



THE INFLUENCE OF ECONOMIC FACTOR ON THE DIFFERENCES IN THE FINANCIAL STATEMENTS UNDER VIETNAMESE ACCOUNTING AND INTERNATIONAL ACCOUNTING: THE CASE OF FDI FIRMS IN VIETNAM

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ABSTRACT

This study was conducted to present, analyze and measure the influences of economic factor on the differences in the financial statements of FDI firms under Vietnamese accounting standard (include VAS, the Vietnamese accounting regime and related legal regulations such as guiding circulars, regulations, etc in accounting) and international accounting standard (IAS/IFRS). The data collected from the survey and research results in the FDI firms from 2015 to 2017 are analyzed and measured by mixed method research. The result of the descriptive statistics of the audience survey on the factor of economic influence differences in the financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS have an average value of 3.6826 and standard deviation of 0.55712. The result of correlation partial coefficient of regression in SPSS20 for the economic factor has Sig less than 0.05; as such, economic significant correlation with the differences in the financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS with reliability 95%; the economic factor has the coefficient of 0.349 and the same direction with the differences in the financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS.

Keywords: Vietnamese Accounting standard, international accounting standard, financial statements, firm, economic.

Introduction

A number of economic targets set in Vietnam are attaching the economy with other economies in the world, building the open economy, assimilating with the area and the world and focusing on export, while replacing imported products by domestically produced products... These targets are presented at the conferences, seminars and economic forums. To meet the targets, firstly, firms and FDI firms in particular need to have positive business performance. Accounting is one of the components that has significant impacts on that result.

FDI firms in Vietnam are running in many fields with dynamic, stable and efficient operation and fast growth in terms of quantity and scale. Currently, FDI firms form two sets of financial statements, one complying with Vietnamese Accounting Standards and one complying with IFRS or requirements from holding companies (Tran, 2016). The differences of financial statements under Vietnamese accounting standard and IAS/IFRS in FDI firms result in many problems such as the compatibility of financial statements under Vietnamese accounting standard and increasing the fees for converting financial statements from Vietnamese accounting standard into IAS/IFRS. These differences should be explained by the analysis and measurement of the influence of several factors including the economic factor. For this reason, the study proposes some recommendations of financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS.



Literature Review

From the 1970s, most studies have mentioned that the economic factor is one of the factors which have influenced the development of the national accounting system in general and the differences in forming financial statements in particular. The factors affecting the differences in the preparation and presentation of the financial statements as well as the development of the national accounting system include environmental factors such as culture, economy, education and the legal system (Gray, 1988, Perera, 1989, Doupanik & Salter, 1995, Zarzeski, 1996; Jaggi và Low, 2000, Boolaky, 2003).

Vietnamese Accounting standard was edited and to promulgated based on IAS/IFRS. Economic factor is one of the factors that affect the differences in the application of IAS/IFRS in other countries. This influence has been analyzed under different aspects: inflation (Nobes, 1998), stage of economic development (Radebaugh & Gray, 2002).

The degree of influence of the economic factor was analyzed in detail using mixed methods. How the economic system affects the way in which businesses and investors contact each other and the presentation of information on the financial statements. The presentation of accounting information relates to the economic development, inflation and capital market (Nobes, 1998, Archambault & Archambault, 2003). However, these studies were conducted before 2003; consequently, there was a big gap in time compared to the present. Therefore, this factor should be reassessed in Vietnam with its own economic and social characteristics.

Zhang (2005) presents the factors that affect the Chinese accounting system in the stage time, including the preparation and presentation of financial statements. The results show that there are many factors that affect the development of China's accounting generally and the preparation and presentation of financial statements in particular. However, the economic factor is one of the most influential factors.

The inflation and the level of economic development is two of the factors affecting the development of general accounting and financial statements in particular Choi and Meek (2011).

In addition to the above international studies, studies in Vietnam have also mentioned the effect of the economic factor on the difference in financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS. According to Le (2007), the difference under VAS15 and IAS11 in the construction contracts is derived from the characteristics of the Vietnamese economy, the market economy managed by the State with the large influence of tax on accounting. Le (2011) suggests two reasons for the differences under VAS and IAS: (i) The direct reason: VAS was edited based on the corresponding IAS/IFRS; (ii) the reason of accounting environment: The author's view is that the young capital market of Vietnam was established and has been operated over 10 years is one of the most influential economic factors.

Pham (2014) analyzes the characteristics of the economic system to find out the advantages and disadvantages of using IAS/IFRS in Vietnam. According to the author, Vietnam is one of the fastest growing economies. In 2007, Vietnam officially joined the WTO, hence the economy became more open and integrated which mark an important turning point in the global economic integration.

Each study by Tran (2013) and Le (2014); has its own view on the influence of economic factors to the financial statements. Using the qualitative research method, the authors analyzed and presented the effects of this factor on the differences of



financial statements under Vietnamese accounting standard and IAS/IFRS. The results of the two studies were similar to previous international studies. However, these two studies did not include the measurement of the influence of economic factors to the differences of financial statements under Vietnamese accounting standard and IAS/IFRS. In addition, these two studies were conducted with a small sample size and research scope.

As such, there is almost no systematic study directly related to the assessment and measurement of the effects of economic factors to the difference in financial statements of FDI firms in Vietnam under Vietnamese accounting standard and IAS/IFRS. This research will contribute to the reliability of previous studies while emphasizing the analysis and measurement of the effect of economic factors to the differences of financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS.

Data and Research Methodology

Setting observed variables

Observational variables were synthesized according to the factors based on references from previous studies, including the dependent boundary. "Differences in financial statements (FS) of FDI firms under Vietnamese accounting standard and IAS/IFRS" were measured by 13 criteria, measured by indirect methods which are: measurement through awareness, understanding of respondents about the difference in FS of FDI firms under Vietnamese accounting standard and IAS/IFRS, measurement of the differences through interviews and **independent variable: Economic factor is one of the independent variables** which is measured by 10 attributes, including:

(A1): Vietnam's economy is increasingly integrated with the global economy.

(A2): The state economic sector still plays the leading role in the economy.

(A3): Vietnam's capital market is still young, not attracting many foreign investors.

(A4): The analysis of financial statements is not meaningful for investors to make decisions.

(A5): There are many differences between the economic policies of Vietnam and other countries.

(A6): FDI Firms in Vietnam have diversified business activities.

(A7): The inflation in Vietnam was high.

(A8): The economy is affected by globalization.

(A9): The process of financial reform in Vietnam is running slow; have not met the requirements of economic integration.

(A10): The current financial management regulations are not in line with the reform requirements.

Research sample and data collecting methodology

According to Hair et al (2006), the sample size has to be 100 -150 at least. Gorsuch (1983) argued that factors analysis needed at least 200 observations. In order to assure reliability, 480 sets of questions had been given to chief accountants, FDI's general accountants and auditors in independent auditing firms. Data collecting methods were employed through direct surveys, emails and online questions by Google Document.

Results receiving from FDI firms are 165 surveys, from independent audit firms are 140 surveys. Therefore, the rest observations for the model research is 305 surveys



(63,5%); with 100% participants are chief accountants and FDI firms' general accountants; 70% participants are auditors of independent audit firms. Most participants have 5-year experience (92%) and have Bachelor degree or higher (100%). As can be seen, all participants are at high level of accounting knowledge, and this assures the reliability of the surveys answer.

Data processing

The data processing is based on the common process of Creswell (2003) and is adjusted according to GT (Grounded theory) analyzing method of Strauss and Corbin (1998) in order to ensure that the results of the study is trustworthy and valuable. The data processing process includes: (i) The overview of relevant studies to identify research gaps and conducting theoretical background study of the economic factor influencing on FS of FDI firms under Vietnamese accounting standard and IAS/IFRS. (ii) Data collecting and analyzing for qualitative research: Conducting interviews, designing questionnaires, collecting data, then summarising, analyzing and drawing the surveys conclusions. (iii) Data collection and analysis for quantitative research: Continuing the surveys. By using collected data and theoretical basis, measuring the impact of the economic factor on differences in FS of FDI firms under Vietnamese accounting standard and IAS/IFRS by applying Cronbach Alpha, EFA, multi-variable regression method. (iv) Comparing, linking, synthesizing and discussing qualitative and quantitative research results with the aim to provide a comprehensive basis for the economic factor affecting differences in financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS. Conclusions and results of the study are the basis for the recommendations to reduce the gap between Vietnamese accounting standard and IAS/IFRS, enhancing harmonization between Vietnamese accounting standard and IAS/IFRS on FS of FDI firms.

Research Methodology

We used mix research methods (qualitative and quantitative method) (Cresswell, 2003) in this research, started from research objectives. In the qualitative approach, after determining the research objective, we undertake data collection by collecting and examining documents that are prior research works. After that, we develop a questionnaire and interview the experts who have high expertise in the research field. Finally, we analyze the data, synthesize them to produce research results and develop questionnaires for quantitative methods.

In the quantitative method, the questionnaires are re-examined and distributed broadly to the surveyed subjects. Participants commented their opinions on the impacts of economic factor in the financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS.

Inheriting the research of Tran (2013), this research measures the effects of economic factor in financial statements differences under Vietnamese accounting standard and IAS/IFRS by indirect methods: Measurement through perception, understanding of respondents on the degree of influence of economic factor in the difference in financial statements; measure through interviews ... It is easier to carry out the surveys following this direction because the size of survey forms are large. We use descriptive analysis based on the mean levels of influences of questionnaires. The mean level is from 1 to 5 which 1 is no influence and 5 is significant influences (based



on Likert's scale) and based on many attributes of the economic factor. We summarize the results of the survey, data processing with the support of SPSS20 to confirm the influence of economic factor to the differences in financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS.

Research Question: How does the economic factor influence the differences in financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS?
H1 hypothesis: There is a positive influence of the economic factor to the differences in financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS.

Results and Discussion

FDI firms in Vietnam

There were 13,724 FDI firms in Vietnam as at 31 December 2016, in which 11,736 firms are 100% foreign owned firms, making up 85.5%; 1,988 joint – venture firms, accounting for 14.5%. Industrial and construction sectors are the areas in which FDI firms mainly operate, making up 59.2% at 31 December 2016. Currently, there are more than 100 countries investing in Vietnam in which South Korea as the leading country making up 28.8% of the total investment; followed by Japan with 10.62% and Singapore with 9.9% (general statistics office, 2016). In addition, there are many multinational Corporations in Vietnam with good business results, which attract a large number of employees such as Unilever, P&G, Pepsico Foods...

The differences in financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS

Deloitte (2016) pointed the differences between Vietnamese accounting standard and international accounting standards into two aspects: differences in presentation of financial statements and differences in chart of accounts.

Based on previous studies, we analyze, evaluate and measure differences of presentation in the financial statements under Vietnamese accounting standard and IAS/IFRS on the perceptions of respondents. Research conducted Independent Samples Test with two variable values, to test the average difference with two groups of respondents being accountants at FDI firms and auditors at independent audit firms. The presentation in the questionnaires includes:

- The concepts underlying the preparation and presentation of financial statements to external users (TB1) include 3 attributes: principles and basic requirements, elements of financial statements, Recognize elements of financial statements;
- Presentation financial statements (TB2) includes 1 attribute of presentation;
- Cash flow statement (TB3) includes 1 attribute of presentation;
- Interim financial statements (TB4) includes 1 attribute of presentation;
- Earnings per shares (TB5) includes 3 attributes of recognition, measurement, presentation (Tran, 2013).

The differences in FDI firms' FS items in accordance with Vietnamese accounting standard and IAS/IFRS in this report are surveyed, analysed and measured by descriptive statistic results and comparing the differences between 2 groups of participants in using Independent T-test in SPSS20 which included 8 pairs: Inventory (KM1); Income taxes (KM2); fixed tangible assets (KM3); fixed intangible assets (KM4); assets leasing (KM5); revenues (KM6); borrowing expense (KM7) and provision for contingent assets and liabilities (KM8). Each pair includes 3 parts: recorded part, evaluation part and presentation for official disclosure (Tran, 2013).



The influences of economic factor to the differences in financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS

Statistic results describe the opinions of experts about the influences of economic factor to the differences in financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS.

Table 1: Statistic results describe the opinions of experts about the influences of economic factor to the differences in financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS

Descriptive Statistics									
	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis		
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
A1	305	2	5	3.66	.761	-.156	.140	-.289	.278
A2	305	2	5	3.66	.739	-.154	.140	-.226	.278
A3	305	2	5	3.65	.764	-.112	.140	-.330	.278
A4	305	2	5	3.68	.758	-.427	.140	-.029	.278
A5	305	2	5	3.75	.711	-.090	.140	-.253	.278
A6	305	2	5	3.64	.766	-.035	.140	-.389	.278
A7	305	2	5	3.59	.842	.185	.140	-.693	.278
A8	305	2	5	3.72	.755	-.088	.140	-.371	.278
A9	305	1	5	3.75	.731	-.242	.140	.453	.278
A10	305	1	5	3.72	.715	-.078	.140	.046	.278
A	305	1.90	4.80	3.6826	.55712	-.302	.140	.264	.278
Valid N (listwise)	305								

Source: The datas were processed by us

Table 1 show the extent to which the respondents agree with the questionnaire about the influence of economic factor to the differences in financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS. According to survey results, most respondents agree that A5 factor “There are many differences between the economic policies of Vietnam and other countries” is one of the most influential factors resulting in the differences in financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS, with the mean of 3.75 and standard deviation of 0.711. However, these people are still wondering about A7 factor “The inflation in Vietnam was high”; with the mean of 3.59 and standard deviation of 0.842. The results for the remaining factors are as follows:

- Vietnam's economy is increasingly integrated with the global economy; with the mean of 3.66 and standard deviation of 0.761.
- The state economic sector still plays the leading role in the economy; with the mean of 3.66 and standard deviation of 0.739.
- Vietnam's capital market is still young, not attracting many foreign investors; with the mean of 3.65 and standard deviation of 0.764.
- The analysis of financial statements is not meaningful for investors to make decisions; with the mean of 3.68 and standard deviation of 0.758.



- FDI Firms in Vietnam have diversified business activities; with the mean of 3.64 and standard deviation of 0.766.
- The economy is affected by globalization; with the mean of 3.72 and standard deviation of 0.755.
- The process of financial reform in Vietnam is running slow; have not met the requirements of economic integration; with the mean of 3.75 and standard deviation of 0.731.
- The current financial management regulations are not in line with the reform requirements; with the mean of 3.72 and standard deviation of 0.715.

Evaluating the reliability of the scale and survey data

Table 2: Testing result of economic factor

Attribute properties		Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-total Correlation	Cronbach's Alpha if Item Deleted	Cronbach's Alpha
Vietnam's economy is increasingly integrated with the world economy	A1	33.16	26.039	0.569	0.904	0.907
The state economic sector still plays the leading role in the economy	A2	33.16	25.703	0.639	0.899	
Vietnam's capital market is still young, not attracting many foreign investors	A3	33.18	25.074	0.703	0.895	
The analysis of financial statements is not meaningful for investors to make decisions	A4	33.15	25.300	0.677	0.897	
There are many differences between the economic policies of Vietnam and other countries	A5	33.08	26.132	0.606	0.901	
FDI Firms in Vietnam have diversified business activities	A6	33.19	25.534	0.635	0.900	
The inflation in Vietnam was high	A7	33.23	24.140	0.748	0.892	
The economy is affected by globalization	A8	33.10	24.949	0.732	0.894	



The process of financial reform in Vietnam is running slow	A9	33.07	25.403	0.692	0.896
The current financial management regulations are not in line with the reform requirements	A10	33.10	25.739	0.660	0.898

Source: The datas were processed by us

Economic factor has 10 attributes (items), total Cronbach's Alpha is 0.907. The Corrected Item-total Correlation of attributes are higher than 0.3 and had Cronbach's Alpha are over 0.6. So, all of attributes are reliable and meaningful (Hoang & Chu, 2008).

The results of EFA model for the Economic factor

Table 3: Rotated Component Matrix (extract)

Attribute	Result
A7	.811
A2	.729
A8	.728
A9	.710
A6	.709
A3	.709
A10	.702
A4	.692
A5	.639
A1	.637

Source: The datas were processed by us

Table 3 show that Factor Loading was the norm to ensure the level of practical significance of the EFA. Factor Loading ≥ 0.5 also demonstrates that the compositional attributes of economic factors tend to converge (Hair & associates, 2010).

Partial correlation testing of regression coefficients for economic factors

Table 4: Coefficients^a ((extract)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-115.360	4.141		-27.86	.000
Economic	10.663	1.110	.349	9.611	.000

Source: The datas were processed by us

In table 4, the economic factors have Sig.= 0.000 < 0.05, therefore economic correlation is significant to the differences in financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS with reliability 95%.



Beta Standardized Coefficients' economic factors is 0.349, reflecting the same relationship to the difference in financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS. Assuming that other factors are constant, when economic factor increases by 1 point, the result for the difference in financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS increases by 0.349 point.

Economic factor is one of the seven factors was analyzed, measured and in standardized regression equations: $D = 0,349 \times E + \dots$

D: Dependent variable represents for "the difference in financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS".

Independent variable: 7 variables; including economic factors (E).

Explanation: Currently, there are many legal document systems on accounting. Therefore, the accountants face difficulties in the process of applying those regulations. This leads to the consequence that the financial statements may differ between firms in terms of information on each item as well as the presentation of economic indicators. In addition, the current financial management regulations in Vietnam are not in line with the reform requirements, the process of financial management reform is still running very slow. On the other hand, accountants must provide information and development according to the development of the economy. In addition, the more integrated the economy, the more necessary the criteria for international standards, including accounting is. However, while IAS/IFRS is supplemented and updated continuously, Vietnamese accounting standard has not been fully updated and not fit with IAS/IFRS. Moreover, there is no comprehensive reform in Vietnamese accounting standard. Therefore, this is one of the reasons why the Vietnamese accounting standard which is different from IAS/IFRS by nature, now becoming more different under globalization.

Conclusion and Suggestions

Conclusion

The economic factor is one of the factors influence the differences in financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS. Analysis results shows that: H1 hypothesis: "There is a positive influence of the economy to the difference in financial statements of FDI firms under Vietnamese accounting standard and IAS/IFRS" is accepted.

Suggestions for Vietnam

According to Ha & Nguyen (2011), the development of a market economy of any country requires the accounting system to be researched and built in accordance with recognized international standards. Vietnam is in the process of international integration, the requirement to convert financial statements in to international reporting standard is becoming increasingly essential. Narrowing the gap between Vietnamese accounting standard and IAS/IFRS will help to improve the intergration for both Vietnamese accounting standard and IAS/IFRS. On the other hand, this improvement also help to make the financial statement more transparent, easy to use for all stakeholders and reduce the time for reconciliation and explaining to foreign partners. In addition, it will remove barriers and gradually change the thinking of the people who form financial statements as well as the perception of people who use the



financial statements. However, this is not simple and requires effort from the Ministry of Finance, accountants, auditors and professional practitioners.

In the context of global economic integration, globalization along with finance and business integration as well as technological development, make it essential to have the principles of general accounting to ensure the value of the information. With that orientation, Vietnam is also actively integrating into the global economy and finance. In 2014, TT 200/2014/TT-BTC was issued which help to enhance the elemental nature than form and facilitate application more flexible than traditional accounting. Some new elements are included in IFRS 15 – Revenue which has recently been introduced and applied in many countries around the world. However, the application is in theory still, changing from the basis of the system so it should be further modified to meet the actual needs. To do this, the roadmap agreed by the Ministry of Finance, the coordination of firms, accountants and auditors to further promote the role of accounting information in firms.

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