DISCUSS ON PRINCIPLES SUITABLE IN ACCOUNTING

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Summary: The principle of conformity is one of the seven principles set out in VAS No.1. However, in the view of building a standard system of IASB and FASB, this principle is not applied. The current Vietnamese standards system is basically based on the standard system issued by IASC / IASB, and in addition to VAS No.1, other standards do not apply the appropriate principle.

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Appropriate principles are not mentioned in the international accounting standards system as well as the US standard system because the international and US standards-based approach is based on asset / debt approach and not revenue / cost approach.

Although in the Vietnamese accounting standard No. 1 the definitions and conditions for recording revenue and expenditure of Vietnam follow the approach of assets / liabilities, but in VAS No.1, there is still a more suitable principle.

Typical illustrations for the application of the appropriate principle in the Vietnamese accounting regime are provisions on the pre-deduction of the cost of real estate in Circular 200/2014/TT-BTC dated December 22, 2014 Guiding the business accounting regime, or in the regulations on corporate income tax on income determination. import taxable with real estate transfer activities. Another example illustrating the application of appropriate principles in Vietnamese accounting standards and regimes is the provision of pre-operating expenses. According to VAS No.4 and Circular 200/2014/TT-BTC dated December 22, 2014 Guiding the business accounting regime, pre-operating expenses such as enterprise establishment costs, staff training costs and advertising costs incurred in the pre-operation period of newly established businesses, or expenditures For the research period, the cost of moving the location may be capitalized as an asset (prepaid cost) for allocation (not exceeding 3 years).

Although the Vietnamese Accounting Standards Board has no explanation for the reasons for allowing capitalization of the above costs, they may rely on the application of the appropriate principle: These costs relate to the creation Revenue in the following periods should be postponed and recorded in the revenue periods (because revenue related to these expenses has not been incurred in the period of cost incurred).

The pre-operating costs are considered to be the cost of future revenue (economic benefits in the future) but the US and international standard builders argue that the time and value of benefits In the future, it is difficult to adopt a cautious approach: to record the cost of the period when they arise.

As a basis for understanding the principle of conformity, we take the same point of view on approaches to measuring and recording revenue / cost.
There are two approaches to recording revenue / cost:

1. **Property / debt approach (balance sheet approach):** This is the standard editor's approach for more than 40 years. According to this approach, the measurement and reporting of assets / liabilities is the focus of accounting (a recent empirical study also demonstrates that the Balance sheet is increasingly more important in corporate assessment). Assets / liabilities will be recorded when they meet the conditions of recognition, and revenue / cost is recognized as a result of asset / debt recognition.

2. **Revenue / cost approach (approach to reporting business results):** Is the approach of previous accountants and researchers. According to this approach, the determination of revenue / cost, especially income is the focus of accounting. The two basic principles for this approach are the principle of revenue recognition and the appropriate principle (cost recognition principle). Then assets / liabilities are a consequence of revenue / expense recognition to reflect on the accrual basis.

Before standards are issued, according to generally accepted accounting principles, revenue is recognized as "earned" (earned), expenses are recognized according to matching principle: cost It should be noted in the period in which the revenue is related (accountants often say that let the costs follow the revenue - let the expenses follow the collection).

The editors of the standard choose to approach assets / liabilities because they believe that the determination of revenue / cost through the recognition of assets / liabilities with a stronger basis applies the principle of conformity access to revenue / costs. However, there is much debate and research that refutes this view and argues that the revenue / cost approach provides more useful information (typically research by Dichev).

In the Vietnamese accounting standard No. 1 (VAS 1), the appropriate principle is stated as follows: “The recognition of revenues and costs must be compatible with each other. When recording a revenue, a corresponding cost must be noted with respect to the creation of that revenue. Costs corresponding to revenue include the cost of the period that generates the revenue and expenses of the previous periods or the costs payable but related to the turnover of that period. ” The specific provisions on revenue recognition in VAS 1 are as follows: "Revenue and other income are recognized in the Statement of income when the future economic benefits are obtained which relate to an increase in assets or a reduction in liabilities and value added. that must be reliably identified. ” Thus, the condition of revenue recognition here applies according to the approach of asset / debt without mentioning the appropriate principle. Recognize costs in VAS No.1 “Production, business and other costs are recognized in the statement of income when these costs reduce future economic benefits related to the reduction of assets or increased liabilities and this cost must be determined reliably. The expenses recorded in the statement of income must comply with the appropriate principle between revenue and costs. When the expected economic benefits in many accounting periods are related to revenue and other income is indirectly determined, the related costs are recognized in the above statement of income systematic or proportional basis. An expense is immediately recognized in the statement of income in the period when it does not bring economic benefits in the following periods. ”According to these regulations, the recognition of expenses on the statement of business results is also based on the approach of assets / liabilities, recording the cost as a consequence of asset / debt recognition. Appropriate principles are only mentioned when the costs directly related to revenue need to be recognized in accordance with revenue (this paragraph VAS is a summary translation so it can be misleading).

In most cases, the approach to assets / debt or revenue / cost results in the same results. However, in some cases (such as deferred tax in VAS No.17, revenue in IFRS 15), the asset / debt approach helps to solve problems more clearly and simply. The following example illustrates the approach to asset / debt and
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revenue / cost in recording the cost / debt of warranty. Company A has been operating since early 2018 and sells products with 1-year warranty conditions. The company’s revenue in 2018 is 10,000,000. The company expects warranty costs for the number of goods sold in 2018 to be 200,000, which has arisen in 2018 of 60,000 (recorded as expenses), the remaining is expected to arise in 2019 of 140,000.

**According to revenue / cost approach**

The cost of warranty for goods sold in 2018 is the cost associated with generating revenue in 2018, so it should be recorded in 2018 expenses. The total warranty cost should be recorded as 200,000. The amount recorded in the incurred cost is 60,000, so the company needs to make a pre-deduction of warranty costs in 2018, the remaining of 140,000 and increase the provision for warranty return of 140,000. Thus, according to this approach, the focus is on recognizing costs, and the provision for debt is a consequence of cost recognition.

**According to the asset / debt approach**

By the end of 2018 the company is obliged to perform warranty for customers who have purchased their products due to warranty commitments. Therefore, the company needs to record a debt of 140,000 on warranty and increase the cost. Then the cost is recognized as a consequence of the recognition of the debt payable on the warranty provision. Total warranty costs in 2018 will be 60,000 + 140,000 = 200,000.

Thus, according to the current regulations of VAS No.1, the principle of appropriateness is not used as a basis for revenue / expense recognition that VAS No.1 uses asset / debt approach. However, in the Vietnamese accounting regime (Circular 200/2014 / TT-BTC dated December 22, 2014 Guiding the business accounting regime), the "appropriate principle" is expressed in the regulations on revenue recognition / cost (for example, the provisions on pre-pricing of real estate costs). Products recorded revenue). Appropriate principles are also used very commonly in tax regulations to determine taxable income.

**References:**