

The effects of real estate business on revenue accounting in Vietnam's real estate enterprises

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ABSTRACT

International Financial Reporting Standards (IFRS) 15, which was issued and has taken effect since 2018, replaced IAS 18 - Revenue, International Accounting Standards (IAS) 11 - Construction Contract. On March 16, 2020, the Ministry of Finance (2017) issued Decision 345/QD-BTC approving the project to apply IFRS in Vietnam. The roadmap for applying IFRS to 2025, which will be extended to businesses in order to ensure provision complete, clear, and transparent information about the financial position of the business. The application of IFRS 15 will affect the recognition of revenue in enterprises, especially in the real estate business because their characteristics are different from normal businesses. Due to the importance of applying IFRS 15 and the specifics of the real estate business, the author has studied the influence of the characteristics of the real estate industry on revenue accounting in real estate enterprises.

1. Introduction

Along with the development of the economy, real estate business activities in Vietnamese enterprises have been developing strongly. The national housing development strategy for the period 2021 - 2030 and to 2045 in Decision 2161/QD-TTg dated December 22, 2021, of the Prime Minister (2021) sets the goals for 2025 in which the housing area per capita in the country will reach about 27m² of floor space/person and the per capita housing area nationwide will reach about 30m² of floor space/person by 2030. A series of housing projects, urban areas, office areas, and commercial centers have been built with a synchronous technical and social infrastructure system, quality assurance, and various choices, which not only provide sustainable accommodation, and improve living conditions but also change the urban appearance towards civilization and modernity. The structure of enterprises participating in the real estate market has been gradually improved, contributing to the healthy and sustainable development of the market. The team of real estate enterprises has been growing up. According to the report of the General Statistics Office (2020), due to the impact of the Covid-19 pandemic, in the first 05 months of 2020, there were 717 real estate enterprises temporarily closing business (an increase of 88.7% compared to the same period in 2019). The number of enterprises that completed dissolution was 342 enterprises (an increase of 52% over the same period), and more than 80% of exchanges across the country stopped working, the rest were operating in moderation. The number of newly established enterprises was only 2,231, equaling 70.3% over the same period in 2019; at the same time, the registered capital and the number of registered employees were only 76.9% and 76.7%, respectively, over the same period in 2019. In the first quarter of 2022, the real estate business was the industry with a sharp increase in the number of newly established businesses compared to the

same period in 2021 with an increase of 47.2%. In the first quarter of 2022, the real estate business sharply increased in the number of newly established businesses compared to the same period in 2021 with an increase of 47.2%. At the same time, the number of real estate businesses getting back to work was 845 enterprises, also increasing by 92% over the same period last year (General Statistics Office, 2021).

Such a development of the real estate market requires effective economic management tools. Accounting is one of the vital tools in the management of enterprises, requiring the provision of timely and complete economic and financial information. For real estate businesses, revenue accounting plays an essential role, especially during the transition from the Vietnamese Accounting Standard (VAS) to the International Financial Reporting Standards (IFRS) in Vietnam.

2. Business characteristics of real estate enterprises in Vietnam

Firstly, in the first place, real estate business is a conditional business activity

According to Article 10 of the 2014 Real Estate Trading Law, “Organizations and individuals dealing in real estate must establish an enterprise or a cooperative (referred to as an enterprise) and have a legal capital of not less than 20 billion VND”, except some cases (National Assembly of the Socialist Republic of Vietnam, 2014b). In 2020, the legal capital requirement was removed when the amended and supplemented Investment Law took effect (National Assembly of the Socialist Republic of Vietnam, 2014c). That means Organizations and individuals dealing in real estate must establish enterprises. Organizations, households, and individuals that sell, transfer, and lease real estate on a small and irregular scale are not required to establish enterprises but must declare and pay taxes according to regulations of the Law.

Secondly, real estate business activities in Vietnam’s enterprises require large investment capital and a long investment period, mainly focusing on the following business forms:

+ Investment in real estate for sale:

For residential real estate: From 2016 - 2020, in real estate enterprises, in addition to being affected by the crisis of the economy in general, they are also affected by fluctuations in raw material and material prices, especially construction sand. However, due to the financial policies and incentives of banks for the real estate industry, construction activities gained stable development. The production value of apartments in 2016 increased by 10.02% over the previous year, increased by 8.9% in 2017, by 9.6% in 2018, by 9.1% in 2019, and by about 6.5% in 2020 (General Statistics Office, 2020). Some major works and projects were completed in the period 2016 - 2020 such as Landmark 81 Ho Chi Minh City, Starcity Center Hanoi, Vinhomes Metropolis Hanoi, Vinhomes Bac Ninh, Saigon Center, South Hoi An project, Goldmark City - Ho Tung Mau - Hanoi, Discovery Cau Giay - Hanoi mixed-use housing project, Vinhomes Central Park - Park 7 - Ho Chi Minh City.

In Hanoi, in the first quarter of 2022, there were about 4,000 new apartments for sale, focusing on the mid-end segment, down 39% and 20% per quarter due to the Tet holiday and the new Covid-19 outbreak (peaked and gradually declined in March) (Savills, 2022). Most of the new supply in the quarter came from the subsequent sales, in which there were 06 previously launched projects, 02 first launched projects, and no new projects for sale. By segment, Grade B apartments are still the most popular product in the market, accounting for 88% of the total new supply in the quarter (General Statistics Office, 2021). For villa and townhouse projects, the new supply of 801 units came from two new projects and the next stages of three projects that are being sold.

In Ho Chi Minh City, in the first quarter of 2022, the primary supply of apartments reached 4,050 units, down 48% quarterly and 18% yearly. There were about 2,150 new launches coming from the next phases of six existing projects and no new projects for sale, down 62% quarterly and 3% yearly. In the first quarter of 2022, there were 20 projects that were temporarily suspended for sale in which most projects stopped to adjust the price for the upcoming sales. Grade C apartments account for 74% of the primary supply, followed by Grade B with 23% (Savills, 2022). The residential real estate market is shown in the following chart:

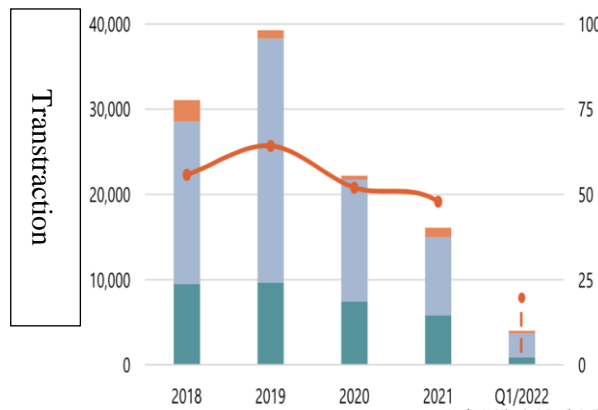


Figure 1

Statistics on the number of apartments for sale in Hanoi

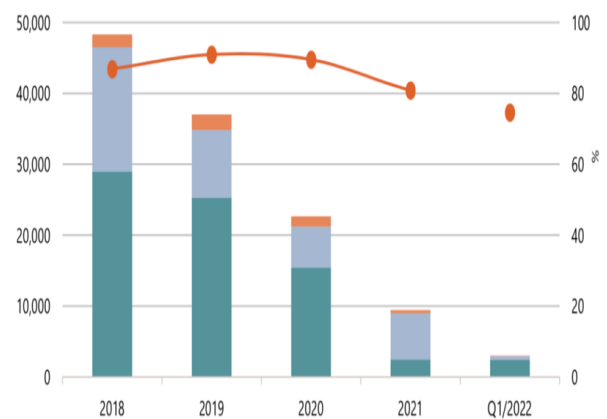


Figure 2

Statistics on the number of apartments for sale in Ho Chi Minh City

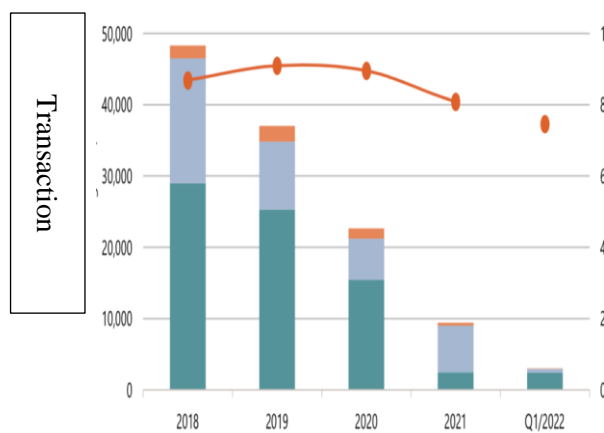


Figure 3

Statistics on the number of villas/townhouses open for sale in Hanoi

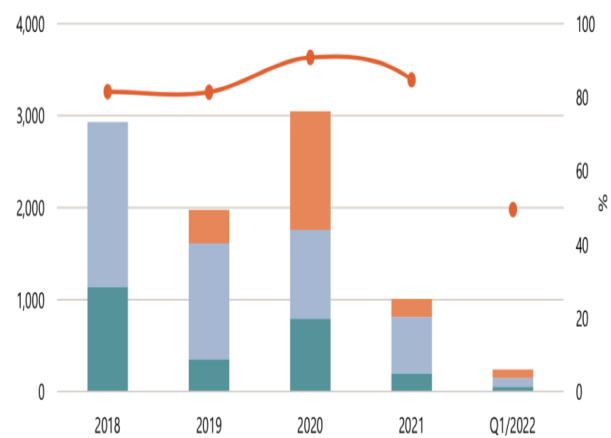





Figure 4

Statistics on the number of villas/townhouses open for sale in Ho Chi Minh City

	Rank A
	Rank B
	Rank C

+ Investment in building apartments and villas for sale and sublease: This form is mainly done with the resort real estate segment.

+ Investment in retail real estate for lease: In Vietnam, retail real estate leasing is mainly concentrated in big cities like Hanoi and Ho Chi Minh City. The real estate rental market in Ho Chi Minh City is vibrant and prices are higher than in Hanoi, which is shown in the following diagram.

+ Industrial real estate business: Industrial real estate refers to investment projects to build industrial parks in which the investor builds work items for lease such as warehouses, factories, offices, and premises for industrial production, etc. In Vietnam, there are currently 335 industrial parks, of which 260 are operating and 75 have been planned. The increase in (Foreign Direct Investment) FDI from more than 70 countries and territories provides a potential opportunity for the industrial real estate market.

Thirdly, real estate business activities in Vietnam's enterprises are governed by many legal documents

The real estate business is quite sensitive and potentially risky. Therefore, the State is always close in forming, perfecting, amending, and supplementing the legal system related to this field in order to promote its development and stability. Vietnamese real estate businesses operate under the control and adjustment of the legal document system promulgated by the State. At the present time, real estate business activities must comply with the following legal documents: Real Estate Business Law No. 66/2014/QH13 (National Assembly of the Socialist Republic of Vietnam, 2014b); Vietnam Enterprise Law No. 68/2014/QH13 (National Assembly of the Socialist Republic of Vietnam, 2014d); Enterprise Law No. 59/2020/QH14 (National Assembly of the Socialist Republic of Vietnam, 2020a); Housing Law No. 65/2014/QH13 (National Assembly of the Socialist Republic of Vietnam, 2014a); Land Law No. 45/2013/QH13 (National Assembly of the Socialist Republic of Vietnam, 2013), etc. In addition, it is also governed by other policies such as taxes. The legal document system has many overlapping issues and inconsistencies; as a result, it is difficult for businesses to implement. However, in recent years, the State has made appropriate adjustments, amendments, and supplements, asynchrony minimum, which has positively affected the process of investing, building, transferring, and leasing real estate in enterprises.

Thus, real estate enterprises in Vietnam share common characteristics including a variety of business forms, long business periods, fluctuations, large investment capital, and potential risks, etc. These characteristics will impose some requirements on corporate accounting in general and revenue accounting in particular:

The business activities of real estate business activities from the beginning to the completion must be organized. Accountants must identify and manage the operations and revenues of each real estate business in detail to provide information for managers to make decisions.

It is necessary to classify real estate according to each management criterion in order to accurately identify the revenue, costs, and profits of real estate businesses.

Accountants must pay attention to tracking in detail each type of real estate, not only a building but even each apartment in that building according to each geographical location, corner apartment, or view sight. Accounting must summarize accurate, complete, and timely data on the quantity, current status, and value of real estate in the enterprise, and at the same time, collect information, process, analyze, and evaluate information to implement managerial functions in order to help businesses make reasonable decisions on real estate sales and rental prices.

3. Revenue accounting according to the 5-step model

In 2022, Vietnam will begin to pilot international accounting standards and make them mandatory for businesses from 2025. The revenue recognition in accordance with the provisions of IFRS 15 has a significant effect on the provisions of Vietnamese Accounting Standards and Circular No. 200/2014/TT-BTC (Ministry of Finance, 2014). on the current corporate accounting regime.

According to the provisions of IFRS 15, revenue is recognized according to the 5-step model:

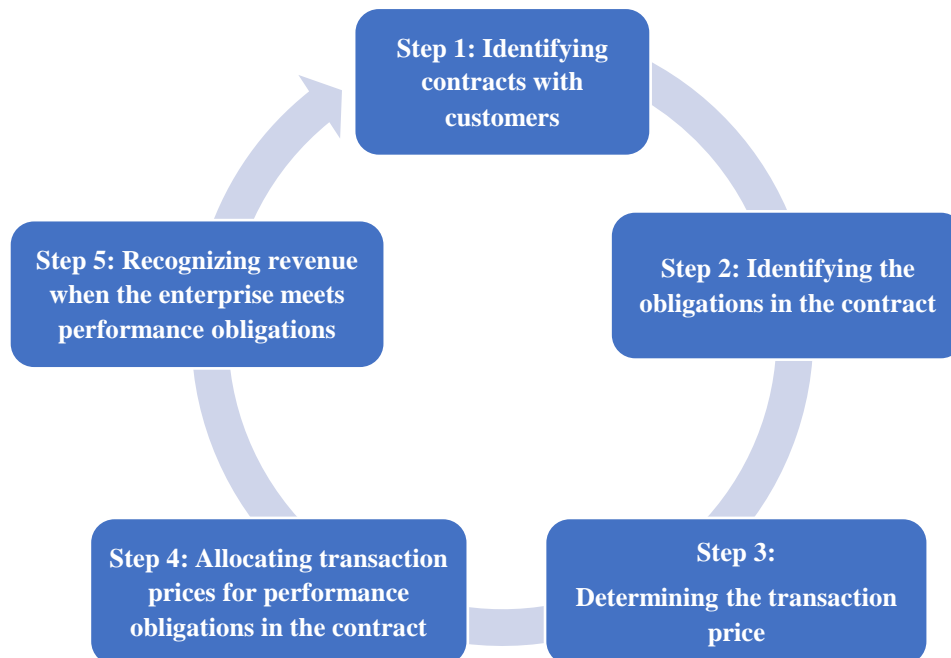


Figure 5. Steps to recognize revenue

Step 1 is *identifying contracts* - A contract is an agreement between two or more parties that establishes mandatory rights and obligations. The provisions of IFRS 15 apply to contracts agreed upon with the customer, and the contract must meet certain criteria. When two or more binding contracts, the terms of which are binding on the terms of the other. If the parties enter into both contracts as a single package, IFRS 15 will require two contracts must be treated as a single one. IFRS 15 also provides regulations on accounting for amendments/modifications in contracts with customers.

Step 2 is *identifying the obligations in the contract*. A contract includes commitments to deliver goods or services to the customer. If the goods and services are separate, the undertakings are separately recognized. A good or service is considered separate if the customer can benefit from that particular good or service, or when combining them with other resources available to the customer, and the enterprise's commitment to deliver goods or services to the customer is identified separately from other commitments contained in the contract.

Step 3 is *determining the transaction price*. The transaction price is the value of payment a company expects to receive from a customer in exchange for the delivery of goods or services. This step deals with issues related to the total contract value, such as potentially variable values, including discounts, rebates, credits, and penalties, etc. This step poses certain challenges in determining the value.

Step 4 is *allocating transaction prices for performance obligations in the contract*. When a contract has more than one performance obligation, the transaction price must be allocated in proportion to the independent selling price of goods or services in each obligation. If the individual selling price of goods or services cannot be determined, an independent selling price must be estimated. This step will avoid arbitrary allocation of value to different parts of the contract.

Step 5 is *recognizing revenue when the enterprise meets performance obligations*. Revenue is recognized when an obligation is fully fulfilled - revenue is recognized by the enterprise when the delivery of the promised goods or services to the customer has finished (the time when the customer takes control of the goods or services). The revenue recognized is the portion attributed to the fulfilled obligation. An obligation can be fulfilled at a time (usually for a commitment to deliver products or goods to a customer) or over a period of time (usually for a commitment to provide services to a customer).

4. The influence of real estate business activities on revenue accounting in real estate enterprises in Vietnam

From the characteristics of real estate business, it can be seen that the application of IFRS 15 will have a significant impact on revenue accounting in real estate businesses.

*) Identifying contracts with customers.

Real estate enterprises have many types of contracts; the accountant's task is to determine the types of contracts which are currently being applied and which contracts will generate revenue.

Types of contracts in real estate businesses include:

In real estate business activities, to ensure the interests of all parties and prolong litigation, the Government has introduced 05 types of real estate business contracts. According to the provisions of Article 17, Law on Real Estate Business No. 66/2014/QH13 (National Assembly of the Socialist Republic of Vietnam, 2014b), there are types of real estate business contracts as follows

Contract of selling and purchasing houses and construction works;

Contracts of leasing houses and construction works;

Contracts of leasing, purchasing houses, and construction works;

Contracts of transferring, leasing, or subleasing land use rights;

Contracts of transferring part or the whole real estate project.

Real estate business contracts must be made in writing, and the effective time of the contract shall be agreed upon by the parties and stated in the contract. In addition to the above contracts, according to the provisions of Clause 14, Article 3 of the Investment Law No. 61/2020/QH14 (National Assembly of the Socialist Republic of Vietnam, 2020c), the type of business cooperation contract (BCC): "BCC is a contract signed between investors for business cooperation, profit sharing and product distribution in accordance with the law, without establishing economic organizations". This contract does not generate revenue for the business

A new feature of IFRS 15 is that it requires enterprises to determine the customer's ability to pay at the time of signing the contract. According to Vietnamese and international accounting standards, the solvency of a customer is one of the five conditions for revenue recognition; however, this condition is taken into account only when the enterprise has delivered the goods and

has determined the amount of revenue to be received from the customer. In other words, the contract has been performed relatively fully. It is very difficult to determine the customer's ability to pay from the very beginning under IFRS 15 because according to the Law on Real Estate Business, in the projects to sell houses formed in the future, after completing the foundation of the building, the investor is allowed to collect up to 30% of the contract value from customers. If the customer's loan has been approved by the bank, the enterprise can determine the solvency of the customer as well as the ability to perform the contract. However, in case the investor does not borrow from a bank, it will be very difficult to determine whether this contract will be implemented or not.

*) Determining the contract's obligations and allocating the contract value.

According to IFRS 15, real estate enterprises must define each separate obligation in the contract. In fact, when businesses sell apartments with attached utilities such as elevators, swimming pools, children's playgrounds, and gardens, etc. are these utilities considered an independent obligation or an accompanying obligation when selling the apartment? If a customer buys an apartment for the purpose of living, the consumer always wants to buy an apartment in a civilized, clean place with full facilities, etc. In order to improve the quality of life, the apartment contract with utilities can be combined into one obligation. Therefore, when the enterprise hands over the apartment to the customer, the entire contract value will be recorded in sales revenue (even in the case of uncompleted attached utilities). If in case the customer buys the apartment for the purpose of selling or mortgage, these can be considered independent obligations; contract revenue must be allocated to each separate obligation.

*) Determining the value of the contract

Real estate business is a high-value investment activity with a long investment period, so capital appropriation is very common. In Vietnam's real estate business market, according to the progress payment, when the enterprise completes the construction of the foundation, the customer is required to pay up to 30% of the contract value, which means that customers pay first and receive the house later. This amount of capital can be considered to be appropriated by the business. Under IFRS 15, the accountant determines and reflects interest and recognizes interest expense.

5. Conclusion

The real estate business is one of the very developing fields with diverse business models and specific business products. This business activity has many distinct characteristics that directly or indirectly affect accounting in general and revenue accounting in particular. According to the IFRS application project developed by the Ministry of Finance, in 2025, Vietnamese enterprises will enter the stage of compulsory application of IFRS to prepare and present financial statements. Revenue recognition under IFRS 15 has many changes compared to the current accounting regime, especially in the real estate business. Stemming from this fact, it is required that businesses must constantly train, improve their qualifications, and update their knowledge of IFRS for their accountants to meet professional requirements in the future.

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