THE MINISTRY OF FINANCE -------	SOCIALIST REPUBLIC OF VIET NAM Independence - Freedom - Happiness ------------
No: 165/2002/QD-BTC	*Hanoi, December 31, 2002*

DECISION

PROMULGATING AND PUBLICIZING SIX (06) VIETNAMESE ACCOUNTING STANDARDS (PHASE 2)

THE MINISTER OF FINANCE

Pursuant to the Accountancy and Statistics Ordinance promulgated under with Order No. 06-LCT/HDNN of May 20, 1998 of the State Council and the Charter of State Accountancy Organization, promulgated together with Decree No. 25-HDBT of the Council of Ministers (now the Government);
Pursuant to the Government's Decree No. 86/2002/ND-CP of November 5, 2002 defining the functions, tasks, powers and organizational structures of the ministries and ministerial-level agencies;
Pursuant to the Government's Decree No. 178/CP of October 28, 1994 on the tasks, powers and organizational apparatus of the Ministry of Finance;
In order to meet the requirements of renewal of the economic and financial management mechanisms, raise the quality of supplied accountancy information in the national economy and to supervise and control the quality of the accountancy work;
At the proposals of the director of the Accounting Regime Department and the director of the Office of the Ministry of Finance,

DECIDES:

Article 1.- To promulgate six (06) Vietnamese accounting standards (phase 2) with the following codes and names:

- Standard No. 01 - General standard;

- Standard No. 06 - Leases;

- Standard No. 10 - Effects of changes in foreign exchange rates;

- Standard No. 15 - Construction contracts;

- Standard No. 16 - Borrowing costs;

- Standard No. 24 - Cash flow statements;

Article 2.- The six Vietnamese accounting standards promulgated together with this Decision shall apply to all enterprises of all branches and economic sectors nationwide.

Article 3.- This Decision takes effect as from January 1, 2003. Concrete accounting regimes must be amended and/or supplemented appropriately to suit the six accounting standards promulgated together with this Decision

Article 4.- The director of the Accounting Regime Department, the director of the Office, and the heads of the concerned units under and attached to the Ministry of Finance shall have to guide and inspect the implementation of this Decision.

FOR THE MINISTER OF FINANCE
VICE MINISTER

Tran Van Ta

STANDARD NO. 01

GENERAL STANDARD

(Promulgated and publicized together with the Finance Minister's Decision No. 165/2002/QD-BTC of December 31, 2002)

GENERAL PROVISIONS

01. This standard aims to prescribe and guide the basic accounting principles and requirements, elements of the enterprises' financial statements and the recognition thereof, in order to:

a/ Serve as a basis for formulating and perfecting specific accounting standards and accounting regimes after uniform models.

b/ Assist enterprises in making accounting entries and financial statements in a uniform manner according to the promulgated accounting standards and accounting regimes and handle matters not yet specified in order to ensure true and reasonable information in the financial statements.

c/ Assist auditors and accounting controllers in giving comments on the conformity of the financial statements with the accounting standards and accounting regimes.

d/ Assist users of the financial statements in understanding and evaluating financial information supplied in accordance with the accounting standards and accounting regimes.

02. The basic accounting principles and requirements as well as elements of the financial statements, which are prescribed in this standard and specified in each accounting standard must be applied to all enterprises of all economic sectors nationwide.

This standard shall not replace specific accounting standards. Implementation shall be based on specific accounting standards. For cases not yet prescribed in specific accounting standards, they shall comply with the general standard.

STANDARD CONTENTS BASIC ACCOUNTING PRINCIPLES

Accrual basis

03. All economic and financial operations of enterprises, which are related to assets, liabilities, owners' equity, revenues, and costs must be recorded in accounting books at the time they arise, not at the time of the actual receipt or payment of cash or cash equivalents. Financial statements made on the basis of accrual shall reflect the financial status of enterprises in the past, at present and in the future.

Continuous operation

04. Financial statements must be made on the basis of the assumption that enterprises are operating continuously and will continue business activities normally in the near future, i.e., they have no intention or are not compelled to cease operation or to substantially downscale their operation. Where reality differs from the continuous operation assumption, the financial statements must be made on another basis, which must be explained.

Historical cost

05. Assets must be recognized according to their historical cost. The historical cost of an asset shall be calculated according to the cash amount or cash equivalent already paid or to be paid, or according to the reasonable value of the asset at the time the asset is recognized. The assets' historical costs must not be modified except otherwise prescribed in specific accounting standards .

Matching

06. The recognition of revenues and that of costs must match. When a revenues is recognized, a corresponding cost related to the creation of such revenue must be recognized. Costs corresponding to revenues include costs of the period in which revenues are created and costs of the previous periods or payable costs related to the revenues of such period.

Consistency

07. The accounting policies and methods selected by enterprises must be applied consistently within at least one accounting year. Where appear changes in the selected accounting policies or methods, the reasons for and impacts of such changes must be presented in the explanations of financial statements.

Prudence

08. Prudence means the examination, consideration and anticipation needed to establish accounting estimates under uncertain conditions. The prudence principle requires that:

a/ The reserves must be set up, which must not be too big;

b/ The values of assets and incomes are not overestimated;

c/ The values of liabilities and costs are not underestimated;

d/ Revenues and incomes shall be recognized only when there are solid evidences of the possibility of obtaining economic benefits, while costs must be recognized when there are evidences of the possibility of arising costs.

Materiality

09. Information shall be considered material in cases where the insufficiency or inaccuracy of such information may distort significantly the financial statements, thus affecting the economic decisions of the users of the financial statements. Materiality depends on the amount and nature

of information or errors assessed in particular circumstances. The materiality of information must be examined both quantitatively and qualitatively.

BASIC REQUIREMENTS FOR ACCOUNTING

Honesty

10. Accounting information and data must be recorded and reported on the basis of adequate and objective evidences and true to the actual situation, content, nature and values of arising economic operations.

Objectivity

11. Accounting information and data must be recorded and reported according to reality, not be distorted nor falsified.

Fullness

12. All arising economic and financial operations related to the accounting period must be recorded and reported in full, not be omitted.

Timeliness

13. Accounting information and data must be recorded and reported in time, according to or ahead of prescribed schedule, without delay.

Understandability

14. Accounting information and data presented in the financial statements must be explicit and easily understandable to users. Users mean people with average knowledge about business, economics, finance and accounting. Information on complicated matters in the financial statements must be expounded in the explanation part.

Comparability

15. Accounting information and data of different accounting periods of an enterprise and of different enterprises may be comparable only when they are calculated and presented in an uniform way. In case of lack of uniformity, expositions must be given in the explanation part so that the users of the financial statements may compare information of different accounting periods, different enterprises, or between execution information and projected or planned information.

16. The accounting requirements mentioned in paragraphs 10, 11, 12, 13, 14 and 15 above must be satisfied simultaneously. For example: The honesty requirement also embraces the objectivity, timeliness, fullness, understandability and comparability requirements.

ELEMENTS OF FINANCIAL STATEMENTS

17. The financial statements reflect the financial status of enterprises through summing up economic and financial operations of the same economic nature in their elements. The elements directly related to the determination of the financial status in the balance sheets include assets, liabilities and owners' equity. The elements directly related to the assessment of the business situation and results in the statements on business results are revenues, other incomes, costs and business results.

Financial status

18. The elements directly related to the determination and evaluation of the financial status are assets, liabilities and owners' equity. These elements are defined as follows:

a/ Assets mean resources that are controlled by enterprises and may yield future economic benefits.

b/ Liabilities mean the current obligations of an enterprise, arising from the past transactions and events, which must be settled by the enterprise with its own resources.

c/ Owners' equity means the value of the enterprises' capital, being equal to the difference between the value of the enterprise's assets minus (-) its liabilities.

19. When determining the items in the elements of a financial statement, attention must be paid to their ownership forms and economic contents. In some cases, though assets do not fall under the enterprises' ownership, they are still reflected in the elements of the financial statements due to their economic contents. For example, in case of financial leases, the economic form and content are that the lessee-enterprises obtain economic benefits from the use of leased assets during most of the useful life of the assets; in return the lessee-enterprises are obliged to pay a sum that approximates the reasonable value of the assets as well as related financial costs. The financial leasing operation gives rise to the item "Assets" and the item "Liabilities" in the balance sheets of the lessee-enterprises.

Assets

20. Future economic benefits of an asset are the potential to increase the sources of cash and cash equivalents of an enterprise or to reduce cash amounts to be paid by the enterprise.

21. Future economic benefits of an asset are demonstrated in such cases as :

a/ Being used in isolation or in combination with other assets in the manufacture of products for sale or in the provision of services for customers;

b/ For sale or exchange for another asset;

c/ For payment of liabilities;

d/ For distribution to the enterprise's owners.

22. Assets may have the physical form such as workshops, machinery, equipment, supplies, goods or the non-physical form, such as copyright or patents but must gain future economic benefits and are under the control of enterprises.

23. Assets of enterprises also include assets that enterprises do not own but can control them and gain future economic benefits therefrom, such as assets given for financial leases; or assets that enterprise own and can gain future economic benefits therefrom but may not control them legally, such as technical know-hows obtained from development activities, which may satisfy the conditions required in the asset definition when they are still kept secret and enterprises can still gain economic benefits therefrom.

24. Assets of enterprises are formed from the past transactions or events, such as capital contribution, procurement, self-production, grants or donations. Transactions or events expected to arise in future will not lead to an increase in assets.

25. Normally, when costs are incurred, they will create assets. Costs which do not bring about future economic benefits will not create assets; or in other cases, no costs are incurred but assets are still created, such as contributed capital, allocated or donated assets.

Liabilities

26. Liabilities determine the current obligations of an enterprise when it receives an asset, participates in a commitment or is bound to legal obligations.

27. The settlement of current obligations may be effected in many ways, such as:

a/ Payment in cash;

b/ Payment with another asset;

c/ Provision of a service;

d/ Replacement of this obligation with another;

e/ Conversion of the liability obligation into owners' equity.

28. Liabilities arise from past transactions and events, such as purchase of goods without payment, use of services without payment, borrowing, to merchandise warranty commitment, contractual obligation commitment, payables to employees, remittable taxes, and other payables.

Owners' equity

29. Owners' equity is reflected in the balance sheets, including investors' capital, equity surplus, retained profits, funds, undistributed profits, exchange rate differences and differences from asset revaluation.

a/ Investors' capital may be enterprise owners' capital, contributed capital, equities, and the State's capital.

b/ Equity surplus is the difference between the share par value and the actual issuance prices;

c/ Retained profits are after-tax profits retained for capital supplementation;

d/ Funds include reserve fund, stand-by fund, development investment fund;

e/ Undistributed profits are after-tax profits not yet distributed to owners or not yet deducted to set up funds;

f/ Exchange rate differences include:

+ Exchange rate difference arising in the construction investment process;

+ Exchange rate difference arising when enterprises in the country include the financial statements of their activities carried out abroad using accounting currency other than the accounting currency of the reporting enterprises.

g/ Difference from the asset revaluation is the difference between the book value of assets and the revalued value of assets under the State's decisions, or when assets are contributed as joint-venture capital or shares.

Business situation

30. Profits are used as a measure of the business results of enterprises. The elements directly related to the profit determination are revenues, other incomes and costs. Revenues, other incomes, costs and profits are criteria reflecting the business situation of enterprises.

31. The elements of revenues, other incomes and costs are defined as follows:

a/ Revenues and other incomes: are the total value of economic benefits earned by an enterprise in the accounting period, arising from the enterprise's normal production, business and other operations, contributing to increasing the owners' equity, excluding capital contributions made by shareholders or owners.

b/ Costs are the total value of amounts which reduce economic benefits in the accounting period in the forms of amounts spent, asset depreciation amounts, or give rise to liabilities leading to a decrease in the owners' equity, excluding amounts distributed to shareholders or owners.

32. Revenues, other incomes and costs are presented in the reports on business results so as to supply information in service of the assessment of the enterprises' capability to create cash sources and cash equivalents in the future.

33. The elements of revenues, other incomes and costs may be presented in many ways in the reports on business results so as to describe the business situation of enterprises, such as revenues, costs and profits of normal business and other operations.

Revenues and other incomes

34. Revenues arises in the process of normal business operations of enterprises and often include: sales revenues, service provision revenues, interests, royalties, dividends and shared profits…

35. Other incomes include incomes arising from operations other than revenues-generating operations, such as incomes from liquidation or sale of fixed assets, fines collected from customers for their contract breaches…

Costs

36. Costs include production and business costs arising in the process of normal business operations of enterprises, and other costs.

37. Production and business costs arising in the process of normal business operations of enterprises, such as cost of goods sold, sale costs. enterprise management costs, costs for loan interests, and costs related to letting other parties use assets with yields, royalties… These costs arise in the form of cash and cash equivalents, inventories, machinery and equipment depreciation.

38. Other costs include costs other than production and business costs arising in the process of normal business operations, such as costs for liquidation and sale of fixed assets, fines imposed by customers for contract breaches, etc.

RECOGNITION OF THE ELEMENTS OF THE FINANCIAL STATEMENTS

39. The financial statements must recognize the elements on the financial status and business situation of enterprises; such elements must be recognized item by item. Each item shall be recognized in the financial statements if satisfying concurrently the following two criteria:

a/ Being certain to gain or reduce future economic benefits;

b/ Such item has some value which can be determined in a reliable manner.

Recognition of assets

40. Assets will be recognized in the balance sheets when enterprises are certain to gain future economic benefits therefrom and the value of such assets are determined in a reliable way.

41. Assets will not be recognized in the balance sheets when costs incurred are not certain to yield future economic benefits for enterprises and these costs will be recognized in the reports on business results as soon as they arise.

Recognition of liabilities

42. Liabilities will be recognized in the balance sheets when there are adequate conditions to ascertain that enterprises will have to spend a cash amount on the current obligations they have to pay for, and such liabilities must be determined in a reliable way.

Recognition of revenues and other incomes

43. Revenues and other incomes will be recognized in the reports on business results when they gain future economic benefits related to the increase in assets or decrease in liabilities, and such increased value must be determined in a reliable way.

Recognition of costs

44. Production, business and other costs will be recognized in the reports on business results when these costs reduce future economic benefits related to the decrease in assets or increase in liabilities, and these costs must be determined in a reliable way.

45. Costs recognized in the reports on business results must comply with the principle of matching between revenues and cost.

46. When economic benefits expected to be obtained over many accounting periods are related to revenues and other incomes which are determined indirectly, the related costs will be recognized in the reports on business results on the basis of systematic or proportional amortization.

47. A cost will be immediately recognized in the reports on business results in the period if it fails to bring about economic benefits in subsequent periods.

STANDARD NO. 06

LEASES

(Promulgated and publicized together with the Finance Minister's Decision No. 165/2002/QD-BTC of December 31, 2002)

GENERAL PROVISIONS

01. This standard aims to prescribe and guide for lessees and lessors the accounting principles and methods for financial lease and operating lease, serving as a basis for making accounting entries and financial statements.

02. This standard shall apply to the accounting of all leases, excluding:

a/ Lease contracts for exploiting or using natural resources, such as oil, gas, timber, metals and other minerals;

b/ Lease contracts for using copyrights of items such as motion picture films, video tapes, operas, copyrights and patents.

03. This standard shall apply also to the transfer of the right to use assets even when the lessors are requested to provide services mostly related to the operation, repair or maintenance of the leased assets. This standard shall not apply to service contracts not involving the transfer of the right to use assets.

04. The terms used in this standard are construed as follows:

A lease means an agreement between the lessor and the lessee whereby the lessor transfers the right to use an asset to the lessee for a certain period of time in return for a lease payment made in a lump sum or installments.

A financial lease is a lease whereby the lessor transfers most of the risks and rewards associated with the ownership over an asset to the lessee. The ownership over the asset may be transferred at the end of the lease term.

An operating lease is a lease other than a financial lease.

A non-cancelable lease contract is the one that the two involved parties cannot unilaterally terminate, except in the following cases:

a/ Upon the occurrence of unusual events, such as:

- The lessor fails to hand the leased asset on schedule;

- The lessee fails to make lease payments according to the provisions of the lease contract;

- The lessee or lessor breaches the contract;

- The lessee goes bankrupt or is dissolved;

- The guarantor goes bankrupt or is dissolved while the lessor rejects the lessee’s proposal on guaranty termination or substitute guarantor;

- The leased asset is lost or irreparably damaged.

b/ With the consent of the lessor;

c/ If the two parties enter into a new contract on lease of the same or similar asset;

d/ The lessee pays an additional amount immediately at the start of the lease.

The inception of the lease is the earlier date of either of the two dates: The date when the right to use the asset is transferred to the lessee and the date when the lease payment begins to be calculated under the provisions of the lease contract.

The lease term is the period of the non-cancelable lease contract plus (+) the duration for which the lessee have the option to continue leasing the asset as prescribed in the contract, with or without additional payment; this option is determined with relative certainty right at the inception of the lease.

Minimum lease payments:

a/ For the lessee: They are the payments which the lessee must make to the lessor for a lease over the lease term (excluding service costs and taxes which have been paid by the lessor and must be reimbursed by the lessee, and a contingent rent), plus any value that the lessee or a party related to the lessee has guaranteed to pay.

b/ For the lessor: They are the payments which the lessee must make to the lessor over the lease term (excluding service costs and taxes which have been already paid by the lessor and must be reimbursed by the lessee, and a contingent rent) plus (+) any residual value of the leased asset, which has been guaranteed to be paid by:

- The lessee;

- A party related to the lessee; or

- An independent financially capable third party.

c/ Where the lease contract contains the provision on the lessee’s right to purchase the leased asset at a price lower than the reasonable value on the date of purchase, the minimum lease payments (for both lessor and lessee) shall include the minimum payment inscribed in the contract for the lease term and the payment required for the purchase of such asset.

Reasonable value is the amount for which an asset can be exchanged or the value of a liability which may be settled voluntarily between the knowledgeable parties in the par value exchange.

Residual value of a leased asset is the estimated value at the inception of the lease, which the lessor expects to obtain from the leased asset at the end of the lease.

Guaranteed residual value of a leased asset:

a/ For the lessee: It is the residual value of a leased asset, which is guaranteed to be paid by the lessee or by a party related to the lessee to the lessor (the guaranteed value is the maximum amount that the lessee must pay in any circumstances).

b/ For the lessor: It is the residual value of a leased asset, which is guaranteed to be paid by the lessee or a financially capable third party not related to the lessor.

Unguaranteed residual value of a leased asset: is the residual value of a leased asset, which is determined by the lessor and is not guaranteed to be paid by the lessee or a party related thereto or is guaranteed to be paid only by one party related to the lessor.

Economic life: is the period over which an asset is expected to be economically usable or the number of products or similar units expected to be obtained from the leased asset by one or more users.

Useful life is the remaining economic life of the leased asset, counting from the inception of the lease, but not restricted by the lease term.

Gross investment in the financial lease contract is the aggregate of the minimum lease payments under a financial lease contract (for the lessor) plus (+) the unguaranteed residual value of the leased asset.

Unearned financial revenue is the aggregate of the minimum lease payments plus (+) the unguaranteed residual value and minus (-) the present value of these amounts, calculated at the interest rate implicit in the financial lease.

Net investment in the financial lease is the difference between the gross investment in the financial lease and the unearned financial revenue.

The interest rate implicit in the financial lease contract is the discount rate used, at the inception of the asset lease, to calculate the present value of the minimum lease payment and the present value of the unguaranteed residual value to ensure that their aggregate is equal to the reasonable value of the leased asset.

Incremental borrowing interest rate is the interest rate the lessee must pay for a similar financial lease or that at the inception of the asset lease the lessee must pay to borrow for a similar term and with a similar security an amount necessary to purchase the asset.

Contingent rent is part of the lease payments, which is not fixed in amount but is based on a factor other than the passage of time, for example: percentage (%) of revenue, used amount, price indices, market interest rates.

05. Lease contracts that include provisions permitting the lessees to purchase the assets upon the satisfaction of all conditions agreed in such contracts are called hire purchase contracts.

CONTENTS OF THE STANDARD

Classification of leases

06. The classification of leases adopted in this standard is based on the extent to which risks and rewards associated with the ownership of a leased asset are transferred from the lessors to the lessees. Risks include the possibilities of losses from idle production capacity or technological backwardness and of unfavorable changes in the economic situation, thus affecting the capital recoverability. Rewards are profits expected to be earned from the operation of the leased assets over their economic life and incomes expected to be gained from the increased value of the assets or the value recoverable from the assets’ liquidation.

07. Leases will be classified as financial leases if the contents of the lease contracts include the transfer of most of risks and rewards associated with the assets’ ownership. Leases will be classified as operating leases if the contents of the lease contracts do not include the transfer of most of risks and rewards associated with the assets’ ownership.

08. The lessors and lessees must determine the leases as financial or operating leases right at the inception of the asset lease.

09. The classification of leases as financial or operating leases must be based on the nature of the provisions of the contracts. Below are the examples of cases that normally lead to financial leases:

a/ The lessor transfers the asset’s ownership to the lessee at the end of the lease term;

b/ At the inception of the lease, the lessee has the right to purchase the leased asset at a price expected to be lower than the reasonable price at the end of the lease term;

c/ The lease term accounts for most of the economic life of the asset even if the ownership is not transferred;

d/ At the inception of the lease, the present value of the minimum lease payment accounts for most of the reasonable value of the leased asset;

e/ The leased asset is of a special-use type which can be used only by the lessee without major modification or overhaul.

10. Lease contracts will be also considered financial lease contracts if they fall into at least one of the following three cases:

a/ If the lessee cancels the contract and pays compensation for damage associated with the contract cancellation to the lessor;

b/ Incomes or losses from the change in the reasonable value of the residual value of the leased asset are associated with the lessee;

c/ The lessee is able to continue leasing the asset after the lease contract expires at a rent lower than market rents.

11. Lease classification shall be made at the inception of the lease. If at any time the lessee and the lessor agree to change the provisions of the contract (but not on the renewal of the contract), which leads to a different classification of the lease under the criteria in paragraphs 06 thru 10 at the inception of the lease, the revised provisions shall apply to the entire lease term. Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the leased asset) or changes in the lessees' payment capability, however, shall not result in a new classification of the lease.

12. Lease of assets being the right to use land and houses will be classified as operating or financial lease. Nevertheless, as land normally has an indefinite economic life and the ownership is not transferred to the lessees at the end of the lease term and the lessees do not accept most of risks and rewards associated with the land ownership, the lease of assets being the land use right will be usually classified as operating lease. The rents paid for assets being the land use right shall be amortized over the entire lease term.

Recognition of leases in the financial statements of lessees

Financial leases

13. At the inception of a financial lease, the lessee will recognize the financial leased asset as an asset and liability in its balance sheet with the same value equal to the reasonable value of the leased asset. If the reasonable value of the leased asset exceeds the present value of the minimum lease payments for the lease, the present value of the minimum lease payments shall be recorded. The discount rate used for calculating the present value of the minimum lease payments for the lease will be the interest rate implicit in the asset lease contracts or the interest rate inscribed therein. If the interest rate implicit in the lease contract is undeterminable, the lessee's incremental borrowing interest rate will be used for calculating the present value of the minimum lease payments.

14. When presenting liabilities concerning financial leases in the financial statements, short-term and long-term liabilities must be distinguished.

15. Initial direct costs incurred in connection with financial leasing activities, such as costs for lease contract negotiation and signing will be recognized into the historical costs of the leased assets.

16. Payments for a financial lease of assets will be apportioned between financial costs and the amounts payable for debt principals. Financial costs must be calculated according to each accounting period of the entire lease term at a constant periodic interest rate on the remaining debit balance of each accounting period.

17. A financial lease shall give rise to asset depreciation costs as well as financial costs in each accounting period. The depreciation policy for a leased asset must be consistent with the depreciation policy for assets of the same kind under the ownership of the lessee-enterprises. If it is uncertain that the lessees would obtain the assets' ownership by the end of the lease term, the leased asset will be depreciated over the shorter duration between the lease term and its useful life.

18. When presenting leased assets in the financial statements, the provisions of the accounting standard "Tangible fixed assets" must be complied with.

Operating leases

19. Payments for an operating lease (excluding service, insurance and maintenance costs) must be recognized as production and business costs by the straight line method during the entire asset lease term regardless of the payment mode, unless more reasonable calculation methods are applied.

Recognition of asset leases in the financial statements of lessors

Financial leases

20. The lessors must recognize the value of financial leased assets in their balance sheets as a receivable equal to the value of net investment stated in the financial lease contracts.

21. For financial leases, most of risks and economic rewards are associated with the assets' ownership transferred to the lessees, and, therefore, all receivables therefrom must be recognized as receivables for principal capital and financial revenues from the lessors' investments and services.

22. The recognition of financial revenues must be based on the constant periodic interest rate on the total balance of net investment in financial leases.

23. The lessors shall amortize financial revenues over the entire lease term on the basis of the constant periodic interest rate over the balance of net investment in financial leases. Payments paid for financial leases in each accounting period (excluding costs for the provision of services) shall be allowed to be reduced from gross investment in order to reduce both the principal capital and the unearned financial revenues.

24. Initial direct costs to create financial revenues, such as commissions and legal fees incurred in the contract negotiation and signing, are often paid by lessors and shall be recognized as cost in the period as soon as they are incurred or be amortized into costs over the lease term in a way suitable to the recognition of revenues.

Operating leases

25. The lessors must recognize assets under operating leases in their balance sheets, using the method of classification of enterprises' assets.

26. Revenues from operating leases must be recognized by the straight line method over the entire lease term, regardless of the payment modes, unless more reasonable calculation methods are applied.

27. Costs of operating leases, including depreciation of leased assets, will be recognized as costs in the period during which they are incurred.

28. Initial direct costs to create revenues from operating leases shall be immediately recognized as costs in the period during which they are incurred or be amortized into the costs over the entire lease term in a way suitable to the recognition of revenues from operating leases.

29. The depreciation of leased assets must be on a basis consistent with the lessors' depreciation policy applicable to similar assets, and the depreciation costs must be calculated under the provisions of the accounting standards "Tangible fixed assets" and "Intangible fixed assets."

30. The lessors being manufacturing or trading enterprises shall recognize revenues from operating leases according to each lease term.

Asset sale and leaseback transactions

31. A asset sale and leaseback transaction is effected when an asset is sold then leased back by the same seller. The accounting method applicable to sale and leaseback transactions depends on the type of lease.

32. If an asset sale and leaseback transaction is a financial lease, the difference between the sale proceeds and the residual value of the asset must be amortized over the entire lease term.

33. If the asset leaseback is a financial lease, whereby the lessor provides finance for the lessee, with asset security. The difference between the proceeds from the sale of the asset and the residual value of the asset in the accounting books shall not be immediately recognized as a profit from the sale of the asset; instead it must be recognized as unearned income and amortized over the entire lease term.

34. Sale and leaseback transactions being operating leases will be recognized when:

- The sale price is agreed upon at the reasonable value, any profit or loss must be recognized immediately in the period during which it arises;

- If the sale price is lower than the reasonable value, any profit or loss must be also recognized immediately in the period during which it arises, except where the loss is offset with future lease payments lower than the market rent. In this case, the loss shall not be immediately recognized but must be amortized into costs corresponding to the lease payments over the entire period during which the asset is expected to be used;

- If the sale price is higher than the reasonable value the excess over the reasonable value must be amortized into incomes corresponding to the lease payments over the entire period during which the asset is expected to be used.

35. If an asset leaseback is an operating lease, and the rent and sale price are agreed at the reasonable value, that is, a normal sale transaction has been conducted, any profit or loss will be accounted immediately in the period during which it arises.

36. For operating leases, if the reasonable value of assets at the time of sale and leaseback is lower than the residual value thereof, the loss being the difference between the residual value and the reasonable value must be recognized immediately in the period during which it arises.

37. The requirements on the presentation of the financial statements of lessees and lessors regarding asset sale and leaseback operations must be alike. Where the lease agreements contain a special provision, it must be presented in the financial statements.

PRESENTATION OF FINANCIAL STATEMENTS

For the lessees

38. The lessees must present the following information on financial leases:

a/ The residual value of the leased asset on the financial statement date;

b/ Contingent rent recognized as a cost in the period;

c/ Bases for determining the contingent rent;

d/ Provision on continued lease or the right to purchase the asset.

39. The lessees must present the following information on operating leases:

a/ The total future minimum lease payments under non-cancelable operating lease contracts with the following terms:

- Of one year or under;

- Of between over one year and five years;

- Of over five years.

b/ Bases for determining contingent rent.

For the lessors

40. The lessors must present the following information on financial leases:

a/ The table of comparison between the total gross investment in leases and the present value of the minimum lease payments receivable on the financial statement date of the reporting periods, with the following terms:

- Of one year or under;

- Of between over one year and five years;

- Of over five years.

b/ Unearned revenues from financial leases;

c/ The unguaranteed residual value of leased assets, calculated by the lessor;

d/ Accumulated reserve for the bad receivables regarding the minimum lease payments;

e/ Contingent rent recognized as revenues in the period.

41. The lessors must present the following information on operating leases:

a/ Future minimum lease payments under non-cancelable operating lease contracts with the following terms:

- Of one year or under;

- Of between over one year and five years;

- Of over five years.

b/ Total contingent rent recognized as revenues in the period.

STANDARD NO. 10

EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

(Promulgated and publicized together with the Finance Minister's Decision No. 165/2002/QD-BTC of December 31, 2002)

GENERAL PROVISIONS

01. This standard aims to prescribe and guide the principles and methods of accounting the effects of changes in foreign exchange rates, applicable to enterprises which have foreign currency transactions or overseas activities. Foreign currency transactions and financial statements of overseas activities must be converted into the enterprises' accounting currency, including initial recognition and reporting on the balance sheet date; recognition of the foreign exchange rate difference; and conversion of the financial statements of overseas activities as a basis for making entries in accounting books, making and presenting the financial statements.

02. This standard applies to:

a/ The accounting of foreign currency transactions;

b/ The conversion of the financial statements of overseas activities for inclusion of these statements in the financial statements of the enterprises by the inclusion or owners' equity method.

03. Enterprises must use Vietnam dong as an accounting currency, unless they are permitted to use another common currency.

04. This standard does not prescribe the conversion of an enterprise' financial statements from an accounting currency into another so as to facilitate the users that have been accustomed to the such converted currency or for similar purposes.

05. This standard does not mention the presentation of cash flows arising from foreign currency transactions and from the conversion of cash flow statements of an overseas activity in the cash flow statements (prescribed in the standard "Cash flow statements").

06. The terms in this standard are construed as follows:

Overseas activities are branches, subsidiaries, partnerships, joint-venture companies, business cooperation, and business association of the reporting enterprises, which operate in countries other than Vietnam.

Foreign-based establishments means activities in foreign countries, which operate independently from the reporting enterprises.

Accounting currency is a currency officially used in the making of accounting entries and financial statements.

Foreign currency is a currency other than the accounting currency of an enterprise.

Exchange rate is the rate of exchange between two currencies.

Exchange rate difference is the difference arising from the actual exchange or conversion of the same amount of a foreign currency into the accounting currency at different exchange rates.

Closing exchange rate is the exchange rate used on the balance sheet date.

Net investment in a foreign-based establishment is the portion of capital of the reporting enterprise in the total net asset of such foreign-based establishment.

Monetary items are current cash and cash equivalents, receivables or liabilities in fixed or determinable cash amounts.

Non-monetary items are items other than monetary items.

Reasonable value is the value for which an asset can be exchanged or the value of a liability which may be settled voluntarily between knowledgeable parties in the par value exchange.

CONTENTS OF THE STANDARD

FOREIGN CURRENCY TRANSACTIONS

Initial recognition

07. Foreign currency transactions are transactions determined in foreign currencies or requested to be paid for in foreign currencies, including transactions that arise when an enterprise:

a/ Purchases or sells products, goods or services with prices denominated in foreign currencies;

b/ Borrows or lends money amounts to be paid or received in foreign currencies;

c/ Becomes a partner (one party) to an unperformed foreign exchange contract;

d/ Purchases or liquidates assets; incurs or repays debts denominated in foreign currencies;

e/ Uses a currency for purchasing, selling or exchanging for another currency.

08. A foreign currency transaction must be accounted and initially recognized in the accounting currency by applying the exchange rate between the accounting currency and the foreign currency on the date of the transaction.

09. The exchange rate on the date of the transaction will be regarded as spot exchange rate. Enterprises may use an exchange rate that approximates the actual exchange rate on the date of the transaction. For example, the average exchange rate of a week or a month may be used for all transactions in each kind of foreign currency arising in such week or month. If the exchange rate fluctuates greatly the enterprises must not use the average exchange rate for the accounting work in the accounting week or month involved.

Reporting at the balance sheet date

10. On the balance sheet date:

a/ Monetary items of foreign currency origin must be reported at the closing exchange rate;

b/ Non-monetary items of foreign currency origin must be reported at the exchange rate on the date of the transaction;

c/ Non-monetary items determined according to the reasonable value in foreign currencies must be reported at the exchange rate on the date of determination of the reasonable value.

11. The book value of an item will be determined in accordance with the relevant accounting standards. For example, inventories will be determined according to their original prices, fixed assets according to their historical costs even if their book values has been determined on the basis of the original prices, historical costs or reasonable values, the determined book values of

items of foreign currency origin will then be reported in the accounting currency in accordance with the provisions of this standard.

Recognition of the exchange rate difference

12. The exchange rate difference that arises upon the settlement of monetary items of foreign currency origin or as a result of the reporting on monetary items of foreign currency origin by an enterprise using exchange rates different from the exchange rate initially recognized or already reported in the previous financial statements, shall be handled as follows:

a/ At the construction investment stage to form fixed assets of newly established enterprises, the exchange rate difference arising upon settlement of monetary items of foreign currency origin for making construction investment and the exchange rate difference arising upon re-valuation of monetary items of foreign currency origin at the end of the fiscal year will be reflected accumulatively and separately on the balance sheets.

When completely constructed fixed assets are put into use, the exchange rate arising at the construction investment stage will be amortized into income or production and business costs over the maximum period of five years.

b/ At the stage of production and business, including the construction investment to form fixed assets of the operating enterprises, the exchange rate difference arising upon settlement of monetary items of foreign currency origin and re-valuation of currency of foreign currency origin at the end of the fiscal year shall be recognized as income or costs in the fiscal year, except for the exchange rate difference prescribed in paragraphs 12c, 14 and 16.

c/ For enterprises using financial instruments for exchange rate risk reserve, all loans and liabilities of foreign currency origin shall be accounted according to the actual exchange rate at the time they occur. Enterprises must not re-valuate loans and liabilities of foreign currency origin for which they have used financial instruments for exchange rate risk reserve.

13. The arising exchange rate difference shall be recognized when the exchange rate changes between the transaction date and the date of settlement for all monetary items of foreign currency origin. When transactions occur and are settled in the same accounting period, exchange rate differences will be accounted in such period. If transactions are settled in subsequent accounting periods, exchange rate differences will be calculated on the basis of the change in the foreign exchange rate in each period till the period during which such transactions are settled.

Net investment in foreign-based establishments

14. Exchange rate differences arising from monetary units of foreign exchange origin, which, in nature, belong to the reporting enterprises' portion of net investment in foreign-based establishments shall be classified as owners' equity in the enterprises' financial statements till such investment is liquidated. At that point of time, all these exchange rate differences will be accounted as income or cost in accordance with paragraph 30.

15. An enterprise may have monetary items receivable from or payable to a foreign-based establishment. An item the settlement of which is not determined yet or is unlikely in an anticipated duration in future will, in nature, result in an increase or decrease in the enterprises' net investment in such foreign-based establishment. These monetary items may include long-term receivables or loans but not commercial receivables and commercial payables.

16. Exchange rate differences arising from liabilities of foreign currency origin, which are accounted as an amount for restricting risks of the enterprise's net investment in a foreign-based establishment, will be classified as owners' equity on the enterprise's financial statements till the net investment is liquidated. At that point of time, these exchange rate differences will be accounted as income or cost in accordance with paragraph 30**.**

THE FINANCIAL STATEMENTS OF OVERSEAS ACTIVITIES

Classification of overseas activities

17. The method of conversion of the financial statements of overseas activities will depend on their financial and operational dependence on the reporting enterprises. For this purpose, overseas activities shall be classified into two types: "Overseas activities inseparable from the operations of the reporting enterprises" and "foreign-based establishments."

18. Overseas activities inseparable from the operation of the reporting enterprises shall conduct their business operations as a component of the reporting enterprises. For example, the foreign-based enterprises sell imported goods and transfer the proceeds therefrom to the reporting enterprises. In this case, any change in the rate of exchange between the reporting currency and the currency of the foreign country where activities are carried out shall directly affect the cash flows from the reporting enterprises' operation. Therefore, changes in the exchange rate will affect each specific monetary item of overseas activities more than the reporting enterprise's net investment in such activities will.

19. Foreign-based establishments are independent business units, having the legal person status in the host countries and using the currencies of the host countries as their accounting currencies. These establishments may participate in foreign currency transactions, including transactions in the reporting currency. Any change in the rate of exchange between the reporting currency and the currency of the host country will only slightly affect or not directly at present or in future cash flows from the operations of the foreign-based establishments as well as of the reporting enterprises. Changes in the exchange rate will affect the reporting enterprises' net investment more than specific monetary or non-monetary items of foreign-based establishments.

20. Characteristics for identification of a foreign-based establishment:

a/ Overseas activities are carried out with a high degree of independence from the reporting enterprise;

b/ Transactions with the reporting enterprise account for not a large proportion in overseas activities;

c/ Foreign-based activities are mainly self-financed or financed with foreign loans more than from the reporting enterprises;

d/ Costs of labor, materials and raw materials and other components of products or services of overseas activities are paid and settled more in the currencies of the host countries than in the currency of the reporting enterprise;

e/ Revenues from overseas activities are mainly in currency other than the currency of the reporting enterprise;

f/ Cash flows of the reporting enterprise are separate from the daily operation of overseas activities and are not directly affected by the operation of overseas activities.

The reasonable classification of each overseas activity may be based on the above-said characteristics. In some cases, the classification of an activity carried out abroad as a foreign-based establishment or an overseas activity inseparable from the reporting enterprise may be unclear, it is, therefore, necessary to evaluate such activity to ensure reasonable classification thereof.

Overseas activities inseparable from the operation of the reporting enterprises

21. The financial statements of overseas activities inseparable from the operation of the reporting enterprises will be converted under the provisions in paragraphs 7 to 16 as for operations of the reporting enterprises.

22. Each item in the financial statements of overseas activities will be converted like transactions of overseas activities conducted by the reporting enterprises. The historical costs and depreciation of fixed assets will be converted at the exchange rate on the date the assets are purchased. If the assets are calculated according to their reasonable values, the exchange rate on the date such reasonable values are determined will be used. The value of inventories shall be converted at the exchange rate of the time such value is determined. Recoverable amounts or realizable values of an asset will be converted at the actual exchange rate at the time these amounts are determined.

23. In practice, an exchange rate that approximates the actual exchange rate on the date on which the transaction occurs is often used. For example, the average exchange rate in a week or a month may be used for all foreign currency transactions occurring in such period. However, if the exchange rate fluctuates greatly, the average exchange rate for the period cannot be used.

Foreign-based establishments

24. When converting the financial statements of foreign-based establishments for inclusion in the financial statements of the reporting enterprises, the following provisions must be complied with:

a/ All assets and liabilities (including both monetary and non-monetary items) of foreign-based establishments will be converted at the closing exchange rate;

b/ Items of revenues, other incomes and costs of foreign-based establishments shall be converted at the exchange rate on the date of the transactions. If the reports of foreign-based establishments are denominated in the currency of a hyper-inflationary economy, revenues, other incomes and costs shall be converted at the closing exchange rate;

c/ All exchange rate differences arising upon the conversion of the financial statements of foreign-based establishments for inclusion in the financial statements of the reporting enterprises must be classified as owners' equity of the reporting enterprises till such net incomes are liquidated.

25. Where the average exchange rate approximates the actual one, it will be used for converting the items of revenues, other incomes and costs of foreign-based establishments.

26. For cases where exchange rate differences arise upon the conversion of the financial statements of foreign-based establishments:

a/ Conversion of the items of revenues, other incomes and costs at the exchange rate on the date of the transaction; assets and liabilities at the closing exchange rate;

b/ Conversion of net investments at the beginning of a period in foreign-based establishments at an exchange rate other than the exchange rate already used in the previous period.

c/ Other revised items related to the owners' equity in foreign-based establishments.

These exchange rate differences shall not be recognized as income or cost in the period. They often exert little or indirect impact on cash flows from present and future activities of foreign-based establishments as well as of reporting enterprises. When a foreign-based establishment is consolidated, which, however, does not result in entire ownership, the accumulated exchange rate difference arising from the conversion and associated with the minority shareholders' investments in the foreign-based establishments must be amortized and reported as part of ownership of minority shareholders at the foreign-based establishments in the consolidated balance sheet.

27. All the values of commercial advantages arising from the purchase of foreign-based establishments and all adjustments of the reasonable value of the book value of assets and liabilities arising from the process of purchasing foreign-based establishments will be handled like:

a/ Assets and liabilities of foreign-based establishments will be converted at the closing exchange rate as prescribed in paragraph 23.

b/ Assets and liabilities of the reporting enterprises already denominated in the reporting foreign currency, or non-monetary items will be reported at the exchange rate on the date of the transaction as prescribed in paragraph 10 (b).

28. The inclusion of the financial statements of foreign-based establishments in those of the reporting enterprises must comply with the common inclusion procedures, such as exclusion of balances in a group and a subsidiary's operations with companies in the group (see the accounting standard "Consolidated financial statements and accounting of capital contributed in subsidiaries" and the accounting standard "Financial information on capital contributions to joint ventures"). However, an exchange rate difference arising in a monetary item in the group, whether short-term or long-term, cannot be excluded into a corresponding item in another balance in the group because this monetary item demonstrates the commitment to convert one foreign currency into another foreign currency, thus giving rise to a profit or loss to the reporting enterprise as a result of the change in the foreign exchange rate. Therefore, in the consolidated financial statements of the reporting enterprises, exchange rate differences shall be accounted as income or as cost, or if they arise from the cases mentioned in paragraphs 14 and 16, they shall be classified as owners' equity till the net investments are liquidated.

29. The financial statement dates of foreign-based establishments must match the financial statement dates of the reporting enterprises. Where financial statements cannot be made on the same day, it is permitted to consolidate financial statements with dates differing within three months. In this case, assets and liabilities of foreign-based establishments shall be converted at the exchange rate on the date of the balance sheets of foreign-based establishments. Where the exchange rate on the date of the balance sheet of a foreign-based establishment differs greatly from that on the date of the financial statement of the reporting enterprise, an appropriate adjustment must be made from such date to the date of the balance sheet of the reporting enterprise according to the accounting standard "Consolidated financial statements and

accounting of capital contributed in subsidiaries" and the accounting standard "Financial information on capital contributions to joint ventures."

Liquidation of foreign-based establishments

30 When liquidating foreign-based establishments, the accumulated exchange rate differences already postponed (under the provisions in paragraph 24.c) and related to such foreign-based establishments will be recognized as income or as costs in the same period during which profits or losses from the liquidation are recognized.

31. An enterprise may liquidate its investment in a foreign-based establishment by selling, auctioning, repaying equities or abandon all or part of its capital in the establishment concerned. Settlement of dividends is a form of liquidation only when it is a recovery of investment. For partial liquidation, only the accumulated exchange rate difference related to owners' equity can be calculated as profit or loss. The recording of a decrease in the accounting value of a foreign-based establishment will not constitute partial liquidation. In this case, no profit or loss regarding the postponed exchange rate difference shall be recognized at the time a decrease is recorded.

New classification of overseas activities

32. When there is a new classification of overseas activities, the provisions on conversion of the financial statements of overseas activities will apply from the date of the new classification.

33. Overseas activities may be re-classified upon the change in the degree of financial and operational dependence on the reporting enterprises. When overseas activities constitute a part inseparable from the operation of the reporting enterprises are classified as foreign-based establishments, the exchange rate difference arising from the conversion of non-monetary assets will be classified as owners' equity on the date of the re-classification. When a foreign-based establishment is classified as an overseas activity inseparable from the operation of the reporting enterprises, the converted values of non-monetary asset items on the date of the conversion shall be regarded as their historical costs in the period during which the change occurs and in subsequent periods. Postponed exchange rate differences will not be recognized as income or cost till the liquidation of the activities.

PRESENTATION OF THE FINANCIAL STATEMENTS

34. Enterprises must present in their financial statements the following:

a/ The amount of exchange rate difference already recognized in the net profit or loss in the period;

b/ The net exchange rate difference classified as owners' equity (according to paragraphs 12a and 14) and reflected as a separate portion of the owners' equity and the exchange rate differences at the beginning and the end of the period must be presented.

35. When the reporting currency is different from the currency of the country where the enterprises are operating, the enterprises must clearly state the reason therefor, even when they change the reporting currency.

36. Where the new classification of overseas activities greatly affects the reporting enterprises, the enterprises must present:

a/ The nature of the new classification;

b/ Reasons for the new classification;

c/ Effects of the new classification on the owners' equity;

d/ Impacts on the net profit or loss of the previous period, which affect the classification occurring at the beginning of the nearest period.

37. The enterprises must present the selected method (as prescribed in paragraph 27) for converting the adjustments of the value of commercial advantages and the reasonable value arising in the purchase of foreign-based establishments.

STANDARD NO. 15

CONSTRUCTION CONTRACTS

(Promulgated and publicized together with the Finance Minister's Decision No. 165/2002/QD-BTC of December 31, 2002)

GENERAL PROVISIONS

01. This standard aims to prescribe and guide the principles and methods for accounting revenues and costs related to construction contracts, including: contents of revenues and costs of construction contracts; recognition of revenues and costs of construction contracts to serve as basis for recording accounting books and compiling financial statements.

02. This standard applies to the accounting of construction contracts and compilation of financial statements by contractors.

03. The terms in this standard are construed as follows:

A construction contract is written contract for the construction of an asset or combination of assets which are closely interrelated or interdependent in terms of their designing, technology, function or basic use purposes.

A fixed price construction contract is a construction contract whereby the contractor agrees to a fixed price for the whole contract or a fixed unit price on a finished product unit. In some cases where prices rise high, such fixed price may change depending on contract clauses;

A cost plus contract is a construction contract whereby the contractor is reimbursed the actual costs allowed to be paid, plus (+) an amount calculated in percentage (%) of these costs or a fixed amount of charge.

04. A construction contract may be reached to construct a single asset, such as: a bridge, a building, an oil pipeline or a road or to construct a combination of assets which are closely interrelated or interdependent in their designing, technology, function or basic use purposes, such as: an oil refinery, complex of textile and garment plants.

05. In this standard, construction contracts also include:

(a) Contracts for provision of services directly relating to the construction of assets, such as: consultancy, designing and survey contract; contract for project and architecture management services;

(b) Contracts for restoration or destruction of assets and rehabilitation of environment after the asset destruction.

06. Construction contracts specified in this standard are classified into fixed price construction contracts and cost plus construction contracts. A number of construction contracts have the characteristics of both fixed price construction contracts and cost plus construction contracts. For instance, cost plus construction contracts contain agreement on the maximum price. In this case, contractors need to consider all the conditions prescribed in paragraphs 23 and 24 for recognizing construction contract revenues and costs.

COMBINATION AND DIVISION OF CONSTRUCTION CONTRACTS

07. This standard's requirements often apply separately to each construction contract. In a number of cases, this standard shall be applied to separate recognizable parts of a separate contract or a group of contracts to reflect the nature of construction contract or group of construction contracts.

08. For a construction contract relating to the construction of a number of assets, the construction of each asset shall be considered a separate construction contract when it simultaneously meets the following three (3) conditions:

(a) Designs and cost estimates are determined separately for each asset and each asset can operate independently;

(b) Each asset may be separately negotiated with each contractor, and the customer may accept or reject the contractual part related to each asset;

(c) The cost and revenue of each asset can be determined.

09. A group of contracts signed with one customer or a number of customers shall be considered a construction contract when they simultaneously meet the following three (3) conditions:

(a) These contracts are negotiated as a package contract;

(b) These contracts are so closely interrelated that they are in fact different components of a project with equivalent estimated gross profits;

(c) These contracts are performed simultaneously or in a continuous process.

10. One contract may include the construction of one more asset at the request of customers or it may be amended to include the construction of such asset. The construction of one more asset shall be only considered a separate construction contract when:

(a) Such asset is greatly different and independent from assets specified in the initial contract in terms of designing, technology and function; or

(b) The price of the contract for construction of such asset is agreed upon, which is not related to the price of the initial contract.

CONTENTS OF THE STANDARD

REVENUES OF CONSTRUCTION CONTRACTS

11. Revenues of a construction contract include:

(a) Initial revenue inscribed in the contract; and

(b) Increase and decrease amounts in the contract performance, bonuses and other payments, provided that these amounts are capable of changing the revenue and can be reliably determined.

12. Revenue of a construction contract is determined as the reasonable value of received or to be-received amounts. The determination of the contractual revenue is affected by many uncertain factors which depend on future events. The estimation must often be corrected upon the occurrence of such events and the settlement of uncertain factors. As a result, the contractual revenue may be increased or decreased in each specific period. For example:

(a) Contractors and customers may agree upon changes and requirements resulting in the increase or decrease of contractual revenue in the next period as compared with the initially agreed contract;

(b) Revenue already agreed upon in the fixed price contract may increase for the reason that prices rise high;

(c) Contractual revenue may decrease due to the contractor's failure to keep up with the set schedule or to ensure construction quality as agreed upon in the contract;

(d) When the fixed price contract sets a fixed price for a finished product unit, the contractual revenue shall increase or decrease when the product volume increases or decreases.

13. Changes at customers' requests in the scope of works to be done under the contract. For example: changes in technical or designing requirements of assets and other changes in the contract performance. Such changes shall be accounted into the contractual revenue only when:

(a) It is highly probable that customers accept such changes and revenues arising therefrom; and

(b) Revenue can be reliably determined.

14. Bonuses are supplementary amounts to be paid to contractors if they perform the contracts according to or beyond the requirements. For example, the contract anticipates to pay the contractor a bonus for early contract fulfillment. Such bonus shall be accounted into the contract revenue when:

(a) A number of specific standards inscribed in the contract are surely attained or surpassed; and

(b) The bonus can be reliably determined.

15. Another payment received by the contractor from the customer or another party to offset costs is not included in the contractual price. For example: Delay caused by the customer; errors in technical or designing specifications, and disputes over changes in the contract performance. The determination of increased revenue from the above-said payments depends on numerous uncertain factors and usually depends on the results of many negotiations. Therefore, other payments shall only be accounted into the contractual revenue when:

(a) It is agreed that the customer will accept to make compensation;

(b) Other payments are accepted by the customer and reliably determined.

Costs of construction contracts

16. Costs of construction contracts include:

(a) Costs directly related to each specific contract;

(b) General costs related to activities of the contracts and can be distributed to each specific contract;

(c) Other costs which may be recovered from customers under contractual clauses.

17. Costs directly related to each specific contract include:

(a) Construction site labor costs, including cost for project supervision;

(b) Costs of raw materials and materials, including project equipment;

(c) Depreciation of machinery, equipment and other fixed assets used for the contract performance;

(d) Costs of transport, installation and removal of machines, equipment, raw materials and materials to and from the project site;

(e) Rent for workshops, machinery and equipment for the contract performance;

(f) Expenses for designing and technical assistance directly related to the contract;

(g) Estimated expenses for project repair and maintenance;

(h) Other directly related costs.

Costs directly related to each contract shall decrease when there exist other incomes not included in the contractual revenue. For example: proceeds from the sale of superfluous raw materials and materials, liquidation of construction machines and equipment upon the contract conclusion.

18. General costs related to the activities of construction contracts and can be allocated to each specific contract, include:

(a) Insurance premiums;

(b) Costs for designing and technical assistance not directly related to a specific contract;

(c) General management costs in construction.

The above-said costs shall be allocated by appropriate methods, in a systematic manner and according to rational percentages, and uniformly apply to all costs with similar characteristics. The allocation must be based on the common levels applicable to construction activities. (General costs which are related to activities of contracts and can be allocated to each specific contract, also include borrowing costs if they satisfy the conditions on borrowing costs capitalized under the provisions in the standard "Borrowing costs").

19. Other costs which may be retrieved from customers under contract clauses such as ground clearance cost, implementation cost that customers must reimburse to the contractors as provided for in the contract.

20. Costs which are not related to activities of contracts or cannot be allocated to construction contracts shall not be accounted into construction contract costs. These costs shall include:

(a) General administrative management costs, or research and development costs which must not be paid by customers to contractors as stated;

(b) Selling costs;

(c) Depreciation of machinery, equipment and other fixed assets not used for construction contracts.

21. Contract costs include costs related to contract throughout the period from the contract signing to the contract conclusion. Costs directly related to contract arising in the course of contract negotiation shall also be considered part of the contract costs if they can be separately identified, reliably estimated and it is highly probable that the contract will be signed. If costs arising in the course of contract negotiation have already been recognized as production and business costs in the period when they arise, they shall no longer be considered the construction contract costs when such contract is signed in the next period.

RECOGNIZATION OF CONTRACT REVENUES AND COSTS

22. Construction contract revenues and costs are recognized in the following two cases:

(a) Where a construction contract stipulates that the contractor is allowed to make payments according to the set schedule, and when the construction contract performance result is reliably estimated, the revenues and costs related to the contract shall be recognized by reference to the completed volume determined by the contractor on the date of compiling financial statement, regardless of whether invoices for payments according to the set schedule have been billed or not and how much money is inscribed on invoices.

(b) Where a construction contract stipulates that the contractor is allowed to make payments according to the value of performed work volume, and when the contract performance result is reliably determined and certified by customers, the revenues and costs related to such contract shall be recognized by reference to the completed work volume certified by the customers in the period and reflected in the billed invoices.

23. For fixed price construction contracts, the contract results shall be reliably estimated when the following four (4) conditions are simultaneously met:

(a) Total contract revenue can be reliably calculated;

(b) Enterprises can get economic benefits from the contract;

(c) Costs for completing the contract and the work already completed at the time of compiling financial statements can be reliably calculated;

(d) Costs related to the contract can be clearly identified and reliably calculated so that actual total contract cost can be compared with the total cost estimates.

24. For cost plus construction contracts, the contractual results shall be reliably estimated when the following two conditions are simultaneously met:

(a) Enterprises can get economic benefits from the contract;

(b) Costs related to the contract can be clearly identified and reliably estimated regardless of whether they are reimbursed or not.

25. The method of recognizing revenues and costs according to the completed contractual work volume is called the completion percentage method. By this method, revenues shall be determined to match arising costs of the completed work volume reflected in the business operation result report.

26. By the completion percentage (%) method, contractual revenues and costs recognized in the business operation result report are revenues and costs of the work volume completed in the reporting period.

27. A contractor may pay for the costs related to the formulation of a contract. These costs shall be recognized as advances if they can be reimbursed. These costs reflect money amounts to be paid by customers and classified as uncompleted construction projects.

28. Construction contract performance results shall only be reliably determined when the enterprises can receive economic benefits from the contracts. In cases where exist doubts about irrecoverability of certain amounts already counted into the contractual revenues and inscribed in the business result reports, such irrecoverable amounts must be recognized as costs.

29. Enterprises can only make reliable estimates of construction contract revenues when reaching agreement in contracts upon the following:

(a) Legal liability of each party for the constructed assets;

(b) Conditions for change of contract value;

(c) Payment mode and time limit.

Enterprises must regularly review and, when necessary, readjust the estimates of contractual revenues and costs in the course of contract performance.

30. Completed work volumes of contracts to serve as basis for determining revenues may be determined by different methods. Enterprises should use appropriate calculation methods to determine the completed work volume. Depending on the nature of construction contracts, enterprises shall select to apply one of the following three (3) methods to determine completed work volumes:

(a) Percentage (%) of costs of the work volume completed at a certain time on the total estimated costs of the contract;

(b) Appraisal of the completed work volume; or

(c) Percentage (%) of the completed construction and installation volume on the total construction and installation volume which must be completed under the contract.

The work-in-progress payments and advances received from the customers usually do not reflect the completed work volume.

31. When the completed work volume is determined by method of percentage (%) between costs of the work volume completed at a certain time and the total estimated costs of the contract, the costs related to the completed work volume shall be accounted into costs until that time. Costs not counted into the contract’s completed work volume may be:

(a) Costs of the construction contract related to future activities of the contract, such as: costs of raw materials and materials already transported to the construction site or spared for use in the contract but not yet installed or used in the course of contract performance, except for cases where such materials are exclusively manufactured for the contract;

(b) Advances to sub-contractors before the sub-contracted works are completed.

32. When the construction contract performance result cannot be reliably estimated:

(a) Revenue shall only be recognized to match the already arising contract costs, the reimbursement thereof is relatively sure;

(b) Contract costs shall only be recognized as in-period costs when they have already arisen.

33. In the initial stage of a construction contract, cases where contract performance results cannot be reliably estimated may often occur. In cases where enterprises can recover already paid contract costs, the contract costs shall only be recognized to the extent that the paid costs can be recovered. When contract performance results cannot be reliably estimated, no profit amount shall be recognized, even though the total costs for contract performance may exceed the total contract revenues.

34. Irrecoverable costs related to a contract must be immediately recognized as in-period costs in the following cases:

(a) There are not enough legal conditions for continuing the contract performance;

(b) The continued contract performance depends on results of the settlement of petitions or opinions by competent agencies;

(c) The contract involves assets, which are likely to be requisitioned or confiscated;

(d) Contracts where the customers cannot perform their obligations;

(e) Contracts where the contractors cannot fulfill or perform their obligations inscribed therein.

35. When uncertain factors related to the reliable estimation of contract performance results are eliminated, revenues and costs related to construction contracts shall be recognized to match the completed work volume.

CHANGES IN ESTIMATIONS

36. The completion percentage (%) method shall be based on accumulation from the construction commencement to the end of each accounting period in respect of estimates of construction contract revenues and costs. Effect of each change in the estimation of contract revenues or costs, or effect of each change in the estimation of contract performance results shall be accounted as an accounting estimation change. Changed estimates shall be used in determining revenues and costs recognized in the business result report in the period when such changes occur or in subsequent periods.

PRESENTATION OF FINANCIAL STATEMENTS

37. Enterprises shall have to present in their financial statements:

(a) Method for determining revenues recognized in the period and method for determining the completed work volume of a construction contract;

(b) Construction contract revenues recognized in the reporting period;

(c) Total accumulated construction contract revenue recognized up to the reporting time;

(d) Payables to customers;

(e) Receivables from customers;

For contractors receiving work-in-progress payments as provided for in construction contracts (except for cases specified in Paragraph 22a), the following norms shall also be reported:

(f) Receivables according to scheduled progress;

(g) Payables according to scheduled progress.

38. Payables to customers are amounts received by contractors before corresponding work of the contract is performed.

39. Receivables from customers are amounts already inscribed in invoices of payments according to the scheduled progress or value of performed volume, which shall not be paid until the payment conditions prescribed in contracts are fully met or errors are corrected.

40. Receivables according to the scheduled progress is the difference between the total accumulated revenues of the construction contract recognized up to the reporting time, which is larger than the accumulated amount inscribed in invoices of payments according to the scheduled progress of the contract.

This norm applies to on-going construction contracts whereby accumulated revenues already recognized are larger than accumulated amounts inscribed in invoices of progress payments up to the reporting time.

41. Payables according to the scheduled progress is the difference between the total accumulated revenues of the construction contract recognized up to the reporting time, which is smaller than the accumulated amount inscribed in invoices of payments according to the scheduled progress of the contract.

This norm applies to on-going construction contracts whereby accumulated amounts inscribed in invoices of progress payments exceed accumulated revenues recognized up to the reporting time.

STANDARD NO. 16

BORROWING COSTS

(Promulgated and publicized together with the Finance Minister's Decision No. 165/2002/QD-BTC of December 31, 2002)

GENERAL PROVISIONS

01. This standard aims to prescribe and guide the principles and methods for accounting borrowing costs, including: recognition of borrowing costs into production and/or business costs in the period; capitalization of borrowing costs when these costs directly relate to the construction investment or production of uncompleted assets which serve as basis for recording accounting books and compiling financial statements

02. This standard applies to the accounting of borrowing costs.

03. The terms in this standard shall be construed as follows:

Borrowing costs are loan interest and other costs incurred in direct relation to borrowings of an enterprise.

Uncompleted assets are assets in the construction investment process and assets in the production process, which need a duration long enough (over 12 months) to be put to use according to the set purposes or to sale.

04. Borrowing costs include:

(a) Interests on short-term and long-term borrowings, including borrowing interest on overdraft amounts;

(b) Amortization of discounts or premiums related to borrowings through bond issuance;

(c) Amortization of ancillary costs incurred in relation to the arrangement of borrowing procedures;

(d) Financial costs of financial leasing assets.

05. For example: Uncompleted assets are those being in the construction investment process, which are either unfinished or finished but not yet put into production or use; unfinished products being in the production process of production lines with a production cycle of over 12 months.

CONTENTS OF THE STANDARD

Recognition of borrowing costs

06. Borrowing costs should be recognized into production or business costs in the period in which they are incurred, unless they are capitalized according to provisions in paragraph 07.

07. Borrowing costs directly related to the construction investment or production of uncompleted assets shall be accounted into the value of such assets (capitalized) when the conditions prescribed in this standard are fully met.

08. Borrowing costs directly related to the construction investment or production of uncompleted assets shall be accounted into the value of such assets. Borrowing costs shall be capitalized when it is highly probable that enterprises can get future economic benefits from the use of such assets and the costs can be reliably determined.

Determination of borrowing costs to be capitalized

09. In cases where a particular borrowing is used only for the purpose of construction investment or production of an uncompleted asset, the borrowing cost fully eligible for capitalization for such uncompleted asset shall be determined as borrowing cost actually arising from borrowings minus (-) incomes earned from temporary investments of such borrowings.

10. Incomes from temporary investments of particular borrowings shall, pending the use thereof for the purpose of obtaining uncompleted assets, be offset against borrowing costs incurred upon the capitalization.

11. In case of joint capital borrowings, which are used for the purpose of investment in construction or production of an uncompleted asset, the borrowing costs eligible for capitalization in each accounting period shall be determined according to the capitalization rate for weighted average accumulated costs incurred to the investment in construction or production of such asset. The capitalization rate shall be calculated according to the weighted average interest rate applicable to the enterprise’s borrowings unrepaid in the period, except for particular borrowings for purpose of obtaining an uncompleted asset. The amount of borrowing costs capitalized during a period must not exceed the amount of borrowing costs arising during that period.

12. If any discount or premium arises upon the issuance of bonds, the borrowing interest shall be readjusted by amortizing the value of such discount or premium and readjusting capitalization

rate in an appropriate manner. The amortization of the discount or premium may be effected by the actual interest rate method or straight line method. Borrowing interests and amortized discounts or premiums capitalized in each period must not exceed the actual borrowing interest amount and amortized discount or premium amount in that period.

Time of commencing capitalization

13. The capitalization of borrowing costs into the value of an uncompleted asset shall commence when the following conditions are simultaneously satisfied:

(a) Expenses for investment in construction or production of the uncompleted asset start to arise;

(b) Borrowing costs are arising;

(c) Activities that are necessary to prepare the uncompleted asset for its intended use or sale are being conducted.

14. Costs of the investment in construction or production of an uncompleted asset include costs which must be paid in cash, transfer of other assets or the acceptance of interest-bearing liabilities, excluding subsidies or supports related to the asset.

15. Activities necessary to prepare the asset for its intended use or sale include the activities of construction, production, technical and general management prior to the commencement of construction or production, such as the activities related to the application for permits prior to the commencement of construction or production. However, such activities do not cover the holding of an asset when no construction or production that changes the asset's state is taking place. For example, borrowing costs related to the purchase of a land plot requiring site preparation activities shall be capitalized in the period during which activities of preparing such site are conducted. However, borrowing costs incurred while such land plot is purchased for the purpose of holding without construction activities related to such land plot, shall not be capitalized.

Temporary cessation of capitalization

16. The capitalization of borrowing costs shall be temporarily ceased in periods during which the investment in construction or production of uncompleted assets is interrupted, except for cases where such interruption is necessary.

17. The capitalization of borrowing costs shall be temporarily suspended when the investment in construction or production of uncompleted assets is abnormally interrupted. At that time, incurred borrowing costs shall be recognized as in-period production or business costs until the investment in construction or production of uncompleted assets resume.

Termination of capitalization

18. The capitalization of borrowing costs shall terminate when the major activities necessary to prepare the uncompleted asset for its intended use or sale are completed. Borrowing costs arising afterward shall be recognized as in-period production or business costs.

19. An asset is ready for its intended use or sale when its construction or production is complete even though general management works might still continue. In cases where due to minor changes (such as the asset decoration at the purchaser's or user's request) these activities are not yet completed, the major activities are still considered complete.

20. When the investment in construction of an uncompleted asset is completed in parts and each completed part is capable of being used while the construction investment continues for the other parts, the capitalization of borrowing costs shall terminate when all major activities necessary to prepare that part for its intended use or sale are completed.

21. For a trade quarter comprising many buildings, each of which can be used separately, the capitalization shall terminate for borrowed capital used for each particular completed work. However, for the construction of an industrial plant involving many production items which are carried out in sequence, the capitalization shall terminate only when all production items are completed.

Presentation of financial statements

23. Enterprises must present in their financial statements:

(a) Accounting policy applicable to borrowing costs;

(b) Total amount of borrowing costs capitalized in the period; and

(c) Capitalization rate used for determining borrowing costs capitalized in the period.

STANDARD NO. 24

CASH FLOW STATEMENTS

(Promulgated and publicized together with the Finance Minister's Decision No. 165/2002/QD-BTC of December 31, 2002)

GENERAL PROVISIONS

01. This standard aims to prescribe and guide the principles and methods for compiling and presenting cash flow statements.

02. This standard applies to the compilation and presentation of cash flow statements.

03. The cash flow statement is a constituent of a financial statement, it provides information to help users assess changes in net assets, financial structure, cash liquidity of assets, solvency and capability of enterprises for creating cash flows in their operations. Cash flow statements enhance the ability to objectively assess the business operation situation of enterprises and the comparability among enterprises because it can eliminate effects of the use of different accounting methods for the same transactions and events

The cash flow statement is used in assessing and forecasting the possibilities in terms of amount, timing and certainty of future cash flows; it is also used in re-checking the previous assessments and forecasts of cash flows, and examining the relationship between profitability and net cash flow as well as impacts of price fluctuation.

04. The terms in this standard are construed as follows:

Cash comprises cash in funds, cash on transfer and demand deposits.

Cash equivalents are short-term (not exceeding 3 months) investments, which can be easily converted into known amounts of cash and are subject to an insignificant risk of conversion into cash.

Cash flows are inflows and outflows of cash and cash equivalents, excluding internal transfers between cash and cash equivalent amounts within enterprises.

Business activities are principal revenue-earning activities of enterprises and activities other than investment or financial ones.

Investment activities are activities of procuring, constructing, liquidating, assigning or selling long-term assets and other investments other than cash equivalents.

Financial activities are activities that result in changes in size and structure of the owners' equity and borrowed capital of enterprises.

CONTENTS OF THE STANDARD

Presentation of cash flow statements

05. Enterprises shall have to present in-period cash flows in their cash flow statements upon three types of activities: business, investment and financial activities.

06. Enterprises may present their cash flows from business, investment and financial activities in a manner which is most appropriate to their business characteristics. The classification of and reporting on cash flows by activities shall provide information which help users assess impacts of those activities on the enterprises' financial positions and on cash and cash equivalent amounts generated by the enterprises in the period. This information may also be used to evaluate the relationships among the above-said activities.

07. A single transaction may involve cash flows in different types of activities. For example, the repayment of a borrowing including both the principal and interest, in which the interest belongs to business activities and the principal belongs to financial activities.

Cash flows from business activities

08. Cash flows arising from business activities are those relating to principal revenue-earning activities of an enterprise, and providing basic information to evaluate the enterprise's capability to generate cash from their business activities to repay debts, maintain operation, pay dividends and make new investments without external financing sources. Information on cash flows from business activities, when being used in conjunction with other information, shall help users forecast cash flows from future business activities. Principal cash flows from business activities include:

(a) Cash receipts from the sale of goods and the provision of services;

(b) Cash receipts from other revenue-earning activities (royalties, fees, commissions and other revenues other than received cash amounts determined being cash flows from investment and financial activities);

(c) Cash payments to goods suppliers and service providers;

(d) Cash payments to employees as wages and bonuses, and those on behalf of employees such as insurance premiums, allowances, etc.;

(e) Cash payments of loan interests;

(f) Cash payment of enterprise income tax;

(g) Cash receipts from tax reimbursements;

(h) Cash receipts from compensations or fines paid by customers violating economic contracts;

(i) Cash payments to insurance companies as insurance premiums, indemnities and other cash amounts under insurance policies;

(j) Cash payments of fines or compensations imposed on enterprises for their breaches of economic contracts.

09. Cash flows relating to the purchase and sale of securities for commercial purposes shall be classified as cash flows from business activities.

Cash flows from investment activities

10. Cash flows arising from investment activities are those relating to the procurement, construction, assignment, sale or liquidation of long-term assets and investments other than cash equivalents. The principal cash flows from investment activities include:

(a) Cash payments to procure and/or construct fixed assets and other long-term assets, including those relating to development costs already capitalized as intangible fixed assets;

(b) Cash receipts from the liquidation, assignment or sale of fixed assets and other long-term assets;

(c) Cash payments to provide loans to third parties, other than loans of banks, credit institutions and financial institutions; cash paid to acquire debt instruments of other units, other than payments for those debt instruments considered to be cash equivalents and those for commercial purposes;

(d) Cash receipts from the recovery of loans provided to third parties, other than recovered loans of banks, credit institutions and financial institutions; cash receipts from the re-sale of debt instruments of other units, other than receipts from the sale of those instruments considered to be cash equivalents and those for commercial purposes;

(e) Cash payments of investments in capital contributions to other units, other than payments for the purchase of shares for commercial purposes;

(f) Cash recovered from investments in capital contributions to other units, other than cash receipts from the re-sale of already purchased shares for commercial purposes;

(g) Cash receipts from loan interests, dividends and earned profits.

Cash flows from financial activities

11. Cash flows arising from financial activities are those relating to the change in size and structure of owners' equity and borrowed capital of enterprises. The principal cash flows from financial activities include:

(a) Cash proceeds from the issuance of shares or reception of capital contributed by owners;

(b) Cash repayments of contributed capital to owners or for redemption of shares by the issuing enterprises;

(c) Cash receipts from short- or long-term borrowings;

(d) Cash repayments of principals of borrowings;

(e) Cash repayments of financial leasing debts;

(f) Cash payments of dividends or profits to owners or shareholders.

Cash flows from business activities of banks, credit institutions, financial institutions and insurance enterprises

12. For banks, credit institutions, financial institutions and insurance enterprises, their arising cash flows bear distinct characteristics. When making their cash flow statements, these organizations shall have to base themselves on their operation natures and characteristics to classify cash flows in an appropriate manner.

13. For banks, credit institutions and financial institutions, the following cash flows shall be classified as cash flows from business activities:

(a) Provided loan cash;

(b) Received loan cash;

(c) Cash receipts from capital mobilization (including deposits or savings received from other organizations and/or individuals);

(d) Cash refunds of mobilized capital (including repayments of deposits or savings of other organizations and/or individuals);

(e) Receipt of deposits from and repayment of deposits to other financial and credit institutions;

(f) Deposits and receipt of deposits at other financial and credit institutions;

(g) Receipts and payments of assorted service charges and commissions;

(h) Receipts from interests on loans and/or interests on deposits;

(i) Payment of interests on borrowings and/or deposits;

(j) Profits or losses from the purchase and sale of foreign currencies;

(k) Receipts or payments in the purchase and sale of securities at securities-trading enterprises;

(l) Payments for the purchase of securities for commercial purposes;

(m) Proceeds from the sale of securities for commercial purposes;

(n) Recovery of bad debts already written off;

(o) Other receipts from business activities;

(p) Other payments for business activities.

14. For insurance enterprises, received insurance premiums and paid insurance indemnities as well as receipts and payments related to clauses of insurance policies shall all be classified as cash flows from business activities.

15. For banks, credit institutions, financial institutions and insurance enterprises, cash flows from investment activities and financial activities shall be similar to those of other enterprises, except for loans provided by banks, credit institutions and financial institutions, which are already classified as cash flows from business activities for the reason that they relate to principal revenue-generating activities of enterprises.

METHODS OF MAKING CASH FLOW STATEMENTS

Cash flows from business activities

16. Enterprises shall have to report their cash flows from business activities by one of the following two methods:

(a) The direct method: Under this method, the norms indicating cash inflows and cash outflows are presented on statements and determined by one of the following two ways:

- Direct analysis and synthesis of cash receipts and payments upon each receipt or payment item according to the accounting records of enterprises.

- Readjustment of revenues, cost of goods sold and other items in the business result report, for:

+ Changes in the period in inventories, and receivables and payables from business activities;

+ Other non-cash items;

+ Cash flows relating to investment and financial activities.

(b) The indirect method: Norms indicating cash flows are determined on the basis of total before-tax profit and readjusted from the following:

- Non-cash revenues and costs, such as depreciation of fixed assets, reserves, etc.;

- Gains and losses of unrealized exchange rate difference;

- Paid enterprise income tax amounts;

- Changes in the period in inventories, and receivables and payables from business activities (other than income tax and other payables after enterprise income tax);

- Profits or losses from investment activities.

Cash flows from investment and financial activities

17. Enterprises shall have to report separately cash inflows and cash outflows from investment and financial activities, except for those cash flows which are reported on a net basis and mentioned in paragraphs 18 and 19 of this standard.

Reporting on cash flows on a net basis

18. Cash flows arising from the following business, investment or financial activities shall be reported on a net basis:

(a) Cash receipts and payments on behalf of customers:

- Rentals received or paid on behalf of asset owners and those returned to them;

- Investment funds held for customers;

- Acceptance and repayment of demand deposits by banks, amounts transferred or paid via banks.

(b) Cash receipts and payments for items of which the turnover is quick and the maturities are short:

- Purchase and sale of foreign currencies;

- Purchase and sale of investments;

- Other borrowings and loans of a short-term of 3 months or less.

19. Cash flows arising from the following activities of banks, credit institutions and financial institutions shall be reported on a net basis:

(a) Acceptance and repayment of time deposits with fixed maturity dates;

(b) Placement of deposits at and withdrawal of deposits from other financial institutions;

(c) Provision of loans to customers and repayment of those loans by customers.

Foreign currency-related cash flows

20. Cash flows arising from foreign-currency transactions must be converted into the accounting currency at the foreign exchange rates at the time such transactions arise. Currencies in cash flow statements of institutions operating overseas must be converted into the accounting currency of the parent companies at the actual exchange rate of the cash flow statement date.

21. Unrealized exchange rate difference arising from the changes in exchange rates for converting foreign currencies into the accounting currency are not cash flows. However, the exchange rate difference due to the conversion of cash and cash equivalents currently deposited in foreign currencies must be separately presented on cash flow statements in order to compare cash and cash equivalents at the beginning and the end of the reporting period.

Cash flows relating to received interests, dividends and profits

22. For enterprises (other than banks, credit institutions and financial institutions), cash flows relating to already paid loan interests shall be classified as cash flows from business activities. Cash flows relating to received loan interests, dividends and profits shall be classified as cash flows from investment activities. Cash flows relating to already paid dividends and profits shall be classified as cash flows from financial activities. These cash flows must be presented as separate norms suitable to each type of activities on cash flow statements.

23. For banks, credit institutions and financial institutions, the already paid or received interests shall be classified as cash flows from business activities, other than received interests definitely identified to be cash flows from investment activities. The received dividends and profits shall be classified as cash flows from investment activities. The paid dividends and profits shall be classified as cash flows from financial activities.

24. The total amount of loan interest paid in the period must be presented in the cash flow statement whether it has been recognized as a cost in the period or capitalized in accordance with accounting standard No. 16 "Borrowing costs."

Cash flows relating to enterprise income tax

25. Cash flows relating to enterprise income tax shall be classified as cash flows from business activities (except for cases where they are determined as cash flows from investment activities) and presented as separate norms on cash flow statements.

Cash flows relating to the acquisition and liquidation of subsidiary companies or other business units

26. Cash flows arising from the acquisition and liquidation of subsidiary companies or other business units shall be classified as cash flows from investment activities and presented as separate norms on cash flow statements.

27. The total amount of payments for and/or receipts from the acquisition and liquidation of subsidiary companies or other business units shall be presented in cash flow statements in net cash and cash equivalents paid for or received from the acquisition and liquidation.

28. Enterprises shall have to synthetically present in their financial statement explanations the following information on both the acquisition and liquidation of subsidiary companies or other business units in the period:

(a) Total purchase or liquidation value;

(b) Value portion of the purchase or liquidation paid in cash and cash equivalents;

(c) Cash and cash equivalent amounts actually available at subsidiary companies or other business units acquitisioned or liquidated;

(d) Value portion of assets and liabilities other than cash and cash equivalents at subsidiary companies or other business units acquitisioned or liquidated in the period. Value of such assets must be synthesized upon each type of asset.

Non-cash transactions

29. Investment and financial transactions that do not require the direct use of cash or cash equivalents shall not be presented in cash flow statements.

30. Many investment and financial activities do not have a direct impact on current cash flows although they do affect the asset and capital source structure of enterprises. Therefore, they shall not be presented in cash flow statements but in financial statement explanations. For example:

(a) The purchase of assets by accepting related liabilities directly or through financial leasing operation;

(b) The acquisition of an enterprise by means of share issuance;

(c) The conversion of debts into owners' equity.

Components of cash and cash equivalents

31. Enterprises shall have to present in their cash flow statements the norms of cash and cash equivalents at the beginning and the end of the period, effects of changes in foreign exchange rates for converting the currently held cash and cash equivalents in foreign currencies for comparison of the data in cash flow statements with the corresponding items on the balance sheets.

Other explanations

32. Enterprises shall have to present the value of and reasons for large cash and cash equivalent amounts that they have held and not been used due to limitations prescribed by law or other commitments which must be fulfilled by enterprises.

33. There are many circumstances in which cash and cash equivalent balances held by enterprises are not available for use for business activities. For example: Cash amounts accepted as deposits or into escrow accounts; special-use funds; project funding, etc.-

THE MINISTRY OF FINANCE
VICE MINISTER

Tran Van Ta