

- *Circular No.48/2019/TT-BTC (Circular 48) dated 8th August 2019 by the Ministry of Finance guiding the treatment of provisions for devaluation of inventory, loss from financial investments, bad debts and warranties for products, goods, services, construction works at the enterprise*

Circular 48 takes effect from 10th October 2019 and applies for the fiscal year 2019 going forward.

In comparison with Circular No.228/2009/TT-BTC (Circular 228) amended by Circular No.34/2011/TT-BTC (Circular 34) and Circular No.89/2013/TT-BTC (Circular 89), Circular 48 has the following notable points:

- ❖ **General principles in making provisions**

- ✓ Making and reversing provision is at the time of preparing the annual financial statements (i.e. removing the regulation for provisions to be made and reversed at the time the listed enterprises preparing their semi-annual financial statements).
- ✓ The enterprises do not make provision for offshore investments.

❖ Provision for devaluation of inventory

✓ Objects for provision:

- Do not make provision for work-in-progress (unfinished products and uncompleted services)
 - Supplementing the objects for provision, specifically the enterprises can make provision for goods outside the warehouse such as goods in transit, goods for sale, goods in a bonded warehouse.
 - Removing the regulations whereby provisions are allowed if the net realisable value of raw materials is lower than the historical cost but the BDO selling price of the products or services made from these materials is not devaluated.
- ✓ Clarifying the concept of net realisable value of inventory. Per Circular 48, the net realisable value of inventory determined by the enterprise is the estimated setting price of inventory in the normal business and operation period at the time of preparing annual financial statements minus (-) the estimated costs to complete and sell the inventory.
- ✓ For inventory of which provision has been made: apart from establishing a council to handle such inventory, the enterprises can hire a valuation company to determine the value of the disposed and liquidated inventory.

- ❖ **Provision for loss from financial investment in security**
- ✓ Clarifying the objects and conditions for making provision. Specifically, the objects for provision are securities issued by the domestic economic organisations in compliance with the Law on Security on the condition that such securities are Listed or registered for trading on the domestic stock market.
- ✓ Determining the market price of securities:
 - The market price of listed securities (including share, fund certificate, derivative security, (listed covered warrant): is the closing price on the latest transactional date instead of the average transactional price or the closing price on the stock exchange on the date of provision under Circular 228.
 - The market price of Upcom securities is the average reference price in the latest 30 transactional days before preparing the annual financial statements announced by the stock exchange. This price was the average transactional price on the system at the date to be made provision under previous regulations.
 - Supplementing the regulations on the market price for bonds.

❖ **Provision for loss from other investments**

- ✓ Issuing the new regulations for debt trading enterprises.
- ✓ In the case where, the economic organisation receives the contributed capital without preparing the financial statements at the same time, the provision is not made for this investment except in some cases which are allowed to make provision basing on the latest quarterly financial statements of the economic organisation receiving the contributed capital, if such organisation is suspended and waiting for resolution (dissolution or bankruptcy) or allowed to prepare the financial statements at a different time and this has been informed to the competent authority.

❖ **Provision for warranty**

- ✓ Supplementing the regulations for services.
- ✓ Handling provision for warranty:
 - If the provision to be made is lower than the balance of the provision, the enterprise shall reverse the difference by recording a decrease in its expenses.
 - When the warranty period expires, if there is no expense incurred for warranty or the provision amount is not fully used, the remaining balance shall be reversed to the enterprise's income in the period.

❖ **Provision for bad debts**

- ✓ Objects for provision include the loans and bonds of the enterprise which are not registered for trading on the stock market.
- ✓ The required documents for provision making:
 - The contract liquidation is not required;
 - If no debt reconciliation is available, there must be a written request for debt reconciliation or debt collection sent by the enterprise (postmarked or acknowledged by the courier); and
 - List of debts is mandatory.
- ✓ Debt duration for determining bad debts: Based on the original debt repayment term under the economic contract, loan agreement or other debt commitments, regardless of the extended loan repayment period between the parties, except for debt trading enterprises which are entitled to other specific regulations.
- ✓ Regulating the specific rate of provision for telecommunication enterprises and goods retailing enterprises.

- ❖ **Provision for bad debts** (*continuous*)
 - ✓ No provision for bad debts arising from the receivables of profits and dividends due to the capital contribution into other enterprises.
 - ✓ In case provision is made for bad debts of a debtor with both receivables and payables, based on the debt reconciliation between two parties, the provision is made on the remaining receivable after offsetting all payable of this debtor.
 - ✓ Handling the receivables from which provision is made:
 - Receivable with 100% provision and still being irrecoverable after 03 years (or 01 year for telecommunication enterprises and goods retailing enterprises) is recorded as expense.
 - The enterprise should monitor the receivables irrecoverable after receiving the handling decision for a period of at least 10 years from the decision date and continue to implement possible measures to collect the receivables (no maximum cap for monitoring period).