

## **OVERVIEW OF FACTORS IMPACTING TO THE APPLICATION OF ACCOUNTING STANDARDS**

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**Abstracts.** The application of accounting standards is a necessary measure to ensure transparency and properly explain the information which is presented on the financial statements. When an enterprise applies accounting standards, that will help the users who use the information on the financial statements to make the right decision. However, the application of accounting standards in practice has met certain difficulties and obstacles. By qualitative research methods such as synthesis, analysis, comparison, interpolation, the authors have provided research results on the factors impacting to the application of accounting standards in the enterprises in Vietnam and on the world such as education level, impact of tax, the level of compliance, the influence of auditing organizations, the perception of business owners, characteristics of enterprises and capital sources, the level of increase Economic growth, political, cultural and legal factors aim to help businesses identify the factors to apply accounting standards easily and effectively to promote the development of economic and society.

**Keywords.** Accounting standards, impact factors

### **1. INTRODUCTION**

In Vietnam, although accounting standards had existed for a very long time, enterprises often subjectively did not apply accounting standards in practical. Failure to comply with the accounting regime, ignoring the application of accounting standards in practice will lead to the consequences of falsifying information in the financial statements and if the information on the financial statements is poor, it will be a threat to competitiveness of enterprises. When considering the current status of applying accounting standards in practice, there are still many difficulties and obstacles, and enterprises have not fully utilized the benefits of accounting standards. Therefore, understanding the overview of factors affecting the application of accounting standards in practice will be a premise for building a research model of factors affecting the application of accounting standards at Vietnam and help businesses more comply with the application of accounting standards to perform accounting work of enterprises.

### **2. RESEARCH METHOD**

Our main research objective is an overview of previous research topics that studied the factors affecting the application of accounting standards in order to have a basis for building theoretical models about the factors affecting the application of accounting standards. Therefore, the methods used primarily in research are qualitative methods such as method of analysis, synthesis and comparison. The data used by the author is secondary data, analyzed from there to interpolate to an overview of the factors impacting to the application of accounting standards

### 3. RESEARCH RESULTS ON FACTORS WHICH IMPACT TO THE APPLICATION OF ACCOUNTING STANDARDS

#### 3.1 Studies on application of Accounting Standards

Pham Hoai Phuong (2010) has studied the level of harmonization between Vietnamese Accounting Standards (VAS) and International Accounting Standards (IAS/IFRS). In author's research, the 10-major-accounting-standard was intentionally selected as the main category in order to appraise the harmonization level between VAS and IAS/IFRS due to its significant influences on financial statement. Moreover, it also affects to the average level of harmonization, on measurement, information declaration, related revenue and costs. The combination of quantitative and qualitative research methods were used in this study.

The research by Tran Dinh Khoi Nguyen (2011, 2013) aims to the factors affecting the application of accounting standards in Da Nang (DN). The author has also focused on attributes related to the benefits of accounting standards applying. For instance, thanks to having the transparency of information, gaining trusts in business communities and demonstrating the responsibility towards management services and authorities, enterprises are now able to take grants from the banking system, are capable of expanding transaction business activities. Besides, by means of qualitative method and proportion to the accounting standards used based on some studies by Cooke (1989b); Donna L.S & Stephanie M.B (2000), his research has point out the compliance with accounting standards among small and medium enterprises (SMEs) in Vietnam is still very low. The study also shows that currently the number of Vietnamese accounting standards has issued 26 standards but there are 7 standards that are not fully applicable to SMEs. The study has fairly accurate evaluations along with clear conclusive evidences. The study also surveyed all standards through multiple regression models for analysis used.

Research by Tran Quoc Thinh (2013) considered that the application of accounting standards will handle and solve lots of business issues of enterprises. The result of his research has the average score of 2.83. In the task, auditors are more appreciated than the remaining respondents because they often have works contacting many types of businesses. As a result, it is easier for them to see the importance of accounting standards in preparing and providing information for financial statements. In addition to the accounting compliance level from 2.32 to 2.41 for the assessment and information presented in 2.25, enterprises have complied with the low level of application of standards in practice. The study was used descriptive statistical methods in analyzing variance.

The study of Dang Ngoc Hung (2016) on how positively proportional the level of applying accounting standards goes with the benefits of applying accounting standards. The results of the legal system, experience, capacity of accounting and auditing, support from consulting organizations and characteristics of enterprises, all affect the application of accounting standards. According to Ms. Nguyen Phi Lan, vice president of Pricewaterhouse Cooper Vietnam, accounting standards at enterprises are applied extremely dismissive. "The permissible standards were applied in many ways, but the point is they do not explain clearly which standard was applied..." (Thanh Doan, 2009, Quote Nguyen Cong Phuong 2013). Besides, Mr. Dang Van Thanh, Chairman of Vietnam Accounting and Auditing Association, the application of accounting standards is still perplexed, not yet paid due attention. It is due to "Vietnam has become too accustomed to implementing and complying with accounting regimes, which mainly are documents guiding the regime or concretizing policies and regimes on particular field and profession." (Thanh Doan, 2009, Quote from Nguyen Cong Phuong 2013).

The research of Ho Xuan Thuy (2016) aims to study the current Accounting Standards applied for SMEs (Small and Medium Enterprises), and the conclusion demonstrates the results of accounting standards has important implications in preparing and presenting information for financial statements. For enterprises whose high compliance with accounting standards, their information on financial statements will be resulted more useful. The studied aspect above was demonstrated based on using descriptive statistical methods and studied regression models.

These researchers have focused on the application of accounting standards in practice and most of them have used qualitative research methods to conduct their own. The result of general research has reflected the importance of applying accounting standards on preparation and presentation information for financial statements.

### **3.2 Factors impact to the application of accounting standards**

#### *3.2.1 Economic growth, political, cultural and legal factors*

The study of (Al-Akra & ctg, 2009; Larson, 1993, 1995) indicates that economic growth is one of the most important factors which determine the application of international accounting standards in the developing country. Daniel Zeghal & Mhedhbi's (2006) study shows that the developing countries which inherited the capital markets and modern education so that high levels and rates of economic growth have a tendency to apply IFRS. The author also proves that economic development is really fundamental to the formation and progress of accounting and it affects other functions in society

Daniel Zegha & Mhedhbi (2006) studied the factors affecting to the application of IAS to developing countries. The results of his research model included five factors that influence the application of IAS such as: economic growth (ECO), education level (EDU), the level of foreign economic opening (FDI), Culture (CULT) and the impact of the capital market (ECM).Cooke & Wallace's research (1990) pioneered the introduction of external environmental factors as essential elements to understand each country's accounting system. One of those factors is the level of openness of the economy to the world outside will certainly boost economic growth, but there are also great risks of security and international pressure.

Al-Akra & ctg (2009); Zehri & Chouaibi (2013); Hofstede (1984) analyzed the impact of economy, political, legal and cultural factors related to promoting accounting practice. The study concluded that political and economic factors are more important factors in the application of national accounting standards. Research was performed with qualitative methods such as descriptive statistics, analysis.

#### *3.2.2 Education level*

IAS / IFRS is built on a principle based so its complexity is relatively high. In fact, these standards are quite complex and requires deep and detailed knowledge not only in accounting but also in other industries (calculating insurance statistics, finance, etc. ). In IAS / IFRS countries often comes from professional qualifications and access to ideas and practical experiences by different members of IASB. The study of Joshi, P.L & ctg (2002) relate to how does the level of accounting influence to the application of Accounting Standards. The results show that the higher level of the accountant team is, the easier it is to recognize the standards and to apply the standard into practice is less difficult than the low level.

Thanh Doan (2008), the study focused on discussing compliance with Accounting Standards - arbitrary business. The article quoted Bui Van Mai, acknowledging the fact that many accountants themselves have not fully understood the accounting standards. This is because the standards issued today meeting market economy conditions but the level of accountants and auditors has not been updated. Besides, it is necessary to mention the level of many business leaders who are lack of knowledge about finance and accounting. The above reasons make many enterprises neglect compliance with accounting standards. Also according to financial experts, the reason for this situation is because there is no big benefit between compliance and non-compliance with accounting standards. Therefore, enterprises are not foolish to comply if it does not bring benefits to them even causing trouble. In the world, compliance with standards is highly appreciated in terms of prestige, because if non-compliance, businesses will have a severe reaction of investors.

The study of Kolsi & Zehri (2008); Zehri & Chouaibi (2013); Stainbank (2014); Douppnik & Salter (1995) studies high education levels that will make it easier to apply IFRS as a strategic social decision.

In fact, understanding, interpreting and applying these standards requires a certain level of education and well-trained training to be more appropriate when applying IAS / IFRS.

The study of Zehri & Chouaibi (2013) combined logistic methods and descriptive statistics in the study to empirically analyze the most favorable development for the application of IFRS in countries which have high rate of economic growth, high level of education and a solid legal system. The study also argued that cultural factor, the existence of a capital market, political systems and international integration have a negligible impact on the decision to apply IFRS.

### 3.2.3 *Business characteristics and capital*

The study of Chow & Wong-Boren (1987), Cooke (1989, 1990), Meek, Roberts & Gray (1995), determined the size of enterprises is a factor that has a great influence on the application of the accounting Standard because it relates to the field, the area of business operations, financial resources, human factors, information asymmetry between the manager and the owner. The larger size of the enterprise, the stronger their human resources and financial resources, this lead they easily apply the Accounting Standards. Research was performed with qualitative methods such as descriptive statistics, analysis, synthesis, comparison and deduction.

About the legal characteristics of the business, Singhvi & Desai (1971); Firth (1979); Wallace & Naser (1995); Wallace & ctg (1994) believe that private enterprises, limited companies, and joint stock companies have a significant influence on the level of applying accounting standards. Companies listed will be required to apply Accounting Standards because they must disclose quality information to investors. But private businesses or limited companies are not often pressured by auditing, so the level of compliance is not often as high as that of listed companies.

Research by Belkaoui & Kahl (1978), Wallace & Naser (1995) suggests that profitability affects the application of Accounting Standards. If the profitability is high, enterprises will expand their production scale, then the disclosure of information on financial statements will be more true and reasonable. When the capital of an enterprise is formed by equity or loans or other sources, the capital structure of the enterprise also affects the compliance with the Accounting Standards and the purpose of providing information to investors, capital structure simultaneously affects both domestic and international markets and the degree of proportionality between standard use and the level of use of bank loans or equity. Radebaugh & Gray (1993) argue that developing and building relationships between businesses and banks will provide investors with more direct access to information. Owners in joint stock companies do not have this opportunity because the information received is generally publicized about financial resources. Because of how managers mobilize capital, investors often ask for information disclosure to ensure their benefits. According to the market-based model, accountants must ensure to provide information for the investors know how well the company operates. How the ability to generate money in the future and the risks involved. However, this is not suitable for SMEs due to insufficient conditions to list prices. In contrast, in the model of bank loan, accountants aim to protect the interests of the only group of banks, so the caution in accounting and measurement problems is very noticeable (Nobes , 2010). For SMEs or countries where the financial market has not yet developed, the appropriate funding channel is the bank and the business community. The benefit of this group of people is often the credit experts of banks, relatives, friends, relationships with sellers and buyers.

The factor of generating capital is also a factor affecting the application of the Accounting Standard because of its practical meaning associated with the interests of the subjects that need

to use the information provided. That is the financial environment factor, affecting the behavior of enterprises in implementing accounting work. From an enterprise perspective, if the business wants to seek funding from a certain channel, then the business must meet certain measurement and presentation requirements.

The study of Street, DL & Gray (2002), assessed the compliance level with the international accounting standards and provided evidence of the factors related to compliance as well as the factors directly affecting the Compliance with International Accounting Standards and the impact of non-IAS compliance, especially in the case of IAS disclosure requirements.

#### *3.2.4 Awareness of business owners*

Research of Page (1984); Collis & Jarvis (2000) on the awareness of business owner regarding the benefits of financial reporting. Business owners are often interested in declaring taxes and implementing taxes for the state, but are less interested in complying with accounting regulations in applying accounting standards so that the quality of information provided in the financial statements is often poor in small and medium enterprises because of not complying with the principles in accounting standards.

The research of Ho Xuan Thuy (2016) argued that awareness of SME owners is also one of the factors hindering the application of IFRS, the ability and knowledge of IFRS for SMEs is still limited in the process of preparing and presenting information on financial statements. Small and medium enterprises are not familiar with IFRS's measurement methods for SMEs such as fair value, the complexity of relationship between tax and accounting or difficulties in translating from English to Vietnamese.

#### *3.2.5 Effect of auditing company*

The study of Al-Baskeki (1995) stated that auditing firms have a great influence on the decisions of enterprises in the selection of applying accounting standards. If an enterprise is audited by one of the big auditing firms (BIG 4), it is common said that the enterprise pay more attention to the application of international accounting standards in recognition, measurement and presentation. The choice of audit services by well-known companies allows businesses to receive grants in a wider international capital market. In the case of enterprises operating only domestically, the financial statements must require auditing because the company must list prices at the stock exchange, participate in bidding for projects, the level of application of national accounting standards is also higher if no audit is required. Page (1984) argued that the financial reporting requirement is affected by BIG 4 - a group of four leading auditing companies including: Price Waterhouse - Cooper, Earnst & Young, Deloitte & Touche and KPMG. This study shows that government organizations have certain effects on businesses in recognition and disclosure accounting information.

#### *3.2.6 Standard compliance level*

According to Tran Dinh Khoi Nguyen (2011), Accounting Standards are too difficult to understand when the enterprises apply to accounting work (41.8%), many accountants have not deeply understood the standards because the concepts and terms in the accounting standard is new for Vietnamese enterprises, so they are interested in guiding circulars more than the accounting standard because the circular guide more in detail and more specific. However, circulars issued with the goal often serve the tax authorities to check whether the accountant complies with the accounting policy rather than serving accounting. In Vietnam today there are about 90% of small and medium enterprises (Ho Xuan Thuy, 2016), so when standards are issued, they often balance the costs and benefits gained from compliance with standards, tax regulations and policies. This research has provided an overall picture of the application of standards in Vietnamese enterprises. However, VAS 17 has not been deeply mentioned in previous studies in practical application.

Research of Ho Xuan Thuy (2016) on the aspect of compliance with the Accounting Standard. Research results had many factors such as size of enterprises, regulations of the state, legal form, auditing company, qualifications of accountants affecting the application of VAS. The results of the study are 5/7 experts believe that compliance with the standard is still low, while 2/7 experts believe that the level of compliance with Accounting Standards with foreign investment capital is usually higher. With the research results, the author has partly confirmed the research of Tran Dinh Khoi Nguyen (2011). Besides, the standard compliance of SMEs has a good awareness of the importance of accounting standards, accounting qualifications and awareness have also improved while business owners or managers often more interested in accounting work (Dang 2011).

### 3.2.7 *Effect of taxes*

Research by Nguyen Cong Phuong (2010) about the connection between accounting and tax in Vietnam, the research results show that the interdependence between tax policy and accounting policy accounts for a large proportion, the companies have small and medium size is greatly influenced by taxes.

The study of Pham Thi Bich Van (2012) analyzed the influence and importance of income tax to the selection of accounting policies in the accounting area of Da Nang city. In which factors affect the choice of accounting policy is tax on the theoretical and practical perspective and the cohesion of tax for accounting. Besides, the author also conducted a survey on the importance and necessity in applying VAS 17 to provide quality information related to income tax on financial statements.

Research by Bui Thi My Ngan (2012); Tran Dinh Khoi Nguyen (2010); Nguyen Thi Phuong Hong & Nguyen Thi Kim Oanh (2014) on the factors affecting the selection of accounting policies in Vietnamese enterprises today. The study shows that the income tax policy also has a relatively large impact on the application of accounting regimes, accounting standards or accounting policies of enterprises in Vietnam. Besides taxation has a great importance to the choice of accounting policies of enterprises. On the other hand, the factor of income tax policy is indispensable in applying accounting standards in the present time. The study used quantitative research methods (T-test) to test the impact of factors. The test results have 4 factors affecting the selection of Vietnamese accounting policies, such as income tax expense, debt, listing status of enterprises, stability of profit levels.

## 4. CONCLUSION

The objective of this study is to explore the factors affecting the application of accounting standards so that there is a basis for building research models on the factors affecting the application of accounting standards in Viet Nam. With the above research results, the authors have found many factors affecting the application of typical accounting standards such as education, tax's effects, compliance with accounting standard, the influence of auditing organizations, awareness of business owners, business's characteristics and capital, economic growth, political, cultural and legal factors.

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