 are the same.<br>However, in reality, the notes to the financial statements under Circular No. 210 do not provide sufficient information because the VAS do not provide for the recognition and measurement of financial instruments and fair value accounting. |
| **Scope** | IFRS 7 is applied to all types of financial instruments, except for those specifically excluded from their scope.<br>IFRS 7 applies to both recognized and unrecognized financial instruments. |
| **Key principles** | When this IFRS requires disclosures by the class of financial instruments, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.<br>IFRS 7 requires entities to provide disclosures that enable users to evaluate:<br>• The significance of financial instruments for the entity's financial position and performance.<br>• The nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks. |

<table>
<tr><th>Topic</th><th>IFRS</th></tr>
<tr><td>Significance of financial instruments</td><td>
Disclosures for the statement of financial position:<br>
Carrying amounts of your financial instruments by their categories;<br>
Financial assets or financial liabilities measured at fair value through profit or loss (FVTPL);<br>
Investments in equity instruments designated at fair value through Other Comprehensive Income ("FVOCI");<br>
Reclassifications;<br>
Offsetting financial assets and financial liabilities;<br>
Collaterals;<br>
Allowance account for credit losses;<br>
Compound financial instruments with multiple embedded derivatives; or<br>
Default and breaches.<br>
Disclosures for the Statement of Comprehensive Income:<br>
• Net gains or net losses on each category of the financial instruments;<br>
• Total interest in revenues and total interest expenses;<br>
• Fee incomes and expenses; or<br>
• Analysis of the gains or losses in the Statement of Comprehensive Income from the de-recognition of financial assets at amortized cost.<br>
Other disclosures:<br>
• Accounting policies;<br>
• Hedge accounting disclosures (risk management strategies, effect of hedge accounting, etc.); or<br>
• Fair value (how it was determined, fair values of financial assets and liabilities, explanations when the fair value cannot be determined).
</td></tr>
<tr><td>Nature and extent of risks from financial instruments</td><td>
Credit risk: relates to your financial assets and simply speaking, it is a risk that you will suffer a financial loss due to counterparty failing to pay its obligations:<br>
• Credit risk management practices;<br>
• Information about amounts arising from expected credit losses;<br>
• Credit risk exposure; or<br>
• Collateral and other credit enhancements obtained.<br>
Liquidity risk: relates to your financial liabilities and it is a kind of "opposite" to the credit risk:<br>
• Maturity analysis of financial liabilities with remaining contractual maturities (separately for non-derivative and derivative); or<br>
• How to manage the liquidity risk.<br>
Market risk: is the risk that either the fair value or future cash flows from your financial assets or financial liabilities will fluctuate due to changes in market prices:<br>
• Currency risk: the risk that foreign exchange rate changes cause the fluctuations in cash flows or fair values;<br>
• Interest rate risk: fluctuations are caused by the changes in interest rates; or<br>
• Other price risks: Fluctuations are caused by changes in other market prices, such as commodity prices, equity prices, etc.
</td></tr>
</table>

### What must be done?

- Apply the recognition and measurement requirements of its previous GAAP to comparative information about assets within the scope of IFRS 9;
- Review all financial instruments issued for appropriateness of classification and measurement;
- Provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of transactions, other events, and conditions on the entity's financial position and financial performance; or
- Possible re-measurement of related party transactions.

## IFRS 17 – Insurance contracts

### General Impacts

IFRS 17 - Insurance contracts may impact Statement of Financial Positions, Statement of Other Comprehensive Income, Statement of Cash Flow, and Notes to the Financial Statements.

IFRS 17's measurement models will have different impacts on certain financial statement line items, mainly "premiums" and "insurance contract liabilities".

Premiums: the recognition is no longer based on due premiums or premiums received but will mainly include changes in the liability for remaining coverage and release of insurance acquisition cash flows.
Insurance contract liabilities: according to both IFRS 4 and IFRS 17, insurance contract liabilities include the liability for incurred claims and the liability for remaining coverage. The most striking difference in IFRS 17 is that the liability for remaining coverage includes contractual service margin.

Thus, contractual service margin can be seen as the key factor to reflect the current and future development of insurance companies through premiums and insurance contract liabilities.

### Overview

In May 2017, the IASB issued IFRS 17 - Insurance contracts and prepared a new accounting standard for insurers. While the current standard, which is IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements and the impacts on global size. IFRS 17, when effective, will replace IFRS 4.

IFRS 17 is applicable for annual periods beginning on or after 01 January 2023. Early application is permitted for entities that apply IFRS 9 - Financial instruments and IFRS 15 - Revenue from contracts with customers at or before the date of initial application of IFRS 17.

The standard can be applied retrospectively under IAS 8, but it also contains a "modified retrospective approach" and a "fair value approach" for transition, depending on the availability of data.

### Conversion issues

In Vietnam, there is only VAS 19 which was comparable with IFRS 4. About IFRS 17, there is none at the issuance of this publication.

| Topic | IFRS | VAS |
|---|---|---|
| | Insurance contracts – IFRS 4 | Insurance contracts – VAS 19 & Other MOF guidance's related to life and non-life insurances |
| **Scope and definition** | IFRS 4 - Insurance Contracts guides on accounting for insurance contracts to perform in local GAAP.<br><br>IFRS 4 applies to all insurance contracts that an entity issues and reinsurance contracts that it holds. It does not apply to other assets and liabilities of an insurer, such as financial assets and financial liabilities within the scope of IAS 39 - Financial Instruments: Recognition and Measurement.<br><br>Other than permitting an insurer in specified circumstances to reclassify some or all their financial assets at fair value through profit or loss and containing temporary exemptions relating to the application of IFRS 9.<br><br>Insurance contracts are contracts where an entity (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. | VAS 19 - Insurance Contracts is based on IFRS 4 and is consistent with IFRS 4 other than those subsequent amendments in IFRS 4.<br><br>However, as there is no guidance by the Ministry of Finance for the implementation of VAS 19. Hence, insurance companies apply specific accounting guidance rather than VAS 19, including accounting guidance in Circular No. 199/2014/TT-BTC dated 19 December 2014 of the Ministry of Finance (for life insurance entities and reinsurance entities) and in Circular No. 232/2012/TT-BTC dated 28 December 2012 of the Ministry of Finance (for non-life insurance entities and reinsurance entities).<br><br>As a result, commonly used accounting policies for insurance contracts have several areas that are different from IFRS 4, such as the requirements to account for catastrophe reserve and provisions for a future claim, or the omission of liability adequacy test, impairment of insured assets and the disclosure of embedded values. |

| IFRS | | |
|---|---|---|
| **Insurance contracts – IFRS 17 (No VAS equivalent)** | | |
| **Recogni-tion** | Risk transferred in the contract must be insurance risk except for financial risk.<br><br>It allows entities to continue with their existing accounting policies for insurance contracts if those policies meet certain minimum criteria.<br><br>One of the minimum criteria is that the amount of insurance liability is subject to a liability adequacy test. This test considers current estimates of all contractual and related cash flows such as claims handling costs, as well as cash flows resulting from embedded options and guarantees. If the liability adequacy test identifies that the insurance liability is inadequate, the entire deficiency is recognized in profit or loss. | These include, among other enhanced requirements, the disclosure of information on insurance risks such as:<br><br>Firstly, a sensitivity analysis that shows how profit or loss and equity would have been affected by the relevant risk variable (e.g. mortality and morbidity, interest rates, etc.).<br><br>Then, the methods and assumptions used in preparing the sensitivity analysis.<br><br>Lastly, qualitative information about sensitivity and information about those terms and conditions of insurance contracts that have a material effect on the amount, timing uncertainty of the insurer's future cash flows. |

| | |
|---|---|
| **Recogni-tion** | Under IFRS 17, the "general model" requires entities to measure an insurance contract, at initial recognition, at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows, and a risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are re-measured on a current basis in each reporting period. The unearned profit (contractual service margin) is recognized over the coverage period.<br><br>Aside from this general model, the standard provides, as a simplification, it can be named as a "premium allocation approach". This simplified approach is applicable for certain types of contracts, including those with a coverage period of one year or less.<br><br>For insurance contracts with direct participation features, the "variable fee approach" applies.<br><br>The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin.<br><br>Therefore, the fair value changes are not recognized in profit or loss in the period in which they occur but over the remaining life of the contract. |

### What must be done?

- Identify the terms of the insurance contract;
- Re-plan key activities and project timeline;
- More test activities are to be expected;
- Revaluate retrospectively under IAS 8;
- Optional scope exclusion for loan contracts and certain credit card contracts;
- Extension of the risk mitigation option to include investment contracts; or
- Interface with IFRS 9, IFRS 15.

# Group 2: Standards on the items of the financial statements

## IAS 12 – Income Taxes

### General impact

IAS 12 - Income Taxes may impact the Statement of Financial Positions, Statement of Profit or Loss, Statement of Cash Flows, and Notes to the Financial Statements.

The difference between IAS 12 and VAS 17 is the tax loss record that can be carried backward. Loss carry-back rules provide businesses with the choice to carry-back all or part of a tax loss from an income year – or the preceding year - against unutilized income tax payable in either of the previous years. Generally speaking, businesses can carry back losses to previous years as an alternative to carrying them forward.

### Illustrative examples:

ABC Pty Ltd has been operating for several years and paid a tax of $75,000 in the 20X8 income year (i.e., the taxable income of $250,000). The company had no carried forward tax losses at the end of the 20X8 year.

In the 20X9 year, the company has a tax loss of $200,000 due to significant investment in new plant and equipment and weaker trading conditions. The company has a franking account balance of $400,000.

The company's refund under the loss carry-back rules is limited to the lesser of the following amounts:

The tax value of the current year loss (i.e., 20% x $200,000 = $40,000)

The tax paid in the carry-back period (i.e., $75,000).

In this case, the company can carry back its full tax loss for the 20X9 year against the tax paid in the prior year and will receive a cash refund of $40,000.

### Overview

IAS 12 - Income Taxes deals mainly with deferred tax. It requires that deferred tax is recognized for temporary differences. IAS 12 implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. The differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.

| Topic | IFRS | VAS |
|---|---|---|
| **IAS 12 vs VAS 17 - Income Taxes** | | |
| **Objectives** | The amount payable to the tax authority relating to the trading activities of the period. Current tax is measured at the amount expected to be paid to (or recovered from) the tax authorities. | |
| **Recognition of current tax liabilities/assets** | Tax-loss that can be carried back to recover the current tax of the previous period shall be recognized as an asset in which tax losses incurred. | Tax-loss cannot carry backward. |
| **Recognition of deferred tax liabilities** | The general principle in IAS 12 is that a deferred tax liability is recognized for all taxable temporary differences. There are three exceptions to the requirement to recognize a deferred tax liability, as follows:<br>• liabilities arising from the initial recognition of goodwill,<br>• liabilities arising from the initial recognition of an asset/liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or the taxable profit, and<br>• liabilities arising from temporary differences associated with investments in subsidiaries, branches, and associates, and interests in joint arrangements, but only to the extent that the entity can control the timing of the reversal of the differences and, probably, the reversal will not occur in the foreseeable future. (liabilities from undistributed profits). | An exception for not recording deferred tax arising from the initial recognition of an asset/liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or the taxable profit. |
| **Measurement of deferred tax assets and liabilities** | When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average rates that are expected to apply to the taxable profit (tax loss) of the periods in which the temporary differences are expected to reverse. | VAS does not provide a guideline on the measurement of deferred tax assets and liabilities. |
| **Recognition of tax expense or income** | Current and deferred tax is recognized as income or expense and included in profit or loss for the period, except to the extent that the tax arises from:<br>• transactions or events that are recognized outside of profit or loss (Other Comprehensive Income or equity) - in which case the related tax amount is also recognized outside of profit or loss.<br>• a business combination - in which case the tax amounts are recognized as identifiable assets or liabilities at the acquisition date, and accordingly effectively taken into account in the determination of goodwill when applying IFRS 3 - Business Combinations | VAS does not provide a guideline on the recognition of current tax in case of tax arising from a business combination. |

<table>
<thead>
<tr><th>Topic</th><th>IFRS</th><th>VAS</th></tr>
</thead>
<tbody>
<tr><td>Tax consequences of dividends</td><td>An entity shall recognize the income tax consequences of dividends as defined in IFRS 9 when it recognizes a liability to pay a dividend. The income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity shall recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or event.<br><br>Possible future dividend distribution or tax refund cannot be foreshowed while measuring deferred tax asset and liabilities.</td><td>VAS does not provide a guideline on tax consequences of dividends</td></tr>
<tr><td>Presentation</td><td colspan="2">Current tax assets and current tax liabilities can only be offset in the statement of financial position if the entity has the legal right and the intention to settle on a net basis.<br><br>Deferred tax assets and deferred tax liabilities can only be offset in the statement of financial position if the entity has the legal right to settle current tax amounts on a net basis and the deferred tax amounts are levied by the same taxing authority on the same entity or different entities that intend to realize the asset and settle the liability at the same time.</td></tr>
</tbody>
</table>

**Scope note**

IAS 12 notes the following:

- It is inherent in the recognition of an asset or liability that that asset or liability will be recovered or settled, and this recovery or settlement may give rise to future tax consequences which should be recognized at the same time as the asset or liability.
- An entity should account for the tax consequences of transactions and other events in the same way it accounts for the transactions or other events themselves.

**What must be done?**

- List out the temporary differences that recorded during the year;
- Multiply the differences with the tax rate to have an adjustment to the deferred tax account; or
- Add the adjustments with the opening balance to have the ending balance of deferred tax account.

### IAS 16 – Property, Plant and Equipment

#### General Impact

IAS 16 - Property, Plant and Equipment removes the minimum value criteria for an asset to be recorded as a tangible asset, this would lead to a significant increase in the balance of Non-current asset on the financial statement.

Revaluation model – if applicable may increase or decrease the value of the Tangible asset of the entity – reflecting the fair value of the asset at the date of revaluation. The impact of the revaluation model will be presented on the Statement of Other Comprehensive Income (then P/L to the extent) (as introduced in IAS 1 - Presentation of Financial Statement). Fair value assessment using the revaluation is presented in IFRS 13 - Fair value measurement.

By applying IAS 16 - Property, Plant and Equipment shall not be carried at more than recoverable amount (which is the higher of the asset's fair value less costs to sell and its value in use). This regulation is required to perform when the asset does not reach the capacity production level or the reduction in profitability of the service or products generated from the assets, etc.

Accounting policy for amortization expenses related tools and other physical assets currently recording as Prepayments will change under the application of the IAS 16 - Property, Plant and Equipment.

#### Illustrative example:

Entities operating in warehouse management service may have a large amount of barcode scanning machines – which recorded as prepayment under the requirement of current accounting standards. By applying IAS 16, these barcode scanning machines can be recorded as Equipment and depreciating for a longer useful life depend on the future benefit generated from the asset – while the current accounting standards only permits the amortization in maximum 03 years for prepayment expenses.

#### Overview

IAS 16 - Property, Plant and Equipment outlines the accounting treatments for most types of Property, Plant, and Equipment. Property, Plant, and Equipment is initially measured at its cost, subsequently measured either using a costs or revaluation model and depreciation so that its depreciable amount is allocated on a systematic basis over its useful life.

#### Conversion issues

| Topic | IFRS | VAS |
|---|---|---|
| | **IAS 16 vs VAS 3 - Property, Plant and Equipment** | |
| **Recognition of tangibles assets** | No threshold for recognition of fixed assets is set. | Current requirements regarding value are met, which the threshold for recognition of fixed asset is VND 30 million. |
| **Depreciation of asset components** | Specific requirements to depreciate major parts of an asset separately. May have different useful lives for the same assets. | Limited guidance but the notion of parts is recognized. |
| **Measurement After initial recognition** | Permits 2 accounting models:<br>Cost model: The asset is carried at costs less accumulated depreciation and impairment.<br>Revaluation model: The asset is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation and impairment, provided that fair value can be measured reliably. | Only costs model allowed.<br>Property, Plant, and Equipment are permitted to be evaluated in a limited case. |

**New definition and requirement of IAS 16**

| New definition and requirement of IAS 16 | |
|---|---|
| **Initial measurement – Cost** | An item of Property, Plant, and Equipment should initially be recorded at cost, which includes all costs necessary to bring the asset to working condition for its intended use. If payment for an item of Property, Plant, and Equipment is deferred, interest at a market rate must be recognized or imputed. |
| **Treatment of revaluation movement** | If a revaluation increases in value, it should be credited to Other Comprehensive Income and accumulated in equity under the heading "revaluation surplus" unless it represents the reversal of a revaluation decrease of the same asset previously recognized as an expense, in which case it should be recognized in profit or loss.<br><br>A decrease arising as a result of a revaluation should be recognized as an expense to the extent that it exceeds any amount previously credited to the revaluation surplus relating to the same asset. |
| **Treatment of revaluation reserve** | When a revalued asset is disposed of, any revaluation surplus may be transferred directly to retained earnings, or it may be left in equity under the heading "revaluation surplus". The transfer to retained earnings should not be made through profit or loss. |
| **Impairment** | Property, Plant, and Equipment require impairment testing and, if necessary, recognition for Property, Plant, and Equipment. An item of Property, Plant, and Equipment shall not be carried at more than a recoverable amount. Recoverable amount is the higher of the asset's fair value minus costs to sell and its value in use.<br><br>Any claim for compensation from third parties for impairment is included in profit or loss when the claim becomes receivable. |
| **Disclosure** | Detailed disclosure requirements relating revaluation model are provided. |

### What must be done?

- The entity should ensure that the accounting team is well – trained for the upcoming application of IAS 16;
- The residual value and the useful life of an asset should be reviewed at least at each financial year-end and, if expectations differ from previous estimates, any change is accounted for prospectively as a change in estimate under IAS 8 (VAS 3 only mentions about useful life and depreciation method review);
- Elect accounting policy for each class of assets – costs or revaluation model;
- For the assets mentioned above, the entity needs to perform stock-taking to ensure the existence and the current quantity of these assets;
- The entity also needs to develop the appropriate method to measure the fair value of its assets (such as through professional valuation services) to meet the regulation of the standard; or
- Develop the forecast of impact to cash-flow, the financial position under the application of the new standards.

## IAS 19 – Employee benefits

### General Impact

IAS 19 - Employee benefits may impact on Statement of Financial Positions, Statement of Profit or Loss and Notes to the financial statements.

Performing a high-level impact on the financial statements as the change from the immediate P&L method or the corridor method to the immediate OCI method could have a significant impact on the company's financial statements:

- Profit-Sharing Agreement: Profit-sharing agreements may be impacted by the new accounting treatments.
- The following commonly used ratios may be impacted: Dividend Yield, Gross Profit Percentage, Net Profit Percentage, Return on Assets, Debt/Equity, etc.
- As a result of the changes to the ratios, debt covenants may be impacted. Consideration will need to be given to potential renegotiation of debt covenants.
- Certain aspects of employee remuneration and benefits may be dependent on a certain item within the financial statements, for example, revenue or profit. The implementation of IAS 19 may change these items and so employee benefit structures may need to be revised.

### Overview

IAS 19 - Employee benefits contain the requirements for accounting for employee benefits. Employee benefits are all forms of consideration given by an entity in exchange for service rendered by the employees or for the termination of employment. The most complex of these is the accounting for post-retirement benefit plans where the employer has guaranteed the number of benefits to be paid out to employees. Such plans require actuarial valuations and result in actuarial gains or losses being recognized in the financial statements. There were previously three methods of accounting for such actuarial gains or losses.

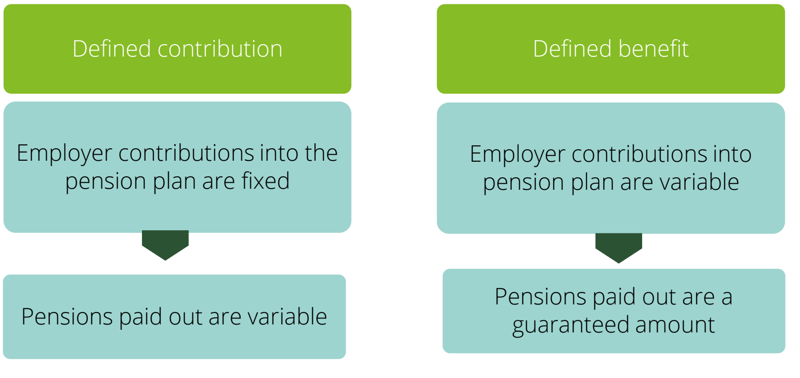
#### As a basic rule, the standard states the following:

- A liability should be recognized when an employee has provided a service in exchange for benefits to be received by the employee sometime in the future, and
- An expense should be recognized when the entity consumes the economic benefits from a service provided by an employee in exchange for employee benefits.

#### IAS 19 applies to (among other kinds of employee benefits):

- Short-term employee benefits including, if expected to be settled wholly before 12 months after the year ended in which the employees render the related services:
    - wages and salaries,
    - social security contributions,
    - compensated absences (paid vacation and sick leave),
    - paid maternity/paternity leave,
    - paid jury service,
    - paid military service,
    - medical and life insurance benefits during employment, and
    - non-monetary benefits such as houses, cars, and free or subsidized goods or services.
- Post-employment benefits, e.g. retirement benefits (pensions or lump sum payments), life insurance, and medical care.
- Other long-term benefits, e.g. profit sharing and bonuses or deferred compensation programmed later than 12 months after the year ended, long service or sabbatical leave.
- Termination benefits, e.g. early retirement payments and redundancy payments.

**Conversion issues**

| Topic | IFRS |
|---|---|
| | **IAS 19 – Employee benefits** |
| **Objectives** | The objective of IAS 19 is to prescribe the accounting and disclosure for employee benefits, requiring an entity to recognize a liability where an employee has provided service and an expense when the entity consumes the economic benefits of employee service. |
| **Short-term employee benefits** | **1. Recognition and measurement**<br>• Unpaid short-term employee benefits should be recognized as an accrued expense. Any payment in advance should be recognized as a prepayment; or<br>• The costs of short-term employee benefits should be recognized as an expense in the period when the economic benefit is given.<br>**2. Short-term paid absences**<br>• Short-term accumulating paid absences are absences for which an employee is paid, and if the employee's entitlement has not been used up at the end of the period, they are carried forward to the next period;<br>• Short-term non accumulating paid absences are absences for which an employee is paid when they occur, but not accumulated; or<br>• The costs of accumulating paid absences should be measured as the additional amount that the entity expects to pay as at the end of the reporting period.<br>**3. Profit-sharing or bonus plans**<br>• Profit shares or bonus payable within 12 months after the end of the accounting period should be recognized as an expected costs when the entity has a present obligation to pay it. The measurement of the constructive obligation reflects the possibility that some employees may leave without receiving a bonus. |
| **Post-employment benefits** | IAS 19 requires an entity to classify such a plan as a Defined Contribution Plan (DCP) or a Defined Benefit Plan (DBP), depending on its terms:<br><br> |

| | |
|---|---|
| Post-employment benefits (cont.) | **1. Defined contribution plans (DCP)**<br>• The employer (and possibly current employees too) pay regular contributions into the plan of a given or defined amount each year. The contribution is invested, and the size of the post-employment benefits paid to former employees depends on the plan's investment performance;<br>• If the investments perform well, the plan will be able to afford higher benefits than if the investments performed less well;<br>• After fulfilling contributions, the entity has no further liability and no exposure to risks related to the plan's asset performance;<br>• Contributions to a DCP should be recognized as an expense in the period that they are payable (except to the extent that labor costs may be included within the costs of assets); or<br>• Any liability/excess for unpaid contributions/ contributions paid as at the end of the period should be recognized as a liability (accrued expense)/ an asset (prepaid expense).<br>**2. Defined benefit plans (DBP)**<br>• The size of the post-employment benefits is determined in advance.<br>• If the assets in the fund are insufficient, the employer will be required to make additional contributions. If the fund's assets appear to be larger than they need to be, the employer may be allowed to take a "contribution holiday".<br>• The entity is taking further liability and exposure to risks related to the plan's asset performance.<br>• The future employee benefits must be estimated by an actuarial technique and discounted to arrive at the present value of the defined benefit obligation and the current service cost.<br>• The present value of discounted future benefits will incur interest over time, and an interest expense should be recognized.<br>• The fair value of any plan assets should be deducted from the present value of defined benefit obligation to arrive surplus or deficits.<br>**The surplus or deficit may have to be adjusted if a net benefit asset has to be restricted by the asset ceiling.** |
| Disclosure | The following must be disclosed:<br>(a) Characteristics of the plans and the risk associated with them;<br>(b) Identify and explain the amount of the plan presented in the financial statements; or<br>(c) Describe how the plan may affect the amount, timing, and uncertainty of the entity's future cash flow |
| Other issues | **Accounting for employee benefits had been problematic in the following respects:**<br>• Income statement treatment. The complexity of the presentation makes the treatment hard to understand.<br>• Fair value and volatility. The FV of plan assets may be volatile, and values in the statement of financial position may fluctuate.<br>• Fair value and economic reality. FV may not reflect economic reality, because the FV fluctuates in the short-term, while pension scheme assets are held for the long term.<br>• Problems in determining the discounted rate. |

**Scope note**
IAS 19 (2011) does not apply to employee benefits within the scope of IFRS 2 Share-based Payment or the reporting by employee benefit plans (see IAS 26 Accounting and Reporting by Retirement Benefit Plans).

This standard does not deal with reporting by employee benefit plans (see IAS 26 Accounting and Reporting by Retirement Benefit Plans).

**What must be done?**

- Identify all legal and constructive obligations under benefit arrangements.
- Appoint actuaries who are IAS 19 qualifieda.
- Determine employee future benefits obligation/liability under IAS 19 at the date of transition and thereafter at all reporting dates.
- Decide whether to apply election to recognize cumulative unamortized actuarial gains and losses in equity on conversion to IFRS.
- Select accounting policy for future treatment of actuarial gains and losses (e.g. discounted rate).

## IAS 36 – Impairment of Assets

### General Impact

IAS 36 Impairment of Assets seeks to ensure that an entity's assets are not carried at more than their recoverable amount (i.e. the higher of fair value less costs of disposal and value in use). Except for goodwill and certain intangible assets for which an annual impairment test is required, entities are required to conduct impairment tests where there is an indication of impairment of an asset, and the test may be conducted for a 'cash-generating unit' where an asset does not generate cash inflows that are largely independent of those from other assets.

The concept of a cash-generating unit ("CGU") is that the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Applying IAS 36 may substantially impact on the asset value of the entity, especially on the Property, Plant, and Equipment, with the change of the fair value of assets, future amortization and depreciation will need to be adjusted as well.

The impairment loss is recognized as an expense (unless it relates to a revalued asset where the impairment loss is treated as a revaluation decrease). The recognition of asset impairment will significantly impact the performance of the entity for the accounting period, present not only the current operating performance but also the anticipated future downfall of the business

### Overview

The objective of IAS 36 Impairment of Assets is to make sure that the entity's assets are carried at no more than their recoverable amount.

The Standard also defines when an asset is impaired, how to recognize an impairment loss, when an entity should reverse this loss, and what information related to impairment should be disclosed in the financial statements.

### Conversion Issues

| Topic | IFRS |
|---|---|
| **IAS 36 - Impairment of Assets** | |
| **Identifying an asset that may be impaired** | An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.<br>Irrespective of whether there is any indication of impairment, an entity shall also perform impairment test for an indefinite useful life or an intangible asset not yet available for use, goodwill acquired in a business combination by comparing it's carrying amount with its recoverable amount.<br>If there is any indication that an asset may be impaired, the recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs. |
| **Impairment loss recognition** | An impairment loss is recognized whenever the recoverable amount is below carrying amount and should be recognized as a reduction of assets' carrying amount and an expense in the income statement accordingly. Depreciation of assets will be adjusted for future periods.<br>If it is not possible to determine the recoverable amount for an individual asset, then the recoverable amount of the asset's cash-generating unit is determined.<br>The impairment test for goodwill is performed at the lowest level within the entity at which goodwill is monitored for internal management purposes, provided that, unit or group of units to which goodwill is allocated is not larger than an operating segment under IFRS 8. |

| Topic | IFRS |
|---|---|
| | **IAS 36 - Impairment of Assets** |
| **Measurement of impairment loss** | The recoverable amount of an asset or a cash-generating unit is the higher of its fair value subtracts costs of disposal and its value in use.<br>Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.<br>Costs of disposal are incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense.<br>Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.<br>If the carrying value of the asset is greater than its recoverable amount, it is impaired and should be written down to its recoverable amount. |
| **Reversal of an impairment loss** | If there is an indication that an impairment loss may have decreased, the recoverable amount will be recalculated. The increased carrying amount due to reversal should not be more than what the depreciated historical costs would have been if the impairment had not been recognized. Reversal of an impairment loss is recognized in the profit or loss unless it relates to a revalued asset. Depreciation will be adjusted for future periods. However, the unwinding of discount will be not reversed and the reversal of an impairment loss for goodwill is prohibited. |

**Scope**

| NOT APPLY to | | APPLY to |
|---|---|---|
| • Inventories (IAS 2)<br>• Financial assets (IFRS 9)<br>• Deferred tax (IAS 12)<br>• Employee benefits (IAS 19)<br>• Construction contracts (IFRS 15 | • Investment property at FV (IAS 40)<br>• Agricultural assets at FV (IAS 41)<br>• Insurance contracts (IFRS4 or IFRS 17)<br>• Non-current asset held-for-sale (IFRS 5) | • Land, building, machinery (IAS 16)<br>• Investment property at costs (IAS 40)<br>• Intangible assets (IAS 38)<br>• Goodwill<br>• Subsidiaries, Associates, Joint Ventures at cost |

**What must be done?**

- Annually assess indications of impairment from external and internal sources;
- Identify cash-generating units in correlation with the nature of business operations;
- Test goodwill for impairment at the date of transition;
- Choose whether to restate other long-lived assets (including intangibles) to deem costs (fair value or revalued amount) at the date of transition;
- Generate potential impacts assessment to the financial statements under the requirement of the financial standards, coordinate with a suitable financial responsibility to ensure the feasibility of the business's objectives; or
- Improving information technology system, develop costs center and function, detailing to cash-generating unit for performance measurement and cash flow generation monitoring.

### IAS 37 Provisions, Contingent Liabilities, and Contingent Assets

**General Impact**

IAS 37 Provisions, Contingent Liabilities, and Contingent Assets may impact on Statement of Financial Positions, Statement of Profit or Loss and Notes to Financial Statements.

The financial statements at the reporting date will reflect the potential outcome of future events, which may affect the amount required to settle the enterprise obligation. Besides, the financial statements are also impacted by the results of prior estimates which were recorded in prior years (ex: a reversal of probable contingent liabilities).

**Overview**

The nature of financial accounting is such that material decisions taken presently often have future implications beyond the current reporting date. This means that at the reporting date, uncertainties may exist concerning the outcome of decisions or transactions. Where these can be clarified before the date that financial statements are approved by the Board of Directors, the figures may be altered as mentioned in IAS 10 Events after the end of the reporting period. However, if enough information is still not available by the approval date then personal (professional) judgment is required due to future uncertainties, leading to the creation of provisions and contingencies.

IAS 37 defines and specifies the accounting for and disclosure of provisions (liabilities of uncertain timing or amount), together with contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable), and contingent assets (possible assets).

IAS 37 Provisions, Contingent Liabilities, and Contingent Assets, issued in 1998, substantially improved financial reporting at that time. Prior to its issue, there was significant scope for earnings manipulation as, for example, entities could make provisions for future costs that were not present obligations. IAS 37 only allows provisions that meet the definition of a liability.

On 14 May 2020, Amended by Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37) specify which costs a company includes when assessing whether a contract will be loss-making and is effective for annual periods beginning on or after 1 January 2022. In the Amendment, the 'costs of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be (1) incremental costs of fulfilling that contract (examples would be direct labor, materials) or (2) allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of Property, Plant, and Equipment used in fulfilling the contract)

.

Both IAS 37 and VAS 18 have similarities in recognition, measurement, and presentation of provisions, contingent liabilities, and contingent assets.

| Topic | IFRS | VAS |
|---|---|---|
| **IAS 37 vs VAS 18 – Provisions, Contingent Liabilities, and Contingent Assets** | | |
| **Scope** | This Standard shall not be applied for provisions, contingent liabilities and contingent assets resulting from executory contracts (being contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent), except where the contract is onerous. | Not mention. |
| **Recognition and measurement rules** | In rare cases, when it is not clear whether there is a present obligation to recognize provisions, a past event is deemed to give rise to a present obligation if, taking account of all available evidences, it is more likely than not that a present obligation exists at the end of the reporting period. | In the same case, criteria to recognize provision under VAS 18 shall be based on a certain threshold that could be different from "more likely than not" under IAS 37. |

**What must be done?**

- Consider if any onerous contracts need to be recognized;
- At the transition date, the effect of adopting this standard shall be reported as an adjustment to be the opening balance of retained earnings for the period in which the standard is first adopted. entities are encouraged, but not required, to adjust the opening balance of retained earnings for the earliest period presented and to restate comparative information; or
- If comparative information is not restated, this fact shall be disclosed.

## IFRS 9 Financial Instruments

### General Impact

IFRS 9 Financial Instruments should be recognized in the balance sheet when the entity becomes a party to the contractual provisions of the instrument. As a rule, an entity should recognize all its contractual rights and obligations that result in financial assets or financial liabilities on its statement of financial position when the entity becomes a party to the contract rather than when the transaction is settled. Hence, it also impacts on Statement of Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash flow.

### Overview

IFRS 9 Financial Instruments issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. The Standard includes requirements for recognition and measurement, impairment, de-recognition, and general hedge accounting. The IASB completed its project to replace IAS 39 in phases, adding to the standard as it completed each phase.

IFRS 9 does not replace the requirements for portfolio fair value hedge accounting for interest rate risk (often referred to as the 'macro hedge accounting' requirements) since this phase of the project was separated from the IFRS 9 project due to the longer-term nature of the macro hedging project which is currently at the discussion paper phase of the due process. Consequently, the exception in IAS 39 for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply.

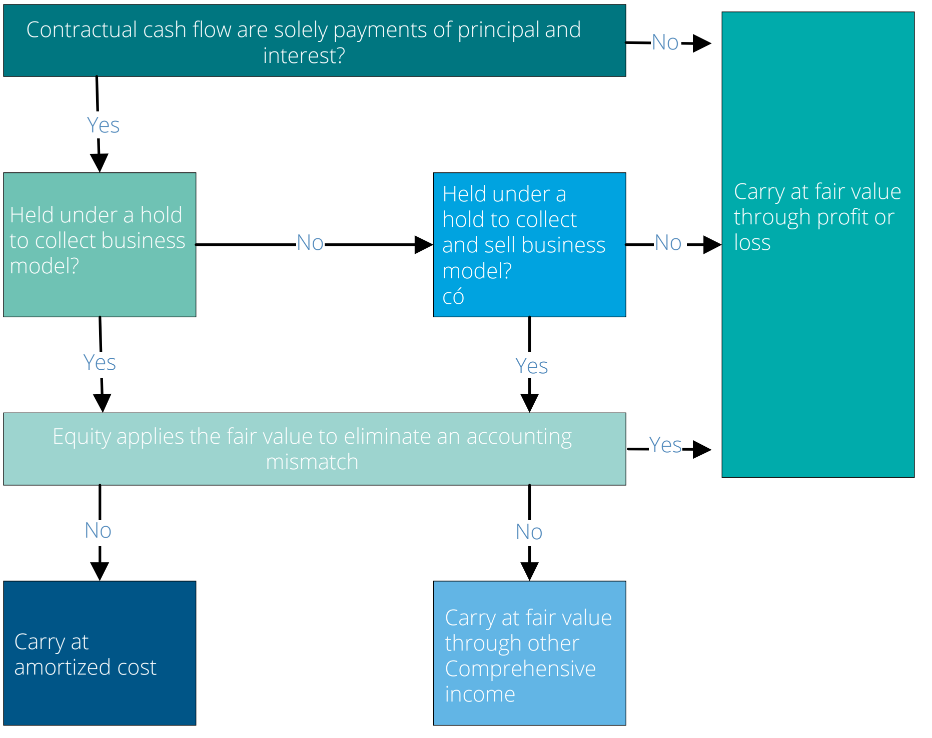
### Coversion Issues

| Topic | IFRS |
|---|---|
| **IFRS 9 - Financial Instruments** | |
| **Objective** | The part of IFRS 9 completed to date sets out recognition and de-recognition, classification and measurement requirements for financial assets and financial liabilities. Eventually, IFRS 9 will be a comprehensive standard on accounting for financial instruments. |
| **The initial measurement of financial instruments** | All financial instruments are initially measured at plus or minus fair value, in cases where a financial asset or financial liability is not measured at fair value through profit or loss, transaction costs. |
| **Subsequent measurement of financial assets** | IFRS 9 classifies all financial assets into two categories:<br>• those measured at amortized costs, and<br>• those measured at fair value.<br>The classification is made at the time the financial asset is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument. |

| | |
|---|---|
| **Debt instruments** | A debt instrument that meets the following two conditions can be measured at amortized costs (net of any write-down for impairment):<br>**(a) Business model test:**<br>The objective of the entity's business model is to hold the financial assets to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realize its fair value changes).<br>**(b) Cash flow characteristic test:**<br>The requirements of the cash flows' characteristics include the contractual terms of the financial asset that gives rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal outstanding.<br>All other debt instruments must be measured at fair value through profit or loss ("FVTPL"). |
| **Fair value option** | Even if an instrument meets the two requirements to be measured at amortised cost or FVTOCI, IFRS 9 contains an option to designate, at initial recognition, a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. |
| **Equity instruments** | All equity investments in the scope of IFRS 9 are to be measured at fair value in the balance sheet, with fair value changes recognized in profit or loss, except for equity investments for which the entity has elected to report value changes in "Other Comprehensive Income". There is no "costs exception" for unquoted equities.<br>If an equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it at fair value through Other Comprehensive Income ("FVOCI") with only dividend income recognized in profit or loss.<br>Despite the fair value requirement for all equity investments, IFRS 9 contains guidance on when costs maybe the best estimate of fair value and when it might not be representative of fair value. |
| **Subsequent measurement of financial liabilities** | Two measurement categories continue to exist:<br>• fair value through profit or loss ("FVTPL"), and<br>• amortize cost.<br>Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortized costs unless the fair value option is applied.<br>IFRS 9 requires gains and losses on financial liabilities designated as at fair value through profit or loss to be split into:<br>• the amount of change in the fair value attributable to changes in the credit risk of the liability, be presented in Other Comprehensive Income, and<br>• the remaining amount of change in the fair value of the liability to be presented in profit or loss.<br>Amounts presented in Other Comprehensive Income shall not be subsequently transferred to profit or loss, the entity may only transfer the cumulative gains or losses within equity. |

| Topic | IFRS |
|---|---|
| **De-recognition of financial assets** | **The basic premise for the de-recognition model in IFRS is to determine whether the asset under consideration for de-recognition is:**<br>(a) an asset in its entirety;<br>(b) specifically identified cash flows from an asset (or a group of similar financial assets);<br>(c) a fully proportionate (pro rata) share of the cash flows from an asset (or a group of similar financial assets); or<br>(d) a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).<br>**An asset is transferred if either:**<br>• the entity has transferred the contractual rights to receive the cash flows, and<br>• the entity has retained the contractual rights to receive the cash flows from the asset, but has assumed a contractual obligation to pass that cash flows on under an arrangement that meets the following three conditions:<br>a) the entity has no obligation to pay amounts to the eventual recipient unless it collects equivalent amounts on the original asset,<br>b) the entity is prohibited from selling or pledging the original asset (other than as security to the eventual recipient), and<br>c) the entity is obliged to remit those cash flows without material delay. |
| **De-recognition of financial liabilities** | A financial liability should be removed from the balance sheet when, and only when, it is extinguished, that is, when the obligation specified in the contract is either discharged or canceled or expires. |
| **Derivatives** | All derivatives, including those linked to unquoted equity investments, are measured at fair value. Value changes are recognized in profit or loss unless the entity has elected to treat the derivative as a hedging instrument under IFRS 9. |
| **Reclassification** | For debt instruments, reclassification is required between FVTPL and amortized cost, or vice versa, if and only if the entity's business model objective for its financial asset changes so its previous model assessment would no longer apply.<br>If reclassification is appropriate, it must be done prospectively from the reclassification date. An entity does not restate any previously recognized gains, losses, or interest. |
| **Disclosures** | IFRS 9 amends some of the requirements of IFRS 7 Financial Instruments: Disclosures including added disclosures about investments in equity instruments designated as at FVOCI. |

The following chart shows how non-equity financial assets are classified under IFRS 9:



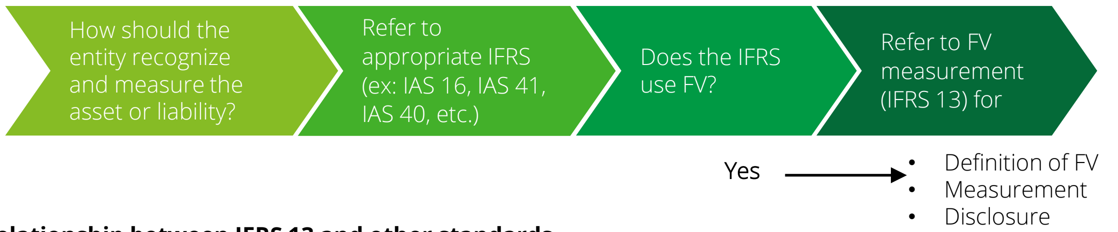

### What must be done?

- Apply the recognition and measurement requirements of its previous GAAP to comparative information about assets within the scope of IFRS 9;
- disclose this fact together with the basis used to prepare this information;
- Treat any adjustment between the statement of financial position at the comparative period's reporting date (i.e.. the statement of financial position that includes comparative information under previous GAAP) and the statement of financial position at the start of the first IFRS reporting period (i.e.. the first period that includes information that complies with IFRS 9 and IFRS 7) as arising from a change in accounting policy and give the disclosures required by paragraph 28(a)–(e) and (f)(I) of IAS 8. paragraph 28(f)(I) applies only to amounts presented in the statement of financial position at the comparative period's reporting date;
- Apply paragraph 17(c) of IAS 1 to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial
- possible re-measurement of related party transactions.

## IFRS 13 Fair Value Measurement

### General Impact

IFRS 13 Fair Value Measurement may impact on Statement of Financial Position, Statement of Other Comprehensive Income, and Notes to the Financial Statements. The adoption of this standard would apply only when an existing IFRS already requires an asset or liability to be measured at fair value ("FV").




### Relationship between IFRS 13 and other standards

| IFRS | Required | Permitted | Details |
|---|---|---|---|
| **IFRS 3** | ✓ | | The acquisition-date to fair value of consideration transferred and of most assets and liabilities acquired |
| **IFRS 5** | ✓ | | Use of fair value less costs to selling for non-current assets held-for-sale and disposal groups |
| **IAS 16** | | ✓ | Option to revalue plant, property, and equipment at fair value |
| **IAS 19** | ✓ | | Defined benefit plan assets are measured at fair value |
| **IAS 28 & IFRS 11** | ✓ | | Option to measure investments in subsidiaries, associates or jointly controlled entities at fair value |
| **IAS 36** | ✓ | | Use of fair value less costs to selling when necessary to establish the recoverable amount |
| **IAS 38** | ✓ | | Option to revalue intangible assets (in limited circumstances) |
| **IFRS 9** | ✓ | | Use of fair value depends on the type of financial instrument |
| **IAS 40** | ✓ | | Option to value investment property at fair value |
| **IAS 41** | ✓ | | Biological assets and agricultural produce are measured at fair value |

**Overview**

IFRS 13 Fair Value Measurement was issued in May 2011 and defines fair value, establishes a framework for measuring fair value, and requires significant disclosures relating to fair value measurement. A key point to highlight is that the standard addresses how to measure fair value, not when to measure it.
IFRS 13 becomes effective for annual reporting periods beginning on or after January 1, 2013. The standard is applied prospectively, and early adoption is permitted. A single source of guidance for all fair value measurements is provided in IFRS 13, which helps to:

- to reduce complexity and improve consistency in the application of fair value measurement principles by having a single set of requirements for all fair value measurements;
- to communicate the measurement objective more clearly by clarifying the definition of fair value;
- to improve transparency by enhancing disclosures about fair value measurements, and
- to increase the convergence of IFRS Standards.

**Conversion Issue**

| Topic | IFRS |
|---|---|
| | **IFRS 13 - Fair Value Measurement** |
| **Objective** | To replace the guidance on fair value measurement in existing IFRS accounting literature with a single standard.<br>IFRS 13 is a new standard that defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements.<br>However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. |
| **Key definition** | (a) Fair value: The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.<br>(b) Active market: A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.<br>(c) Principal market: The market with the greatest volume and level of activity for the asset or liability.<br>(d) Most advantageous market: The market that maximizes the amount that would be received to sell the asset or paid to transfer the liability, after considering transaction and transport costs. |
| **Fair value hierarchy** | (a) Level 1: Quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.<br>(b) Level 2: Price which is derived from inputs that are observable on the market for the asset or liability, either directly or indirectly.<br>(c) Level 3: Price which is derived from inputs that are unobservable on the market for the asset or liability. |

| | |
|---|---|
| **The objective of a fair value measure-ment** | To estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. |
| **Valuation technique** | (a) Market approach: uses prices and other relevant information generated by market transactions involving identical comparable (similar) assets, liabilities, or a group of assets and liabilities.<br>(b) Cost approach reflects the amount that would be required currently to replace the service capacity of an asset.<br>(c) Income approach: Converts future amounts (cash flows or incomes and expenses) to a single current (discounted) amount, reflecting current market expectations about those future amounts.<br>In some cases, a single valuation technique will be appropriate, whereas in other multiple valuation techniques will be appropriate. |
| **Disclosure** | IFRS 13 requires an entity to disclose information that helps users of its financial statements assess:<br>(a) For assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements.<br>(b) For fair value measurements using significant unobservable inputs, the effect of the measurement on profit or loss or Other Comprehensive Income for the period.<br>(c) IFRS 13 requires specific disclosures for the fair value measurement at the end of the reporting period, level of the fair value hierarchy. |

### What must be done?

In terms of where to start in the determination of fair value, it is useful to consider three broad steps that should be taken before delving into the details that inevitably will follow. These steps are important in illustrating the relationship between the primary IFRS that dictates when fair value measurement is required and IFRS 13 which is the "how" IFRS:

- Step 1: Identify the balance or transaction that must (may) be measured or disclosed at fair value and when such measurement (disclosure) is necessary.
- Step 2: Consult IFRS 13 for guidance on how to determine fair value upon initial recognition.
- Step 3: Consult the "when" IFRS to determine if the subsequent measurement of the account balance is at fair value and/or if fair value disclosures are required.

## IFRS 15 Revenue from Contracts with Customers

### General Impact

#### Impact over accounting treatment:

- IFRS 15 Revenue from Contracts with Customers contains fundamentally new rules on revenue recognition. The standard requires entities reporting under IFRS to provide useful information on the nature, amount, timing, and uncertainty of revenue and cash flows from a contract with a customer.
- Under the requirement of IFRS 15, revenue is recognized when a performance obligation is satisfied by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises toGene transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For a performance obligation satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognized as the performance obligation is satisfied. The entity operates in the Telecommunication industry, Software development and Real estate shall be greatly affected by the new accounting standard.
- IFRS 15 also requires the changes in the accounting treatments for special transaction nature, such as rights of return, slotting fee, warranty, etc.

#### Illustrative example:

- For Software development entity, Software licenses are commonly sold in a bundle that includes updates, also known as post-contract customer support. Commonly, the software is a distinct 'right to use' license, with revenue recognized at the point in time when "the right to use" is transferred, while the "Post contract support" is delivered over time. The entity will need to identify the separate transaction price for each performance obligation in the contract and recording revenue upon the completion of each performance obligation. However, there might be limited circumstances where the license and software updates are combined into a single performance obligation.

### Overview

IFRS 15 introduces a five-step model of revenue recognition, for common to all types of transactions, to all companies and industries. This model will be applied in two versions, depending on how performance obligation is satisfied:

(1) over a period of time;
(2) at a point in time (in a given moment)

The moment of revenue recognition under the basic principle of IFRS 15 when the control over a product/service is being transferred to the client. Control is a broader term than the previously used criterion of risk and rewards, which determines when the revenue will be recognized.

The basic problem with VAS is the fact that there are few guidelines on the practical approach to the complicated questions such as an allocation of remuneration to specific sales elements, recognition of variable remuneration, recognition of customer acquisition costs, etc. IFRS 15 introduces a new quality in this respect.

.

**Coversion Issues**

| Topic | IFRS | VAS |
|---|---|---|
| **IFRS 15: Revenue from Contracts with Customers - VAS 14: Revenue** | | |
| **Scope** | A contract with a customer will be within the scope of IFRS 15 if all the following five (5) conditions are met:<br>a) the contract has been approved by the parties to the contract,<br>b) each party's rights relating to the goods or services to be transferred can be identified,<br>c) the payment terms for the goods or services to be transferred can be identified,<br>d) the contract has commercial substance, and<br>e) the probability that the consideration to which the entity is entitled to in exchange for the goods or services will be collected. | Recognition is the process of incorporating an item that meets the definition of revenue in the income statement when it meets the following criteria:<br>a) the economic benefits associated with the item of revenue will probably flow to the entity, and<br>b) the amount of revenue can be measured reliably. |
| **Key principle** | The core principle of IFRS 15 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. | Not covering this matter |
| **The five-step model framework*** | This core principle is delivered in a five-step model framework:<br>1. Identify the contract(s) with a customer.<br>2. Identify the performance obligations in the contract.<br>3. Determine the transaction price: using the most likely amount or expected value approach.<br>4. Allocate the transaction price to the performance obligations in the contract.<br>5. Recognize revenue when (or as) the entity satisfies a performance obligation. | Revenue should be recognized as follows:<br>a) Sales of goods:<br>when significant risks and rewards have been transferred to the buyer, the seller has lost effective control, and costs can be reliably measured.<br>b) Rendering of services:<br>percentage of completion method.<br>c) Interest:<br>recognized on the allocation basis.<br>d) Royalties:<br>on an accrual basis under the substance of the agreement.<br>e) Dividends:<br>when the shareholder's right to receive payment is established. |

| | | |
|---|---|---|
| **Specific implementa tion guidance** | This standard includes the following useful implementation guidance:<br>(a) Performance obligations satisfied over time.<br>(b) Methods for measuring progress towards complete satisfaction of a performance obligation.<br>(c) Sale with a right of return.<br>(d) Warranties.<br>(e) Principal versus agent considerations.<br>(f) Customer options for additional goods or services.<br>(g) Customer's unexercised rights.<br>(h) Non-refundable upfront fees.<br>(i) Licensing.<br>(j) Repurchase arrangements.<br>(k) Consignment arrangements.<br>(l) Bill-and-hold arrangements.<br>(m) Customer acceptance.<br>(n) Disclosures of disaggregation of revenue. | Not covering this matter |

****The five-step model framework:** This 5-step model framework applies for all types of contracts to customers, except for leases within the scope of IFRS 16 Leases, financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures, insurance contracts within the scope of IFRS 4 Insurance Contracts, and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. On the other hand, the VAS 14 describes criteria for revenue recognition depending on each kind of revenue (i.e. goods, services provision, interests, royalties, dividends.

### What must be done?

An IFRS 15 impacts assessment should be performed, which would include among others, the review of existing contracts with customers and its related accounting treatments, contract renegotiations, and modifications, to appropriately reflect the economic terms of the transaction, the engagement of legal and accounting advisors to better interpret the terms of the agreement and the applicability of IFRS 15, reconfiguration of front and back-end IT systems to adhere to the standard's requirements, and other necessary changes to ensure readiness for IFRS 15 adoption.

**A five-step model framework :**

| | | |
|---|---|---|
| Step 1 | **Identify the contract with a customer** | A contract is defined as an agreement (including oral and implied), between two or more parties, that creates enforceable rights and obligations and sets out the criteria for each of those rights and obligations. The contract needs to have commercial substance and the entity will probably collect the consideration to which it will be entitled. |
| Step 2 | **Identify the performance obligations in the contract** | A performance obligation in a contract is a promise (including implicit) to transfer a good or service to the customer. Each performance obligation should be capable of being distinct and is separately identifiable in the contract. |
| Step 3 | **Determine the transaction price** | Transaction price is the amount of consideration that the entity can be entitled to, in exchange for transferring the promised goods and services to a customer, excluding amounts collected on behalf of third parties. |
| Step 4 | **Allocate the transaction price to the performance obligations in the contract** | For a contract that has more than one performance obligation, the entity will allocate the transaction price to each performance obligation separately, in exchange for satisfying each performance obligation. The acceptable methods of allocating the transaction price include:<br>• adjusted market assessment approach,<br>• expected costs plus a margin approach; and<br>• the residual approach in limited circumstances. discounts given should be allocated proportionately to all performance obligations unless certain criteria are met and reallocation of changes in standalone selling prices after inception is not permitted. |
| Step 5 | **Recognize revenue as and when the entity satisfies a performance obligation** | The entity should recognize revenue at a point in time, except if it meets any of the three criteria, which will require recognition of revenue over time:<br>• the entity's performance creates or enhances an asset controlled by the customer,<br>• the customer simultaneously receives and consumes the benefit of the entity's performance as the entity performs,<br>• the entity does not create an asset that has an alternative use to the entity and the entity has the right to be paid for performance to date. |

### IFRS 16 Leases

#### General Impact

##### Impact on accounting treatments

IFRS 16 Leases make a significant change in the accounting treatments for Operating lease, financial lease, and other complex transaction such as sales and leaseback accounting, etc.

- For the Lessee: The new standard eliminates a lessee's classification of leases as either Operating lease or Finance lease. Instead, almost all leases are 'capitalized' by recognizing a lease liability and Right-Of-Use (ROU) asset on the balance sheet – accompanied by a depreciation of the asset and financial interest over the lease liabilities.
- For the Lessor: The new standard requires the lessor to classify each lease as an Operating lease or a Finance lease. Upon lease commencement, a lessor shall recognize assets held under a Finance lease as a receivable at an amount equal to the net investment in the lease, and recognize finance income over the lease term of a Finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment. For Operating lease, the lessor recording the lease payment as income on a straight-line basis.

##### Impact on Financial Ratios:

With the recognition of lease liabilities (including long-term and short-term liabilities) and the Right-Of-Use asset, the current financial ratio of the entity may vary when the application of the new standard takes place. – Which mainly includes ROCE / ROI / LIQUIDITY, etc. These changes may affect the financial measurement result of the entity, also with the current Loan covenants condition.

##### Illustrative example

Sales and Leaseback between VAS and IFRS (A sale and leaseback transaction occurs when 1 entity (seller) transfers an asset to another entity (buyer) who then leases the asset back to the original seller (lessee)):
Sales and leaseback activity are familiar transactions for entities in Aviation and Hotel industry. Under the requirement of IFRS 16 and IFRS 15 'Revenue from Contracts with Customers', the seller-lessee records a Right-Of-Use asset arising from the leaseback, sales, and loss arising from the transaction are split into: an unrecognized amount relating to the rights retained by the seller (lessee) and a recognized amount relating to the buyer/lessor's rights in the underlying asset at the end of the leaseback.

#### Overview

The objective of IFRS 16 is to report information that faithfully represents lease transactions and provides a basis for users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. To meet that objective, a lessee should recognize assets and liabilities arising from a lease.

**Conversion Issues**

<table>
<tr><th>Topic</th><th>IFRS</th><th>VAS</th></tr>
<tr><td colspan="3">IFRS 16 vs VAS 6 - Leases</td></tr>
<tr><td>Lessee accounting - initial recognition</td><td>Recognize the Right-Of-Use asset as an intangible fixed asset and lease-payment liability correspondingly.<br><br>Right-Of-Use asset measured at the amount of the lease liability plus any initial direct costs incurred by the lessee (Lease liability, initial direct costs, estimated costs for dismantling, payments subtracts any incentives before commencement date)<br><br>The lease-payment liability is valued at the present value of all future lease payments discounted by an effective interest rate.</td><td>The operating lessee only accounts for periodical rental as an expense.<br><br>The financial lessee should recognize financial lease assets and financial lease liabilities, correspondingly.</td></tr>
<tr><td>Lessee accounting - subsequent measurement</td><td>The Right-Of-Use asset should be amortized throughout the rent period.<br><br>The lease-payment liability is subject to amortized costs with the financial expense to P&L.</td><td>Not available for operating lessee.<br><br>For financial lessee: to amortize financial lease assets and account for the Finance lease liability using the amortized costs method.</td></tr>
<tr><td colspan="3">New definition and requirement under IFRS 16</td></tr>
<tr><td>Scope</td><td colspan="2">IFRS 16 applies to all leases, including subleases, except for:<br>a) Leases to explore for or use minerals, oil, natural gas, and similar non-regenerative resources;<br>b) Leases of biological assets held by a lessee (see IAS 41 Agriculture);<br>c) Service concession arrangements (see IFRIC 12 Service concession arrangement);<br>d) Licenses of intellectual property granted by a lessor (see IFRS 15 Revenue from contracts with customers); and<br>e) Rights held by a lessee under licensing agreements for items such as films, videos, play manuscripts, patents, and copyrights within the scope of IAS 38 Intangible assets.</td></tr>
<tr><td>Exemption</td><td colspan="2">The following instances are eligible for exemption of IFRS 16:<br>a) Leases with a lease term of 12 months or under and containing no purchase options; and<br>b) Leases when the underlying asset has a low value when new (according to management judgment).</td></tr>
<tr><td>First adoption</td><td colspan="2">Two first adoption methods allowed by IFRS 16 included:<br>• fully retrospective approach: restate all numbers for the comparative period; and<br>• modified retrospective approach: no restatement for the comparative period.</td></tr>
</table>

| | |
|---|---|
| **Discounting factor determination** | Discounting factor is the rate of interest that a lessee would have to pay to borrow the funds to obtain:<br>• an asset of a similar value to the underlying asset;<br>• over a similar term;<br>• with similar security; and<br>• in a similar economic environment.<br>Initially, the entity can identify observe rate, for example, the rate on your past similar borrowings, or the actual offers from your bank for the loans with a similar amount, security and term, then adjust for the implicit risk specific to the lease, which causes differences in discounting factors between different lease assets. |
| **Impairment** | If there are indicators of impairment of leased assets, IAS 36 shall be applied for the impairment test of the Right-Of-Use asset. |
| **Sale and leaseback transaction** | IFRS 16 requires the assessment of the nature of transactions, whether the "sale" is qualified for IFRS 15, before determining appropriate accounting treatments. |
| **Change/modification of the lease contract** | IFRS 16 requires the assessment of whether the changes/modifications might cause the lessee to independently account for this change/modification as a separate lease contract. |

### What must be done?

- The entity should prepare for the application of the standard, including staff training to execute the accounting requirements of the standard and improving the internal system to effectively capture the currently exist lease contract.
- The entity also needs to estimate the impact of changes to the financial data, which the company currently uses for performance measurement, budgeting, and loan activities.
- Improving the technology systems to effectively monitor the current requirement of the standard.
- Identify the impact of addition expenses and depreciation, identify key differences between account expense and actual cash flow expenses.
- Estimate potential impact on current financial ratios, including debt covenants conditions.
- Renegotiation for lease contract – identify key contract terms that impact the financial position making changes to meet the business targets.

# Part 3: Conversion revisited - A comprehensive viewpoint

## IAS 27 Separate Financial Statements

### Overview

IAS 27, Separate Financial Statements, addresses issues related to accounting for investments in subsidiaries, joint ventures, and associates when the entity elects or is required by local regulations to prepare separate financial statements under IFRS.

An entity preparing its separate financial statements may account for investments in subsidiaries, joint ventures, and associates either:
- at cost; or
- under IFRS 9, or
- using the equity method as described in IAS 28.

### Conversion Issues

| Topic | IFRS | VAS |
|---|---|---|
| **IAS 27 - Separate Financial Statements** | | |
| **Objective** | To prescribe how to account for investment in subsidiaries, joint ventures, and associates in separate financial statements. | No equivalent VAS |
| **Requirements for separate financial statements** | IAS 27 does not mandate which entities produce separate financial statements available for public use. It applies when an entity prepares separate financial statements that comply with IFRS.<br>The financial statements in which the equity method is applied are not separate financial statements. Similarly, the financial statements of an entity that does not have a subsidiary, associate, or joint venture's interest in a joint venture are not separate financial statements. | No equivalent VAS |
| **Accounting method** | TIn a parent's separate financial statements, investment in subsidiaries, joint venture, and associates should be either:<br>• at cost;<br>• in accordance with IFRS 9 Financial Instruments, or<br>• using the equity method as described in IAS 28 Investments in Associates and Joint Ventures.<br>The entity should apply the same accounting for each category of investments. | VAS 25 only allows cost method to recognize investments in subsidiaries, joint ventures, and affiliated company on parent company's financial statements |

| | | |
|---|---|---|
| **Recognition of dividends** | An entity recognizes a dividend from subsidiaries, joint venture, or associates in profit or loss in its separate financial statement when its right to receive the dividend is established. | VAS 14 also applies the same principle for dividend recognition of all investments. |
| **Group reorganization** | Specified accounting methods apply in separate financial statements when a parent reorganizes the structure of its group by establishing a new entity as its parent in a manner satisfying the specified criteria:<br>The new parent accounts for its investment in the original parent at cost.<br>The new parent measures the carrying amount of its share of the entity items shown in the separate financial statements of the original parent at the date of the reorganization. | No equivalent VAS |

**What must be done?**

- Choice of accounting method.
- The entity applies the same accounting for each category of investments.
- Apply to the establishment of an intermediate parent within a group.
- Apply to an entity that is not a parent entity and establishes a parent in a manner that satisfies the IAS 27's criteria.

## IAS 28 - Investments in Associates and Joint Ventures

### Overview

IAS 28 Investments in Associates and Joint Ventures (as amended in 2011) outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The standard also defines an associate by reference to the concept of "significant influence", which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those policies).

### Conversion Issues

| Topic | IFRS | VAS |
|---|---|---|
| | **IAS 28 - Investment in Associate and Joint Ventures** | |
| **Objective** | IAS 28 applies to all entities that are **investors with joint control of, or significant influence over**, an investee (associate or joint venture) | This issue is covered in VAS 7 and VAS 8. The objective of this Standard is to prescribe the **accounting policies** and procedures about investments in associates, including **recognition of investments** in associates in the separate financial statement of investor and consolidated financial statement as the basis for bookkeeping, preparation, and presentation of financial statements. |
| **Significant influence** | Significant influence is assumed when the investor has the power to participate in the financial and operating policy decisions of the investee, but it does not control or joint control over those policies (usually when holding ownership of 20% or more but less than 50%). | |
| | The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. | Not covering this matter |
| **Discontinuing the equity method** | The use of the **equity method** should **cease** from the **date that significant influence** or joint control **ceases**.<br><br>If the **investor shares too much losses** from the associates and the balance of the investment in the associates are reduced to zero, the investor should discontinue including its shares of future losses. Additional losses shall only be recognized if the investor is obliged to make payment to a third party on behalf of the associates (e.g. guarantee the account payable for the associates). | The standard requires to **treat** the carrying amount of the **investment** at the date equity **method ceases** to be used as the new cost basis. |
| **Changes in ownership interests** | If an entity's **interest** in an associate or joint venture is **reduced**, but the equity method is continued to be applied, the entity reclassifies to profit or loss the **proportion of the gains or losses previously recognized in Other Comprehensive Income** relative to that reduction in ownership interest. | Not covering this matter |

| | | |
|---|---|---|
| **Exception for applying equity method for investment in associates** | (a) An investment in an associate or a joint venture held by, or is held indirectly through, a venture capital organization or a mutual fund (or similar entity) and that upon initial recognition is designated as held for trading under IFRS 9;<br>(b) The investment is classified as held for sale under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations; or<br>(c) The exception in IFRS 10 or all of the following four conditions are met:<br><br>i. The investor is itself a wholly-owned subsidiary or is a partially owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the investor not applying the equity method.<br>ii. The investor's debt or equity instruments are not traded in a public market.<br>iii. The investor did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization to issue any class of instruments in a public market.<br>iv. The ultimate or any intermediate parent of the investor produces consolidated financial statements available for public use that comply with IFRS. | (a) The investment is acquired and held exclusively with a view to its disposal in the near future (under 12 months), or<br><br>(b) The associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor. In this case, an investment in the associate is accounted for using the costs method in the consolidated financial statements. |
| **Separate financial statements** | An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements under IAS 27 - Separate Financial Statements. | Only costs method is allowed. |

### What must be done?

- The entity should ensure that the accounting team is well – trained for the upcoming application of IAS 28.
- Consider whether your Investments in Associates and Joint Ventures' interests will implement IFRS before or after you. For ease of transition, you may consider aligning year-ends.
- Ensure your Investments in Associates and Joint Ventures' interests prepare financial statements under IFRS when you need them!

Consider whether new reporting arrangements need to be put in place for Investments in Associates and Joint Ventures, because of the anticipated change in accounting

# Group 3: Standards on group accounting

## IFRS 3 - Business Combinations

### General Impacts

IFRS 3 Business Combinations may impact on Statement of Financial Position, Statement of Profit or Loss and Notes to the Financial Statements.

What is the difference between IFRS 3 and IFRS 10?

Although it may seem that the IFRS 10 Consolidated Financial Statements and IFRS 3 Business Combinations deal with the same thing, that's not the whole truth.

Both standards deal with business combinations and their financial statements.

But while IFRS 10 defines control and prescribes specific consolidation procedures, IFRS 3 is more about the measurement of the items in the consolidated financial statements, such as goodwill, non-controlling interest, etc.

If you need to deal with the consolidation, then you need to apply both standards.

### Overview

IFRS 3 Business Combinations outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). The objective of this IFRS is to improve the relevance, reliability, and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. To accomplish that, this IFRS establishes principles and requirements for how the acquirer:

a) Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquire.
b) Recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and
c) Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

IFRS 3 requires that assets and liabilities acquired need to constitute a business, otherwise it's not a business combination and an investor needs to account for the transaction in line with other IFRS.

A business consists of 3 elements:

- Input: any economic resource that creates or can create outputs when one or more processes are applied to it, e.g. non-current assets, etc..
- Process: any system, standard, protocol, convention, or rule that when applied to the input(s), creates outputs, e.g. management processes, workforce, etc.
- Output: the result of inputs and processes applied to those inputs that provide or can provide a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners.

**Conversion issues**

| Topic | IFRS | VAS |
|---|---|---|
| **IFRS 3 vs VAS 11 - Business Combinations** | | |
| **Recognizing and measuring goodwill** | The acquirer shall recognize goodwill as of the acquisition date measured as the excess of (a) over (b) below:<br>(a) the aggregation of:<br>i. The **acquisition-date fair value** of the consideration transferred<br>ii. The **amount of any non-controlling interest** in the acquiree measured in accordance with IFRS 3. and<br>iii. In a business combination achieved in stages, the **acquisition-date fair value** of the acquirer's previously held equity interest in the acquiree.<br>(b) The **net of the acquisition-date amounts** of the identifiable assets acquired and the liabilities assumed measured in accordance with this IFRS. | The acquirer shall, at the acquisition date as an asset in a business combination, initially measure that goodwill at its cost, being the **excess** of **the costs of the business combination** over the **acquirer's interest** in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. |
| **Requirements for full goodwill on consolidation** | IFRS 3 requires the **application of full goodwill** on consolidation. That means, now, the goodwill attributable to non-controlling interest (NCI) should be considered on consolidation, leading to the inclusion of the corresponding part of goodwill in NCI.<br><br>IFRS 3 requires the determination of NCI basing on fair value (in many cases, market value) of the minor shareholders' stake in the acquiree. | Not covering this matter |
| **Goodwill amortization** | IIFRS 3 prohibits the amortization of goodwill. Instead, goodwill must be tested for impairment at least annually under IAS 36 Impairment of Assets. | Goodwill may be expensed in full or be allocated over a period not exceeding 10 years. |
| **A business combination achieves in stages** | IFRS 3 requires the re-measurement of the costs of investment previously incurred using fair value if there is an additional acquisition giving the acquirer control right over the acquiree's financial and operating policies. The fair value of the previously acquired investment should be based on information available on "acquisition date". | A business combination may involve more than one exchange transaction, for example when it occurs in stages by successive share purchases. If so, each exchange transaction, for example when it occurs in stages by successive share purchases. If so, each exchange transaction shall be treated separately by the acquirer, **using the costs of transaction** and **fair value information at the date of each exchange transaction, to determine the amount of any goodwill** associated with that transaction. This results in a step-by-step comparison of the costs of the individual investments with the acquirer's interest in the fair values of the acquiree's identifiable assets, liabilities, and contingent liabilities at each step. |

| | | |
|---|---|---|
| **Determining what is part of the business combination transaction** | The standard provides examples of separate transactions that are not to be included in applying the acquisition method. | Not covering this matter |
| **Acquisition-related costs** | IFRS 3 mentions the exclusion of expenses such as consulting fees, etc. from purchase consideration. These expenses should be **immediately charged** to the **Statement of Comprehensive Income.** | VAS 11 allows including directly related costs as part of the purchase consideration. |
| **Contingent consideration** | IFRS 3 requires the immediate inclusion of contingent consideration in purchase consideration on consolidation. Then, if changes arise, they would be treated as follows:<br>(a) If the **change** results from additional information related to conditions on the acquisition-date and it is **discovered within one year** from the acquisition date, adjustments are allowed to make against goodwill.<br>(b) If the **change** results from information related to **after-acquisition conditions** or it is **discovered after one year** from the acquisition-date, adjustments will be made to be Statement of Comprehensive Income. | Not covering this matter |
| **Tax benefit consideration** | IFRS 3 allows for the inclusion of tax benefit on losses of acquiree into the fair value of acquiree's net assets | Tax benefit on losses of the acquiree should not be considered as part of the acquiree's fair value of net assets because Vietnamese tax regulation does not allow netting off a loss against profit among legal entities within a group. |

### What must be done?

Monitor changes in IFRS during the conversion period – may result in effective convergence prior to the conversion date. Otherwise, see below:
IFRS 1 provides a choice between retrospective and prospective application:

- Remember retrospective application unlikely to be practical – would require restatement under IFRS 3 of all prior business combinations.
- Prospective application results in limited work required on adoption.
- Goodwill impairment test required at the date of transition. Timing of the current test may alleviate additional work required!
- Recognizes and measures the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.
- Recognizes and measures the goodwill acquires in the business combination, or gain benefits owing to bargain purchase.
- Determines what information to disclose about the business combination.

## IFRS 10 - Consolidated Financial Statements

### Overview

IFRS 10 Consolidated Financial Statements outlines the requirements for **the preparation and presentation of consolidated financial statements**, requiring entities to consolidate entities it controls. Control requires exposure or rights to variable returns and the ability to affect those returns through power over an investee.

IFRS 10 replaces those parts of IAS 27 that relate to consolidated financial statements (IAS 27 revised now concentrates on separate financial statements only) and SIC 12 Consolidation – Special Purpose Entities in its entirety and is effective for annual periods beginning on or after 1 January 2013. Early application is permitted.

IFRS 10 was issued, with the target to develop a **single consolidated model** applicable to all investees. Since started in 2007, the global financial crisis highlighted the **lack of transparency** about the risks to which investors were exposed from their involvement with "**off-balance-sheet vehicles**", including those that they had set up or sponsored. As a result, the G20 leaders, the Financial Stability Board, and others asked IASB to review the accounting and disclosure requirements for such "off-balance-sheet vehicles".

In this single control model, power is not defined as a legal or contractual right to direct relevant activities but is based on the ability to direct relevant activities unilaterally. The consolidation model is not quantitative (based on risks and rewards) but qualitative (based on power, returns, and a link between the two elements). The control model is built on the principles (of three elements) rather than on bright lines.

As such, the application of this model will require judgment by considering the relevant facts and circumstances in making consolidation decisions. In the IASB view, this consolidation model will better reflect the economic substance of relationships with other entities.

### Conversion Issues

| Topic | IFRS | VAS |
|---|---|---|
| **IFRS 10 vs VAS 25 - Consolidated Financial Statements** | | |
| **Control** | An investor controls an investee if and only if the investor has all of the following three (3) elements:<br>**a)** **Power over the investee**, i.e. The investor has existing "rights" that give it the ability to direct the relevant activities (the activities that significantly affect the investee's return).<br>**b)** **Exposure, or rights,** to variable returns from its involvement with the investee.<br>c) The **ability to use its power over the investee** to affect the number of the investor's returns. | Where an entity holds more than 50% or more of the voting power (directly or through subsidiaries) on an investee, it will be presumed the investor has control over its investee.<br>Below are three (3) conditions where the control also exists even when the parent company has less than one half of the voting power of an entity:<br>a) Power of **governing the financial and operating policies** of the entity under a statute or an agreement.<br>b) Power **to appoint or remove** the majority of the members of the Board of Management or equivalent governing body, or,<br>c) Power **to cast the majority of votes** at meetings of the Board of Management or equivalent governing body. |

| | | |
|---|---|---|
| **Investment entity** | An entity that:<br>a) Obtains funds from one or more investors to provide those investor(s) with investment management services.<br>b) Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and,<br>c) Measures and evaluates the performance of substantially all its investments on a fair value basis. | Not covering this matter |
| **Consolidation exemption for investment entities** | IFRS 10 contains special accounting requirements for investment entities. Where an entity meets the definition of an "investment entity", it does not consolidate its subsidiaries or apply IFRS 3 Business Combinations when it obtains control of another entity.<br><br>The exemption from consolidation only applies to the investment entity itself. Accordingly, a parent company of an investment entity is required to consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity. | Not covering this matter |
| **Not required to present consolidated financial statements** | A parent company does not need to present consolidated financial statements if it meets all the following four (4) conditions:<br>a) It is a **wholly-owned subsidiary** or is a partially owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements.<br>b) Its debt or equity instruments are **not traded in a public market.**<br>c) It did not file, nor is it in the process of filing, its financial statements **with a securities commission** or other regulatory organization to issue any class of instruments in a public market. and<br>d) Its ultimate or any intermediate **parent** of the parent produces consolidated financial statements **available for public use** that comply with IFRS. | A parent company that is a wholly-owned subsidiary or is virtually wholly-owned with the approval from minority interest. |

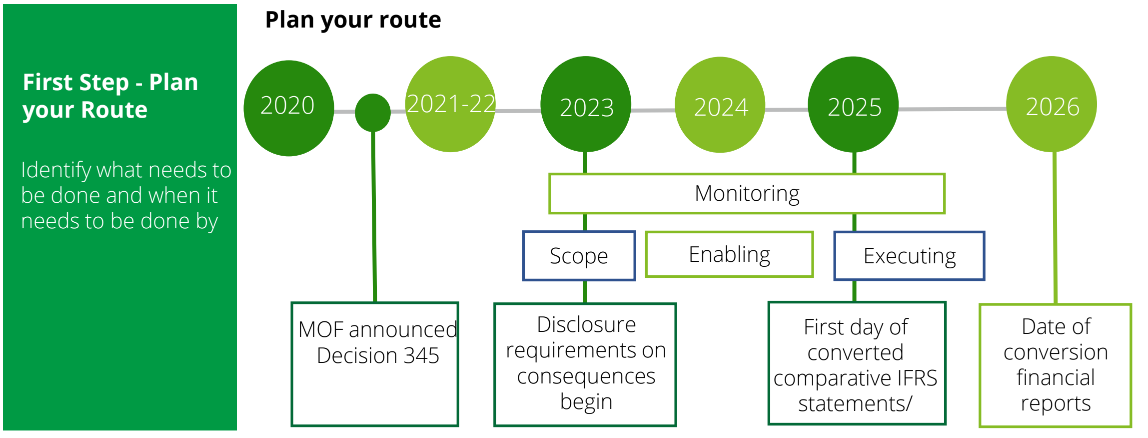
| | | |
|---|---|---|
| **Consolidated procedures** | Non-controlling interests shall be presented in the consolidated statement of financial position with equity, separately from the equity of the owners of the parent. | The term "**minority interest**" is used in place of "**non-controlling interest**" and shall be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parents. |
| | Changes in a parent's ownership interest in a subsidiary that does not result in a loss of control are accounted for as equity transactions (i.e. Transactions with owners in their capacity as owners). | Not covering this matter |
| **Changes in ownership interests (no control loss)** | The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary.<br><br>Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the parent. | Not covering this matter |
| **Changes in ownership interests (no control loss)** | The standard provides accounting treatments when a parent loses control of a subsidiary with or without a change in absolute or relative ownership levels. | Not covering this matter |

### What must be done?

- Consider whether your subsidiaries, joint ventures, and equity-method investees implemented before or after you. For ease of transition, you may consider aligning year-ends.
- Ensure your subsidiaries (and any special purpose entity (SPE)) prepare financial statements under IFRS when you need them.
- In order to apply the control model, several initial steps are necessary before the assessment of whether each of the three elements of control is present. These steps are:
  - ✓ Identify the investee.
  - ✓ Understand the purpose and design of the investee.
  - ✓ Identify the relevant activities of the investee and how decisions about these relevant activities are made.

# Part 3:
# Conversion revisited
# A comprehensive viewpoint

# Conversion revisited: A comprehensive viewpoint




What's next? You have an idea of what your destination is on your journey to IFRS and so the next step is determining the most efficient and effective route to get there.

Are the words "Are we there yet" familiar to you? Have you ever been horrendously lost on a trip of a lifetime? Likely, we can all relate to at least one of these, combined possibly also with an empty fuel tank and a carload of passengers who are complaining about where you took a wrong turn.

Experience in Canada, Europe, and the Asia Pacific shows that the same pitfalls may lie ahead for IFRS implementation: comments include "excessively expensive for the benefit", and "the process took too long."

Some entities arrived at the IFRS implementation date with literally minutes to spare. However, for those companies that planned and started the process early, the journey was much smoother and there was even some fuel left in the tank at the end of it!

**Step 1: Scoping the effort**

- **Identify** a competent and responsible IFRS Leader/Team.
- **Determine** key timelines - where do you need to be at the key milestone dates?
- **Scoping the Task** – implement a mechanism to capture the complete scope of IFRS: Branches and Divisions, Investees, Joint Ventures, Special-Purpose Entities.
- **Identify** specialized accounting principles and information gathering requirements.
- **Things to considering** include the preparation of an opening balance sheet one year ahead of the implementation date, disclosure of one year of full comparatives, including interim financial statement needs

**Step 2: Enabling the resources**

- **Identify** conversion note needs as well as pre-conversion required disclosures.
- **Plan** for long term financial statement and reporting needs.
- **Assess** IFRS knowledge needs by staff level and implement staff IFRS education program.
- **Determine** associated requirements – Internal Controls, IS/IT, Treasury, Taxation.

**Step 3: Executing the plan**

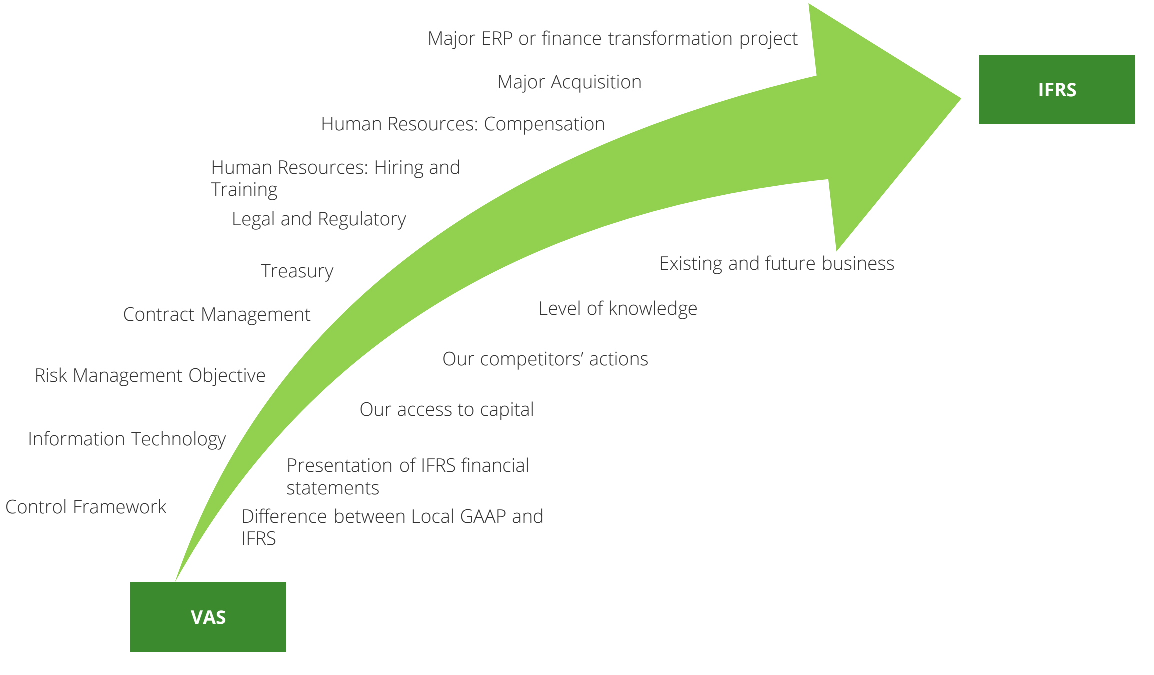
- **Prepare** required pre-conversion note disclosures in 2023 and 2024.
- **Prepare** IFRS 1 opening balance sheet at the date of transition.
- **Record** IFRS 1 entries at the date of transition.
- **Prepare** IFRS 1 conversion note including reconciliations of equity and net income.
- **Don't forget** interim requirements – reconciliation requirements apply in quarterly financial statements too.
- **Prepare** MD&A and other investor communications.
- **Finalize** and Implement IFRS accounting policies.

**Step 4: Monitoring the process**

- **Keep** ahead of changes – ongoing training and education requirements, internal control processes, and informing those in charge of the governance of your progress.

As you can see, the journey is manageable, and you will reach your destination, including key stopovers, with careful planning. The time commitment is also manageable as long as you start now.

## The path to IFRS Conversion



## A Well-Organized Conversion

If your institution decides an accelerated IFRS conversion is desirable, here are a few suggestions for creating a well-organized conversion:

Leverage existing projects: If already going through — or recently completed — an ERP or finance transformation project, now may be the time to consider IFRS adoption. Recent versions of major ERP systems are designed to accommodate IFRS, which can be mapped in, usually with significant costs savings.

**Conduct a trial run**

Implementation might be easier if starting with a single country or reporting entity. Use existing reporting requirements and local country IFRS requirements to your institution's advantage.

For example, subsidiaries in countries adopting IFRS over the next three years may be good candidates for a trial run since IFRS-based reporting will be required there as of 2011. Learn from this initial conversion exercise, and apply the lessons learned to the global rollout down the road.

**Consider shared services centers**

IFRS provides a compelling reason to establish shared services centers to potentially consolidate dozens of local GAAPs down to a single reporting standard. Geographically dispersed finance offices could be drastically reduced or even eliminated in favor of a central finance function, strategically located to take advantage of tax incentives, payroll savings, and facilities costs reductions. In many cases, this concept is already aligned with the strategic direction banks and capital markets institutions have taken or are currently considering relative to their finance function.

**Strengthen controls**

Many banks and capital markets institutions have operations located across the globe. A decentralized structure can sometimes lead to reduced oversight and weakened controls. IFRS offers the opportunity to implement standardized frameworks and processes to enhance the overall control environment.

**Refresh your institution's policies**

Conversion to IFRS drives a need to revisit revenue recognition, impairment, share-based payments, costs capitalization, and other accounting policies. In other words, IFRS provides a refreshing exercise for accounting policy implementation, with the aim of more accurate and timelier financial reporting.

# Learn from The Past Experiences from other countries

**Among the lessons learned from the experience were the following:**

1. The effort was often underestimated. The original perception that conversion was solely an accounting issue was replaced with a growing realization that the initiative was much larger and more complex.

2. Projects often lacked a holistic approach. Because of the limited view cited above, companies frequently did not consider the collateral effects, such as the effects on IT, HR, and tax.

3. A late start often resulted in an escalation of costs. Those few companies that anticipated conversion and took steps to prepare for it were in much better shape than those that did not. Companies that delayed their response paid a price for it, in terms of higher costs and greater diversion of Resources.

4. Many companies did not achieve a "business as usual" state for IFRS reporting. The highest quality financial data is obtained when companies fully integrate IFRS into their systems and processes. The compressed timeframes precluded this possibility. instead, first-year financials were often produced using extraordinary, labor-intensive, and unsustainable measures.

5. It's hard to get it right the first time. Even under ideal circumstances of time, resources, and knowledge, a conversion process will often be difficult and error-prone. Several Vietnam companies are only now starting to explore benefits from IFRS implementation. Due to multiple constraints, the first-year effort in the Vietnam was focused more on "getting it done." Potential benefits in terms of reducing complexity, increasing efficiency, decreasing costs, and improving transparency had to be deferred.

## Information Technology Impacts and Preparation

FRS is expected to have wide-ranging effects at different levels of the IT systems architecture. The realignment of an institution's information systems will pose a real challenge for IT (along with the rest of the organization). Virtually all applications and interfaces in the system architecture can be affected, from the upstream or source of data to the farthest end of the reporting tools. As such, time and resource needs may be significant. As you plan changes to your IT systems, you will need to consider external factors such as local and international regulations, financial consolidation of subsidiaries, stock markets, and external auditors. This business transformation should not be considered as a one-step project. It may be necessary to implement short-term initiatives strategically designed to institute an effective long-term solution for your institution

| **Potential Technology Impacts** | | | |
|---|---|---|---|
| Differences in the accounting treatment between current accounting standards and IFRS will create a need for new input data. | Differences in the accounting treatment between current accounting standards and IFRS will likely drive changes to general ledger design, chart of accounts, as well as sub-ledgers and feeds. | IFRS has much more extensive disclosure requirements, requiring regular reporting and usage of financial data that may not be standardized in current data models. | The differences that arise in the accounting treatment between current accounting standards and IFRS will create a need for changes in reporting. |
| Data and transactions that are captured, stored and ultimately sent to the financial systems may not have all the needed attributes or qualities. | Multinational companies may ultimately realize a need to re- develop general ledger platforms or additional sets of books to ensure compliance with multiple financial reporting requirements. | Increased need for documented assumptions, sensitivity analyses; potential factors that could affect future development may expand the scope of information managed by financial systems. | Assumption changes from period to period can introduce significant volatility and require detailed support for derivation and rationale for changes, requiring design of additional reports. |
| Sub ledgers within the ERP may have additional functionality to support IFRS that is currently not being utilized but could be implemented. | Multi-ledger accounting functionality within newer releases of ERP's may be considered for long-term solutions. | Reporting warehouse feeds to calculation engines may need to be adjusted in a standardized way to support reporting processes. | External reporting templates will likely require revisions to reflect IFRS requirements. . |
| Transformation layer not likely to have been designed with IFRS in mind; data sender/ receiver structures may need to be adjusted. | Changes to IFRS will likely necessitate redesigned accounting, reporting, consolidation, and reconciliation processes, which may impact configurations of the financial applications. | Data governance functions and meta data repositories (potentially including data dictionary, ETL and business intelligence tools) may need to be adjusted to reflect revised data models. | Increased disclosures such as sensitivity tests and roll forwards may require additional ad hoc query capabilities. |
| Over time the potential for acquisitions of companies using IFRS will increase; altering source systems and Extract, Transform and Load (ETL) tools to provide all needed data elements will make integrations significantly more efficient. | Differences that arise in accounting treatment between current accounting standards and IFRS may create a need for new expense allocations and other calculations. | Current valuation systems may not have functionality to handle IFRS requirements. | |

# Part 4:
# How Deloitte Vietnam can help

# How Deloitte Vietnam can help

Deloitte has numerous IFRS professionals across the Asia Pacific able to help you convert from VAS to IFRS. Also, we have a global network of IFRS professionals who have been extensively involved in IFRS conversions all over the world. The services we offer address the broad spectrum of conversion challenges you may need to consider. Whether it's a training course for your conversion team, specific identification of key conversion issues or assistance in addressing the non-accounting side effects of conversion, we have a team that can find a solution that fits your specific needs.

Due to independence requirements, the scope of the services we can provide may be limited for audit clients and audit committee pre-approval will be required.

**Deloitte Business Assurance services offering**

- Complex Accounting Assurance: Implementation for existing and new accounting standards (IFRS9, IFRS15, IFRS16, and IFRS 17...) GAAP Conversion and other accounting matters.
- Disruptive Event Assurance: IPO Readiness, M&A and Divestitures Services,
- Accounting Operating Assurance: Assess, Review and provide insight on Accounting, Financial and Internal Controls
- Business Assurance: Media & Advertising Assurance Services, Blockchain Assurance services, Algorithm Assurance, Corporate Reporting Transformation Assurance

**Deloitte Vietnam IFRS Advisory services**

Deloitte has a team of IFRS professionals across the Asia Pacific who are focused on assisting companies with all aspects of conversion from VAS to IFRS including training, project management, and change management.

Examples of ways in which we can help you, at each phase of the conversion process identified earlier in this document, are provided on the next pages.

Additional details and examples of some of our service offerings are also included for your information.

- Business Impact Study/IFRS VAS Gap analysis
- IFRS Implementation Services (end-to-end services)
- IFRS Executive Workshop and Working Level Training
- Accounting Manual development
- Chart-of-Account Redesign
- IFRS-ERP Implementation with dual reporting IFRS VAS
- Deloitte IFRS E-learning modules (including self-tests)

We can tailor our IFRS conversion services to meet your specific IFRS conversion needs.

**Assurance clients**

If Deloitte provides audit services to an entity, the protocols that govern the maintenance of independence between client and assurance providers must be followed. These include: obtaining audit committee pre-approval. ensuring that management makes the decisions. using the auditor to provide information on the source of guidance and examples of its application, rather than determining its application in the first instance. and establishing internal controls that will be in some circumstances subject to the auditors' review.

# Examples of ways in which Deloitte can help you at each phase of IFRS convergence

**Phase 1**

## Phase 1: Scoping of the efforts

· Assess with the development of a Business impact to identify and prioritize IFRS conversion issues - what needs attention now ?
· Assist with the development of the draft project plan that consider all aspect of IFRS convergence (financial and operational)
· Provide membership on your IFRS steering committee
· Develop and deliver focused training programs to your IFRS team and other employees
· Provide access to Deloitte E-learning and publications to build IFRS awareness

**Project Initiation and awareness** → **Business Impact Study** → **Conversion Planning**

**Phase 2**

## Phase 2: Enabling the resources

· Assess with the development of "early warning" type internal and external communications which address the estimated impact of IFRS on the financial results of the entity?
· Assist with the development of samples of IFRS financial statements which consider industry - specific issues
· Identify new disclosure requirements and nature of information requirements.
· Review alternative IFRS accounting policy choices with management.
· Assist with the design and implementation of new systems and accounting policy manual
· Assist with the analysis of the pros and cons for the various IFRS 1 exemptions.

**Project Initiation and awareness** → **Business Impact Study** → **Conversion Planning**

**Phase 3**

## Phase 3: Enabling the resources

· Assess with the development of the opening balance sheet format and review IFRS opening balance sheet entries prepared by management.
· Review the proposed IFRS adjustments and consider impact of alternative policy elections.
· Assist with development of inventory of date of transition action steps.
· Help you implement a system/process to capture ongoing data and disclosure requirement.
· Work with you in address on going internal controls requirements.
· Assess with the development of the opening balance sheet format and review IFRS opening balance sheet entries prepared by management.

**Project Initiation and awareness** → **Business Impact Study** → **Conversion Planning**

# Sample IFRS training offering

| Day one | |
|---|---|
| 9:00 - 10:00 | Overview of IFRS Convergence in the Asia Pacific -Vietnam |
| 10:00 - 10:45 | IAS 16 – Property, Plant and Equipment |
| | IAS 23 – Borrowing Costs |
| 10:45 - 11:00 | Break |
| 11:00 - 12:15 | IAS 40 – Investment Property |
| | IFRS 8 – Operating Segments |
| | IAS 36 – Impairment of Assets |
| 12:15 - 13:15 | Lunch |
| 13:15 - 14:45 | IFRS 3 – Business Combinations |
| | IAS 37 – Provisions |
| 14:45 - 15:00 | Break |
| 15:00 - 16:45 | IAS 12 – Income Taxes |
| | IFRS 16 – Leases |
| | IAS 19 – Employee Benefits |
| 16:45 - 17:00 | Question and Answer Session |

| Day two | |
|---|---|
| 9:00 - 10:00 | VAS vs IFRS - Harmony or Hardship Ahead? |
| 10:00 - 10:45 | SIC 12 - Consolidation of SPEs |
| | IAS 31 - Interest in Joint Ventures |
| | IAS 33 - Earnings per Share |
| 10:45 - 11:00 | Break |
| 11:00 - 11:45 | IAS 32/IFRS 7/IFRS9 - Financial Instruments |
| | IAS 21 - Foreign Currency Translation |
| | IAS 34 - Interim Financial Reporting |
| 11:45 - 12:15 | How do you solve a problem under IFRS? |
| | Where to look and how to research? |
| 12:15 - 13:15 | Lunch |
| 13:15 - 14:00 | IFRS 1 - First-time adoption of IFRS |
| 14:00 - 14:45 | Effective Implementation of IFRS |
| 14:45 - 15:00 | Break |
| 15:00 - 16:00 | Question and Answer Session |

## IFRS-ERP Implementation of Engagement Overview

| | Content | Form | Impact |
|---|---|---|---|
| **Chart of Accounts** | The chart of accounts (CoA) is the hub through which financial data is recorded and reported within an ERP system. | A well-designed CoA:<br>• Supports all the organization's information, reporting, and accounting needs<br>• Is built on a foundation of consistent definitions for business attributes and data elements, and<br>• Facilitates efficient reporting capability, enabling finance staff to spend more time on analysis | ERPs must be configured for the designed CoA structure. |
| **Accountin g Policies** | Accounting Policies is the guidance to capture transactions incurred into the CoA. These policies are based on IFRS Standards and the Choice of business | A properly selection of Accounting policies:<br>• Ensure the transaction being accounted based on its nature<br>• Reflect the business performance based on the best practice and comparable with similar companies<br>• Enhance the efficiency and effectiveness of the accounting and reporting team | The accounting policies must be available to facilitate the design of business process. |
| **Financial Process** | The design of finance processes looks to capture current finance processes and/or future state finance processes. The engagement will look to document key process steps, process integration, key controls, and dependencies. | Generally, the objective of a finance process engagement will be to optimize finance processes and to better leverage new technologies. | • Inform system requirements for the design integration.<br>•<br>• Inform system-based control enablement. |

# Post-Merge Integration Services - IFRS Transition

**Applied analysis: GAAP comparison**

Comparison of concrete application of buyer and seller standard per Balance Sheet and P&L category

**Theoretical background: GAAP comparison**

Differences between IFRS and (seller) Group GAAP which are expected to have an impact at target


**Identified adjustment needs**

Impact calculation and assessment of necessary process/system changes

**Alignment with auditor**

Alignment on adjustment procedures, materiality thresholds as well as timeline for final computations subject to audit

# Contact us – Our IFRS Experts

As your organization considers the need to implement IFRS, reflect on how these best practice principles could be incorporated in your approach. The Journey for IFRS adoption for your organization is complex but critical if you want better insights into your organization's performance and desire alignment through a common information foundation.

If your organization is considering converse to IFRS, or has already started on the IFRS adoption journey, and would like to discuss possible approaches, please contact us for more information.

**Tran Thi Thuy Ngoc**
**Market Leader**
**Audit & Assurance Services**
+84 24 71 050 234
ntran@deloitte.com

**Bui Van Trinh**
**Partner**
**Audit & Assurance Services**
+84 28 7101 4025
trabui@deloitte.com

**Do Hong Duong**
**Partner**
**Audit & Assurance Services**
+84 24 7105 0317
duongdo@deloitte.com

**Pham Hoai Nam**
**Partner**
**Audit & Assurance Services**
+84 24 7105 0599
npham@deloitte.com

**Nguyen Thi Thu Sang**
**Partner**
**Audit & Assurance Services**
+84 28 7101 4027
sangnguyen@deloitte.com

## Our Offices

**Hanoi Office**
15 Floor, Vinaconex Tower,
34 Lang Ha Street, Lang Ha
Ward, Dong Da District, Hanoi,
Vietnam
Tel : +84 24 7105 0000
Fax: +84 24 6288 5678

**Ho Chi Minh City office**
18th Floor, Times Square Building,
57-69F Dong Khoi Street, Ben Nghe
Ward, District 1,
Ho Chi Minh City, Vietnam
Tel: +84 28 7101 4555
Fax: +84 28 3910 0750

## Connect with us for more information:

Website : www.deloitte.com/vn

Email : deloittevietnam@deloitte.com