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# Preparation of Financial Statements of Enterprises According to IFRS: An Empirical Study from Vietnam\*

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## Abstract

The purpose of this study was to find out what factors influence the preparation of financial statements in accordance with the International Financial Reporting Standards (IFRS) for Vietnamese businesses. The survey included 150 enterprises, including parent companies of state-owned economic groups, parent companies that are listed companies, large-scale public companies that are unlisted parent companies, and enterprises with 100 percent foreign direct investment, that will apply IFRS voluntarily from the year 2022 and switch to the mandatory application from the year 2025 (Ministry of Finance, 2016). The survey was carried out with the help of the Google Form tool, and the data was processed using EFA and regression analysis methods on the SPSS 22.0 software. The findings show, for enterprises in Vietnam, that six factors influence the preparation of financial statements in accordance with IFRS, ranked in order of influence from high to low: (i) Related party requirements; (ii) Professional qualifications of accountants; (iii) Roles of enterprise managers; (iv) Forms of capital ownership in enterprises, (v) Institutional regulations, and (vi) Operational characteristics of the enterprise. In addition, the study also shows that, for enterprises in Vietnam, the requirements of related parties are an important factor to promote the preparation of the financial statements of enterprises according to IFRS.

**Keywords:** Accounting, Enterprises, IFRS, Financial Statements, Vietnam

**JEL Classification Code:** M10, M40, M41, M48

## 1. Introduction

The conversion of preparing financial statements for an enterprise from national accounting standards to IFRS is known as IFRS financial statement preparation. It can be said that the transformation to preparing financial statements

of enterprises according to IFRS has been carried out in many countries around the world, stemming from the benefits brought by IFRS such as (i) The application of IFRS in the preparation of financial statements makes it easier for enterprises to raise capital from foreign investors (Owusu et al., 2017; Nguyen, 2018). This is because IFRS creates transparency, provides complete information, and helps improve accountability to reduce information gaps between internal and external enterprises; thereby, it will increase the transparency of information, help enterprises access capital in the international market, as well as improve the reputation and the brands of enterprises in the international market; (ii) The application of IFRS will help reduce capital costs and reporting costs (Nguyen, 2018; Ajibade et al., 2019).

The reason for this is that preparing financial statements according to IFRS will help enhance the reliability of the information of enterprises; through which, enterprises will increase the ability to mobilize foreign investment capital flows, reduce the cost of issuing securities to raise capital. Additionally, under IFRS, multinational companies will not have to prepare two sets of financial statements according to two different standards (usually: one set of financial

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statements according to national standards to be submitted to the local regulatory authorities and another set of IFRS financial statements to be forwarded to the parent company for the preparation of the consolidated financial statements).

This will enable companies to apply and present their financial statements in the same language and the same accounting data, thereby helping to save costs when preparing financial statements; (iii) The application of IFRS will help assess the value of enterprises more reasonably (Nguyen, 2018; Tran et al., 2019; Ta et al., 2021) since the requirements for recognizing assets as well as liabilities at fair value when preparing financial statements will help evaluate the value of the enterprise more reasonably and accurately.

From these economic benefits, and to create a legal corridor on accounting, towards integration and convergence with international accounting, attracting foreign investment capital into Vietnam, the Ministry of Finance of Vietnam has issued a roadmap to apply IFRS to enterprises (Ministry of Finance, 2016). According to this roadmap, from 2022, parent companies of large-scale state economic corporations or those having loans financed by international financial institutions, parent companies being listed companies, large public companies being unlisted parent companies and other parent companies, enterprises with 100% foreign direct investment capital will voluntarily apply IFRS to prepare consolidated financial statements. After 2025, it will be mandatory to apply IFRS in the preparation of consolidated financial statements for this group of enterprises.

However, many studies have shown that the fast or slow transition to IFRS depends on the differences between national accounting standards and IFRS, as well as the field of operation, requirements of related parties, accounting policies applied by enterprises, quality and flexibility of current financial reporting structure of enterprises, size of enterprises (Nguyen, 2018; Trinh, 2019; Nguyen et al., 2020; Xuan, 2021). At the same time, the transition of financial statement preparation from national accounting standards to IFRS not only affects the accounting policies and financial position of enterprises but also has unforeseen impacts on business activities of the enterprise and there are many risks concerning the operation of the enterprise (Ernst & Young, 2009). On that basis, it can be seen that the preparation of financial statements according to IFRS in enterprises will be influenced by many factors, including factors inside the enterprise, factors outside the enterprise, favorable factors, and potential disadvantages for enterprises.

Stemming from the above issues, the authors conducted this study to determine the factors affecting the preparation of financial statements of enterprises according to IFRS and to confirm the role of related parties in the process of converting financial statement preparation to IFRS. On that basis, the authors propose recommendations to enterprises on

the issues that need to be dealt with to facilitate enterprises' process of preparing financial statements according to IFRS.

The structure of the research paper consists of five parts; the following part is the literature review; the third part is the research methodology; the fourth part is the findings; the fifth part is the discussion and policy implications; the sixth part is the conclusion.

## 2. Literature Review

In the trend of integration, research results in recent years have shown that there has been a change in the national accounting system in countries towards convergence with international accounting standards (Beasley et al., 2005; Türel, 2010; Chiang, 2013; Uzma, 2016; Trinh, 2019). At the same time, studies also show that the transformation of financial statement preparation from national accounting standards to IFRS in enterprises faces many barriers both within the enterprise itself and outside the enterprise (Ali & Saim, 2009; Sawan & Alsaqqa, 2013; Bui et al., 2020). From the review of studies, it is shown that, regarding IFRS, there have been two main research approaches as follows:

*As for the first approach*, general studies on IFRS and evaluation of the harmonization and convergence of national accounting standards with IFRS, typically with studies such as:

Qu and Zhang (2010) argued that the establishment of a single set of accounting standards is seen as the way to achieve global accounting convergence. Accordingly, the study suggests that countries need to consider and evaluate the harmonization of national accounting standards with IFRS to adjust the set of national accounting standards to be closer to IFRS. Sharing the same view, Ha and Le (2016) also believe that international accounting convergence is becoming an inevitable trend to meet the nature of global economic convergence; therefore, the authors suggest that Vietnam should choose the method of partial convergence by forcing the application of IFRS for listed companies, financial companies, insurance companies, banks and public enterprises with the state capital.

Barth et al. (2012) examined whether the adoption of IFRS by non-US companies would result in accounting results that differ from those of US companies' adoption of US GAAP. Research results show that the companies applying IFRS have better accounting systems and better document value fit than reality compared to US companies applying US GAAP. This shows that the application of IFRS has improved the comparability of financial statements and encouraged companies to prepare financial statements according to IFRS.

Sawan and Alsaqqa (2013) suggested that with the internationalization of capital markets and the increasing volume of international investment, companies operating in

Turkey need to provide high-quality financial information to access financial resources, which has accelerated the adoption of IFRS in Turkey. However, in this application process, Turkey encountered some complications such as the difference in Turkish accounting standards compared to IFRS, the complexity of IFRS, the shortage of accounting human resources to apply and implement IFRS. On that basis, it is suggested that to converge IFRS, Turkey needs to implement the partial application of IFRS and then move to the full application of IFRS.

At the same time, Pham (2010) and Pham et al. (2018) stated that the conversion of national accounting standards to the application of IFRS needs a suitable foundation and application roadmap; accordingly, the researchers suggest that it is necessary to choose a model of selective application of important international accounting standards as the basis for building a national accounting standard system to suit the economic context of the country and approach the international context.

Besides, Tran and Nguyen (2016) also believe that to converge with IFRS, the economic, legal, cultural, and political factors of the countries need to be similar. Accordingly, the study recommends that it is essential to apply direct solutions to the current accounting system of the country and focus on factors such as the economy, legal system, educational and cultural level of the country for international harmony.

*As for the second approach*, studies on the factors affecting the application of IFRS, typically with studies such as:

Nguyen (2014) used the quantitative method to identify factors affecting the application of IFRS in Vietnam. The results show that: capital market, economic growth, education, and law competency affect the application of IFRS; while politics, culture, and world economic integration have negligible impacts. The limitation of the study is that the selected factors are still subjective, the research results have not been considered and evaluated carefully; the arguments are still heavily subjective and the responses are biased towards the medium value.

Nguyen and Pham (2016) studied the factors affecting the application of IFRS in Vietnam using the quantitative method based on a survey sample of 132 accountants, auditors, and accounting experts in Ho Chi Minh City. The results show that the high economic growth factor helps to accelerate the application of IFRS; the larger the capital market, the higher the education level, the easier it is to apply IFRS; the legal system has a positive impact on the adoption of IFRS. The limitation of the study is that the research sample is selected by a convenient method, so it is not representative. The analysis is only confined to descriptive statistics, correlation analysis, and regression analysis, without using EFA analysis, confirmatory factor

analysis before being included in the SEM structural model to confirm the reliability of the model. At the same time, the study only cares about the macro factors of the economy but does not consider the factors belonging to the operational characteristics of enterprises.

Nguyen (2018) empirically studied the factors affecting the conversion of financial statements from VAS to IFRS in listed companies in Vietnam. The results of the normalized regression model show that the five independent variables of the model have a positive influence on the transition of financial statements from VAS to IFRS, namely economic integration, legal system, cultural environment, support of administrators, and professional qualifications of accountants; in which, the most important is the professional qualifications of accountants in enterprises.

Meanwhile, the study of Tran et al. (2019) on the factors affecting the application of IFRS in listed companies shows that the factors of return on equity (ROE), quality of audit activities influence the application of IFRS in enterprises. Along this line of research, the study of Ta et al. (2021) also shows that the factors ROE, audit quality, foreign investors, forms of enterprise organization also affect the application of IFRS in enterprises. The limitation of these studies is that they only focus on surveying listed companies.

Besides, the study of Nguyen et al. (2020) also shows that enterprises with higher profitability ratios, debt ratios, and enterprise size, the more likely they are to apply IFRS successfully than other enterprises and vice versa. The results of this study have some similarities with the study of Al-Sakini et al. (2021), Ta et al. (2021).

From the overview of the above studies, it is shown that several factors are affecting the application of IFRS in enterprises; however, the research team believes that the transition from preparing financial statements according to national accounting standards to IFRS will depend on two groups of factors including (i) Internal factors of the enterprise, such as the operational characteristics of the enterprise, the professional qualifications of the accountants, the roles of enterprise managers or the capital structure/form of capital ownership in the enterprise; (ii) External factors of the enterprise such as the requirements of related parties, the government's determination to issue regulations that it is mandatory for enterprises to apply IFRS instead of the mere encouragement of application.

Therefore, the research group believes that the approach according to these two groups of influential factors is appropriate and shows that this study has a certain scientific contribution along with the flow of research on the factors affecting the application of IFRS in enterprises in Vietnam, helping enterprises in Vietnam identify the factors affecting the preparation of financial statements according to IFRS.

### 3. Research Methodology

#### 3.1. Research Procedure

To carry out this study, the authors took the research steps illustrated through the following diagram (Figure 1).

#### 3.2. Research Hypotheses

##### *Institutional regulations (TC)*

An institution is understood as a collection of regulations, principles, and laws used to govern and orient the development of an organization or a state in certain fields (Pham & Do, 2021). For the accounting field, the institutional regulations are the legal regulations such as the Law on Accounting, the decrees on guiding the implementation of a number of articles of the Law on Accounting, the accounting standards, the circulars, accounting regulations, and mandatory accounting practices that organizations,

enterprises, etc. need to comply with and implement in accounting work. Recent studies show that institutional factors have an important influence on accounting activities at organizations and enterprises during their operation, typically suggested by Tran and Nguyen (2016), Nguyen (2018), Krivogorsky (2019), Zou and Alfán (2020).

*H1: Institutional regulation has a positive impact on the enterprises' preparation of financial statements according to IFRS.*

##### *Requirements of related parties (BLQ)*

Parties are considered to be related if one party can control or exercise significant influence over the other party in making financial and operational decisions (Ministry of Finance, 2003). At the same time, related parties' theory also assumes that the needs of related parties are often varied and invariably changing, so enterprises tend to focus on meeting the needs of related parties bringing about great and

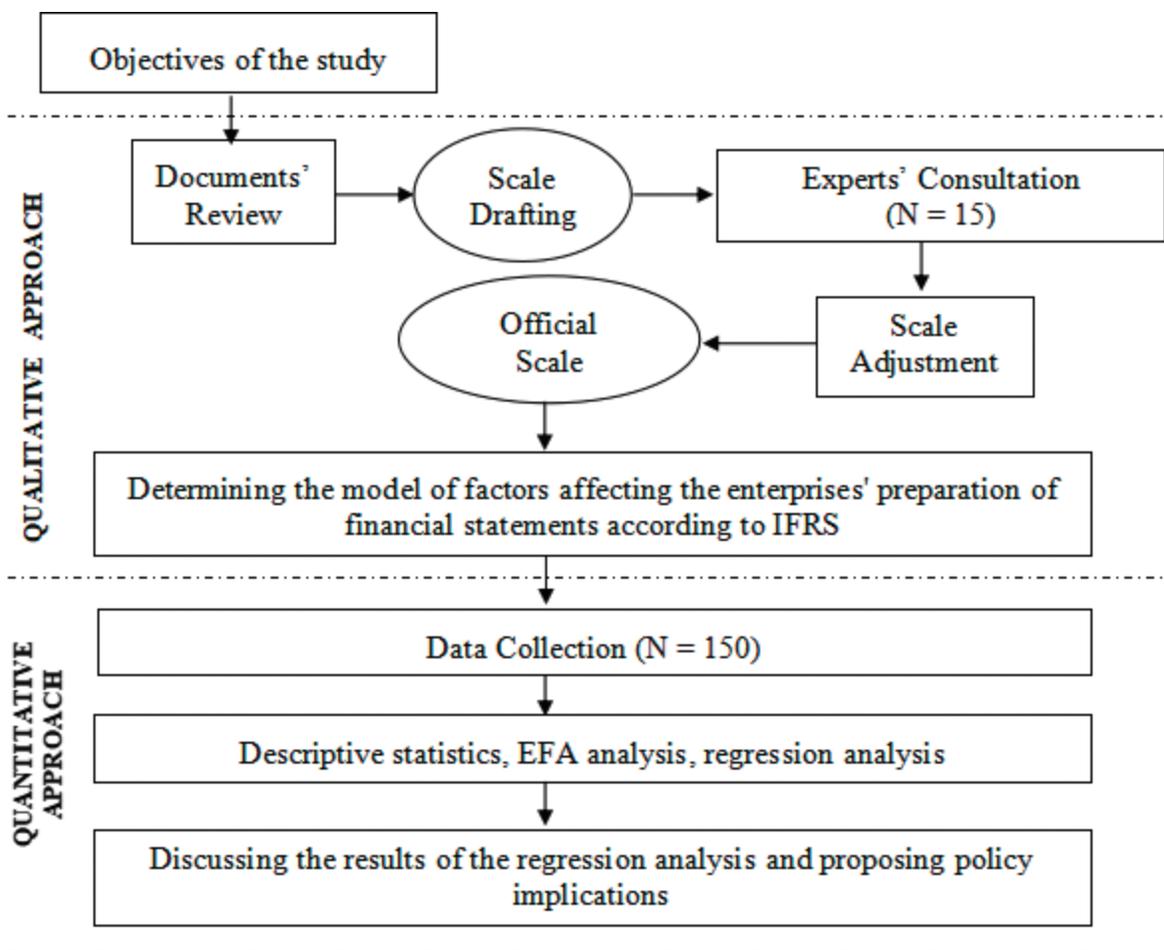


Figure 1: Research Procedure

direct benefits. The theory also assumes that the interests of other parties are also satisfied through the pursuit of business strategy and information reporting in accordance with social norms and values (Freeman, 1984). In addition, recent studies also show that related parties have a great influence on the selection of accounting and information disclosure policies (including voluntary and mandatory information) at different enterprises, typically suggested by Nguyen (2018), Tran et al. (2019), Nguyen et al. (2020), Nguyen et al. (2020), Ta et al. (2021), Nguyen et al. (2021).

*H2: Requirements of related parties have a positive impact on the enterprises' preparation of financial statements according to IFRS.*

#### **Operational characteristics of the enterprise (DD)**

An enterprise is a business that has its own identity, assets, and a reliable transaction office. To do business, the company must register under the provisions, orders, and processes of the legislation. As a result, all issues concerning the legal form of the enterprise, the nature of the registered business lines, the process of decentralization of operational management, decentralization of financial management, capital mobilization, and selected accounting policies are included in the operation characteristics of the enterprise. Recent studies show that the operational characteristics of enterprises affect the choice of accounting policies and methods of accounting records, etc., typically suggested by Nol and Kim (2015), Uzma (2016), Nguyen (2018), Xuan (2021).

*H3: The operational characteristics of the enterprise have a positive impact on the enterprises' preparation of the financial statements according to IFRS.*

#### **Roles of enterprise managers (NQL)**

An enterprise manager is a person who manages and runs an enterprise, which can be the owner of an enterprise for a private enterprise or the board of directors, administrative councils in joint-stock companies, limited liability companies. It can be said that enterprise managers play a vital role in planning, organizing activities, leading and controlling people, finance, material, and information of enterprises. Therefore, enterprise managers will be the ones who directly make decisions related to the application of IFRS in the preparation of financial statements at enterprises. Recent studies show that when enterprise managers have an understanding of IFRS and support the application of IFRS in financial reporting, there will be positive impacts on the application of IFRS in enterprises through supporting financially to foster knowledge for employees about IFRS, issuing regulations on applying IFRS within enterprises (Mulyadi, 2012; Evans & Enahoro,

2014; Christensen et al., 2015; Tran et al., 2019; Kedzior, 2020; Ta et al., 2021; Xuan, 2021).

*H4: The roles of business managers have a positive impact on the enterprises' preparation of financial statements according to IFRS.*

#### **Forms of capital ownership in the enterprise (SHV)**

The form of capital ownership is the expression of the owner of capital in enterprises through the percentage of capital holding or voting rights. Therefore, depending on the legal form of the licensed enterprise, the owner of capital can be an individual or an organization and presented with different names such as enterprise owner, capital contributor, shareholder, etc. At the same time, in enterprises with many owning members, the right to decide on business activities will be based on the capital contribution ratio. Accordingly, the owners who hold the controlling power of capital in enterprises will be the ones who decide to provide financial information of enterprises. According to recent studies, businesses with a substantial amount of capital held by foreign shareholders/investors transform financial statements faster and require more thorough and transparent information disclosure (Tran, 2016; Tran et al., 2019; Ta et al., 2021; Xuan, 2021).

*H5: The forms of capital ownership have a positive impact on the enterprises' preparation of financial statements according to IFRS.*

#### **Professional qualifications of accountants (CM)**

Professional qualifications of accountants are reflected in the degrees and accounting competencies of accountants. Therefore, if the professional qualifications of the accountants in the enterprise do not meet the requirements for preparing financial statements according to IFRS, then the application of IFRS will not be possible or implemented but less effective. Specifically, the information provided in the financial statements is incomplete, and errors essentially occur, etc. Recent studies show that the professional qualifications, professional skills, and English ability of accountants in enterprises have an influence on the transition of preparing financial statements according to national standards to IFRS (Shima & Yang, 2012; Zakari, 2014; Ha & Le, 2016; Nguyen, 2018; Tran et al., 2019; Nguyen et al., 2020; Xuan, 2021).

*H6: Professional qualifications of accountants have a positive impact on the enterprises' preparation of financial statements according to IFRS.*

### **3.3. Research Model**

Based on research hypotheses, the authors propose a research model which is a multivariable regression

model with the dependent variable being the enterprise’s preparation of the financial statements according to IFRS and 06 independent variables mentioned in each hypothesis, as follows (Figure 2).

From the above-proposed model, the authors propose the expected research equation as:

$$Y = \alpha + \beta_1 * TC + \beta_2 * BLQ + \beta_3 * DD + \beta_4 * NQL + \beta_5 * SHV + \beta_6 * CM + \varepsilon$$

Where:

$\alpha, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  and  $\beta_6$  are coefficients  
 $\varepsilon$ : is error

### 3.4. Variables of the Research Model

To serve the process of delivering and gathering responses of the survey, the authors used the Likert scale (5 options); the rating levels according to this scale are as follows: 1 – Strongly disagree; 2 – Disagree; 3 – Neutral; 4 – Agree; 5 – Strongly agree. The variables and scales of the research model are determined as follows (Table 1).

### 3.5. Data Collection

To collect data for the study, the authors used a pre-designed survey based on identified variables and scales. The final survey questionnaire is built based on three phases: (i) Phase 1, Design of draft survey questionnaires: the author team conducted an overview of domestic and foreign studies related to the research problem to identify gaps to be researched; then, proceeded with delivering the draft survey questionnaires; (ii) Phase 2, Expert consultation and pilot investigation to complete the observed variables and survey scales: in this phase, the authors conducted direct interviews with experts being enterprise managers, lecturers at universities, representatives of professional

organizations including Association of Chartered Certified Accountants (ACCA), Vietnam Association of Accountants and Auditors (VAA), Vietnam Association of Certified Public Accountants (VACPA), with the interviews and consultations being conducted on 15 participants (each category of subjects consists of 05 people according to the principle of convenient sampling). The purpose of this phase is to exchange research ideas with experts to consider whether the survey questionnaire is appropriate or not, whether it is necessary to add or adjust the observed variables, scales appropriately. (iii) Phase 3, Design of the official questionnaire: based on the results in phase 2, the authors synthesized and produced a complete survey questionnaire to serve the survey of the study.

At the same time, according to Hair et al. (2010), Hoang and Chu (2011), and Dinh et al. (2018) for Exploratory factor analysis (EFA) with sample size applied in the ratio of 5:1, the sample size needed for this study is  $23 \times 5 = 115$  samples; and for multivariable regression analysis, the sample size needed for this study is  $50 + 8 \times 6 = 98$  samples. Therefore, to ensure the sample for the study, the author team surveyed 150 enterprises, corresponding to 150 questionnaires collected; the survey sample was collected by convenient sampling method and the distribution ensures representation including (i) Parent companies of state economic groups; (ii) The parent companies being listed companies; (iii) Large-scale public companies that being unlisted parent companies; (iv) Groups, corporations with the state capital holding the controlling power; (v) Enterprises with 100% foreign direct investment capital in Vietnam.

### 3.6. Data Analysis

From the survey handouts validly collected, the authors transferred data to Excel, coding variables for each part of the survey. Next, all of the data were put into SPSS 22.0 software.

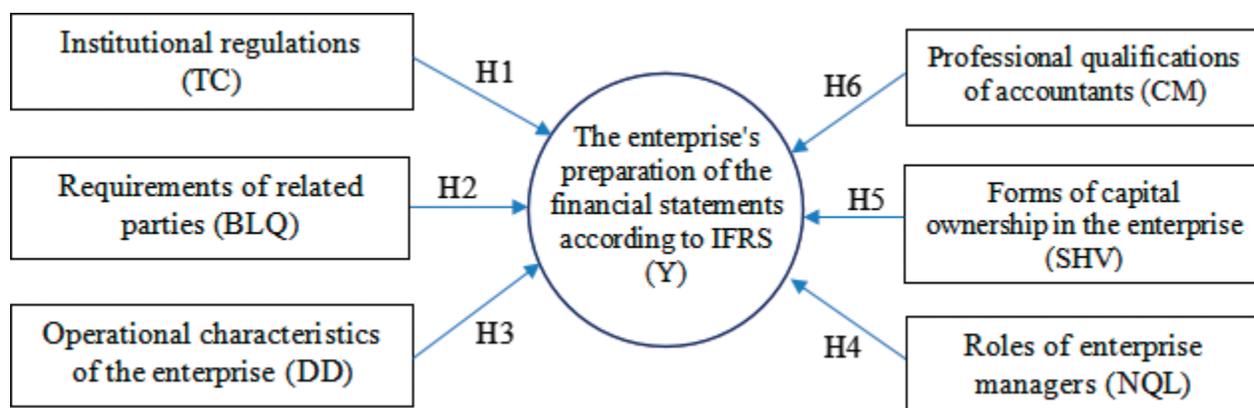


Figure 2: Overview of the Research Model

**Table 1:** Variables and Scales Used

Order	Factors	Observed Variables	Encryption	Sources
<b>Dependent Variable</b>				
1	The enterprise's preparation of the financial statements according to IFRS (Y)	The transition of financial statement preparation from national accounting standards to IFRS is to change the way the information is prepared and presented in the financial statements of the enterprise	Y1	The author's proposition based on references: Noh and Kim (2015), Kim et al. (2010), Tran et al. (2019), Krivogorsky (2019), Nguyen et al. (2020), Kedzior et al. (2020), Xuan (2021), Ta et al. (2021)
		The transition of financial statement preparation from national accounting standards to IFRS will help enterprises improve the quality of the information provided	Y2	
		The transition of financial statement preparation from national accounting standards to IFRS makes it easier for enterprises to access capital from investment funds and potential investors	Y3	
<b>Independent Variables</b>				
2	Institutional regulations (TC)	Enterprises convert the preparation of financial statements to IFRS due to mandatory regulations of the Ministry of Finance	TC1	The author's proposition is based on references: Tran and Nguyen (2016), Nguyen (2018), Krivogorsky (2019), Zou & Alfán (2020)
		Enterprises convert the preparation of financial statements to IFRS due to sanctions of the Ministry of Finance	TC2	
		Enterprises convert the preparation of financial statements to IFRS due to the compliance with circulars and guidelines on the application of IFRS in the preparation and presentation of financial statements	TC3	
3	Requirements of related parties (BLQ)	The preparation of financial statements according to IFRS is to meet the requirements of regulatory authorities	BLQ1	The authors' proposition is based on references: Nguyen (2018), Tran et al. (2019), Nguyen et al. (2020), Ta et al. (2021), Nguyen et al. (2021)
		The preparation of financial statements under IFRS is to meet the requirements of investors, banks, creditors, etc.	BLQ2	
		The preparation of financial statements according to IFRS is to meet the requirements of the auditors examining the financial statements of the enterprise	BLQ3	
4	Operational characteristics of the enterprise (DD)	The diversity of businesses of the enterprises affects the preparation of financial statements under IFRS	DD1	The authors' proposition is based on references: Nol and Kim (2015), Uzma (2016), Nguyen (2018), Xuan (2021)
		The applied accounting policies and financial statements of the subsidiaries affect the preparation of the financial statements under IFRS	DD2	
		Financial management hierarchy and capital structure affect the preparation of financial statements under IFRS	DD3	

**Table 1:** (Continued)

Order	Factors	Observed Variables	Encryption	Sources
5	Roles of enterprise managers (NQL)	Enterprise managers' understanding of IFRS affects the preparation of financial statements under IFRS	NQL1	The authors' proposition is based on references: Mulyadi (2012), Evans and Enahoro (2014), Christensen et al. (2015), Tran et al. (2019), Kedzior (2020), Ta et al. (2021), Xuan (2021)
		The interest of enterprise managers in financial statements affects the preparation of financial statements under IFRS	NQL2	
		The financial and material support of enterprise managers in the transition of financial statement preparation has an impact on the preparation of financial statements under IFRS	NQL3	
		Enterprise development orientation of the managers influences the preparation of financial statements under IFRS	NQL4	
6	Forms of capital ownership in the enterprise (SHV)	The forms of capital ownership (public capital, private capital) and capital structure of shareholders affect the preparation of financial statements under IFRS	SHV1	The authors' proposition is based on references: Tran (2016), Tran et al. (2019), Ta et al. (2021), Xuan (2021)
		The financial reporting information demands of investors affect the preparation of financial statements under IFRS	SHV2	
		Investors' understanding of IFRS (especially foreign investors) affects the preparation of financial statements under IFRS	SHV3	
7	Professional qualifications of accountants (CM)	The accountants' qualifications affect the preparation of financial statements under IFRS	CM1	The authors' proposition is based on references: Shima and Yang (2012), Zakari (2014), Ha and Le (2016), Nguyen (2018), Tran et al. (2019), Nguyen et al. (2020), Xuan (2021)
		The accountants' understanding of IFRS affects the preparation of financial statements under IFRS	CM2	
		The English ability of accountants affects the preparation of financial statements under IFRS	CM3	
		The professional skills and experiences of accountants affect the preparation of financial statements under IFRS	CM4	

**Table 2:** The Cronbach's Alpha Coefficient of the Independent Variables and the Dependent Variable

Reliability Statistics	N of Items	Cronbach's Alpha
1. The enterprise's preparation of the financial statements according to IFRS (Y)	3	0.764
2. Institutional regulations (TC)	3	0.919
3. Requirements of related parties (BLQ)	3	0.714
4. Operational characteristics of the enterprise (DD)	3	0.637
5. Roles of enterprise managers (NQL)	4	0.785
6. Forms of capital ownership in the enterprise (SHV)	3	0.814
7. Professional qualifications of accountants (CM)	4	0.787

The authors conducted different analyses and tests for analyzing data, on SPSS software as follows:

#### ***Cronbach's Alpha analysis:***

Cronbach's Alpha analysis is used to assess the scale's and survey data's reliability, as well as the correlation between the observed variables that are influencing factors in the survey, to see if they are closely related in measuring the impact level of test factors. Most researchers accept Cronbach's Alpha's 0.8 or higher as good; 0.7 to 0.8 is usable and if the concepts in question are new then the coefficient should be just above 0.6. With Cronbach's Alpha level greater than or equal to 0.8, the scale is considered a good measure, the questions are closely designed, the scales are correlated to achieve high reliability (Hair et al., 2010; Hoang & Chu, 2011; Henseler & Sarstedt, 2013).

#### ***Exploratory factor analysis (EFA):***

When analyzing discovery factors, researchers are concerned about certain standards.

*First*, Kaiser-Meyer-Olkin (KMO) coefficient  $\geq 0.5$ , the significance level of the Bartlett  $\leq 0.05$  test. KMO is a criterion used to consider the appropriateness of EFA,  $0.5 \leq \text{KMO} \leq 1$ , then factor analysis is appropriate. Bartlett's Test examined the hypothesis of the correlation between zero observed variables overall. If this test is statistically significant ( $\text{Sig} \leq 0.05$ ), the observed variables are correlated overall.

*Second*, factor loading coefficient  $> 0.45$ . If any observed variable has a factor loading coefficient  $\leq 0.45$ , it will be disqualified.

*Third*, the scale is accepted when the total variance extracted is  $\geq 50\%$  and the eigenvalue is greater than 1.

*Fourth*, there must be a difference in the factor loading coefficient of an observed variable among factors  $\geq 0.3$  to ensure the distinguishing value among factors is protected. According to Hair et al. (2017) and Dinh et al. (2018), factor loading is the norm to ensure the practical meaning of EFA. Factor loading  $> 0.3$  is considered to be the minimum, factor loading  $> 0.4$  is considered important, factor loading  $\geq 0.5$  is considered to have practical significance.

#### ***Correlation and regression analysis:***

The authors employed the method of correlation analysis and linear regression analysis to test the linear correlation between the dependent variable and the independent variables. The correlation analysis used for this study is the Pearson correlation, which has values ranging from  $-1$  to  $1$ , and the research hypothesis will be considered correct if the significance level (sig) is  $< 0.05$  (Hoang & Chu, 2011; Dinh et al., 2018).

## **4. Results**

### **4.1. Cronbach's Alpha**

In this study, the observed variables of the independent and dependent variables are selected when the Cronbach's Alpha coefficients are 0.6 or higher and the total variable correlation is greater than 0.3. The results shown in Table 2 demonstrate that the variables in the research model are reliable.

Test results also show that Cronbach's Alpha of the dependent and independent variables are both greater than 0.6. Thus, both the dependent variables and the independent variables are satisfactory in terms of reliability, so no variable is removed. Hence, the test results of the scales show that all scales are consistent and reliable, and statistically significant to use the EFA discovery factor analysis.

### **4.2. Exploratory Factor Analysis (EFA)**

Based on testing reliability and correlation by Cronbach's Alpha, the authors analyzed the EFA discovery factor, and the results are as follows:

According to the KMO table and Bartlett's test, it is shown that KMO coefficient =  $0.602 > 0.5$  (greater than the minimum to ensure proper EFA analysis) and the Sig level of Bartlett's test is  $0.000 < 0.05$ , which means that the variables correlate in general. Thus, the EFA analysis for the independent variables is significant.

The analytical results in Table 3 show that according to the Eigenvalue  $> 1$  standard, 06 groups of factors are drawn. The total variance extracted is 68.659% (greater than the standard level  $> 50\%$ ), which means 68.659% variation of the data is explained by 06 groups of factors.

Besides, when using Varimax rotation to obtain the best load factor, 05 groups of influencing factors are obtained, including (1) Institutional regulations (3 variables); (2) Professional qualifications of accountants (4 variables); (3) The role of enterprise managers (4 variables); (4) Forms of capital ownership in the enterprise (3 variables); (5) Requirements of related parties (3 variables); (6) Operational characteristics of the enterprise (3 variables) (see Table 4).

At the same time, for the dependent variable, which is the enterprise's preparation of the financial statements according to IFRS (Y), the KMO table and Bartlett's test reveal that KMO coefficient =  $0.706 > 0.5$  (greater than the minimum to ensure proper EFA analysis) and the Sig level of Bartlett's test is  $0.000 < 0.05$ , which means that the variables correlate in general. Thus, the EFA analysis for the dependent variables is significant. And the analytical results show that according

**Table 3:** The Results of Total Variation of the Data

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.691	18.453	18.453	3.691	18.453	18.453	2.655	13.275	13.275
2	2.844	14.219	32.672	2.844	14.219	32.672	2.539	12.697	25.972
3	2.098	10.491	43.163	2.098	10.491	43.163	2.472	12.361	38.333
4	1.964	9.821	52.984	1.964	9.821	52.984	2.252	11.258	49.591
5	1.596	7.979	60.963	1.596	7.979	60.963	1.974	9.872	59.463
6	1.539	7.696	68.659	1.539	7.696	68.659	1.839	9.196	68.659
7	0.929	4.645	73.304						

Extraction Method: Principal Component Analysis.

**Table 4:** The Factor Transformation Matrix of Independent Variables

	Component					
	1	2	3	4	5	6
TC1	0.965					
TC3	0.939					
TC2	0.876					
CM4		0.800				
CM1		0.769				
CM3		0.759				
CM2		0.722				
NQL4			0.933			
NQL3			0.718			
NQL2			0.711			
NQL1			0.683			
SHV3				0.958		
SHV2				0.794		
SHV1				0.783		
BLQ3					0.816	
BLQ2					0.813	
BLQ1					0.714	
DD3						0.803
DD1						0.740
DD2						0.715

Extraction Method: Principal Component Analysis.  
 Rotation Method: Varimax with Kaiser Normalization.

to the Eigenvalue > 1 standard, one group of factors is drawn. The total variance extracted is 70.816% (greater than the standard level > 50%), which means 70.816% variation of the data is explained by one group of factors.

### 4.3. Regression Analysis

After conducting the EFA analysis, the next step is to conduct correlation analysis and regression analysis. In this study, the authors conducted Pearson correlation analysis intending to check the close linear correlation between the dependent variable and the independent variables, which is because the predominant condition for regression is being correlated. The results of the correlation analysis between the independent variables and the dependent variable show that the sig values are all < 0.05, the Pearson correlation coefficients are > 0, showing that there is a positive correlation between the independent and dependent variables.

Next, the authors conducted a regression analysis, to perform regression analysis, the authors calculated the mean value to represent the dependent variables and the independent variables. The results of the regression analysis are as follows (Table 5).

Table 5 shows that all the independent variables affect the dependent variables for the enterprise’s preparation of the financial statements according to IFRS (Y) (this is concluded through the T-test with the Sig level of the Test being less than 1% and 5%). Also, the problem of multicollinearity does not appear in the model. Specifically, the VIF magnification coefficients are all less than 1 (the level is determined with multiple collinearities to be treated).

R<sup>2</sup> of the model is 88.9%, proving that the independent variables can explain the high volatility of the dependent variables. Besides, the results of testing the conformity of the regression function through F statistic from the ANOVA table show that the model is suitable (the Sig level of the test

is very small 0.000). Thus, based on the regression results table, there is a regression equation for factors affecting the enterprise’s preparation of the financial statements according to IFRS:

$$Y = -5.034 + 0.424 * NQL + 0.538 * CM + 0.305 * DD + 0.146 * TC + 0.339 * SHV + 0.638 * BLQ$$

The standardized regression model is defined as follows:

$$Y = 0.309 * NQL + 0.384 * CM + 0.204 * DD + 0.122 * TC + 0.241 * SHV + 0.497 * BLQ$$

According to the standardized regression model, the BLQ factor has a strong impact on the dependent variables of the enterprise’s preparation of the financial statements according to IFRS (with the standardized beta coefficient of 0.497), followed by CM and NQL with standardized beta numbers is 0.384 and 0.309. The lowest influence on the dependent variable is the SHV, DD, and TC factors (with standardized beta coefficients of only 0.241, 0.204, and 0.122).

### 5. Discussion and Policy Implications

From the results of the normalized regression analysis, this study finds an interesting relationship that the factors belong to (i) Requirements of related parties, (ii) Qualifications of accountants, and (iii) Roles of enterprise managers have a significant influence on the preparation of financial statements according to IFRS. The finding is similar to the results of some previous studies, such as Kedzior et al. (2020), Nguyen et al. (2020), Xuan (2021), and Ta et al. (2021). However, the difference in the findings of the study is that the requirements of the related parties are the factor that has the strongest influence on the conversion of preparing financial statements to IFRS, and the reality of

**Table 5:** Results of Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics		
	B	Std. Error	Beta			Tolerance	VIF	
1	(Constant)	-5.034	0.260		-19.370	0.000		
	NQL	0.424	0.040	0.309	10.673	0.000	0.847	1.180
	CM	0.538	0.041	0.384	13.221	0.000	0.838	1.193
	DD	0.305	0.040	0.204	7.625	0.000	0.986	1.014
	TC	0.146	0.032	0.122	4.534	0.000	0.980	1.021
	SHV	0.339	0.039	0.241	8.771	0.000	0.936	1.069
	BLQ	0.638	0.036	0.497	17.939	0.000	0.924	1.083

Dependent Variable: Y.

enterprises also shows that the related parties can influence and dominate the behavior of managers, and accountants in the unit as well as the business line of an enterprise. In addition, the factors, namely (i) the form of capital ownership in the enterprise, (ii) operational characteristics of the enterprise, and (iii) institutional regulations also impact the preparation of financial statements according to IFRS, but to a lesser extent. These results are somewhat different from those of Shima and Yang (2012), Zakari (2014), and Tran et al. (2019). On that basis, the study suggests that to facilitate the enterprise's preparation of financial statements according to IFRS in Vietnam, it is necessary to consider the following issues:

***First, regarding the related parties (BLQ)***

The related parties here are investors, creditors (e.g. banks, suppliers), tax authorities, etc.; related parties have certain connections in terms of benefits, as well as financial risks, liabilities, etc., for the enterprise. Therefore, with the IFRS application roadmap issued by the Ministry of Finance, it is only a matter of time before applying IFRS to the preparation of financial statements of enterprises. As a result, related parties need to increase pressure to ask the board of directors of enterprises to soon apply IFRS voluntarily. This is because, in the voluntary application process, if there are errors, limitations, they could be overcome and adjusted soon before the roadmap moves to the official stage. At the same time, when applying IFRS, the financial information provided by enterprises will be more transparent, reliable, complete, and objective, which is also an important basis for related parties to make appropriate and effective decisions for enterprises.

***Second, in terms of the professional qualifications of accountants (CM)***

Professional qualifications and experiences of accountants in enterprises have a great influence on the presentation of information on the financial statements of enterprises. Therefore, preparing financial statements according to IFRS requires accountants at enterprises to have complete and in-depth knowledge of IFRS. As a result, enterprises need to have early plans for their accountants to participate in IFRS training courses organized by professional organizations, including ACCA, ICAEW. At the same time, it is necessary to improve the English ability of accounting staff so that they can easily read, understand and apply accounting tools according to IFRS for effective and proper preparation of financial statements.

***Third, as for the roles of enterprise managers (NQL)***

Managers in enterprises are supposed to be aware that converting preparing financial statements to IFRS will help enterprises improve the quality of information on financial

statements; thereby, it is easier to gain access to investment capital, especially from investment funds and multinational companies. Therefore, the managers themselves also need to have a certain understanding of IFRS for running the enterprise, to pay attention to creating favorable policies, providing financial support and conditions regarding material and technology for the transition to financial statement preparation according to IFRS.

Fourth, concerning the forms of capital ownership in the enterprise (SHV).

For listed companies, joint-stock companies, and state-owned enterprises holding the controlling power of capital, the ownership will normally be separated from the management right. Therefore, to preserve the invested capital and increase the accounting value of the invested capital contribution (shared capital), it is necessary for shareholders, investors (especially foreign investors) through the general meeting of shareholders (members) to require the enterprise to prepare financial statements in accordance with international practices to ensure the compliance with regulations, increasing the value of the enterprise and the interests of the enterprise owners. On that basis, the owners will fully comprehend the financial position and business results of the enterprise to decide whether to continue investing or redirect investments.

***Fifth, about the operational characteristics of the enterprises (DD)***

The diversity in the business lines, the applied accounting policies as well as the decentralization of financial management between the parent company and its subsidiaries will affect the preparation of financial statements under IFRS. Therefore, to apply IFRS, it is required that the parent company, its subsidiaries, especially those with different business activities have an agreement on the applied accounting policy, the method of bookkeeping, accounting methods, how to present accounting information on financial statements, etc. As a result, when consolidating accounting data on financial statements, uniformity and convenience can be ensured.

***Sixth, regarding the institutional regulations (TC)***

For the regulations on the IFRS application roadmap of the Ministry of Finance to be effectively implemented, it is required that the Ministry of Finance of Vietnam soon issue a translation of the IFRSs to be applied, and should prescribe the application of selected parts of IFRS to suit the current economic development context of Vietnam, as well as the ability and application capacity of enterprises. Simultaneously, in parallel with perfecting the application institution, the Ministry of Finance should have policies to support training and fostering of IFRS knowledge for accounting staff of enterprises applying IFRS according to

the roadmap. The support for training and fostering of IFRS knowledge can be done in collaboration with international professional organizations such as ACCA, ICAEW, etc.; the training materials can be published in the form of videos on Youtube and on the portal of the Ministry of Finance for the wide dissemination of IFRS knowledge to the majority of enterprises.

## 5. Conclusion

This study has shown that the preparation of financial statements according to IFRS of enterprises in Vietnam is influenced by the factors concerning the requirements of related parties, the professional qualifications of accountants, the role of enterprise managers, the form of capital ownership in the enterprise, the operational characteristics of the enterprise, and the institutional regulations. Among the factors mentioned above, it is worth noting that the factors of requirements of the related parties, the professional qualifications of accountants, and the roles of business managers are the prominent factors that have a significant influence. In detail, related parties play a very important role and have the most considerable impact on the enterprises' transition to financial statement preparation according to IFRS, whereas the factors regarding the forms of capital ownership in the enterprise, the operational characteristics of the enterprise, and the institutional regulations are influential but insignificant.

On that basis, the study has proposed a number of policy implications for related parties, enterprises, and the Ministry of Finance to meet the Ministry of Finance's roadmap for IFRS application. It can be said that this study makes a major contribution to the line of studies on identifying factors affecting the preparation of financial statements under IFRS in enterprises in Vietnam. However, the study also has certain limitations in that the respondents are small and have not covered all the groups of enterprises that will apply IFRS shortly. The research team believes that further researches need to deal with investigating and clarifying the discrepancies in financial reporting information between the group of enterprises that have applied IFRS and the group of enterprises that have not applied IFRS to see the effectiveness of the IFRS application when enterprises apply IFRS, promoting enterprises to soon switch to applying IFRS in preparing financial statements.

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