

DEVELOPING AN ACCOUNTING MODEL FOR SMALL AND MEDIUM-SIZED ENTERPRISES IN VIETNAM

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In order for small and medium-sized enterprises (SMEs) to develop sustainably in a harsh competitive business climate and closer economic integration, it is important to improve the quality and effectiveness of accounting practice in SMEs. The quality of accounting practice, to a certain extent, directly and sharply affects the effective governance of enterprises in general and SMEs in particular. Thus, the crucial point is how to develop an accounting model that is suitable to the governance capacity and various sizes of SMEs and can produce transparent and adequate accounting information for users on the ground of harmonizing benefits and costs. The paper looks into accounting models corresponding to the size of Vietnam's SMEs and accordingly facilitates their accounting practice in the context of incessant fluctuations in size.

Keywords: Accounting model, SMEs, financial accounting, managerial accounting

1. Establishment of an accounting information system

The SME accounting information can be split into two branches, namely financial accounting information and managerial accounting information.

The financial accounting information reflects assets, sources of capital, business performance, and other aspects related to accounting activities. It depends on the size of SMEs that the reflection and disclosure of such information can be limited to some extent.

- For micro enterprises, financial accounting information is mainly related to their operation and business performance.

- For nearly small and small-sized enterprises, it is bound to include information concerning assets, sources of capital, business operation and performance.

- For nearly medium and medium-sized enterprises, the reflection and disclosure of information must consist of aforementioned requirements. However, a medium-sized enterprise must execute them in detail like a large-sized enterprise; and reflection and disclosure of information by a nearly medium-sized enterprise can be more comprehensive and flexible to suit its business characteristics and demand of information users.

The managerial accounting information revolves around budget estimates, costs and cost

fluctuations, short and long-term decisions, and evaluation of responsibility centers. It depends on the size of SMEs that we can look for suitable information for reflection and disclosure.

- For micro enterprises, managerial accounting information is not an essential part due to its humble size and plain structure (i.e. business management is mainly based on experience and personal relationships.)

- For nearly small and small-sized enterprises, disclosures often concentrate on actual cost accounting so as to control costs and cost fluctuations and establish rough estimates to facilitate the planning and making decisions.

- For nearly medium-sized enterprises, disclosures often concentrate on actual cost accounting, and establishing budget estimates and information for making short and long-term decisions.

- For medium-sized enterprises, disclosures often concentrate on the cost accounting system which is based on actual costs or the combination of actual costs and estimates (or if possible, a medium-sized enterprise can employ the standard cost accounting system), the establishment of budget estimates and various information for making short and long-term decisions, and responsibility accounting as per the organization characteristics and classification.

2. Measures to establish and transfer accounting information to users

a. Measures concerning financial accounting:

In order to have a unanimous financial accounting regime among SMEs, it is important to integrate accounting mechanisms applicable to Vietnam's enterprises. To do so, the author suggests some specific measures as follows.

For accounting records, it is necessary to agree upon common account books, forms, and accounting methods; and rotate accounting records within enterprises in the hope of:

- Limiting compulsory records except for records that directly affect the business governance and taxation; simultaneously expanding the use of guidelines and internal records (which must include basic contents as required) to suit requirements for data collation and handling in enterprises.

- Encouraging the utilization of electronic records when stringent provisions on establishment, rotation, inspection, and storage of such records as well legal responsibilities of persons and organizations involved are in place.

Concerning accounting books, there are a lot of accounting methods applicable in Vietnam's enterprises. It is due to historical reasons; yet in long run, it is advisory to employ the general accounting journal that facilitates both manual and computer-aided data procession. However, in order to be congruent with the current circumstance, enterprises should be oriented towards either a journal-ledger or a general journal.

- The journal-ledger is applied in micro and nearly small-sized enterprises due to the fact that it utilizes few accounts and handle simple operations, and thus appropriate to accounting practitioners who are low-qualified and rely on manual practice.

- The general journal can be applied in enterprises other than the above-mentioned ones and should be undertaken with appropriate accounting software.

In addition to compulsory comprehensive accounting books, each enterprise can set up specific accounting books based on its business characteristics to facilitate the establishment of detailed financial statements and managerial accounting reports.

The system of accounting is very necessary to process both financial and managerial accounting information. The unanimous application of the accounting system in enterprises must be

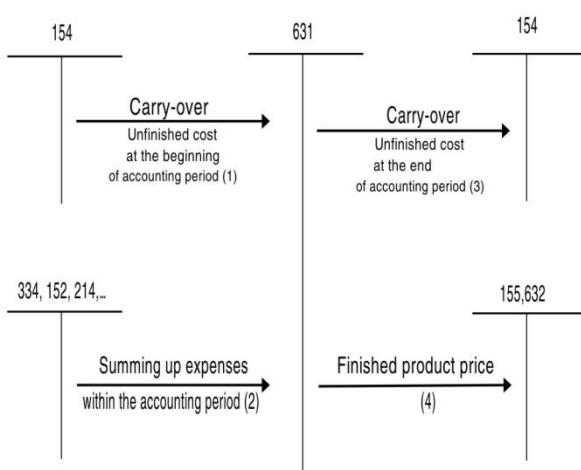
stipulated in detail; and there should be a guideline concerning the limited use of accounts, content and utility, and bookkeeping methods suitable to enterprise's size in order that financial statements can be established in congruence with regulations.

- Here are some specific cases to illuminate the aforementioned point. Of three types of cash accounts, small and nearly small-sized enterprises just need to use accounts 111 and 112. Of four accounts for receivables, micro and nearly small-sized enterprises just need to employ accounts 131 and 133 in case VAT is set off, or account 138, etc.

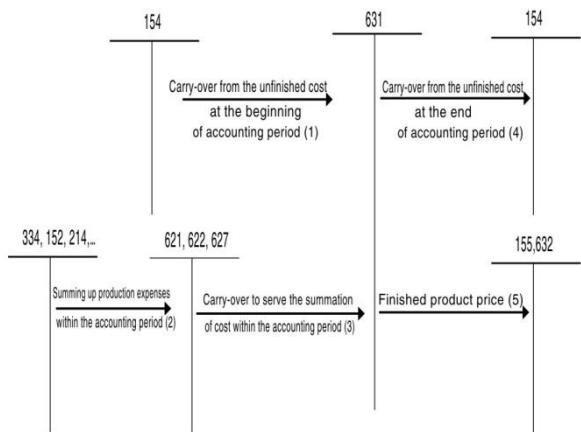
- For cost accounts, small and nearly medium and medium-sized enterprises should be encouraged to make the most use of accounts of type 6 to serve the cost management and analysis in managerial accounting. With a regard to micro and nearly small-sized enterprises alone, it is not necessary for them to employ such accounts, except for the account 631, to sum up expenses and calculate production cost.

The method of production cost accounting and price calculation must be adjusted to fit the business characteristics. To calculate the finished product price, it is necessary to inventory and evaluate unfinished products at the end of an accounting period in order to calculate unfinished production cost at the end of an accounting period. This is also a feature of periodic inventory method. Thus, the account 154 is merely used to reflect unfinished production cost at the beginning and end of accounting period; summing up expenses and calculating production cost should be presented in the account 631. The reflection model is illustrated in the below charts.

- Regarding micro, nearly small (and even small-sized enterprises), if it is impossible to divide production costs into different entries in accounts of type 6, the reflection can be executed as follows:



- The remaining enterprises using accounts of type 6 to control separate categories of expenses, the analysis is carried out as follows:



As mentioned above, there are differences in terms of SME sizes, users of accounting information, and demand for such information, and thus regulations on financial reporting should not be rigid but flexible and various so as to be suitable to such differences.

In our opinion, the financial reporting system should be differentiated as follows:

- Micro and nearly small-sized enterprises only need to establish an accounting balance sheet and a condensed business performance report (Forms B01b-DN and B2b-DN promulgated by Decision 15).

- Small and nearly medium-sized enterprises must produce an accounting balance sheet, a business performance report, and a financial statement; simultaneously, they should be encouraged to establish a cash flow report (if

need be). Such documents can follow forms promulgated by Decision 48; however, some items in the accounting balance sheet and cash flow report can be abridged or left out.

- Medium-sized enterprises shall establish all financial reports as prescribed and observe forms promulgated by Decision 15.

b. Measures concerning managerial accounting:

Given the managerial accounting information system established according to the size of SMEs, the practice of managerial accounting is also associated with four issues to be tackled, that is, accounting records, account books, accounts and the managerial accounting system.

Besides accounting records usually utilized for financial accounting practice, enterprises can work out internal documents to facilitate the recording and collection of preliminary information that in its turn will facilitate the making of account books and the establishment of managerial accounting reports. Because such documents are for internal use only, they need not follow any common guidelines yet have to include fundamental contents at service of inspection when necessary.

In addition to accounting books usually utilized alongside financial accounting practice, enterprises can work out other books in accordance with its characteristics and management demand, which are to facilitate the tasks of processing accounting information and preparing managerial accounting reports.

In the next section, the authors focus on tackling issues concerning accounts system and managerial accounting reporting system.

The accounts system at service of managerial accounting targets must be based on the accounts system promulgated by law; yet such accounts could be reorganized to facilitate the tasks of processing information and establishing managerial accounting reports. The aforementioned detailed organization is executed as follows:

Designing detailed accounts to serve managerial accounting must be attached to the following targets:

- Accounting production expenses and calculating product price as per either actual costs, standard costs, or actual costs combined with estimated costs.

- Evaluating managerial responsibility via accounting for responsibility centers.

Based on such targets, the design of accounts must observe the followings:

- Combining the code of each responsibility center with each account that reflects expenses and revenue.

- Specifying accounts as per actual costs, standard costs and cost differences.

- Categorizing and encoding cost accounts according to costs and scope of operations to facilitate the control, analysis and prediction.

Additionally, designing given accounts needs to be fully computerized so as to generate figures for managerial accounting reports and financial statements.

It depends on capacity and purposes of disclosure that account codes can be made as follows:

- For enterprises that need analyzing production expenses at service of decision making, it is possible to add letter B or D to account numbers that are required in the agreed-upon accounts system so as to differentiate variable costs and fixed costs respectively (e.g. 621B, 622B, 627B, 627D, etc.)

- In addition to differentiation of variable and fixed costs, if an enterprise has a desire to analyze cost fluctuations in accordance with estimated or standard costs, it is possible to affix corresponding figures to distinguish between actual standard costs (or estimated costs) and differences such as figure "0" for standard costs or estimated, "1" for actual costs and "2" for cost differences. For example, 621B0 means standard costs of direct materials; 621B1 denotes actual costs of direct materials; 621B2 is the differences between actual costs and standard costs of direct materials.

- If an enterprises would like to practice responsibility accounting besides differentiating variable costs, fixed costs, and differences between standard costs (or estimated costs) and actual costs, it can include some figures to distinguish each responsibility center such as "00" for production center, "10" for revenue center, "20" for profit center, and "40" for investment center. For example, 621.B.0.00 means the standard cost of materials of the cost center, 627.B.0.00 denotes the variable standard cost of the cost center, 511.1.10 represents the actual revenue of the revenue center, etc.

The aforementioned categorization can help process information in correspondence with demands of managerial accounting report users (i.e. SMEs of each size level).

Regarding the managerial accounting system, due to the fact that a managerial accounting report is just to facilitate the governance, each SME can establish a managerial accounting report which is appropriate to its size.

- A managerial accounting report of a micro and nearly small-sized enterprise can relate to production costs, fluctuations in actual and estimated costs, and break-even analysis.

- A small and nearly medium-sized enterprise can report production costs and product price, cost fluctuation analyses, basic cost estimation concerning consumption, production, inventory, etc. Additionally, its reports can furnish break-even analysis, price decisions, and products to be produced, etc.

- For a medium-sized enterprise, its managerial accounting report must furnish all aspects based on its capacity. It should pay attention to reports supplying information needed for long-term strategic decisions such as investment projects, technological upgradation, restructuring, etc.; and simultaneously evaluate responsibility of centers of production, revenue, profit and investment on the ground of characteristics of delegation of work.

Measures to establish and transmit accounting information, given a systematic process, will relate to: input information system, information processing system, and output information system. Such systems exist in the accounting practice of all enterprises; yet, the enterprise's size may lead to certain differences in terms of characteristics, content, and procession techniques. The complexity of each system is gradually increased according to the size due to diversity of output information.

From this perspective, the operation of the aforementioned systems in micro and nearly small-sized enterprises is directly affected by the business owners. Meanwhile, that in small and nearly medium-sized enterprises is affected by both business owners, management boards and other persons involved in the accounting practice. Medium and large-sized enterprises, besides in-company effects, are also influenced by out-company factors that have direct or indirect interests in the enterprise's business. Thus, the establishment of an accounting model for SMEs must take such points into account because they are a crucial part affecting the business performance in the long run.

3. Measures concerning accounting practitioners and the accounting machine

Accounting practitioners play a vital role in the accounting information quality. Therefore, when developing an accounting model for enterprises in general and SMEs in particular, it is necessary to pay due attention to accounting practitioners and the accounting machine.

Accounting practitioners must be trained in certified schools and own a good professional code of ethics. Chief accountants should have qualifications required by the Ministry of Finance.

It depends on the enterprise's size and the need of accounting information users that the

enterprise employs or recruits a certified accountant.

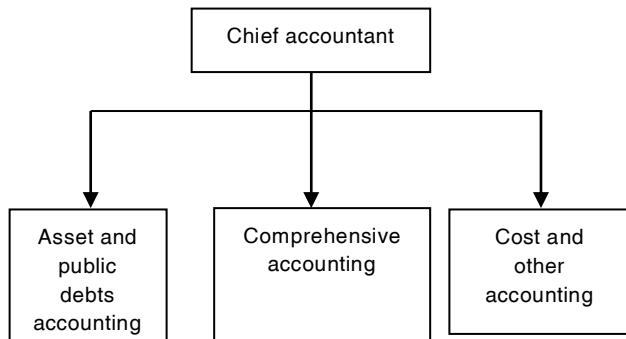
The employment of accountants and organization of the accounting machine should be carried out as follows:

Micro enterprises should employ accounting practitioners. However, in order to guarantee legal responsibilities, it is advisory to employ an accounting firm or a certified accountant.

Nearly small-sized enterprises, like micro ones, can either employ a certified accounting practitioner/firm or recruit one professionally-trained accountant or two.

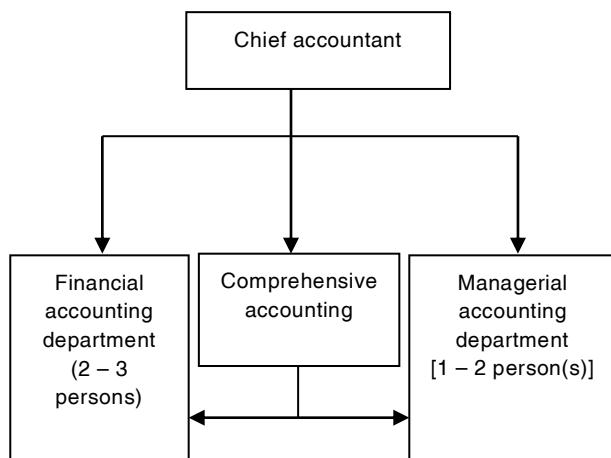
Small, nearly medium and medium-sized enterprises must recruit certified accounting practitioners and a chief accountant to run the accounting machine. Accounting practitioners should be 3-year college graduates or higher. The chief accountant must be university graduates. The accounting machine is centralized and has at least three persons according to the enterprise's size.

- Small and nearly medium-sized enterprises can observe the following model. For small-sized enterprises, the comprehensive accounting will be undertaken by the chief accountant.



- Medium-sized enterprises can follow the below model.

The financial accounting department will be in charge of keeping books about assets, salary and wage, debts, equity capital, and distribution; and together with the comprehensive accounting department to prepare financial statements and other detailed reports.



The managerial accounting department will assume responsibility for keeping cost accounts, establishing estimates, designing information for decision making, and rendering reports on responsibility (if any).

4. Measures concerning IT application

Thus far, the application of IT in accounting practice has become popular and generated positive results. However, the application of IT in SMEs has been weak and not highly systematic.

When integrating IT into governance in general and accounting practice in particular, managers often weigh up benefits and costs. Thus, manager's awareness and the business conditions will determine level of application of IT; and SMEs of the same size do not necessarily gain the same level of IT application. According to the authors, the application of IT should be done gradually, from simple to complex or from lowest to highest. Micro and nearly small-sized enterprises can use available utilities like Excel and Access to process accounting information. Small, nearly medium and medium-sized enterprises can purchase accounting software or develop their own software based on characteristics of their operations and demand of managers to support both financial and managerial accounting sections with a view to producing necessary information for external and internal users.

5. Measures concerning the internal control system

An internal control system is very useful for the enterprise management and business governance, especially in large-sized enterprises. It aids managers in connecting responsibilities and governing such connection among departments to accomplish the common target while observing laws and corporate regulations and respecting creativeness and activeness of each department.

Theoretically, an internal control system includes the scope of control, risk analysis, control activities, information and communication, and supervision. Yet in SMEs, especially micro enterprises, control activities, information and communication, and supervision are very important.

Designing and operating an internal control system that is appropriate to the enterprise's size and conditions will enable managers to control and evaluate targets, work out suitable remedies, and make a subjective decision; and thereby probably making appropriate adjustments to

boost the responsibility of each department as well as achieving common targets.

For SMEs, to run and control the internal control system should be assigned to a member of director's board who will also take charge of rendering periodic reports so that the director's board can appraise achievements, and punctually tackle shortcomings (if any).

6. Conclusion

Building an accounting model for enterprises plays a crucial part in business governance as well as the management capacity enhancement. Based on characteristics in the enterprise's size, governance competence, demand for development and integration, an accounting model should be a combination of both financial and managerial accounting. In doing so, it is expected to benefit both accountant practitioners and accounting information users, especially enterprise managers■

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