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TRANSITION OF FINANCIAL STATEMENTS FROM TURKISH GAAP TO TFRS IN SERVICE ENTITIES

(MASTER THESIS)

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TEZ ONAY BELGESİ

İŞLETME (İNGİLİZCE) Anabilim Dalı MUHASEBE FİNANSMAN (İNGİLİZCE) Bilim Dalı TEZLİ YÜKSEK LİSANS öğrencisi BAHAR CEYHAN AKSOY'nın TRANSITION OF FINANCIAL STATEMENTS FROM TURKISH GAAP TO TFRS IN SERVICE ENTITIES adlı tez çalışması, Enstitümüz Yönetim Kurulunun 22.05.2013 tarih ve 2013-17/33 sayılı kararıyla oluşturulan jüri tarafından oy birliği / ~~oy çokluğu~~ ile Yüksek Lisans Tezi olarak kabul edilmiştir.

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ABSTRACT

Today, being widespread of multinational companies, the importance of audit activities and increasing economic relations between the countries has led to form a common standard for financial reporting. The standards issued by International Financial Reporting Standards Board (IASB) have been applied in many countries.

All the standards issued by the International Financial Reporting Standards Board (IASB) have been accepted by the Turkish Accounting Standards Board (TASB). With the new Turkish Commercial Code (TCC), many radical changes have been envisaged. One of the most important of these changes, equity capital companies met the criteria specified in the Law have to make reporting in line with Turkish Financial Reporting Standards (TFRS) and in the new TCC, it is stated that all Small and Medium Sized Entities (SMEs) can apply TFRS for SMEs as a complete translation of IFRS for SMEs.

In parallel with these developments, the financial statements which are prepared in accordance with legal regulations have to be corrected in accordance with TFRS. This study focused on the preparation of financial statements in accordance with TFRS in a sample service entity.

ÖZET

Günümüzde çok uluslu şirketlerin yaygınlaşması, bağımsız denetim faaliyetlerinin önem kazanması, ülkeler arasındaki ekonomik ilişkilerin artması finansal raporlamada ortak bir standart oluşturma ihtiyacını doğurmuştur. Uluslararası Muhasebe Standartları Kurulu (IASB) tarafından yayınlanan standartlar birçok ülkede uygulanmaktadır.

Uluslararası Muhasebe Standartları Kurulu tarafından (IASB) yayınlanan standartların tamamı Türkiye Muhasebe Standartları Kurulu (TMSK) tarafından kabul edilmiştir. Yeni Türk Ticaret Kanunu (Yeni TTK) ile birlikte birçok köklü değişiklik öngörülmüştür. Bunlardan en önemlilerinden birisi Kanun'da belirtilen ölçütleri karşılayan sermaye şirketleri Türkiye Finansal Raporlama Standartlarına (TFRS) ve Türkiye Muhasebe Standartlarına (TAS) uygun raporlama yapmak zorunda olacaklardır ve yeni kanunla Küçük ve Orta Büyüklükteki İşletmeler (KOBİ) için KOBİ UFRS'nin tam bir çevirisi olan KOBİ TFRS kullanılabilecektir.

Bu gelişmelere paralel, yasal mevzuata uygun olarak hazırlanmakta olan finansal tabloların TFRS'ye uygun biçimde düzeltilmesi gerekmektedir. Bu çalışma örnek bir hizmet işletmesinin TFRS'ye uygun finansal tablolarını hazırlama çalışmalarına odaklanmıştır.

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LIST OF ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
AJE	Adjustment Journal Entry
ARG	Accounting Regulatory Committee
BIST	Borsa Istanbul
BRSA	Banking Regulation and Supervision Agency
CMB	Capital Markets Board
CR	Credit Record
CRA	Central Registry Agency
DR	Debit Record
EC	European Commissions
EFRAG	European Financial Reporting Advisory Group
EU	European Union
FASB	Financial Accounting Standards Board
FDI	Foreign Direct Investment
GAAP	Generally Accepted Accounting Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
Ibid	Latin, short for *ibidem*, meaning something that has been mentioned previously
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
IRR	Internal Rate of Return
ISE	Istanbul Stock Exchange
JCE	Jointly Controlled Entities
JFSA	Financial Services Agency of Japan
KGK	Public Oversight Accounting and Auditing Standards Authority
Op. Cit.	Latin, short for *opus citatum est*, meaning “the work has been cited”.
Pro Rata	Proportional Ratio

RJE	Reclass Journal Entry
SAC	Standards Advisory Council
SARG	Standards Advice Review Group
SEC	Securities and Exchange Commission
SIC	Standing Interpretation Committee
TAS	Turkish Accounting Standards
TFRS	Turkish Financial Reporting Standards
TMSK	Turkish Accounting Standards Board
TSPAKB	Association of Capital Market Intermediary Institutions of Turkey
UCA	Uniform Chart of Accounts

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1 INTRODUCTION

Depending on the globalization, different accounting standards have converged to same standards accepting by all countries. Same accounting and reporting standards will help to be understood the financial results by investors, authorities, shareholders and public. It is generally expected that International Financial Reporting Standards adoption worldwide will be beneficial to investors and other users of financial statements, by reducing the costs of comparing alternative investments and increasing the quality of information. Companies are also expected to benefit, as investors will be more willing to provide financing. Companies that have high levels of international activities are among the group that would benefit from a switch to IFRS. Companies that are involved in foreign activities and investing benefit from the switch due to the increased comparability of a set accounting standard.

International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) are issued by International Accounting Standards Board (IASB) since 1973.

Depending on the international developments, Turkish Accounting Standards Board (TASB) was founded in 1999. In order to complete the various implementations in the country related to accounting and financial reporting, the Turkish Accounting Standards Board (TASB) which has its own legal status and administrative and financial autonomy, was established by Law No 4487 in order to prepare and publish accounting standards. In line with the decision adopted, in the copyright and licence agreement between the TASB and the International Accounting Standards Committee Foundation, it was envisaged that a Turkish translation will be prepared by the TASB. All IFRSs and IASs are accepted by TASB and translated from English original language to Turkish.

New Turkish Commercial Code entered into force on 1 January 2013. The important changes the law brings are considered, this period should be fully evaluated both by public and other companies to ensure they understand the process ahead and ready themselves accordingly. The law provides regulations for commercial life that

ensure a desired level of transparency, auditability and reliability. Its philosophy is that even though corporate governance is a set of rules introduced for public companies, because it equals investor and sustainable development, it should apply to all enterprises. Preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) and independent audit in line with International Auditing Standards (IAS).

According to New Turkish Commercial Code, all statutory accounting records must be kept in line with the TFRS and TAS which are translation of IFRSs and IASs. The most important issues in companies' adaption process to the new Turkish Commercial Code (New TCC) are financial reporting according to International Financial Reporting Standards and the independent audit of these reports prepared in line with IFRS. These obligations have been made easier with law nr 6335 by changing many articles of the New TCC and authority to determine accounting and independent auditing principles is given to the Public Oversight, Accounting and Auditing Standards Authority (KGK) and the Council of Ministers respectively.

At this point, I decided to prepare a study which makes guidance to prepare financial statements according to TFRSs and TASs by using general adjustments faced with in a simple service entity. In the first part of my study, I tried to give basic information about Turkish Generally Accepted Accounting Principles, and in the second part of my study I explained the all TFRSs and TASs briefly. In the third part, I gave some information about service entities and I tried to explain how companies can adopt their financial statements from local GAAP to TFRSs. TFRS-1 First Time Adoption of International Financial Reporting Standards shall be applied while preparing the first financial statements in line with TFRSs and TASs; In this study TFRS 1 excluded and it is assumed that the sample company is already preparing the TFRS Financial Statements in monthly basis.

2 TURKISH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Turkish Generally Accepted Accounting Principles (Turkish GAAP) consist of Tax Procedure Law, Corporate Tax, Commercial Code and other tax laws. Also, there are other regulations with different laws: for listed companies Capital Markets Board of Turkey, for banks Banking Regulation and Supervision Agency, for insurance companies Turkish Insurance Supervisory Board and for Turkish Accounting Standards Turkish Accounting Standards Board (after 2 November 2011, the "Public Oversight, Accounting and Auditing Standards Authority's Organization and Responsibilities Decree Law" numbered 660 is in force).

2.1 Brief History of Turkish Accounting System

Accounting applications of 1923-1950, were developing within the governmental facilities instead of private sector facilities. Especially before 1950, single type financial statement arrangements which were separate for each association were effective in the State Economic Enterprises (KIT). It's possible to evaluate from the accounting teaching books that were published (between 1928 and 1950) according to the needs of the economical governmental facilities. Turkey's accounting standards were expanded by following the accounting standards of some countries that have strong economical and political relations with Turkey and by following the applications of these standards.

In the Turkish accounting history previously French legislation and publications were utilized but later 1930's German legislation and publications started to be effective. During the 1950s, incentives were provided for the private sector and foreign investments. Since the second half of that decade, American expertise has been utilized, and the Turkish economic system has thus been heavily influenced by the American system. Successful individuals in various fields have been trained, and have

pursued graduate degrees in foreign countries, especially in the United States, starting in the late 1950s. Since the return of the first of these graduates in the early 1960s, the accounting system has been heavily influenced by the American system. Furthermore, the American influence was also felt in the curriculum of business schools, especially in the fields of management and accounting.

In January 1980, a series of economic decisions following the IMF's recommendations were taken to reduce the inflation rate, increase production, and support importing activities. In the reconstruction period starting in the early 1980s, Law Number 2499 was put into effect in 1981 by the parliament to prepare the grounds for establishing the Capital Markets Board (CMB) and was amended in 2002. The Istanbul Stock Exchange (ISE) law was adopted in 1984, but full operations did not start until 1986.[1] FDI rules were eased in 1988 and 1989.

Foundation of the CMB, ISE (Capital Markets Board Law no. 6362 went into force after being in published in the Official Gazette dated December 30, 2012. Pursuant to article 138 of the Law, Borsa Istanbul A.Ş. (BIST) was founded on the same date, for the purpose of serving as a securities Exchange[2]) and the increase in foreign investments promoted the development of accounting and auditing standards. As a result of these developments, large private enterprises started to report their financial statements in accordance with the International Accounting Standards (IASs) in addition to national reporting requirements. Although the IASs were translated into Turkish since the beginning of 1980s by the Turkish Expert Accountants' Association, they were not enforced by any authority.

In line with European Union requirements, CMB issued the IFRS-based standard Communiqué Serial: XI, No. 25, entitled "Accounting Standards in Capital Markets" on 15 November 2003 (from then on the new CMB rules) and required publicly-owned and traded companies to use the new rules starting January 2005 while encouraging early adoption. For companies traded on European Union stock exchanges, IFRS-based statements are required, which is also allowed by the CMB.

[1] United Nations Conference on Trade and Development (UNCTAD), **Review of practical implementation issues of International Financial Reporting Standards**, 2007, p.3-5.
[2] http://borsaistanbul.com/en/corporate/about-borsa-istanbul/about-us (15.05.2013).

2.2 Turkish Uniform Chart of Accounts

To organize the convenient frame to produce the clear and accurate information of the businesses for interested people or groups who want to manage or invest is the main goal of accounting. All companies in Turkey are subject to the Turkish accounting principles provided within the uniform chart of accounts and the laws regarding accounting incorporated into the Tax Code.

Registered and listed companies are subject to the rules and regulations of the Capital Markets Board. Under Turkish law joint stock companies with 250 shareholders or more are considered public and subject to the Capital Markets Law. Banks, insurance companies, special finance institutions, financial leasing companies, stocks and bonds investment funds and intermediary institution and investment partnerships are required to use different accountancy techniques.[3]

In 1994 the Ministry of Finance introduced a Uniform Chart of Accounts with the purpose of regulating the basic concepts and principles of accounting and for the preparation of financial statements. The purpose of the Chart of Accounts is to provide for a true and fair reflection of the operations and results for companies. [4]

In situations where the concepts and principles used as a basis for preparation of the financial statements, Turkish Commercial Law and other related legislation provide for different applications, businesses should make the necessary amendments to present the required information in accordance with the mentioned legislation. However, such amendments should not change the uniformity principle of financial statements[5].

[3] **OECD Directorate For Financial And Enterprise Affairs**, Turkey: Phase 1Review Of Implementation of The Convention and 1997 Recommendation, 8 November 2004, p.18
[4] Ibid., p.19
[5] Masum Türker and Engin Yarbaşı, **Globalization And Financial Reporting in Turkey**, İstanbul Ticaret Üniversitesi (İTCÜ), p.66.

Financial statements include following statements[6]:

1. Balance Sheet

2. Income Statement

3. Statement of Cost of Sales

4. Statement of Funds Flow

5. Statement of Cash Flows

6. Statement of Profit Distribution

7. Statement of Changes in Shareholders' Equity

Of these statements, the balance sheet and the income statement together with their footnotes and appendices comprise the main financial statements, whereas the others form the supplementary financial statements.

In line with the recent developments, to facilitate the application of accounting standards in Turkey, it is a necessity to determine the financial statements layouts and to develop a uniform chart of accounts. For this reason, a study commission has been established. This commission has made his first meeting on 14.06.2011. Discussion papers review of new chart of accounts is still going on and the draft texts are planned to be submitted to public consultation as soon as possible[7].

2.3 Public Oversight Accounting and Auditing Standards Authority

In order to complete the various implementations in the country related to accounting and financial reporting, the Turkish Accounting Standards Board (TASB) which has its own legal status and administrative and financial autonomy, was established by Law No 4487 in order to prepare and publish accounting standards. The

[6] Türker and Engin Yarbaşı, p.66.
[7] Turkish Accounting Standards Board (TASB), Hesap Planı Projesi, 2011, http://www.tmsk.org.tr/index.php?option=com_content&view=article&id=254&Itemid=134&lang=tr, (05.11.2011).

related decision was published in the official journal (no:24726/date:14.04.2002). Beginning from this date TMSK has taken the duties of TMUDESK together with the works performed until this time[8].

Board of Accounting Standards of Turkey consists of totally 9 members; one each from Under secretariat of Treasury, Ministry of Finance, Ministry of Industry and Trade, Capital Market Board, Banking Regulation and Supervision Agency, Higher Education Board and Union of Chambers and Stock Exchanges of Turkey. In addition to this, a sworn financial advisor and an independent accountant and financial advisor from the Union of Chambers of Certified Public Accountant of Turkey[9].

[8] Hilmi Erdogan Yayla, **Diversities Between the Regulations of Turkish Accounting Standard Setters: A Brief History of Turkiye's Twentieth Century Accounting Standardization Applications**, 2006, Spain, p.13.
[9] Turkish Accounting Standards Board (TASB), Genel Bilgiler, 2011, http://www.tmsk.org.tr/index.php?option=com_content&view=article&id=12&Itemid=59, (15.03.2011).

Table 1
Turkish Financial Reporting Standards and Turkish Accounting Standards

TFRSs:
TFRS 1 First-time Adoption of International Financial Reporting Standards
TFRS 2 Share-based Payment
TFRS 3 Business Combinations
TFRS 4 Insurance Contracts
TFRS 5 Non-current Assets Held for Sale and Discontinued Operations
TFRS 6 Exploration for and evaluation of Mineral Resources
TFRS 7 Financial Instruments: Disclosures
TFRS 8 Operating Segments
TRFS 9 Financial Instruments
TFRS 10 Consolidated Financial Statements
TFRS 11 Joint Arrangements
TFRS 12 Disclosure of Interests in Other Entities
TFRS 13 Fair Value Measurement
TASs:
TAS 1 Presentation of Financial Statements
TAS 2 Inventories
TAS 7 Statement of Cash Flows
TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
TAS 10 Events After the Balance Sheet Date
TAS 11 Construction Contracts
TAS 12 Income Taxes
TAS 16 Property, Plant and Equipment
TAS 17 Leases
TAS 18 Revenue
TAS 19 Employee Benefits
TAS 20 Accounting for Government Grants and Disclosure of Government Assistance
TAS 21 The Effects of Changes in Foreign Exchange Rates
TAS 23 Borrowing Costs
TAS 24 Related Party Disclosures
TAS 26 Accounting and Reporting by Retirement Benefit Plans
TAS 27 Consolidated and Separate Financial Statements
TAS 28 Investments in Associates
TAS 29 Financial Reporting in Hyperinflationary Economies
TAS 31 Interests in Joint Ventures
TAS 32 Financial Instruments: Presentation
TAS 33 Earnings per Share
TAS 34 Interim Financial Reporting
TAS 36 Impairment of Assets

TAS 37 Provisions, Contingent Liabilities and Contingent Assets
TAS 38 Intangible Assets
TAS 39 Financial Instruments: Recognition and Measurement
TAS 40 Investment Property
TAS 41 Agriculture

The TASB, when using this authority, decided to adopt International Financial Reporting Standards (IFRS) to allow integration within contemporary world practices and to be in harmony with EU legislation. As known, IFRS, issued by the IASB (International Accounting Standards Board) is the set of standards required to be applied effective from 1 January 2005 in the preparation of financial statements by enterprises listed in stock exchange markets in EU countries and which issue financial instruments in these markets. Turkish Accounting Standards and Financial Reporting Standards and 1 Framework and 27 IFRICs and SICs have been published by TASB[10].

Turkish Accounting Standards has accepted uniformity with IFRS in order to get international acceptance so, Turkish Accounting Standards/Turkish Financial Reporting Standards are formed by translating IFRS set into Turkish and copyright fee was paid to IASB. Due to this code every firms must apply TFRS. The improvement of accounting standards in Turkey has been conducted with a pioneering government. Laws and applications taken from the countries with which we have both political and economic relationship have been effective in the formation of Turkish Accounting literature and legislation.[11]

To integrate to the World economy[12], one important obligation is to share the same accounting and financial standards. Turkey's economy has liberalized after mid 1980s and many international companies had begun to invest. Another important reason is to enter the European Union (EU). To do this, Turkey must accept the all EU laws (directives). Finally, Turkey has converged its accounting and financial reporting

[10] Turkish Accounting Standards Board (TASB), TMS-TFRS Kronoloji, 2011, http://www.tmsk.org.tr/index.php?option=com_content&task=view&id=106&Itemid=69, (10 .02.2011).

[11] Yılmaz Akyüz, Handan Bulca, and Mustafa Üç**, The Activities Of Turkish Accounting Standards Board (TASB) For Improving The Quality Of The Financial Knowledge And General View On Turkish Financial Reporting Standards (TFRS)**, Afyon Kocatepe University, p.303.

[12] Ali Çelebi and Fırat Çoşkun Güçlü, **Türk Ticaret Kanunu Tasarısı ve TMSK**, Turkish Accounting Standards Board (TASB). p.2.

standards to the International Accounting (IAS) and International Financial Reporting Standards (IFRS).

European Union has published the law (EC) 1606/2002 with dated 19.7.2002 that all companies have to applied IAS and IFRS into financial statements beginning from 1 January 2005. In Turkey Turkish Accounting Standards Board has accepted the all IAS and IFRSs and translated into Turkish as Turkish Accounting Standards (TAS) and Turkish Financial Reporting Standards (TFRS) on April 2006. This convergence will increase audibility, transparency and reliability on the financial statements and reports.

The New Law entered into force on 01 January 2013 for certain articles and all public and some other companies have to adopt full set of TAS & TFRS (which companies cover the necessary requirements mentioned in the decision of the Council of Ministers on 14th of November, 2012) and TFRS for SMEs.

On 2nd of November, 2011, Decree Law on Public Oversight, Accounting and Auditing Standards Authority's Organization and Responsibilities (Kamu Gözetimi, Muhasebe ve Denetim Standartları Kurumunun Teşkilat ve Görevleri Hakkında Kanun Hükmünde Kararname) has been published on official newspaper (No: 28103). Due to temporary article 5, on the date of entry into force of this decree law, all kind of assets, debts, and credits, written and electronic records and other documents with cash and equivalents are considered to transferred to the this new Institution without any additional procedure. This new decree law has annulled the additional article 1 of Capital Market Law No: 2499 which was about the foundation and organization of Turkish Accounting Standards Board. In the cases where there are no provisions in this decree law, the relevant independent auditing provisions of the Turkish Commercial Code No: 6102(New) are applied[13].

[13] **Official Newspaper**, "Kamu Gözetimi, Muhasebe ve Denetim Standartları Kurumunun Teşkilat ve Görevleri Hakkında Kanun Hükmünde Kararname", November 2 ,2011, Nr: 28103.

2.4 Capital Markets Board of Turkey

The Capital Markets Board of Turkey is the main regulatory and supervisory authority in charge of the securities markets. Empowered by the Capital Markets Law, the CMB has been making detailed regulations for organizing the markets and developing capital market instruments and institutions. The CMB aims to ensure the safe, fair and orderly functioning of the capital markets whilst protecting the rights and interests of investors. Its ultimate objective is to foster the development of the securities markets and contribute to the efficient allocation of financial resources within the Turkish economy[14].

The Capital Markets Board of Turkey was established by the 1981 dated and the 2499 numbered Law of the Capital Markets. Capital Markets Board of Turkey (CMB) is the regulatory and supervisory authority in charge of the securities markets in Turkey. Based on the main objectives of fair and orderly functioning of the markets and protecting the rights of investors, the CMB has a wide range of responsibilities. Depending upon the development stages of the markets and the state of the country's economy, the list of priorities changes from time to time. However the major objective remains the same: to take the necessary measures for fostering the development of capital markets, and hence to contribute to the efficient allocation of financial resources in the country while ensuring investor protection.[15]

It is a regulatory public establishment that uses its authority under its own responsibility independently, that owns a managery and financial autonomity. CMB regulates and supervises public companies, listed companies, financial intermediaries, exchanges, mutual, closed-end and pension funds, Settlement and Custody Bank (Takasbank), Association of Capital Market Intermediary Institutions of Turkey (TSPAKB), Central Registry Agency (CRA) and other related institutions operating in

[14] The Association of Capital Market Intermediary Institutions of Turkey (TSPAKB), **Turkish Capital Markets & The Brokerage Industry 2007**, İstanbul, 2008, p.12.
[15] Capital Markets Board of Turkey, **C**apital Markets Board of Turkey**,** 2011, http://www.cmb.gov.tr/indexcont.aspx?action=showpage&menuid=0&pid=0&submenuheader=-1 (15.05.2011).

the capital markets, such as independent audit firms, rating agencies, etc. The role of CMB will be elaborated upon in the following section.[16]

The Capital Markets Board of Turkey consists of the chairman of the board and the members and the organization that imposes the activities of the board by being tied to the chairman. The Works of the Council are prepared by the service units which work under the vice presidencies which are tied to the chairman of the board. The Department of Accounting Standards is one of the vice presidencies that is assigned to determine the accounting standards.

The Capital Markets Board of Turkey made its first notification related to the financial statements and reporting on the 13th of February, 1983. After this, the Standard Chart of Accounts was published on the 1st of February, 1984 by the notification that is with the VIII serial and with the number 7. This accounts' plan was revised on 13.12.1987 after the publication of the regulation which is about the independent external auditing in the capital market. In our days the accounting standards those take place in the Body Laws of the Capital Market were formed by 6 basic notification.

2.5 Banking Regulation and Supervision Agency

In year 2000, Turkish Government decided to remove the fragmented structure in banking regulation and supervision, and to establish an independent body which will be the sole authority in banking sector. The main aim was to improve the effectiveness of regulation and supervision and to establish an independent decision-making mechanism. As a result, Banking Regulation and Supervision Agency (BRSA) was established in June 1999 according to Banks Act Nr. 4389 and began to operate in August 2000. To protect the rights and the benefits of the owners of the savings, to create the appropriate environment for the operation of banks in a structure which can compete healthy, effectively and in the world measure in the market discipline and as a

[16] The Association of Capital Market Intermediary Institutions of Turkey (TSPAKB), **Turkish Capital Markets & The Brokerage Industry 2007**, İstanbul, 2008, p.6.

consequence of this to give support to the long term economic growth and stability of the country, is the mission of the Banking Regulation and Supervision Agency. [17]

BRSA is public legal entity with administrative and financial autonomy. The independence of the Agency gives autonomy in three main areas: [18]

Autonomy in regulation and supervision

The Agency shall independently perform and use the regulatory and supervisory duties and rights assigned thereto by the applicable legislation, under its own responsibility. The decisions of the Agency shall not be audited for compliance. No authority or person can give instructions and orders to influence the decisions of the Agency.

Autonomy in Agency administration

The Agency shall employ adequate number of personnel with required qualifications in order to efficiently fulfill its duties and powers.

Autonomy in using financial resources

The Agency shall independently use the financial resources allocated thereto within the framework of the principles and procedures laid down in Banking Law. The expenditures of the Agency are financed with the contributions collected from supervised institutions. The amount to be collected from those institutions cannot exceed 0.3 % of the institution's previous year total assets.

According to Banking Law (Nr. 5411), the responsibilities of BRSA are determined as;

a) To take necessary decisions and measures in order to protect the rights of depositors and ensure sound operating of the credit system and to implement them

[17] **Banking Regulation and Supervision Agency of Turkey (BRSA)**, Information Booklet, Booklet, 2011, p.45.
[18] **Banking Regulation and Supervision Agency of Turkey (BRSA)**, Information Booklet, Booklet, 2011, p.6.

b) To regulate, enforce and ensure the enforcement thereof, to monitor and supervise the implementation of establishment and activities, management and organizational structure, merger, disintegration, change of shares and liquidation of banks and financial holding companies as well as leasing, factoring and financing companies without prejudice to the provisions of other laws and related legislation

c) To become members of international financial, economic and professional organizations in which domestic and foreign equivalent agencies participate, to sign memorandum of understanding with the authorized bodies of foreign countries regarding the issues that fall under the Agency's duty field

d) To fulfill other duties assigned by the Law

Regulation Activities

BRSA has the sole authority to issue secondary regulation related to supervised sectors. These include main regulations as well as communiqués. BRSA also proposes draft laws which can only be adopted after Turkish Grand National Assembly approval.

In regulation activities, one of the main aims of BRSA is to align national regulations with the international standards and best practices. Accordingly, current banking legislation is mostly harmonized to the related EU Acquis Communitaire and includes international standards like International Accounting Standards, Basel-I and Basel-II.[19]

The BRSA issued new regulations in November 2006 which require banks to comply with Turkish Accounting Standards set by the TASB. Moreover, through corporate governance principles, the BRSA requires that banks prepare financial statements that fully comply with TAS in addition to the statements that the BRSA require for regulatory purposes.[20]

[19] **Banking Regulation and Supervision Agency of Turkey (BRSA)**, Information Booklet, Booklet, 2011, p.19
[20]Seçkin Gönen and Gülşah Uğurel, **Türkiye'de Uluslararası Finansal Raporlama Standartları (UFRS) Uygulamalarına Geçişte Karşılaşılan Sorunlar ve Çözüm Önerileri**, Turkish Accounting Standards Board (TMSK), p.4.

2.6 Turkish Insurance Supervisory Board

The insurance and reassurance companies which operate in Turkey, have to keep their transactions and operations according to the uniform chart of accounts that was prepared by the "Committee of uniform chart of accounts" which was formed with the participation of the representatives of the Treasury Councillorship, The Council of Insurance Inspection and the Union of the Reassurance Companies and was begun to be used from the beginning of the date 01.01.1994. This uniform chart of accounts; nourishes the aim of respecting opportunity to uniform type balance sheet and income statement be prepared, providing uniformity in the insurance sector, in the records of accountancy and from the angle of financial reportization, providing opportunity to make the knowledge that the relevant necessitate be gained by healthy evaluating the material development of the sector and companies.[21]

The preparation and introduction of EU- compliant requirements in respect of insurance companies has not proceeded at the same rate as other regulated entities. Recent Communiqués published by the Treasury aim to update the accounting requirements and financial structure regulations, including capital adequacy, to be consistent with the EU Insurance Accounts Directive.[22] It is only now that financial reporting standards, largely "based on" IFRS, are being developed. In particular, the Communiqué on "the Insurance Accounting System and its Definitions," was adopted and published in the Official Gazette in 2004. The GDI draws on the Regulations published by the CMB in 2004, which introduced "IFRS-based" accounting standards for capital market participants. Since amendments are envisaged to these standards, the GDI will need to review these amendments in order to avoid conflicts or inconsistencies.[23]

[21]Yayla, Hilmi Erdoğan, p.8.
[22]Yavuz Çiftçi and Alper Erserim, "Muhasebe Standartlarında Uluslararası Uyumlaştırma Çalışmaları ve Türkiye'deki Durumun İncelenmesi", **Uluslararası Sermaye Hareketleri ve Gelişmekte olan Piyasalar Sempozyumu**, Bandırma Balıkesir University, 24-27 Nisan 2008, p.15.
[23] Worldbank, **Turkey Report on The Observe of Standards and Codes (ROSC) Accounting and Auditing**, 2007, p.6-7.

2.7 Effects of Laws on Turkish Accounting System

2.7.1 Turkish Commercial Code

Since 1 January 1957, The Commercial Code outlines the basic accounting, auditing, and financial reporting requirements.[24] After many changes in The World and Turkish economy, the recent commercial code failed. Especially the integration to the international finance, trade and capital markets and the membership of European Union are the main drivers. To be fully integrated to international markets, new commercial code has become necessary. For this reason, the commission which consists of academics, judges, attorneys, bureaucrats and experts has carried out a in depth research on the European Economic Law doctrine and jurisprudence. [25]

Finally The New Law affected heavily German and Swiss Law was adopted by the Turkish Parliament on 13 January 2011 and promulgated in the Official Gazette on 14 February 2011. The New Law and the relevant Law on Enactment entered into force on 01 July 2012 (01 January 2013 for certain articles). The recent commercial code has 5 main chapters but New Commercial Code consists of 6 main chapters which are; company law, securities law, transportation law, maritime commercial law and insurance law.[26]

The New Law offers a very important opportunity and foundation for institutionalization, increasing competitive power, establishing public confidence and transparency. The New Law actually redefines the rules of commercial life with its modern approach. The law provides regulations for commercial life that will ensure a desired level of transparency, auditability and reliability. Its philosophy is that even though corporate governance is a set of rules introduced for public companies, because it equals investor and sustainable development, it should apply to all enterprises.

[24]Ibid. p.3.
[25]Deloitte Touche Tohmatsu, Draft of New Turkish Code of Commerce, New Challenges for Turkish Commercial Law, 2007, http://www.turkey-now.org/db/Docs/turkey-en_audit_NewChallengesforTCL_020108_EN.pdf, p.3.
[26]Price Water House Coopers, 2011, http://www.pwc.com/tr/en/publications/turkish-commercial-code.jhtl, p.1, (11.11.2011).

Preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) and independent audit in line with International Auditing Standards (IAS) necessitate adoption of many international standards in matters such as internal controls, internal audit and risk management, all of which are requirements for corporate governance under Turkish standards and which make change obligatory. This approach means a significant process of adaptation and means a great deal of preparation for many Turkish companies.

The new Commercial Code integrates Turkish commercial regulations with EU legislation and puts into effect generally accepted financial reporting and auditing principles, paves the way for democracy among shareholders, introduces new concepts such as transaction auditor and facilitates the use of information technology tools. Granting a transition period to the market with a majority of its provisions, the new Commercial Code entered into force on 1 July 2012.[27]

By the New Law, Turkish Accounting Standards Board has become the only authority to monitor, change, translate and force the International Accounting and Financial Reporting Standards to Turkish Accounting and Financial Reporting Standards.[28] Public Oversight, Accounting and Auditing Standards Authority's Organization and Responsibilities Decree Law numbered 660, issued on November 2, 2011 and Public Oversight, Accounting and Auditing Standards Authority has the authority to set and issue Turkish Accounting Standards compliant with the international standards, to ensure uniformity, high quality and confidence in statutory audits, to set the auditing standards, to approve statutory auditors and audit firms and to inspect their audits, and perform public oversight in the field of statutory audits[29]. On 13.01.2011, the Turkish Grand National Assembly changed the New Commercial Code no. 6102 and Law no. 6103 on the Effectiveness and Enforcement of the Turkish Commercial Code one day before they came into force. Law no. 6335 on the Amendment of the New Turkish Commercial Code and the Law on Effectiveness and

[27] Ernst & Young, "Turkey Welcomes New Commercial Code", International Tax Alert, 2011, EYG No. CM2311, http://tmagazine.ey.com/wp-content/uploads/2011/03/2011G_CM2311_Turkey-welcomes-new-Commercial-Code.pdf, p.1. (15.03.2011).
[28] Price Water House Coopers (PWC), **New Turkish Commercial Code A blueprint for the future**, 2011, p.20-21.
[29] Public Oversight, Accounting and Auditing Standards Authority, **Our Duties**, 2012, http://www.kgk.gov.tr/contents/files/our_duties.pdf, s.1, (15.05.2013).

Enforcement of the New Commercial Code were published in the Official Gazette no. 28339 on 30.06.2011[30].

With the amendment made in the Provisional 1st Article of TCC, the following companies are obliged to comply with TAS/TFRS and their interpretations:[31]

a) Companies whose capital markets instruments issued in accordance with Capital Markets Board trade at the exchange or any other organized markets, brokerage houses, portfolio management companies, and other companies subject to consolidation,
b) Banks as defined in the 3rd Article of the Banking Law and their subsidiaries,
c) Insurance and reinsurance companies as defined in the Insurance Law number 5684,
d) Pension companies as defined in the Individual Pension Savings and Investment System Law number 4632,
e) Companies, which prefer to implement TAS. (Law No. 6102 Art. 1/f2)

According to the decision as to determination of the companies which will go under statutory audit has taken by the Council of Ministers dated January 13, 2013 within the framework of the new TCC, Article 397 Public Oversight Account-ing and Auditing Standards Authority's Organization and Responsibili-ties Decree Law No. 660; companies, alone or together with its affiliates and/or its subsidiaries that provide at least two of the following three criteria and the companies included in the scope of a attached list numbered I are subject to statutory audit. The three criteria are as follows;

a) Total asset of company is a hundred and fifty million or more Turkish Liras,

[30] Deloitte Touche Tohmatsu, With the New TCC, a new period had begun in business life, 2012, http://www.deloitte.com/assets/Dcom-Turkey/Local%20Assets/Documents/turkey_tr_ttknewsletter_eng_temmuz_030912.pdf, p.4, (15.05.2013).
[31] KPMG, Latest Amendments in the New Turkish Commercial Code , 2012, http://www.kpmg.com/TR/en/IssuesAndInsights/ArticlesPublications/New-Turkish-Commercial-Code/publications/Documents/Latest-Amendments-in-the-new-TCC.pdf, p.6, (19.05.2013).

b) Annual net sales exceed is two hundred million or more Turkish Liras,
c) Numbers of employees are five hundred or more.

In case of at least two of three criteria mentioned in above decision consecutively exceed their limits in two accounting period, than the companies will be subject to statutory audit from the subsequent accounting period.

2.7.2 Tax Procedure Law

Tax Procedures Law, the Ministry of Finance introduced the Accounting System Implementation Regulation (ASIR), which became effective on January 1, 1994. The ASIR prescribes certain fundamental accounting concepts, a chart of accounts, and a format for the presentation of financial statements and is commonly referred to as the Uniform Chart of Accounts (UCA). The stated purpose of these requirements is to provide information to the taxation authorities as well as to establish an accounting system in line with International Accounting Standards.

The UCA is applicable to all companies and sole proprietors with varying exemptions to certain business organizations. For example, of the five areas covered by the ASIR17 small entities and sole proprietors are only required to comply with the Basic Concepts of Accounting, i.e. simplified reporting requirements. Also, financial institutions, including banks, insurance companies, private institutions, and financial leasing companies, that are subject to different accounting requirements as mandated by their respective regulatory agencies, must also comply with the Basic Concepts of Accounting, Explanations of Accounting Policies, and Principles of Financial Statements in accordance with the Tax Procedural Law.[32]

[32] Worldbank, **Turkey Report on The Observe of Standards and Codes (ROSC) Accounting and Auditing**, 2007, p.6.

2.7.3 Corporate Tax Law

The first corporate tax law No: 5422 was enacted on 03 June 1949 and it had been effective until the new law No: 5520 that has been enacted on 21 June 2006.[33] The new law includes a number of significant changes and introducing new concepts with the intention to bring Turkey more in line with the international applications and to fully address international tax issues of multinational companies as well as issues relevant to Turkish companies with extensive trade and manufacturing operations in foreign countries. The most important change is that the corporate income tax rate is decreased to 20% to be applicable for the year 2006 and onwards with the new Corporate Income Tax Law.

This rate is applied to accounting income modified for certain exemptions (like dividend income) and deductions (like investment incentives), and additions for certain non-tax deductible expenses and allowances for tax purposes. If there is no dividend distribution planned, no further tax charges are made.

Dividends paid to resident institutions and institutions working through local offices or representatives are not subject to withholding tax. Except for the dividend payments to those institutions, the withholding tax rate on the dividend payments is 15.0%. In applying the withholding tax rates on dividend payments to nonresident institutions and individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax. Prepaid corporate taxes for every three months are computed and paid using the related period's tax rate. The payments can be deducted from the annual corporate tax calculated for the whole year earnings.

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods. There is no procedure for a final and

[33]Zeki Gündüz, "New Corporate Income Tax Law Numbered 5520",VergiPortalı,15.12.2006, http://www.vergiportali.com/Content.aspx?Type=BulletinD&Id=1347 (21.01.2011).

definite agreement on tax assessments. Companies file their tax returns with their tax offices by the end of the 25th day of the fourth month following the close of the accounting period to which they relate. Tax returns are open for five years from the beginning of the year that follows the date of filing, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within four months following the close of the accounting year to which they relate. Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue reassessments based on their findings.

The transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via transfer pricing dated November 18, 2007 sets details about implementation. If a tax payer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length basis, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as a tax deductible for corporate income tax purposes.

3 TURKISH FINANCIAL REPORTING STANDARDS

Turkish Financial Reporting Standards (TFRSs) and Turkish Accounting Standards (TASs) are all together same with the IFRSs, IASs and their interpretations. In this part, I tried to explain the International Financial Reporting Standards' history, development, due process and IASB organization.

3.1 International Financial Reporting Standards

With the effect of globalization, international capital movements have increased. Increasing international trade facilities and number of multinational companies have led to the international regulations and standards in accounting and financial reporting which is known today as International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). Many organizations throughout the world are involved in attempts to harmonize or standardize accounting principles and for this purpose International Accounting Standards (IAS), now renamed as International Financial Reporting Standards (IFRS), are gaining acceptance worldwide[34]. IFRS, as it is known today, consists of thirteen IFRS and forty-one IAS, of which some have been superseded[35].

In this chapter, I tried to analyze the structure of International Accounting Standard Board and International Accounting Standards Committee. I tried to give brief information about the current standards and related interpretations. Also, I wanted to turn to the use of IFRSs around the world in some selected countries.

[34] Ali Alp and Saim Üstündağ, **Financial reporting transformation: the experience of Turkey, Critical Perspectives on Accounting**, 2009, p.681.
[35] Amanda Paul and Eddy Burks, Preparing for international financial reporting standards, **Journal of Finance and Accountancy**, p.2.

3.1.1 IFRS History

After the 10th World Congress of Accountants, representatives of several countries, including Canada, the United Kingdom, the United States, Australia, France, Germany, Japan, the Netherlands and Mexico, agreed to form the International Accounting Standards Committee (IASC) on July, 1973[36]. In 1977, the International Federation of Accountants (IFAC) was formed the IASC had to fight off attempts to become a part of IFAC. It managed to resist, coming to a compromise where IASC remained independent but all IFAC members were automatically members of IASC, and IFAC was able to nominate the membership of the standard-setting Board[37].

The objectives of the IASB are as follows: The Board is committed to developing, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements. In addition, the Board cooperates with national accounting standard setters to achieve convergence in accounting standards around the world[38].

3.1.2 International Accounting Standards Board

The IASB is the standard-setting body of the IASC Foundation[39]. The IASB has 14 members, 12 of who serve full-time and two part-time[40]. The Board's principal

[36] Frederick D.S Choi, **International Finance and Accounting Handbook, Third Edition**, New Jersey: John Wiley & Sons, Inc. 2003, p. 16.4.
[37] Epstein and Eva K Jermakowicz**, Interpretation and Application of International Financial Reporting Standards**, John Wiley & Sons, Inc., 2008, p.8.
[38] Türker and Engin Yarbaşı, p.53.
[39] International Accounting Standards Board®, **International Financial Reporting Standards (IFRSs®) 2008,** IASCF Publications Department, 2008, p. 28.
[40] Choi, Frederick D.S., p. 16.4.

responsibilities are to develop and issue International Financial Reporting Standards and exposure drafts, to approve Interpretations developed by IFRIC[41].

The IASB differs from the IASC Board, its predecessor body, in several key areas: [42]

a) Unlike the IASC Board, the IASB does not have a special relationship with the international accounting profession. Instead, IASB is governed by a group of Trustees of diverse geographic and functional backgrounds who are independent of the accounting profession.

b) Unlike the members of the IASC Board, members of the IASB are individuals who are appointed based on technical skill and background experience rather than as representatives of specific national accountancy bodies or other organizations.

c) Unlike the IASC Board, which only met about four times a year, the IASB Board usually meets each month. Moreover, the number of technical and commercial staff working for IASB has increased significantly as compared with IASC. (Similar to IASC, the headquarters of the IASB is located in London, the United Kingdom.)

[41] Ibid, p. 16.4.
[42] Abbas Ali Mirza, Magnus Orell and Graham J. Holt, **IFRS Practical Implementation Guide and Workbook, Second Edition** , New Jersey: John Wiley & Sons Inc., 2008, p.4.

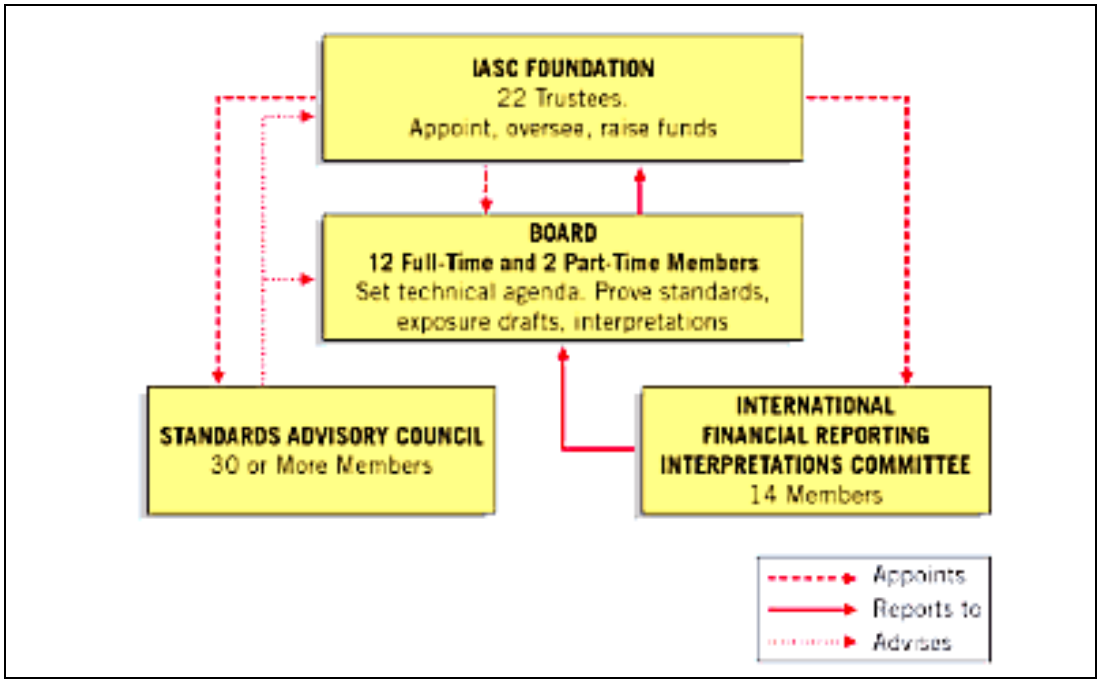

Figure 1 The IASB Structure

Source: Donald E. Kieso, Jerry J. Weygandt and Terry D. Warfield, **Intermediate Accounting: IFRS Edition, Volume 1**, New Jersey: John Wiley & Sons, Inc., 2010, p.11.

The selection of members of the IASB shall not be based on geographical criteria. The Trustees shall select IASB members so that the IASB as a group provides an appropriate mix of recent practical experience among auditors, preparers, users and academics[43].

The Specific Objectives of the IASB are:[44]

a) to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards

[43] IASCF, **International Financial Reporting Standards (IFRSs®) 2008,** IASCF Publications Department, 2008, p.18.
[44] Roger Hussey and Audra Ong, **International Financial Reporting Standards Desk Reference, Overview, Guide, and Dictionary**, New Jersey: John Wiley & Sons, Inc., 2005, p.16.

b) to help participants in the world's capital markets and other users make economic decisions by having access to high quality, transparent, and comparable information

c) to promote the use and vigorous application of those standards

d) to bring about convergence of national accounting standards and international accounting standards to high quality solutions.

The term IFRS includes standards and Interpretations approved by the IASB, and International Accounting Standards (IAS) and SIC Interpretations issued.

3.1.3 International Accounting Standards Committee

As I have just mentioned in the IFRS history, International Accounting Standards Committee was formed in 1973 by nine countries (The United States, The United Kingdom, Canada, Netherlands, Australia, France, Germany, Japan and Mexico) in London.

During its existence, IASC issued 41 numbered Standards, known as International Accounting Standards (IAS), as well as a Framework for the Preparation and Presentation of Financial Statements[45]. In its early years, IASC was criticized for developing standards which were too broad and subject to several different treatments around the world. After, IASC focused on the standards to ensure the comparable financial statements and started to work closely with the International Organization of Securities Commissions (IOSCO). The IASC launched its Comparability and Improvements Project with the goal of developing a "core set of standards" that would satisfy IOSCO[46]. Unfortunately, these applications were not work, so the IASC went through to the fundamental changes in its structure.

[45] Mirza, Magnus Orell and Graham J. Holt, p.3.
[46] Epstein, and Jermakowicz, Eva K., p.4.

In July 2000, IASC members voted to abandon the organization's former structure, which was based on professional bodies, and adopt a new structure: beginning in 2001, standards would be set by a professional board, financed by voluntary contributions raised by a new oversight body[47]. In December 2000 meeting, the IASC approved a statement. With this statement the IASC expressed that the following issues should have been worked on[48]:

a) Business Combinations

b) Reporting Financial Performance

c) Financial Instruments

d) Insurance

e) Mining

The IASC also expressed the new projects should have taken into consideration[49]:

a) Harmonization of national and international standards

b) A new project to focus on the new minor issues in the existence of IASC.

c) Share-based Payment

d) Intangible Assets

e) Update the Framework

f) Review of the standards related to inflation accounting

g) The new version of Small Enterprises

[47] Ibid., p.5.
[48] Ercan Bayazıtlı, Orhan Celik and Saim Üstündağ, **Türkiye Muhasebe Standartlarına Genel Bakış**, Türkiye Serbest Muhasebeci Mali Müşavirler ve Yeminli Mali Müşavirler Temel Eğitim ve Staj Merkezi(TESMER) , 2006, p. 22.
[49] Ibid., p. 23.

In 2001, The IASC Board was replaced by the International Accounting Standards Board (IASB) as the body in charge of setting the international standards.

3.1.4 The International Accounting Standards Committee Foundation

The International Accounting Standards Board (IASB) was established in 2001 as part of the International Accounting Standards Committee (IASC) Foundation. The objectives of the IASC Foundation are to develop, in the public interest, a single set of high quality and understandable global accounting standards and promote the use and rigorous application of those standards, take account of the special needs of small and medium-sized entities and emerging countries, bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards[50].

3.1.5 Monitoring Board

The members of the Monitoring Board are, at this moment, the Emerging Markets and Technical Committees of the International Organization of Securities Commissions (IOSCO), the European Commission (EC), Financial Services Agency of Japan (JFSA), and US Securities and Exchange Commission (SEC)[51]. The Basel Committee on Banking Supervision participates in the Monitoring Board as an observer. Through the Monitoring Board, capital markets authorities that allow or require the use of IFRS in their jurisdictions will be able to more effectively carry out their mandates regarding investor protection, market integrity, and capital formation[52].

[50] IASCF, **International Financial Reporting Standards (IFRSs ®) 2009,** IASCF Publications Department, 2009, p.16.
[51] IFRS Foundation and the IASB, Monitoring Board, 2011, http://www.ifrs.org/The+organisation/Governance+and+accountability/Monitoring+Board.htm (13.03.2011)
[52] Ibid.

The Monitoring Board's main responsibilities are to ensure that the Trustees continue to discharge their duties as defined by the IFRS Foundation Constitution, as well as approving the appointment or reappointment of Trustees. It is envisaged that the Monitoring Board will meet the Trustees at least once a year, or more often if appropriate[53].

3.1.6 Trustees

The Trustees promote the work of the International Accounting Standards Board (IASB) and but are not involved in any technical matters relating to the standards; this responsibility rests solely with the IASB[54].

There are 22 Trustees of the IASC Foundation, of whom six should be from North America, six from Europe, six from the Asia/Pacific region and four from any area, subject to establishing an "overall geographical balance"[55].

Trustees' main responsibilities are[56]:

a) appointing members of the IASB, the IFRS Interpretations Committee and the IFRS Advisory Council;

b) establishing and amending the operating procedures, consultative arrangements and due process for the IASB, the Interpretations Committee and the Advisory Council;

c) reviewing annually the strategy of the IASB and assessing its effectiveness;

d) Ensure the financing of the IFRS Foundation and approve annually its budget.

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[53]IASCF, **International Accounting Standards Committee Foundation Revised Constitution**, IASCF Publications Department, 2009, p.10.
[54] IFRS Foundation and the IASB, Trustees, 2011, http://www.ifrs.org/The+organisation/Trustees/Trustees.htm (13.03.2011).
[55] David Alexander and Simon Archer, **International Accounting/Financial Reporting Standards Guide,** CCH a Volters Kluwer Business, 2009, p.1-07.
[56] IFRS Foundation and the IASB, Trustee Responsibilities, 2011, http://www.ifrs.org/The+organisation/Trustees/Trustee+responsibilities/Trustee+responsibilities.htm(13.03.2011).

3.1.7 Standards Advisory Council

The Standards Advisory Council, whose members shall be appointed by the Trustees, with about forty members, provides a forum for participation by organizations and individuals with an interest in international financial reporting and having diverse geographic and functional backgrounds, with the objective of giving advice to the board on agenda decisions and priorities, informing the Board of the view of members of the Council on major standard-setting projects, and giving other advice to the Board or the Trustees[57].

Members currently include chief financial and accounting officers from some of the world's largest corporations and international organizations, leading financial analysts and academics, regulators, accounting Standard setters, and partners from leading accounting firms[58].

3.1.8 International Financial Reporting Interpretations Committee

The IFRS Interpretations Committee (formerly called the IFRIC) is the interpretative body of the IASB. The Interpretations Committee comprises 14 voting members appointed by the Trustees and drawn from a variety of countries and professional backgrounds. The mandate of the Interpretations Committee is to review on a timely basis widespread accounting issues that have arisen within the context of current IFRSs and to provide authoritative guidance (IFRICs) on those issues[59].

The Committee shall[60]:

(a) interpret the application of International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) and provide timely guidance on

[57] Alexander and Simon Archer, p.1-09.
[58] Abbas, Ali Mirza, Magnus Orell and Graham J. Holt, p.6.
[59] IFRS Foundation and the IASB, The Organization, 2011, http://www.ifrs.org/The+organisation/IASCF+and+IASB.htm (13.03.2011).
[60] IASCF, **International Accounting Standards Committee Foundation Revised Constitution**, IASCF Publications Department, 2009, p.16.

financial reporting issues not specifically addressed in IASs and IFRSs, in the context of the IASB *Framework*, and undertake other tasks at the request of the IASB;

(b) in carrying out its work under (a) above, have regard to the IASB's objective of working actively with national standard-setters to bring about convergence of national accounting standards and IASs and IFRSs to high quality solutions;

(c) publish after clearance by the IASB draft Interpretations for public comment and consider comments made within a reasonable period before finalizing an Interpretation; and

(d) report to the IASB and obtain the approval of nine of its members for final Interpretations.

IFRIC becomes the problem filter for the IASB, thus the IASB will hopefully work on more pervasive long-term problems, while the IFRIC deals with short-term emerging issues[61].

3.1.9 Development Process of an IFRS

International Financial Reporting Standards (IFRSs) are developed through an international consultation process, the "**due process**", which involves interested individuals and organizations from around the world[62].

IFRS are developed through the due process. Steps followed in achieving due process are as follows[63]:

1. The IASB and staff set an agenda of possible issues to be addressed by IFRS.

[61] Donald E. Kieso, Jerry J. Weygandt and Terry D. Warfield, **Intermediate Accounting: IFRS Edition, Volume 1**, New Jersey: John Wiley & Sons, Inc., 2010, p.13.
[62] IFRS Foundation and the IASB, How We Develop IFRSs, 2011, http://www.ifrs.org/How+we+develop+standards/How+we+develop+standards.htm (14.03.2010).
[63] Belverd E. Needles and Marian Powers, **International Financial Reporting Standards, Second Edition**, South-Western Cengage Learning, 2010, p.5.

2. Once an issue is deemed worthy of study, the project is planned including the deciding if it will be a joint project with other bodies such as the FASB.

3. After research and discussion by the IASB and staff, a discussion paper (DP) is prepared for public discussion.

4. After considering all comments and additional proposals to its DP, the board may issue an exposure draft (ED) for further public consideration.

5. These further comments are considered. IASB may at this point publish a final IFRS to be considered for adoption in the various jurisdictions.

6. After two years, a post-implementation review of the IFRS is conducted by the board.

Figure 2 Due Process Steps if Developing IFRS.

Source : Belverd E. Needles and Marian Powers, **International Financial Reporting Standards**, South-Western Cengage Learning, 2010, p.5.

3.1.10 IFRS Use of Around the World

Different accounting principles and various regulations (laws) in most of the countries lead accounting services to prepare in different form financial tables, in order to standardize preparation of financial tables, International Financial Reporting Standards have been introduced[64] and many countries have adopted the IFRSs. Currently, more than 110 countries either require or permit the use of IFRS in preparing financial statements for listed companies, including Australia and the countries of the European Union, several other countries are set to require or permit the use of IFRS by listed companies beginning in 2011 including Canada, India, Japan, Russia and South Korea[65].

3.1.10.1 IFRSs in Europe

A major event for the IASB was the European Union's (EU) decision in 2002 to require all EU listed companies to prepare consolidated accounts using IFRS beginning in 2005. To date, considerable research has focused on convergence in the first 15 members of the EU.[66] All member states of the EU are required to use IFRSs as adopted by the EU for listed companies since 2005.[67] The International Accounting Standards Board (IASB) acquired greater legitimacy and stature when the European Union (EU) decided to require all listed companies to prepare consolidated accounts based on International Financial Reporting Standards (IFRS) beginning in 2005.[68]

Effective from 1 January 2005, European Commission (EC) Regulation No. 1606/2002 requires all EU listed companies to prepare their consolidated accounts in

[64] İsmail Bekçi and Ozan Özdemir, **Muhasebe Standartlarının Oluşum Süreci ve Türkiye Finansal Raporlama Standartlarına Yönelik Muhasebe Meslek Mensuplarının Bakış Açıları Üzerine Bir Araştırma**, 2006, p.143.
[65] Protiviti Risk & Business Consulting Internal Audit, **Guide to International Financial Reporting Standards,** Frequently Asked Questions, Second Edition, 2010, p.5.
[66] Robert K. Larson, Donna L. Street, "Convergence with IFRS in an expanding Europe: progress and obstacles identified by large accounting firms' survey", **Journal of International Accounting, Auditing and Taxation**, 2004, Vol: 13, p.90.
[67] IFRS Foundation and The IASB, Use around the world, 2011, http://www.ifrs.org/Use+around+the+world/Use+around+the+world.htm. (15.05.2011).
[68] Op. cit., p.89.

accordance with IFRS. However, listed companies will only be required to use those IFRS approved for use by the EU. In September 2003, the EU endorsed all then existing IFRS except those relating to financial instruments (including IAS 32, IAS 39, and Standing Interpretations Committee (SIC) interpretations 5, 16, and 17). The EU regulation allows the 25 member countries to determine whether IFRS endorsed by the EC will be required beyond the preparation of consolidated financial statements by listed companies. Each EU country is given the choice of whether IFRS will be required or allowed in preparation of: (1) listed companies' individual accounts, and (2) non-listed companies' consolidated and/or individual accounts.[69]

Table 2
Application of the IAS Regulation[70]

	Companies	Publicly traded companies		Non publicly traded companies	
		Consolidated	Legal entity	Consolidated	Legal entity
Austria	All	Required	Not permitted	Permitted	Not permitted
Belgium	Credit Institutions Other	Required Required	Not permitted Not permitted	Req uired Permitted	Not permitted Not permitted
Cyprus	All	Required	Required	Req uired	Required
Czech Republic	All	Required	Required	Permitted	Not permitted
Denmark	All	Required	Permitted	Permitted	Permitted
Estonia	Credit institutions, insurance companies, financial and mb<ed financial holding companies and investment companies Other	Required Required	Required Required	Req uired Permitted	Required Permitted
Finland	Insurance Other	Required Required	Not permitted Permitted	Req uired Permitted	Not permitted Permitted
France	All	Required	Not permitted	Permitted	Not permitted
Germany	All	Required	Not permitted	Permitted	Not permitted
Greece	All	Required	Required	Permitted	Permitted
Hungary	All	Required	Not permitted	Permitted	Not permitted
Ireland	All	Required	Permitted	Permitted	Permitted
Italy	Supervised financial companies, companies with financial instruments widely distributed among the public Insurance companies Other	Required Required Required	Required Not permitted Required	Req uired Req uired Permitted	Required Not permitted Permitted
Latvia	Banks, insurance companies and other financial institutions Other	Required Required	Required Permitted*	Req uired Permitted	Required Not permitted
Lithuania	Banks and controlled financial institutions Other	Required Required	Required Required	Req uired Not permitted	Required Not permitted
Luxembourg	All	Required	Permitted	Permitted	Permitted

[69] Ibid., p.92.
[70] EU Implementation of IFRS and The Fair Value Directive, A report for the European Commission, 2007, http://ec.europa.eu/internal_market/accounting/docs/studies/2007-eu_implementation_of_ifrs.pdf, p.24, (18.10.2011).

Malta	All	Required	Required	Req uired	Required
Netherlands	All	Required	Permitted	Permitted	Permitted
Poland	Banks Pending admission to regulated market Subsidiary in IFRS group Other	Required WA WA Required	Not permitted N/A N/A Permitted	Req uired Permitted Permitted Not permitted	Not permitted Permitted Permitted Not permitted
Portugal	Banks and financial institutions Subsidiary in IFRS group Other	Required WA Required	Not permitted N/A Permitted	Permitted Permitted Permitted	Not permitted Permitted Not permitted
Slovakia	All	Required	Not permitted	Req uired	Not permitted
Slovenia	Banks and insurance companies Other	Required Required	Required Permitted	Req uired Permitted	Required Permitted
Spain	All	Required	Not permitted	Permitted	Not permitted
Sweden	All	Required	Not permitted	Permitted	Not permitted
United Kingdom	All	Required	Permitted	Permitted	Permitted
* Latvia: companies listed on the official list of the Riga Stock Exchange are required FRS-EU legal entity accounts for listing purposes only.					

International Accounting Standards and Interpretations endorsement process in the European Commission is as follows:[71]

a) The IASB (The International Accounting Standards Board) issues a standard.

b) EFRAG (the European Financial Reporting Advisory Group) holds consultations with interest groups

c) EFRAG delivers its advice to the Commission whether the standard meets the criteria of endorsement. The criteria examined are set forth in Article 3(2) in the IAS Regulation (not contrary to the true and fair view principle set out in the 4th and 7th Company Law Directives2, conducive to the European public good, understandability, relevance, reliability and comparability). EFRAG also prepares in cooperation with the Commission an effect study about the potential economic effects of the given standard's application in the EU. EFRAG is mentioned in recital (10) of the IAS Regulation.

d) SARG (the Standards Advice Review Group) issues its opinion whether EFRAG's endorsement advice is well-balanced and objective. The legal basis of this body and its opinion is Commission Decision No. 2006/505/EC.

[71] Deloitte IAS Plus, International Accounting Standards and Interpretations endorsement process in the EU. , http://www.iasplus.com/europe/endorsementprocess.pdf, p. 1-2 (11.06.2011).

e) Based on the advice of EFRAG and the opinion of SARG, the Commission prepares a draft endorsement Regulation. The adoption of the Regulation follows a regulatory comitology procedure with scrutiny, in accordance with Articles 5a and 8 of the Council Decision 1999/468.

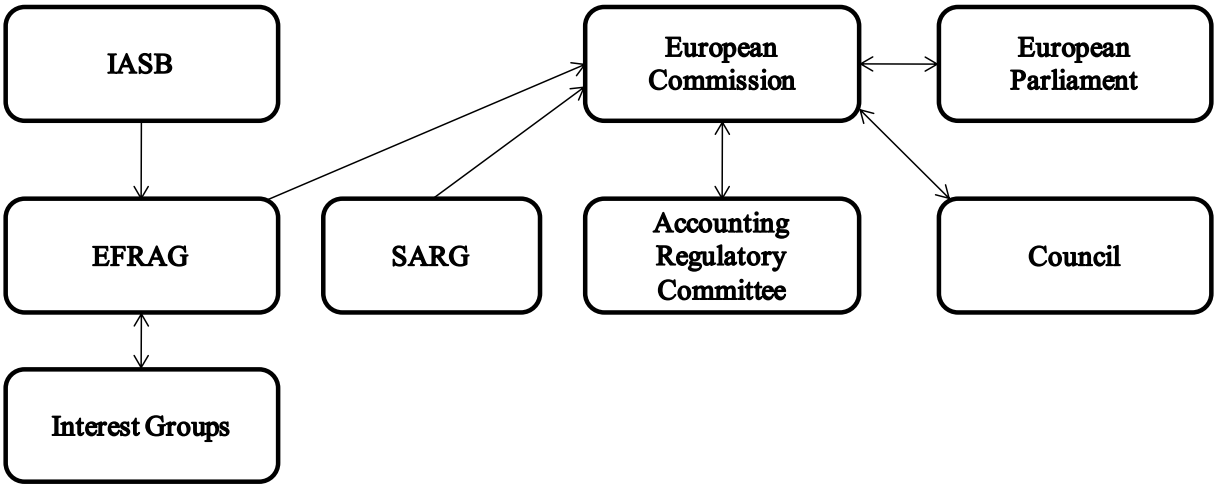
f) ARC (Accounting Regulatory Committee), set up in accordance with Article 6 of the IAS Regulation votes on the Commission proposal. The qualified majority rule applies. If the vote is favourable (which is the case for the vast majority of the standards to be endorsed),

g) The European Parliament

h) The Council of the European Union has 3 months to oppose the adoption of the draft Regulation by the Commission.

i) If the European Parliament and the Council give their favorable opinion on the adoption or the 3 months elapsed without opposition from their side, the Commission adopts the draft Regulation. After adoption, it is published in the Official Journal and enters into force on the day laid down in the Regulation itself.

Table 3
European Commission Endorsement Process[72]



3.1.10.2 IFRSs in United States

While the United States was not the only and probably not even the first country where an interest in international accounting issues arose, it was probably ahead of others in developing a research infrastructure in the area. The AICPA, following the 1962 international congress, took a first step. The Institutes executive director, John L. Carey, later wrote, 'Through a reactivated Institute committee on international relations, a vigorous program was undertaken to encourage international co-operation among professional accountants, to improve exchange of information, and eventually to agree on common standards. All of the Big High accountancy firms were represented on the committee. In 1964, the committee published a thick volume, Professional Accounting in 25 Countries. The Big High firm partners had called on their offices around the world to draft chapters that included sections on the organized accountancy profession, auditing standards, and accounting principles and practices. It was the first such volume to be produced by a professional accountancy body. In its Introduction, the committee referred to the demands for improvement and greater uniformity in international

[72] Deloitte IAS Plus, International Accounting Standards and Interpretations endorsement process in the EU. , http://www.iasplus.com/europe/endorsementprocess.pdf, p. 1. (11.06.2011).

accounting and professional standards which were voiced by many participants in the Eighth International Congress held in New York in September 1962. The committee added that such a need was also 'expressed by representatives of international financing and lending institutions such as the World Bank, the International Finance Corporation, the Inter-American Bank, and various individual and corporate investors. The committee was reluctant to embrace international uniformity as an attainable (or even desirable) goal, yet it viewed the compilation of norms and practices in its book as a prerequisite to constructive action in that direction.

3.1.10.3 IFRSs in Japan

Similar to other countries, Accounting Standards Board of Japan (ASBJ) has been working on the convergence of IFRSs and Japanese GAAP. The IASB and the Accounting Standards Board of Japan (ASBJ) have been working together to achieve convergence of IFRSs and Japanese Generally Accepted Accounting Principles (GAAP) since 2005. This work was formalized in 2007 with the Tokyo Agreement. In December 2009 the Japanese Financial Services Agency (FSA) permitted certain qualifying domestic companies to apply IFRSs for fiscal years starting ending on or after 31 March 2010. The Tokyo Agreement set 2008 as a target date for eliminating major differences between IFRSs and Japanese GAAP (as defined by the July 2005 CESR assessment of equivalence) with the objective of eliminating the remaining differences by 30 June 2011. Having achieved the 2008 target date, the boards are continuing their regular meetings and are now working to address the outstanding issues by 2011. In June 2009 the Business Accounting Council (BAC), a key advisory body to the Commissioner of the Financial Services Agency (FSA), approved an interim report - Application of International Financial Reporting Standards (IFRSs) in Japan (Interim Report). In the interim report the BAC proposes to allow certain listed companies an early adoption of IFRS followed by a final decision about the mandatory adoption of

IFRSs around 2012. The interim report also recommends that the ASBJ continues and accelerates the convergence of accounting standards. [73]

The ASBJ has committed to continuously improving Japanese GAAP to reflect developments made by leading accounting standard-setters, in particular those of the IASB and FASB. Under the 'whole picture' approach, the differences between the Japanese GAAP and IFRSs will be addressed from a conceptual perspective. Those differences that can be eliminated quickly will be dealt with in a 'short-term project' and the remaining differences will be dealt with in a 'longer-term project'. It was anticipated that this new approach would significantly accelerate the convergence between the Japanese GAAP and IFRSs, and in August 2007 the IASB and ASBJ announced (Tokyo Agreement) that major difference would be eliminated by 2008 with remaining differences to be removed by 30 June 2011. On 11 Dec 2009, the Financial Services Authority of Japan (FSA) published final Cabinet Office Ordinances that allow some Japanese public companies voluntarily to start using IFRSs designated by the Commissioner of the FSA in their consolidated financial statements starting from the fiscal year ending 31 March 2010.[74]

Companies on 11 December 2009, the Financial Services Authority of Japan (FSA) published final Cabinet Office Ordinances that allow some Japanese public companies voluntarily to start using IFRSs designated by the Commissioner of the FSA ('Designated IFRSs') in their consolidated financial statements starting from the fiscal year ending 31 March 2010. To be eligible to voluntarily start using IFRSs in 2010, domestic Japanese companies must meet both of (1) and (2) below: [75]

a) All of the following requirements shall be met:

i. Shares issued by the company are listed on a Securities Exchange in Japan.

[73] IFRS Foundation and the IASB web site, IFRS in Japan, 2011, p.1, http://www.ifrs.org/Use+around+the+world/IFRSs+in+Japan.htm. (17.05.2011).
[74] IFRS Harmonization In Australia, Japan And China: An Historical Perspective, p.19 http://www.afaanz.org/openconf/2011/modules/request.php?module=oc_proceedings&action=view.php&a=Accept+as+Forum&id=203, (10.10.2011).
[75] Deloitte IAS Plus, Accounting Standards Updates by Jurisdiction, http://www.iasplus.com/country/japan.htm, p.1, (11.10.2011).

ii. The company discloses in its Annual Securities Reports information regarding specific efforts to ensure appropriateness of its consolidated financial statements.

iii.The company allocates executives or employees with ample knowledge about Designated IFRSs and has in place a structure that enables it to properly prepare consolidated financial statements in accordance with Designated IFRSs.

b) The company, its parent, a related company, or the parent of the related company shall either:

i. disclose under laws and regulations of a foreign jurisdiction periodically as required thereby, documents on its business conditions prepared in accordance with IFRSs;

ii.disclose under rules set by a foreign security exchange markets periodically as required thereby, documents on its business conditions prepared in accordance with IFRSs; or

iii. own a foreign subsidiary whose capital is equal to or exceeds the equivalent of two billion Japanese yen.

3.2 Summary of Current Standards and Related Interpretations

The TFRSs and TASs are the complete translation of IFRSs and IASs. The summary of TFRSs and TASs are as below. For detailed information, the International Financial Reporting Standards IFRS 2011 Red Book is the main source which has been published by IASB and IFRS Foundation. The Turkish Translation of Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) do not have specific abbreviations, so SIC and IFRIC also has been used as Turkish Translation of Interpretations.

3.2.1 TFRS-1 First-time Adoption of International Financial Reporting Standards

The objective of this TFRS is to ensure that an entity's *first IFRS financial statements*, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:

a) is transparent for users and comparable over all periods presented;

b) provides a suitable starting point for accounting in accordance with *Turkish Financial Reporting Standards (TFRSs)*; and

c) can be generated at a cost that does not exceed the benefits.

An entity shall prepare and present an *opening TFRS statement of financial position* at the *date of transition to TFRSs*. This is the starting point for its accounting in accordance with IFRSs.

An entity shall use the same accounting policies in its opening TFRS statement of financial position and throughout all periods presented in its first TFRS financial statements. Those accounting policies shall comply with each TFRS effective at the end of its *first TFRS reporting period*.

In particular, the TFRS requires an entity to do the following in the opening TFRS statement of financial position that it prepares as a starting point for its accounting under TFRSs:

a) recognize all assets and liabilities whose recognition is required by TFRSs;

b) not recognize items as assets or liabilities if TFRSs do not permit such recognition;

c) reclassify items that it recognized in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with TFRSs; and

d) apply TFRSs in measuring all recognized assets and liabilities.

The TFRS grants limited exemptions from these requirements in specified areas where the cost of complying with them would be likely to exceed the benefits to users of financial statements. The TFRS also prohibits retrospective application of TFRSs in some areas; particularly where retrospective application would require judgments by management about past conditions after the outcome of a particular transaction is already known. The IFRS requires disclosures that explain how the transition from previous GAAP to TFRSs affected the entity's reported financial position, financial performance and cash flows[76].

3.2.2 TFRS-2 Share Based Payments

Share-based payment transactions are transactions in which entities receive goods or services as consideration for either:

a) equity instruments of the entity (or the entity's parent or another entity within the same group) – 'equity-settled share-based payment'; or

b) cash or other assets, where the amount is based on the price or value of the entity's shares – 'cash-settled share-based payment'.

The most common application is to employee share schemes, such as share option schemes. However, entities sometimes also pay for other expenses, such as professional fees, and for the purchase of assets by means of share-based payment.

The accounting treatment under TFRS 2 is based on the fair value of the instruments. Both the valuation of and the accounting for awards can be difficult, due to the complex models that need to be used to calculate the fair value of options, and also due to the variety and complexity of schemes. In addition, the standard requires extensive disclosures. The result generally is to reduce reported profits, especially in

[76] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IFRS 1, p.2, http://www.ifrs.org/IFRSs/Documents/English%20Web%20summaries/IFRS%201.pdf. (15.05.2011).

entities that use share-based payment extensively as a part of their remuneration strategy.

All transactions involving share-based payment are recognised as expenses or assets over any vesting period.

Equity-settled share-based payment transactions are measured at the grant date fair value for employee services; and, for non-employee transactions, at the fair value of the goods or services received at the date on which the entity recognizes the goods or services. If the fair value of the goods or services cannot be estimated reliably – such as employee services and circumstances in which the goods or services cannot be specifically identified – the entity uses the fair value of the equity instruments granted. Additionally, management needs to consider if there are any unidentifiable goods or services received or to be received by the entity, as these also have to be recognized and measured in accordance with TFRS 2[77].

3.2.3 TFRS-3 Business Combinations

The objective of the TFRS is to enhance the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. It does that by establishing principles and requirements for how an acquirer[78]:

a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;

b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and

[77] Price Water House Coopeers(PWC), **International Financial Reporting Standards, Pocket Guide, 2010**, p.31, http://www.pwc.com/gx/en/ifrs-reporting/pdf/Pocket_guide_2010_FINAL.pdf, (14.03.2013).
[78] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IFRS 3, p.1, http://www.ifrs.org/IFRSs/Documents/English%20Web%20summaries/IFRS%203.pdf, (15.03.2013).

c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

Core principle:

An acquirer of a business recognizes the assets acquired and liabilities assumed at their acquisition-date fair values and discloses information that enables users to evaluate the nature and financial effects of the acquisition[79].

Applying the acquisition method[80]:

A business combination must be accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. One of the parties to a business combination can always be identified as the acquirer, being the entity that obtains control of the other business (the acquiree).

Formations of a joint venture or the acquisition of an asset or a group of assets that does not constitute a business are not business combinations.

The TFRS establishes principles for recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Any classifications or designations made in recognizing these items must be made in accordance with the contractual terms, economic conditions, acquirer's operating or accounting policies and other factors that exist at the acquisition date.

Each identifiable asset and liability is measured at its acquisition-date fair value. Any non-controlling interest in an acquiree is measured at fair value or as the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

According to TFRS-3 Standard, The TFRS provides limited exceptions to these recognition and measurement principles:

[79] Deloitte Touche Tohmatsu, **IFRS in Your Pocket**, 2011, p.44, http://www.iasplus.com/dttpubs/pocket2011.pdf, (16.03.2013).
[80] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IFRS 3, p.1, http://www.ifrs.org/IFRSs/Documents/English%20Web%20summaries/IFRS%203.pdf, (16.03.2013).

a) Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors at the inception of the contract (or when the terms have changed) rather than on the basis of the factors that exist at the acquisition date.

b) Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized.

c) Some assets and liabilities are required to be recognized or measured in accordance with other TFRSs, rather than at fair value. The assets and liabilities affected are those falling within the scope of TAS 12 *Income Taxes*, TAS 19 *Employee Benefits*, TFRS 2 *Share-based Payment* and TFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

d) There are special requirements for measuring a reacquired right.

e) Indemnification assets are recognized and measured on a basis that is consistent with the item that is subject to the indemnification, even if that measure is not fair value.

The IFRS requires the acquirer, having recognized the identifiable assets, the liabilities and any non-controlling interests, to identify any difference between[81]:

a) the aggregate of the consideration transferred, any non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; and

b) the net identifiable assets acquired.

The difference will, generally, be recognised as goodwill. If the acquirer has made a gain from a bargain purchase that gain is recognised in profit or loss.

The consideration transferred in a business combination (including any contingent consideration) is measured at fair value.

In general, an acquirer measures and accounts for assets acquired and liabilities assumed or incurred in a business combination after the business combination has been

[81]Ibid,p.2.

completed in accordance with other applicable TFRSs. However, the TFRS provides accounting requirements for reacquired rights, contingent liabilities, contingent consideration and indemnification assets.

Disclosure[82]:

The TFRS requires the acquirer to disclose information that enables users of its financial statements to evaluate the nature and financial effect of business combinations that occurred during the current reporting period or after the reporting date but before the financial statements are authorized for issue. After a business combination, the acquirer must disclose any adjustments recognized in the current reporting period that relate to business combinations that occurred in the current or previous reporting periods.

3.2.4 TFRS-4 Insurance Contracts

The objective of this TFRS is to specify the financial reporting for insurance contracts by any entity that issues such contracts (described in this TFRS as an insurer) until the Board completes the second phase of its project on insurance contracts. In particular, this TFRS requires[83]:

a) limited improvements to accounting by insurers for insurance contracts.

b) disclosure that identifies and explains the amounts in an insurer's financial statements arising from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts.

Insurance contracts are contracts where an entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if

[82]Ibid, p.2.
[83] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IFRS 4, p.1, http://www.ifrs.org/IFRSs/Documents/English%20Web%20summaries/IFRS%204.pdf, (16.03.2013).

the insured event adversely affects the policyholder. The risk transferred in the contract must be insurance risk, which is any risk except for financial risk[84].

The TFRS applies to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds, except for specified contracts covered by other TFRSs. It does not apply to other assets and liabilities of an insurer, such as financial assets and financial liabilities within the scope of TFRS 9 Financial Instruments. Furthermore, it does not address accounting by policyholders[85]

The TFRS exempts an insurer temporarily (ie during phase I of this project) from some requirements of other TFRSs, including the requirement to consider the Framework in selecting accounting policies for insurance contracts. However, the TFRS[86]:

a) prohibits provisions for possible claims under contracts that are not in existence at the end of the reporting period (such as catastrophe and equalization provisions).

b) requires a test for the adequacy of recognized insurance liabilities and an impairment test for reinsurance assets.

c) requires an insurer to keep insurance liabilities in its statement of financial position until they are discharged or cancelled, or expire, and to present insurance liabilities without offsetting them against related reinsurance assets.

The TFRS permits an insurer to change its accounting policies for insurance contracts only if, as a result, its financial statements present information that is more relevant and no less reliable, or more reliable and no less relevant. In particular, an insurer cannot introduce any of the following practices, although it may continue using accounting policies that involve them[87]:

a) measuring insurance liabilities on an undiscounted basis.

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[84] Price Water House Coopers (PWC), **International Financial Reporting Standards, Pocket Guide**, 2010, p.24, http://www.pwc.com/gx/en/ifrs-reporting/pdf/Pocket_guide_2010_FINAL.pdf, (18.11.2011).
[85] FRS Technical summaries, IFRS and IAS summaries- English(2012), IFRS 4, p.1, http://www.ifrs.org/IFRSs/Documents/English%20Web%20summaries/IFRS%204.pdf, (18.03.2013).
[86] Ibid, p.1.
[87] Ibid, p.1.

b) measuring contractual rights to future investment management fees at an amount that exceeds their fair value as implied by a comparison with current fees charged by other market participants for similar services.

c) using non-uniform accounting policies for the insurance liabilities of subsidiaries.

According to this standard, The TFRS permits the introduction of an accounting policy that involves re-measuring designated insurance liabilities consistently in each period to reflect current market interest rates (and, if the insurer so elects, other current estimates and assumptions). Without this permission, an insurer would have been required to apply the change in accounting policies consistently to all similar liabilities.

The TFRS-4 requires disclosure to help users understand:

a) the amounts in the insurer's financial statements that arise from insurance contracts.

b) the nature and extent of risks arising from insurance contracts.

3.2.5 TFRS-5 Non-current Assets Held for sale and Discontinued Operations

The objective of this TFRS is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations. Non-current assets (or disposal groups) classified as held for sale are[88]:

a) carried at the lower of the carrying amount and fair value less costs to sell;

b) not depreciated or amortised; and

c) presented separately in the balance sheet (assets and liabilities should not be offset).

[88] Price Water House Coopers (PWC), **International Financial Reporting Standards, Pocket Guide**, 2010, p.56, http://www.pwc.com/gx/en/ifrs-reporting/pdf/Pocket_guide_2010_FINAL.pdf

The TFRS:

a) adopts the classification 'held for sale'.

b) introduces the concept of a disposal group, being a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

c) classifies an operation as discontinued at the date the operation meets the criteria to be classified as held for sale or when the entity has disposed of the operation[89].

An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use[90].

For this to be the case the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable[91].

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by paragraph 9, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn[92].

According to TFRS-5 Standard, a discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and

[89] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IFRS 5, p.1, http://www.ifrs.org/IFRSs/Documents/English%20Web%20summaries/IFRS%205.pdf, (18.03.2013).
[90] Ibid, p.1.
[91] Ibid, p.1.
[92] Ibid, p.2.

a) represents a separate major line of business or geographical area of operations,

b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or

c) is a subsidiary acquired exclusively with a view to resale.

A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity will have been a cash-generating unit or a group of cash-generating units while being held for use.

An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use[93].

3.2.6 TFRS-6 Exploration for and Evaluation of Mineral Resources

The objective of this TFRS is to specify the financial reporting for the exploration for and evaluation of mineral resources[94].

Exploration and evaluation expenditures are expenditures incurred by an entity in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. *Exploration for and evaluation of mineral resources* is the search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource.

[93] Public Oversight, Accounting and Auditing Standards Authority (KGK), Turkish Accounting Standards, TFRS-5, p.5, http://kgk.gov.tr/contents/files/TFRS_5.pdf, http://kgk.gov.tr/contents/files/TFRS%2013.pdf(16.05.2013).
[94] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IFRS 6, p.1, http://www.ifrs.org/IFRSs/Documents/IFRS6en.pdf, (16.05.2013).

Exploration and evaluation assets are exploration and evaluation expenditures recognized as assets in accordance with the entity's accounting policy[95].

The TFRS:

a) permits an entity to develop an accounting policy for exploration and evaluation assets without specifically considering the requirements of paragraphs 11 and 12 of TAS 8. Thus, an entity adopting TFRS 6 may continue to use the accounting policies applied immediately before adopting the TFRS. This includes continuing to use recognition and measurement practices that are part of those accounting policies.

b) requires entities recognizing exploration and evaluation assets to perform an impairment test on those assets when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amount.

c) varies the recognition of impairment from that in IAS 36 but measures the impairment in accordance with that Standard once the impairment is identified[96].

An entity shall determine an accounting policy for allocating exploration and evaluation assets to cash generating units or groups of cash-generating units for the purpose of assessing such assets for impairment.

Each cash-generating unit or group of units to which an exploration and evaluation asset is allocated shall not be larger than an operating segment determined in accordance with TFRS 8 *Operating Segments*.

Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an entity shall measure, present and disclose any resulting impairment loss in accordance with IAS 36[97].

[95] Ibid, p.1.
[96] Ibid, p.1.
[97] Ibid, p.2.

One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment (the list is not exhaustive)[98]:

a) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.

b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.

c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.

d) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

An entity shall disclose information that identifies and explains the amounts recognized in its financial statements arising from the exploration for and evaluation of mineral resources.

3.2.7 TFRS-7 Financial Instruments: Disclosures

The objective of this TFRS is to require entities to provide disclosures in their financial statements that enable users to evaluate[99]:

a) the significance of financial instruments for the entity's financial position and performance; and

b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks. The qualitative disclosures describe management's

[98] Ibid, p.2.
[99] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IFRS 7, p.1, http://www.ifrs.org/IFRSs/Documents/IFRS7en.pdf, (16.05.2013).

objectives, policies and processes for managing those risks. The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.

The TFRS applies to all entities, including entities that have few financial instruments (e.g. a manufacturer whose only financial instruments are accounts receivable and accounts payable) and those that have many financial instruments (e.g. a financial institution most of whose assets and liabilities are financial instruments)[100].

When this TFRS requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position[101].

The principles in this TFRS complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in IAS 32 *Financial Instruments: Presentation* and TFRS 9 *Financial Instruments*[102].

3.2.8 TFRS-8 Operating Segments

Core principle—an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates[103].

This TFRS shall apply to[104]:

[100] Ibid, p1.
[101] Ibid, p.1.
[102] Ibid, p.1.
[103] Deloitte Touche Tohmatsu, **IFRS in Your Pocket**, 2011, p.52, http://www.iasplus.com/dttpubs/pocket2011.pdf.
[104] IFRS Technical summaries, IFRS and IAS summaries- English(2011), IFRS 8, p.1, http://www.ifrs.org/IFRSs/Documents/IFRS8en.pdf, (20.11.2013).

a) the separate or individual financial statements of an entity:

i. whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or

ii. that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and

b) the consolidated financial statements of a group with a parent:

i. whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or

ii. that files, or is in the process of filing, the consolidated financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market.

The TFRS specifies how an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to IAS 34 *Interim Financial Reporting*, requires an entity to report selected information about its operating segments in interim financial reports. It also sets out requirements for related disclosures about products and services, geographical areas and major customers[105].

The TFRS requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to

[105] Ibid, p.1.

be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments[106].

The TFRS requires an entity to report a measure of operating segment profit or loss and of segment assets. It also requires an entity to report a measure of segment liabilities and particular income and expense items if such measures are regularly provided to the chief operating decision maker. It requires reconciliations of total reportable segment revenues, total profit or loss, total assets, liabilities and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements[107].

The TFRS requires an entity to report information about the revenues derived from its products or services (or groups of similar products and services), about the countries in which it earns revenues and holds assets, and about major customers, regardless of whether that information is used by management in making operating decisions. However, the TFRS does not require an entity to report information that is not prepared for internal use if the necessary information is not available and the cost to develop it would be excessive[108].

The TFRS also requires an entity to give descriptive information about the way the operating segments were determined, the products and services provided by the segments, differences between the measurements used in reporting segment information and those used in the entity's financial statements, and changes in the measurement of segment amounts from period to period[109].

3.2.9 TFRS-9 Financial Instruments

In November 2009, the IASB published the first part of its three-stage project to replace IAS 39, in the form of a new standard TFRS 9, 'Financial instruments'. This

[106] Ibid, p.1.
[107] Ibid, p.2.
[108] Ibid, p.2.
[109] Ibid, p.2.

first phase deals with the classification and measurement of financial assets. In December 2011, the Board amended IFRS 9 to defer the mandatory effective date from 1 January 2013 to annual periods beginning on or after 1 January 2015. Early application of IFRS 9 will continue to be permitted. IFRS 9 has not yet been endorsed for use in the EU. The Board also amended the transition provisions to provide relief from restating comparative information and introduced new disclosures to help users of financial statements understand the effect of moving to the IFRS 9 classification and measurement model [110].

TFRS 9 replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortized cost and fair value. Classification under TFRS 9 is driven by the entity's business model for managing the financial assets and the contractual characteristics of the financial assets[111].

Two of the existing three fair value option criteria become obsolete under TFRS 9, as a fair value driven business model requires fair value accounting, and hybrid contracts are classified in their entirety at fair value. The remaining fair value option condition in IAS 39 is carried forward to the new standard – that is, management may still designate a financial asset as at fair value through profit or loss on initial recognition if this significantly reduces an accounting mismatch. The designation at fair value through profit or loss will continue to be irrevocable[112].

TFRS 9's classification principles indicate that all equity investments should be measured at fair value. However, management has an option to present in other comprehensive income unrealized and realized fair value gains and losses on equity investments that are not held for trading[113].

Generally, recognized financial liabilities (that are currently in the scope of TAS 39) will be measured at amortized cost except for certain liabilities (for example,

[110] Price Water House Coopers (PWC), International Financial Reporting Standards, Pocket Guide, 2012, p.9, http://www.pwc.com/en_GX/gx/ifrs-reporting/pdf/ifrs_pocket_guide_2012_(2).pdf, (17.05.2013).
[111] Ibid., p.9.
[112] Price Water House Coopers (PWC), **International Financial Reporting Standards, Pocket Guide**, 2011, p.9.
[113] Ibid, p.9.

derivatives) that shall be measured at fair value and liabilities irrevocably designated as measured at FVTPL (fair value through profit or loss) at initial recognition.[114] According to TFRS-9, all derivatives, whether assets or liabilities, within the scope of the Standard are required to be measured at fair value.

3.2.10 TFRS-10 Consolidated Financial Statements

TFRS 10 Consolidated Financial Statements establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The TFRS supersedes TAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation-Special Purpose Entities and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted[115].

The key principle in the new standard is that control exists, and consolidation is required only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns.[116]

According to the Standard; the principle of control sets out the following three elements of control:

a) power over the investee;

b) exposure, or rights, to variable returns from involvement with the investee; and

c) the ability to use power over the investee to affect the amount of the investor's returns.

TFRS 10 provides guidance on the following issues when determining who has control:

[114] Deloitte Touche Tohmatsu **IFRSs in your pocket**, 2012, p.55.
[115] IFRS Foundation , IFRSs and IASs, IFRS 10, p.5, http://eifrs.ifrs.org/eifrs/bnstandards/en/2013/ifrs10.pdf, (17.05.2013).
[116] Price Water House Coopers, **IFRS pocket Guide**, 2012, p.43.

a) assessment of the purpose and design of an investee;

b) nature of rights – whether substantive or merely protective in nature;

c) impact of exposure to variable returns;

d) assessment of voting rights and potential voting rights;

e) whether an investor is a principal or an agent when exercising its controlling power;

f) relationships between investors and how they affect control; and

g) existence of power over specified assets only.[117]

Consolidated financial statements include all subsidiaries. Intragroup balances, transactions, income and expenses are eliminated in full. Non-controlling interests in subsidiaries must be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Partial disposal of an investment in a subsidiary while control is retained is accounted for as an equity transaction with owners, and no gain or loss is recognized in profit or loss.

3.2.11 TFRS-11 Joint Arrangements

In May 2011, TFRS 11 Joint Arrangements was issued to replace TAS 31. In June 2012, TFRS 11 was amended by Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[118].

A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a

[117] Ibid, p.43.
[118] IFRS Foundation, IFRSs and IASs, IFRS 11-Joint Arrangements , p.1, http://eifrs.ifrs.org/eifrs/bnstandards/en/2013/ifrs11.pdf, (17.05.2013).

joint arrangement whereby the parties that have joint control have rights to the net assets[119].

The TFRS requires a joint operator to recognize and measure the assets and liabilities (and recognize the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant TFRSs applicable to the particular assets, liabilities, revenues and expenses. The TFRS requires a joint venturer to recognize an investment and to account for that investment using the equity method in accordance with TAS 28 Investments in Associates and Joint Ventures, unless the entity is exempted from applying the equity method as specified in that standard[120].

3.2.12 TFRS-12 Disclosure of Interests in Other Entities

Annual periods beginning on or after 1 January 2013. Earlier application permitted – but only if TFRSs 10 & 11 and TASs 27 & 28 (2011) are applied from the same date.

The objective of this TFRS is to require an entity to disclose information that enables users of its financial statements to evaluate[121]:

a) the nature of, and risks associated with, its interests in other entities; and

b) the effects of those interests on its financial position, financial performance and cash flows.

3.2.13 TFRS-13 Fair Value Measurement

This TFRS: defines fair value; sets out in a single TFRS a framework for measuring fair value; and requires disclosures about fair value measurements[122].

[119] Deloitte Tohmatsu Touche, IFRS in your pocket 2012, p.59.
[120] IFRS, IFRS Technical summaries, IFRS 11-Joint Arrangements , p.1-2, http://www.ifrs.org/IFRSs/Documents/IFRS11en.pdf (17.05.2013).
[121] IFRS, IFRS Technical summaries, IFRS-12 Disclosure of Interests in Other Entities, p.1, http://www.ifrs.org/IFRSs/Documents/IFRS12en.pdf, (17.05.2013).

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following[123]:

a) the condition and location of the asset; and

b) restrictions, if any, on the sale or use of the asset.

According to TFRS-13 Standard, a fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability; or

b) in the absence of a principal market, in the most advantageous market for the asset or liability.

An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique[124].

It introduces a few changes[125]:

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[122] Public Oversight, Accounting and Auditing Standards Authority (KGK), Turkish Accounting Standards, TFRS-13 Fair Value Measurement, p.2, http://kgk.gov.tr/contents/files/TFRS%2013.pdf (17.05.2013).
[123] IFRS Foundation, IFRS-13 Fair Value Measurement, p.7, http://eifrs.ifrs.org/eifrs/bnstandards/en/2013/ifrs13.pdf (17.05.2013).
[124] Ibid, p.9.
[125] Price Water House Coopers(PWC), IFRS pocket guide, 2012, p.56.

a) the introduction of a fair value hierarchy for non-financial assets and liabilities, similar to what TFRS 7 currently prescribes for financial instruments;

b) a requirement for the fair value of all liabilities, including derivative liabilities, to be determined based on the assumption that the liability will be transferred to another party rather than otherwise settled or extinguished;

c) the removal of the requirement to use bid and ask prices for actively-quoted financial assets and financial liabilities respectively. Instead, the most representative price within the bid-ask spread should be used; and

d) the introduction of additional disclosures related to fair value.

3.2.14 TAS-1 Presentation of Financial Statements

TAS 1 objective is to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.

A complete set of financial statements comprises[126]:

a) a statement of financial position as at the end of the period;

b) a statement of profit or loss and other comprehensive income for the period;

c) a statement of changes in equity for the period;

d) a statement of cash flows for the period;

e) notes, comprising a summary of significant accounting policies and other explanatory information; and

[126] Deloitte Touche Tohmatsu, IFRS in your Pocket 2011, p.57.

f) a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

Financial statements are prepared on a going concern basis. An entity shall present separately each material class of similar items and shall not offset assets and liabilities or income and expenses, unless required or permitted by a TFRS. An entity shall present a complete set of financial statements (including comparative information) at least annually and include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements. An entity shall recognize all items of income and expense in a period in profit or loss unless a TFRS requires or permits otherwise[127].

The notes shall[128]:

a) present information about the basis of preparation of the financial statements and the specific accounting policies ;

b) disclose the information required by TFRSs that is not presented elsewhere in the financial statements; and

c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year[129].

Presentation of items of other comprehensive income (Amendments to TAS 1) was issued in June 2011. This requires items of other comprehensive income to be

[127] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 1, p.2, http://www.ifrs.org/Documents/IAS1.pdf, (18.05.2013).
[128] Ibid, p.2.
[129] Ibid, p.3.

grouped into those that will be reclassified subsequently to profit or loss and those that will not be reclassified. The amendment is effective for annual periods beginning on or after 1 July 2012[130].

3.2.15 TAS-2 Inventories

This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories[131].

Inventories shall be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula. Last-in, first-out (LIFO) is not permitted. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.

When inventories are sold, the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized.

[130] Price Water House Coopers(PWC), IFRS pocket guide, 2012, p.6.
[131] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 2, p.1, http://www.ifrs.org/Documents/IAS2.pdf, (18.05.2013).

3.2.16 TAS-7 Statement of Cash Flows

The cash flow statement is one of the primary statements in financial reporting (along with the statement of comprehensive income, the balance sheet and the statement of changes in equity). It presents the generation and use of 'cash and cash equivalents' by category (operating, investing and finance) over a specific period of time. It provides users with a basis to assess the entity's ability to generate and utilize its cash. Operating activities are the entity's revenue-producing activities. Investing activities are the acquisition and disposal of long-term assets (including business combinations) and investments that are not cash equivalents. Financing activities are changes in equity and borrowings[132].

Management may present operating cash flows by using either the direct method (gross cash receipts/payments) or the indirect method (adjusting net profit or loss for non-operating and non-cash transactions, and for changes in working capital)[133].

Cash flows from investing and financing activities are reported separately gross (that is, gross cash receipts and gross cash payments) unless they meet certain specified criteria. The cash flows arising from dividends and interest receipts and payments are classified on a consistent basis and are separately disclosed under the activity appropriate to their nature. Cash flows relating to taxation on income are classified and separately disclosed under operating activities unless they can be specifically attributed to investing or financing activities[134].

The total that summarizes the effect of the operating, investing and financing cash flows is the movement in the balance of cash and cash equivalents for the period. Separate disclosure is made of significant non-cash transactions (such as the issue of equity for the acquisition of a subsidiary or the acquisition of an asset through a finance lease). Non-cash transactions include impairment losses/ reversals; depreciation; amortization; fair value gains/losses; and income statement charges for provisions[135].

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[132] Price Water House Coopers (PWC), **International Financial Reporting Standards, Pocket Guide**, 2011, p.50.
[133] Ibid, p.50.
[134] Ibid, p.50.
[135] Ibid, p.51.

3.2.17 TAS-8 Accounting Policies, Changes in Accounting Estimates and Errors

The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The Standard is intended to enhance the relevance and reliability of an entity's financial statements and the comparability of those financial statements over time and with the financial statements of other entities[136].

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements[137].

An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless a TFRS specifically requires or permits categorization of items for which different policies may be appropriate.

An entity shall change an accounting policy only if the change[138]:

a) is required by an TFRS; or

b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. A *change in accounting estimate* is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities[139]. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. The effect of a change in

[136] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 8, p.1, http://www.ifrs.org/Documents/IAS8.pdf, (19.05.2013).
[137] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 8, p.1, http://www.ifrs.org/Documents/IAS8.pdf, (19.05.2013).
[138] Ibid, p.2.
[139] Ibid. p.2.

an accounting estimate shall be recognized prospectively by including it in profit or loss in:

a) the period of the change, if the change affects that period only; or

b) the period of the change and future periods, if the change affects both

According to the Standard, *Prior period errors* are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information.

Except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by[140]:

a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or

b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Omissions or misstatements of items are material if they could, individually or collectively; influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor[141].

[140] Ibid.p.2.
[141] Ibid. p.2.

3.2.18 TAS-10 Events after the Accounting Period

The objective of this Standard is to prescribe[142]:

a) when an entity should adjust its financial statements for events after the reporting period; and

b) the disclosures that an entity should give about the date when the financial statements were authorized for issue and about events after the reporting period.

The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate[143].

Events after the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue. Two types of events can be identified[144]:

a) those that provide evidence of conditions that existed at the end of the reporting period *(adjusting events after the reporting period);* and

b) those that are indicative of conditions that arose after the reporting period *(non-adjusting events after the reporting period).*

An entity shall adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting period.

An entity shall not adjust the amounts recognized in its financial statements to reflect non-adjusting events after the reporting period. If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, an entity shall disclose

[142] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 10, p.1, http://www.ifrs.org/Documents/IAS10.pdf, (19.05.2013).
[143] Ibid, p.1.
[144] Ibid, p.1.

the following for each material category of non-adjusting event after the reporting period[145]:

b) the nature of the event; and

c) an estimate of its financial effect, or a statement that such an estimate cannot be made.

If an entity receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions, in the light of the new information[146].

3.2.19 TAS-11 Construction Contracts

The objective of this Standard is to prescribe the accounting treatment of revenue and costs associated with construction contracts[147]. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. Therefore, the primary issue in accounting for construction contracts is the allocation of contract revenue and contract costs to the accounting periods in which construction work is performed[148].

A construction contract is a contract specifically negotiated for the construction of an asset or combination of assets, including contracts for the rendering of services directly related to the construction of the asset (such as project managers and architects services). Such contracts are typically fixed price or cost-plus contracts[149]. The requirements of this Standard are usually applied separately to each construction contract. However, in certain circumstances, it is necessary to apply the Standard to the

[145] Ibid, p.1.
[146] Ibid, p.1.
[147] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 11, p.1, http://www.ifrs.org/Documents/IAS11.pdf, (20.05.2013).
[148] Ibid, p.1.
[149] Price Water House Coopeers(PWC), **International Financial Reporting Standards, Pocket Guide**, 2011, p.20.

separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

Contract revenue shall comprise[150]:

a) the initial amount of revenue agreed in the contract; and

b) variations in contract work, claims and incentive payments:

i. to the extent that it is probable that they will result in revenue; and

ii. they are capable of being reliably measured

Contract revenue is measured at the fair value of the consideration received or receivable.

Contract costs shall comprise[151]:

a) costs that relate directly to the specific contract;

b) costs that are attributable to contract activity in general and can be allocated to the contract; and

c) such other costs as are specifically chargeable to the customer under the terms of the contract.

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of contract activity (the percentage of completion method of accounting)[152].

When the outcome of the contract cannot be estimated reliably, revenue is recognized only to the extent of costs incurred that it is probable will be recovered; contract costs are recognized as an expense as incurred. When it is probable that total

[150] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 11, p.1, http://www.ifrs.org/Documents/IAS11.pdf, (20.05.2013).
[151] Ibid, p.1.
[152] Deloitte Touche Tohmatsu, **IFRS in your pocket 2011,** 2011, p.64.

contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately[153].

IFRIC 15, 'Agreements for construction of real estate', clarifies which standard (TAS 18, 'Revenue', or TAS 11, 'Construction contracts') should be applied to particular transactions[154].

3.2.20 TAS-12 Income Taxes

The objective of this Standard is to prescribe the accounting treatment for income taxes. For the purposes of this Standard, income taxes include all domestic and foreign taxes which are based on taxable profits. Income taxes also include taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint venture on distributions to the reporting entity[155].

The principal issue in accounting for income taxes is how to account for the current and future tax consequences of: the future recovery (settlement) of the carrying amount of assets (liabilities) that are recognized in an entity's statement of financial position; and transactions and other events of the current period that are recognized in an entity's financial statements[156].

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date[157].

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[153] Ibid., p.64.
[154] Price Water House Coopeers(PWC), **International Financial Reporting Standards, Pocket Guide**, 2011, p.21.
[155] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 12, p.1, http://www.ifrs.org/Documents/IAS12.pdf, (20.05.2013).
[156] Ibid, p.1.
[157] Price Water House Coopeers(PWC), **International Financial Reporting Standards, Pocket Guide**, 2011, p.26.

It is inherent in the recognition of an asset or liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability. If it is probable that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences, this Standard requires an entity to recognize a deferred tax liability (deferred tax asset), with certain limited exceptions[158].

A deferred tax asset shall be recognized for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized[159].

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period[160].

The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities[161].

Deferred tax assets and liabilities shall not be discounted[162].

The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Any such

[158] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 12, p.1, http://www.ifrs.org/Documents/IAS12.pdf, (20.05.2013).
[159] Ibid, p.1.
[160] Ibid,p.2.
[161] Ibid,p.2.
[162] Ibid,p.2.

reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available[163].

This Standard requires an entity to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognized in profit or loss, any related tax effects are also recognized in profit or loss. For transactions and other events recognized outside profit or loss (either in other comprehensive income or directly in equity), any related tax effects are also recognized outside profit or loss (either in other comprehensive income or directly in equity, respectively). Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill arising in that business combination or the amount of the bargain purchase gain recognized[164].

According to SIC interpretation 25 Income Taxes—Changes in the Tax Status of an Entity or its Shareholders, the current and deferred tax consequences of changes in tax status are included in profit or loss for the period unless those consequences relate to transactions or events that were recognized outside profit or loss[165].

3.2.21 TAS-16 Property, Plant and Equipment

The cost of an item of property, plant and equipment shall be recognized as an asset if, and only if[166]:

a) it is probable that future economic benefits associated with the item will flow to the entity; and

b) the cost of the item can be measured reliably.

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[163] Ibid,p.2.
[164] IFRS Technical summaries, IFRS and IAS summaries- English (2012), IAS 12, p.2, http://www.ifrs.org/Documents/IAS12.pdf, (18.05.2013).
[165] Deloitte Touche Tohmatsu, **IFRS in Your Pocket**, 2011, p.67.
[166] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 16, p.1, http://www.ifrs.org/Documents/IAS16.pdf, (18.05.2013).

An item of property, plant and equipment is measured initially at cost.The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit unless such interest is capitalized in accordance with TAS 23. Under TAS 23, 'Borrowing costs', costs are directly attributable to the acquisition, construction or production of a qualifying asset to be capitalized[167].

The cost of an item of property, plant and equipment comprises[168]:

a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

An entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. Cost model[169]: After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses. Revaluation model: After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying

[167] Price Water House Coopeers(PWC), **International Financial Reporting Standards, Pocket Guide**, 2011, p.31.
[168] Op cit., IAS 16, p.1.
[169] Deloitte Touche Tohmatsu, **IFRS in Your Pocket 2011**, 2011, p.68.

amount does not differ materially from that which would be determined using fair value at the end of the reporting period[170].

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognized in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease shall be recognized in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset[171].

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. *Depreciable amount* is the cost of an asset, or other amount substituted for cost, less its residual value. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss unless it is included in the carrying amount of another asset. The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity[172].

The *residual value* of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life[173].

To determine whether an item of property, plant and equipment is impaired, an entity applies TAS 36 Impairment of Assets[174].

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[170] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 16, p.2, http://www.ifrs.org/Documents/IAS16.pdf, (18.05.2013).
[171] Ibid., p.2.
[172] Ibid, p.2.
[173] Ibid, p.2.
[174] IFRS, IFRS IAS 16, 2013, p.18, http://eifrs.ifrs.org/eifrs/bnstandards/en/2013/ias16.pdf, (18.05.2013).

According to TAS-16, the carrying amount of an item of property, plant and equipment shall be derecognized:

a) on disposal; or

b) when no future economic benefits are expected from its use or disposal.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs'). This Interpretation addresses the following issues: recognition of production stripping costs as an asset; initial measurement of the stripping activity asset; and subsequent measurement of the stripping activity asset[175].

3.2.22 TAS-17 Leases

The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosure to apply in relation to leases.

The classification of leases adopted in this Standard is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership[176].

Lease payments under an operating lease shall be recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

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[175] IFRS Foundation, IFRIC Interpretation 20, Stripping Costs in the Production Phase of a Surface Mine, p.A1310-1311.

[176] Turkish Accounting Standards Board(TASB), **2010 Turkish IFRS Bound Volume: Uluslararası Finansal Raporlama Standartları (IFRS®)** , IASC Foundation Publication Department, 2010, p.A464-A465.

At the commencement of the lease term, lessees shall recognize finance leases as assets and liabilities in their statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct costs of the lessee are added to the amount recognized as an asset[177].

Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents shall be charged as expenses in the periods in which they are incurred[178].

The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned, and the depreciation recognized shall be calculated in accordance with TAS 16 Property, Plant and Equipment and TAS 38 Intangible Assets. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life[179].

Lessors shall present assets subject to operating leases in their statements of financial position according to the nature of the asset. The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with TAS 16 and TAS 38. Lease income from operating leases shall be recognized in income on a straight-line basis over the lease term, unless another systematic basis is more

[177] Ibid, p.A470.
[178] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 17, p.2, http://www.ifrs.org/Documents/IAS17.pdf, (15.05.2013).
[179] Turkish Accounting Standards Board (TASB), p.A471.

representative of the time pattern in which use benefit derived from the leased asset is diminished[180].

Lessors shall recognize assets held under a finance lease in their statements of financial position and present them as a receivable at an amount equal to the net investment in the lease. The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Manufacturer or dealer lessors shall recognize selling profit or loss in the period, in accordance with the policy followed by the entity for outright sales[181]. If artificially low rates of interest are quoted, selling profit shall be restricted to that which would apply if a market rate of interest were charged. Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease shall be recognized as an expense when the selling profit is recognized[182].

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved[183].

IFRIC 4 Determining whether an Arrangement contains a Lease addresses how to determine whether such arrangements are, or contain, leases that should be accounted for in accordance with TAS 17. It does not provide guidance for determining how such a lease should be classified under that Standard[184].

SIC interpretation 15 Operating Leases—Incentives: Lease incentives (such as rent-free periods) are recognized by both the lessor and the lessee as a reduction of rental income and expense, respectively, over the lease team[185].

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[180] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 17, p.2, http://www.ifrs.org/Documents/IAS17.pdf, (15.05.2013).
[181] Deloitte Touche Tohmatsu, **IFRS in Your Pocket 2011**, 2011, p.71.
[182] IFRS Technical summaries, op cit.,p.2.
[183] Ibid.,p.2.
[184] IFRS Foundation, IFRIC Interpretation 4, Determining whether an Arrangement contains a Lease, p.A1200.
[185] Deloitte Touche Tohmatsu, **IFRS in Your Pocket 2011**, 2011, p.71.

SIC interpretation 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease A series of transactions that involve the legal form of a lease is linked and shall be accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole then the series is accounted for as a single transaction[186].

3.2.23 TAS-18 Revenue

Revenue is recognized when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. This Standard identifies the circumstances in which these criteria will be met and, therefore, revenue will be recognized. It also provides practical guidance on the application of these criteria[187].

Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants[188].

This Standard shall be applied in accounting for revenue arising from the following transactions and events[189]:

a) the sale of goods;

b) the rendering of services; and

c) the use by others of entity assets yielding interest, royalties and dividends.

The recognition criteria in this Standard are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition

[186] IFRS Foundation, **SIC Interpretation 27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease**, p.A1333.
[187] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 18, p.1, http://www.ifrs.org/Documents/IAS18.pdf, (15.05.2013).
[188] Ibid.,p.1.
[189] Dr. Şavlı, Tuba, **Uluslararası Finansal Raporlama Standardları**, BDO Bağımsız Denetim ve YMM AŞ., 2010, p.113.

criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction[190]. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole. For example, an entity may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case, the two transactions are dealt with together[191].

Revenue is measured at the fair value of the consideration received or receivable[192]. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Revenue from the sale of goods shall be recognized when all the following conditions have been satisfied[193]:

a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;

b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

c) the amount of revenue can be measured reliably;

d) it is probable that the economic benefits associated with the transaction will flow to the entity; and

e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The outcome of a transaction can be estimated reliably when all the following conditions are satisfied[194]:

[190] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 18, p.1, http://www.ifrs.org/Documents/IAS18.pdf, (17.05.2013).
[191] Ibid.,p.1.
[192] Deloitte Touche Tohmatsu, **IFRS in Your Pocket 2011**, 2011, p.73.
[193] Dr. Şavlı, p.114.

a) the amount of revenue can be measured reliably;

b) it is probable that the economic benefits associated with the transaction will flow to the entity;

c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and

d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

The recognition of revenue by reference to the stage of completion of a transaction is often referred to as the percentage of completion method. Under this method, revenue is recognized in the accounting periods in which the services are rendered. The recognition of revenue on this basis provides useful information on the extent of service activity and performance during a period[195].

Revenue arising from interest, royalties and dividends are recognized on the following bases[196]:

a) interest shall be recognized using the effective interest method as set out in TAS 39, paragraphs 9 and AG5- AG8;

b) royalties shall be recognized on an accrual basis in accordance with the substance of the relevant agreement; and

c) dividends shall be recognized when the shareholder's right to receive payment is established.

IFRIC 13 Customer Loyalty Programmes applies to customer loyalty award credits that: an entity grants to its customers as part of a sales transaction, ie a sale of goods, rendering of services or use by a customer of entity assets and subject to meeting

[194] Price Water House Coopers, **IFRS Pocket Guide**, 2011, p.19.
[195] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 18, p.2, http://www.ifrs.org/Documents/IAS18.pdf, (18.05.2013).
[196] Turkish Accounting Standards Board (TASB), p.A491.

any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services[197].

IFRIC 15 Agreements for the Construction of Real Estate applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. Agreements in the scope of this Interpretation are agreements for the construction of real estate. In addition to the construction of real estate, such agreements may include the delivery of other goods or services[198].

IFRIC 18 Transfers of Assets from Customers applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. Agreements within the scope of this Interpretation are agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both[199].

SIC interpretation 31 Revenue—Barter Transactions Involving Advertising Services is set out revenue from a barter transaction involving advertising cannot be measured reliably at the fair value of advertising services received. However, a Seller can reliably measure revenue at the fair value of the advertising services it provides in a barter transaction, by reference only to non-barter transactions[200].

3.2.24 TAS-19 Employee Benefits

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognize[201]:

[197] IFRS Foundation, **IFRIC Interpretation 13, Customer Loyalty Programmes**, p. A1248.
[198] IFRS Foundation, **IFRIC Interpretation 15, Agreements for the Construction of Real Estate**, p. A1264.
[199] IFRS Foundation, **IFRIC Interpretation 18 Transfers of Assets from Customers**, p.A1294.
[200] IFRS Foundation, **SIC Interpretation 31, Revenue—Barter Transactions Involving Advertising Services**, p.A1345 .
[201] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 19, p.1, http://www.ifrs.org/Documents/IAS19.pdf, (20.05.2013).

a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

This Standard shall be applied by an employer in accounting for all employee benefits, except those to which TFRS 2 *Share-based Payment* applies.

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service. When an employee has rendered service to an entity during an accounting period, the entity shall recognize the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, TAS 2 Inventories and TAS 16 Property, Plant and Equipment)[202].

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment. *Post-employment benefit plans* are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions. *Defined contribution plans* are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient

[202] Ibid., p.2.

assets to pay all employee benefits relating to employee service in the current and prior periods. Under defined contribution plans[203]:

a) the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions; and

b) in consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee.

According to this standard; when an employee has rendered service to an entity during a period, the entity shall recognize the contribution payable to a defined contribution plan in exchange for that service:

a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

b) as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, TAS 2 *Inventories* and TAS 16 *Property, Plant and Equipment).*

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans[204]:

a) the entity's obligation is to provide the agreed benefits to current and former employees; and

[203] Ibid., p.2.
[204] Ibid., p.2.

b) actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

Accounting by an entity for defined benefit plans involves the following steps[205]:

a) using actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will influence the cost of the benefit;

b) discounting that benefit using the Projected Unit Credit Method in order to determine the present value of the defined benefit obligation and the current service cost;

c) determining the fair value of any plan assets;

d) determining the total amount of actuarial gains and losses and the amount of those actuarial gains and losses to be recognized;

e) where a plan has been introduced or changed, determining the resulting past service cost; and

f) where a plan has been curtailed or settled, determining the resulting gain or loss. Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

Other long-term employee benefits *are employee* benefits (other than post-employment benefits and termination benefits) that are not due to be settled within

[205] Ibid., p.3.

twelve months after the end of the period in which the employees render the related service[206].

The Standard requires a simpler method of accounting for other long-term employee benefits than for post- employment benefits: actuarial gains and losses and past service cost are recognized immediately.

Termination benefits are employee benefits payable as a result of either[207]:

a) an entity's decision to terminate an employee's employment before the normal retirement date; or

b) an employee's decision to accept voluntary redundancy in exchange for those benefits.

An entity shall recognize termination benefits as a liability and an expense when, and only when, the entity is demonstrably committed to either: terminate the employment of an employee or group of employees before the normal retirement date; or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Where termination benefits fall due more than 12 months after the reporting period, they shall be discounted. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits should be based on the number of employees expected to accept the offer.

IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of TAS 19, how a minimum funding requirement might affect the availability of reductions in future contributions and when a minimum funding requirement might give rise to a liability[208].

[206] Ibid., p.3.
[207] Ibid., p.3.
[208] IFRS Foundation, **IFRIC Interpretation 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**, p. A1257.

IASB has revised the standard in 2011, and the new standard is effective for annual periods starting on after 1 January 2013. Earlier application is permitted. The amendments to the previous version of the Standard in respect of defined benefit plans: eliminate the 'corridor approach' for actuarial gains and losses and instead require their immediate recognition in other comprehensive income; and introduce new components of the change in the defined benefit liability (or asset): service cost – in profit or loss; net interest (i.e. time value) on the net defined benefit deficit/surplus – in profit or loss; and remeasurements including (a) changes in fair value of plan assets that arise from factors other than time value and (b) actuarial gains and losses on obligations – in other comprehensive income[209].

3.2.25 TAS-20 Accounting for Government Grants and Disclosure of Government Assistance

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity[210].

Government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. Government assistance for the purpose of this Standard does not include benefits provided only indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors[211].

In this Standard, government assistance does not include the provision of infrastructure by improvement to the general transport and communication network and

[209] Deloitte Touche Tohmatsu, IFRSs in your pocket 2012, p.81.
[210] Ibid., IAS 20, p.1.
[211] Ibid., p.1.

the supply of improved facilities such as irrigation or water reticulation which is available on an ongoing indeterminate basis for the benefit of an entire local community[212].

According to TAS-20; a government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity. In these circumstances it is usual to assess the fair value of the non-monetary asset and to account for both grant and asset at that fair value.

Government grants, including non-monetary grants at fair value, shall not be recognized until there is reasonable assurance that[213]:

a) the entity will comply with the conditions attaching to them; and

b) the grants will be received.

Government grants are recognized when there is reasonable assurance that the entity will comply with the conditions related to them and that the grants will be received. Grants related to income are recognized in profit or loss over the periods necessary to match them with the related costs that they are intended to compensate. They are either offset against the related expense or presented as separate income. The timing of such recognition in profit or loss will depend on the fulfillment of any conditions or obligations attaching to the grant[214].

Grants related to assets are either offset against the carrying amount of the relevant asset or presented as deferred income in the balance sheet. Profit or loss will be affected either by a reduced depreciation charge or by deferred income being recognized as income systematically over the useful life of the related asset[215].

The following matters shall be disclosed[216]:

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[212] Ibid., p.1.
[213] Ibid., p.1.
[214] Price Water House Coopers, **IFRS Pocket Guide 2011**, 2011, p.21.
[215] Ibid., p.21.
[216] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 20, p.1, http://www.ifrs.org /Documents/IAS20.pdf., (18.05.2013).

a) the accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements;

b) the nature and extent of government grants recognized in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and

c) unfulfilled conditions and other contingencies attaching to government assistance that has been recognized.

SIC Interpretation 10 Government Assistance—No Specific Relation to Operating Activities is related to this Standard. Government assistance to entities meets the definition of government grants in TAS 20, even if there are no conditions specifically relating to the operating activities of the entity other than the requirement to operate in certain regions or industry sectors. Such grants shall therefore not be credited directly to shareholders' interests[217].

3.2.26 TAS-21 The Effects of Changes in Foreign Exchange Rates

The objective of this Standard is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency. The principal issues are which exchange rate(s) to use and how to report the effects of changes in exchange rates in the financial statements[218].

TAS 21 does not apply to hedge accounting for foreign currency items, including the hedging of a net investment in a foreign operation. TAS 39 applies to hedge accounting[219].

[217] IFRS Foundation, **SIC Interpretation 10, Government Assistance—No Specific Relation to Operating Activities**, p.A1321.
[218] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 21, p.1, http://www.ifrs.org/Documents/IAS21.pdf, (18.05.2013).
[219] Ibid., p.1.

This standard does not apply to the presentation in a statement of cash flows of the cash flows arising from transactions in a foreign currency, or to the translation of cash flows of a foreign operation (see TAS 7 *Statement of Cash Flows)*[220]

Firstly, the entity's *Functional currency*, the currency of the primary economic environment in which the entity operates, is determined. An entity considers the following factors in determining its functional currency[221]:

a) the currency:

i. that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and

ii. of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.

b) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

Foreign currency is a currency other than the functional currency of the entity. *Spot exchange rate* is the exchange rate for immediate delivery. *Exchange difference* is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates. *Net investment in a foreign operation* is the amount of the reporting entity's interest in the net assets of that operation[222].

A foreign currency transaction should be reported, on initial recognition in the functional currency, by applying the spot exchange rate between the functional currency and the foreign currency, to the foreign currency amount at the date of the transaction[223].

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[220] İbid., p.1.
[221] İbid., p.2.
[222] İbid., p.2.
[223] Hennie Van Greuning, **International Financial Reporting Standards a Practical Guide**, **Fourth Edition**, The World Bank, 2006, p.173.

At each balance sheet date, subsequent measurement takes place as follows[224]:

a) monetary items which remain unsettled are translated using the closing rate;

b) non-monetary items that are carried at historical costs are reported using the exchange rate at the date of the transaction. Approximate or average rates may be more appropriate for inventories; and

c) non-monetary items that are carried at fair value are reported using the exchange rate at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognized in profit or loss in the period in which they arise[225].

However, exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation shall be recognized in profit or loss in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (e.g. consolidated financial statements when the foreign operation is a subsidiary), such exchange differences shall be recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment[226].

Furthermore, when a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss shall be recognized in other comprehensive income. Conversely, when a gain or loss on a non-

[224] Greuning, Hennie Van, p.173.
[225] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 21, p.2, http://www.ifrs.org/Documents/IAS21.pdf, (19.05.2013).
[226] Ibid., p.2.

monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss[227].

The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures[228]:

a) assets and liabilities for each statement of financial position presented (ie including comparatives) shall be translated at the closing rate at the date of that statement of financial position;

b) income and expenses for each statement of comprehensive income or separate income statement presented (ie including comparatives) shall be translated at exchange rates at the dates of the transactions; and

c) all resulting exchange differences shall be recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. *Foreign operation* is an entity that is a subsidiary, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity[229].

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, shall be reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognized (see TAS 1 *Presentation of Financial Statements* (as revised in 2007))[230]. Partial disposal of a foreign operation the entity shall reclassify to profit or loss only the

[227] Ibid., p.2.
[228] Ibid., p.3.
[229] Ibid., p.3.
[230] Ibid., p.3.

proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income[231].

If the functional currency is the currency of a hyperinflationary economy, the entity's financial statements are restated in accordance with TAS 29 *Financial Reporting in Hyperinflationary Economies*[232].

The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures[233]:

a) all amounts (i.e. assets, liabilities, equity items, income and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent statement of financial position, except that

b) when amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (i.e. not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).

SIC 7 Introduction of the Euro explains how to apply TAS 21 when the euro was first introduced, and when new EU members join the Euro zone[234].

3.2.27 TAS-23 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense. *Borrowing costs* are interest and other costs that an entity incurs in connection with the borrowing of funds[235].

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[231] Ibid., p.3.
[232] Price Water House Coopers, **IFRS Pocket Guide 2011**, 2011, p.18.
[233] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 21, p.4, http://www.ifrs.org/Documents/IAS21.pdf, (19.05.2013).
[234] Deloitte Touche Tohmatsu, **IFRS in Your Pocket**, 2011, p.80.
[235] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 23, p.1, http://www.ifrs.org/Documents/IAS23.pdf, (19.05.2013).

An entity shall capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognize other borrowing costs as an expense in the period in which it incurs them. A *qualifying asset* is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale[236].

To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings[237].To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that an entity capitalizes during a period shall not exceed the amount of borrowing costs it incurred during that period[238].

An entity shall begin capitalizing borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalization is the date when the entity first meets all of the following conditions[239]:

a) it incurs expenditures for the asset;

b) it incurs borrowing costs; and

c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

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[236] Ibid., p.1.
[237] Deloitte Touche Tohmatsu, **IFRS in Your Pocket 2011**, 2011, p.81.
[238] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 23, p.1, http://www.ifrs.org/Documents/IAS23.pdf, (20.05.2013).
[239] Turkish Accounting Standards Board(TASB), p.A585.

An entity shall suspend capitalization of borrowing costs during extended periods in which it suspends active development of a qualifying asset[240].

An entity shall cease capitalizing borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete[241].

3.2.28 TAS-24 Related Party Disclosures

A *related party* is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity')[242].

a) A person or a close member of that person's family is related to a reporting entity if that person[243]:

i. has control or joint control over the reporting entity;

ii. has significant influence over the reporting entity; or

iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

b) An entity is related to a reporting entity if any of the following conditions applies[244]:

i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

[240] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 23, p.2, http://www.ifrs.org/Documents/IAS23.pdf, (20.05.2013).
[241] Ibid., p.2.
[242] Turkish Accounting Standards Board (TASB), p.A594.
[243] Ibid., p.A594.
[244] Ibid., p.A594.

iii. Both entities are joint ventures of the same third party.

iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

vi. The entity is controlled or jointly controlled by a person identified in (a).

vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A *related party transaction* is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged[245].

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include[246]:

a) that person's children and spouse or domestic partner;

b) children of that person's spouse or domestic partner; and

c) dependants of that person or that person's spouse or domestic partner.

An entity shall disclose key management personnel compensation in total and for each of the following categories[247]:

a) short-term employee benefits;

[245] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 24, p.1, http://www.ifrs.org/Documents/IAS24.pdf, (20.05.2013).
[246] Ibid., p.2.
[247] Ibid., p.2.

b) post-employment benefits;

c) other long-term benefits;

d) termination benefits; and

e) share-based payment.

If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a minimum, disclosures shall include[248]:

a) the amount of the transactions;

b) the amount of outstanding balances, including commitments, and:

i. their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and

ii. details of any guarantees given or received;

c) provisions for doubtful debts related to the amount of outstanding balances; and

d) the expense recognized during the period in respect of bad or doubtful debts due from related parties.

The disclosures required by paragraph 18 shall be made separately for each of the following categories[249]:

a) the parent;

[248] Turkish Accounting Standards Board (TASB), p.A597.
[249] Ibid., p.A597.

b) entities with joint control or significant influence over the entity;

c) subsidiaries;

d) associates;

e) joint ventures in which the entity is a venturer;

f) key management personnel of the entity or its parent; and

g) other related parties.

Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity[250].

A reporting entity is exempt from the disclosure requirements of paragraph 18 in relation to related party transactions and outstanding balances, including commitments, with[251]:

a) a government that has control, joint control or significant influence over the reporting entity; and

b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.(Paragraph 25)

If a reporting entity applies the exemption in paragraph 25, it shall disclose the following about the transactions and related outstanding balances referred to in paragraph 25[252]:

a) the name of the government and the nature of its relationship with the reporting entity (i.e. control, joint control or significant influence);

[250] Ibid., p.A598.
[251] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 24, p.3, http://www.ifrs.org /Documents/IAS24.pdf (19.05.2013).
[252] Ibid, p.3, par.4.

b) the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:

i. the nature and amount of each individually significant transaction; and

ii. for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent. Types of transactions include those listed in paragraph 21.

3.2.29 TAS-26 Accounting and Reporting by Retirement Benefit Plans

Retirement benefit plans are arrangements whereby an entity provides benefits for employees on or after termination of service (either in the form of an annual income or as a lump sum) when such benefits, or the contributions towards them, can be determined or estimated in advance of retirement from the provisions of a document or from the entity's practices[253].

Some retirement benefit plans have sponsors other than employers; this Standard also applies to the financial statements of such plans.

TAS 26 requires the report for a defined contribution plan to include[254]:

a) a statement of net assets available for benefits;

b) a statement of changes in net assets available for benefits;

c) a summary of significant accounting policies;

d) a description of the plan and the effect of any changes in the plan during

e) the period; and

[253] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 26, p.1, http://www.ifrs.org/Documents/IAS26.pdf, (19.05.2013).
[254] Price Water House Coopers, **IFRS pocket guide 2011**, 2011, p.53.

f) a description of the funding policy.

TAS 26 requires the report for a defined benefit plan to include[255]:

a) either a statement that shows the net assets available for benefits, the actuarial present value of promised retirement benefits and the resulting excess or deficit, or a reference to this information in an accompanying actuarial report;

b) a statement of changes in net assets available for benefits;

c) a summary of significant accounting policies; and

d) a description of the plan and the effect of any changes in the plan during the period.

Retirement benefit plan investments shall be carried at fair value. In the case of marketable securities fair value is market value. Where plan investments are held for which an estimate of fair value is not possible disclosure shall be made of the reason why fair value is not used[256].

The financial statements of a retirement benefit plan, whether defined benefit or defined contribution, shall also contain the following information[257]:

a) a statement of changes in net assets available for benefits;

b) a summary of significant accounting policies; and

c) a description of the plan and the effect of any changes in the plan during the period.

3.2.30 TAS-27 Consolidated and Separate Financial Statements

The Standard specifies[258]:

[255] Ibid., p.54.
[256] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 26, p.2, http://www.ifrs.org/Documents/IAS26.pdf, (18.05.2013).
[257] Ibid., p.2.

a) the circumstances in which an entity must consolidate the financial statements of another entity (being a subsidiary);

b) the accounting for changes in the level of ownership interest in a subsidiary;

c) the accounting for the loss of control of a subsidiary; and

d) the information that an entity must disclose to enable users of the financial statements to evaluate the nature of the relationship between the entity and its subsidiaries.

Consolidated financial statements are the financial statements of a group presented as those of a single economic entity. A *group* is a parent and all its subsidiaries. A *subsidiary* is an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent). *Control* is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities[259].

A parent must consolidate its investments in subsidiaries. There is a limited exception available to some nonpublic entities. No exemption for temporary control or different lines of business or subsidiary meets the criteria to be classified as held for sale under TFRS 5 it is accounted for under that Standard[260].

All entities in the group use the same accounting policies. Transactions, and balances, between entities within the group must be eliminated. In preparing consolidated financial statements, an entity combines the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following steps are then taken[261]:

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[258] Ibid., IAS 27, p.1.
[259] Ibid., p.1.
[260] Deloitte Touche Tohmatsu, **IFRSs in Your Pocket**, 2011, p.84.
[261] IFRS Foundation, IAS 27, p.A865.

a) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated.

b) non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period are identified; and

c) non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the parent's ownership interests in them. Non-controlling interests in the net assets consist of: the amount of those non-controlling interests at the date of the original combination calculated in accordance with TFRS 3; and the non-controlling interests' share of changes in equity since the date of the combination.

Non-controlling interests must be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income is allocated between the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance[262].

Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for as an equity transaction with owners, and no gain or loss recognized. When an entity loses control of a subsidiary it derecognizes the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognized in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost[263].

Investments in subsidiaries, associates and joint ventures (other than those that are classified as held for sale under TFRS 5) are accounted for either at cost or as investments in accordance with TFRS 9 Financial Instruments.

[262] Ibid., p.2.
[263] Ibid., p.2.

SIC interpretation 12 Consolidation—Special Purpose Entities addresses that An SPE shall be consolidated when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity[264].

3.2.31 TAS-28 Investments in Associates and Joint Ventures

TAS 28 (as amended in 2011) is to be applied by all entities that are investors with joint control of, or significant influence over, an investee. The objective of the Standard is to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures[265].

An associate is an entity in which the investor has significant influence, but which is neither a subsidiary nor a joint venture of the investor[266]. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Under the equity method, the investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognized in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment[267].

Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee are other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognized in other comprehensive income of the

[264] IFRS Foundation, **SIC interpretation, Consolidation—Special Purpose Entities**, p.A1186.
[265] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 28, p.1, http://www.ifrs.org/Documents/IAS28.pdf, (17.05.2013).
[266] Price Water House Coopers, **IFRS Pocket Guide**, 2011, p.46.
[267] Ibid., p.1.

investor. The investor's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances After application of the equity method, including recognizing the associate's or joint venture's losses in accordance with paragraph 38, the entity applies TAS 39 *Financial Instruments: Recognition and Measurement* to determine whether it is necessary to recognize any additional impairment loss with respect to its net investment in the associate or joint venture. [268].

The Standard provides exemptions from applying the equity method similar to those provided in TFRS 10 Consolidated Financial Statements for parents not to prepare consolidated financial statements. The Standard also provides exemptions from applying the equity method when the investment in the associate or joint venture is held by, or is held indirectly through, venture capital organizations, or mutual funds, unit trusts and similar entities including investment-linked insurance funds. Those investments in associates and joint ventures may be measured at fair value through profit or loss in accordance with TFRS 9 Financial Instruments[269].

3.2.32 TAS-29 Financial Reporting in Hyperinflationary Economies

This Standard shall be applied to the financial statements, including the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy. Characteristics of a hyperinflationary economy include[270]:

a) the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency;

b) prices are normally quoted in a stable foreign currency;

c) credit transactions take place at prices that compensate for the expected loss of purchasing power;

[268] IFRS, IAS 28 Investments in Associates and Joint Ventures, 2013, p.14, http://eifrs.ifrs.org/eifrs/bnstandards/en/2013/ias28.pdf (18.05.2013).
[269] Ibid, p.5.
[270] Greuning, p.256.

d) interest rates, wages and prices are linked to a price index; and

e) the cumulative inflation rate over three years is approaching, or exceeds, 100%.

The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy shall be stated in terms of the measuring unit current at the end of the reporting period[271].

The corresponding figures for the previous period required by TAS 1 Presentation of Financial Statements and any information in respect of earlier periods shall also be stated in terms of the measuring unit current at the end of the reporting period[272].

The restatement of financial statements in accordance with this Standard requires the use of a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index[273].

When an economy ceases to be hyperinflationary and an entity discontinues the preparation and presentation of financial statements prepared in accordance with this Standard, it shall treat the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements[274].

IFRIC 7 Applying the Restatement Approach under TAS 29 provides guidance on how to apply the requirements of TAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with TAS 29[275].

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[271] Deloitte Touche Tohmatsu, **IFRS in Your Pocket**, 2011, p.87.
[272] IFRS Technical summaries, IFRS and IAS summaries- English(2011), IAS 29, p.2, http://www.ifrs.org/NR/rdonlyres/CA17E506-3BC7-4055-9372-E, 7B1F0A93137/0/IAS29.pdf, (15.10.2011).
[273] Ibid., p.2.
[274] Ibid., p.2.
[275] IFRS Foundation, **IFRIC Interpretation 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies**, p.A1224.

3.2.33 TAS-31 Interests in Joint Ventures

TAS 31 was reissued in December 2003, applies to annual periods beginning on or after 1 January 2005, and is superseded by TFRS 11 Joint Arrangements and TFRS 12 Disclosure of Interests in Other Entities with effect from annual periods beginning on or after 1 January 2013.

SIC-13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers is superseded by TFRS 11 Joint Arrangements effective 1 January 2013.

3.2.34 TAS-32 Financial Instruments: Presentation

The principles in this Standard complement the principles for recognizing and measuring financial assets and financial liabilities in TFRS 9 Financial Instruments, and for disclosing information about them in TFRS 7 Financial Instruments: Disclosures[276].

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity[277].

A financial asset is any asset that is[278]:

a) cash;

b) an equity instrument of another entity;

c) a contractual right:

i. to receive cash or another financial asset from another entity; or

ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or

d) a contract that will or may be settled in the entity's own equity instruments and is:

[276] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 32, p.1, http://www.ifrs.org/Documents/IAS32.pdf, (17.05.2013).
[277] Ibid., p.1.
[278] Ibid., p.1.

i. a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or

ii. a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

A financial liability is any liability that is[279]:

a) a contractual obligation:

i. to deliver cash or another financial asset to another entity; or

ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or

b) a contract that will or may be settled in the entity's own equity instruments and is:

i. a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or

ii. a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

A financial instrument may require the entity to deliver cash or another financial asset, or otherwise to settle it in such a way that it would be a financial liability, in the event of the occurrence or non-occurrence of uncertain future events (or on the outcome of uncertain circumstances) that are beyond the control of both the issuer and the holder of the instrument, such as a change in a stock market index, consumer price index, interest rate or taxation requirements, or the issuer's future revenues, net income or debt-to-equity ratio[280]. The issuer of such an instrument does not have the unconditional right to avoid delivering cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability). Therefore, it is a financial liability of the issuer unless[281]:

[279] Ibid., p.2.
[280] Ibid., p.2.
[281] Ibid., p.2.

a) the part of the contingent settlement provision that could require settlement in cash or another financial asset (or otherwise in such a way that it would be a financial liability) is not genuine;

b) the issuer can be required to settle the obligation in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) only in the event of liquidation of the issuer; or

c) The instrument has all the features

When a derivative financial instrument gives one party a choice over how it is settled, it is a financial asset or a financial liability unless all of the settlement alternatives would result in it being an equity instrument[282].

According to the Standard; interest, dividends, losses and gains relating to a financial instrument or a component that is a financial liability shall be recognized as income or expense in profit or loss. Distributions to holders of an equity instrument shall be debited by the entity directly to equity, net of any related income tax benefit. Transaction costs of an equity transaction shall be accounted for as a deduction from equity, net of any related income tax benefit.

A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when and only when, an entity[283]:

a) currently has a legally enforceable right to set off the recognized amounts; and

b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments applies to financial instruments within the scope of TAS 32, including financial

[282] Ibid., p.2.
[283] Ibid., p.2.

instruments issued to members of co-operative entities that evidence the members' ownership interest in the entity[284].

3.2.35 TAS-33 Earnings per Share

This Standard is applied by entities whose ordinary shares or potential ordinary shares are publicly traded and by entities that are in the process of issuing ordinary shares or potential ordinary shares in public markets. An entity that discloses earnings per share shall calculate and disclose earnings per share in accordance with this Standard[285].

An ordinary share is an equity instrument that is subordinate to all other classes of equity instruments. A potential ordinary share is a financial instrument or other contract that may entitle its holder to ordinary shares[286].

Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period[287]. For the purpose of calculating basic earnings per share, the amounts attributable to ordinary equity holders of the parent entity in respect of:

a) profit or loss from continuing operations attributable to the parent entity; and
b) profit or loss attributable to the parent entity

shall be the amounts in (a) and (b) adjusted for the after-tax amounts of preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity[288].

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[284] IFRS Foundation, **IFRIC Interpretation 2, Members' Shares in Co-operative Entities and Similar Instruments**, p.A1188.
[285] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 33, p.1, http://www.ifrs.org/Documents/IAS33.pdf, (17.05.2013).
[286] Ibid., p.1.
[287] Dr. Şavlı, p.180.
[288] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 33, p.2, http://www.ifrs.org/Documents/IAS33.pdf, (17.05.2013).

Diluted Earnings per shares is calculated by adjusting the profit or loss and the weighted average number of ordinary shares by taking into account the conversion of any dilutive potential ordinary shares. Potential ordinary shares are those financial instruments and contracts that may result in issuing ordinary shares such as convertible bonds and options (including employee share options)[289].

If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalization, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively.[290]

3.2.36 TAS-34 Interim Financial Reporting

This Standard applies if an entity is required or elects to publish an interim financial report in accordance with International Financial Reporting Standards[291].

Interim financial report means a financial report containing either a complete set of financial statements(as described in TAS 1) or a set of condensed financial statements (as described in this Standard) for an interim period. *Interim period* is a financial reporting period shorter than a full financial year[292].

The interim financial report is intended to provide an update on the latest complete set of annual financial statements. Accordingly, it focuses on new activities, events, and circumstances and does not duplicate information previously reported[293].

Nothing in this Standard is intended to prohibit or discourage an entity from publishing a complete set of financial statements (as described in TAS 1) in its interim

[289] Price Water House Coopers (PWC), **International Financial Reporting Standards, Pocket Guide,** 2011, p.28.
[290] Op. cit., IAS 33, p.2.
[291] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 34, p.1, http://www.ifrs.org/IFRSs/Documents/English%20IAS%20and%20IFRS%20PDFs%202012/IAS%2034.pdf, (19.05.2013).
[292] Turkish Accounting Standard Board, p.A749.
[293] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 34, p.1, http://www.ifrs.org/IFRSs/Documents/English%20IAS%20and%20IFRS%20PDFs%202012/IAS%2034.pdf, (19.05.2013).

financial report, rather than condensed financial statements and selected explanatory notes. If an entity publishes a complete set of financial statements in its interim financial report, the form and content of those statements shall conform to the requirements of TAS 1 for a complete set of financial statements[294].

An interim financial report includes, at a minimum, the following295:

a) condensed statement of financial position;
b) condensed statement of comprehensive income, presented as either;
c) condensed statement of changes in equity;
d) condensed statement of cash flows; and
e) selected explanatory notes.

In deciding how to recognize measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data. In making assessments of materiality, it shall be recognized that interim measurements may rely on estimates to a greater extent than measurements of annual financial data[296].

An entity shall apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements. To achieve that objective, measurements for interim reporting purposes shall be made on a year-to-date basis[297].

The measurement procedures to be followed in an interim financial report shall be designed to ensure that the resulting information is reliable and that all material financial information that is relevant to an understanding of the financial position or performance of the entity is appropriately disclosed. While measurements in both annual and interim financial reports are often based on reasonable estimates, the

[294] Ibid., p.1.
[295] Greuning, p.274.
[296] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 34, p.2, http://www.ifrs.org/IFRSs/Documents/English%20IAS%20and%20IFRS%20PDFs%202012/IAS%2034.pdf, (19.05.2013).
[297] Ibid., p.2.

preparation of interim financial reports generally will require a greater use of estimation methods than annual financial reports[298].

IFRIC 10 Interim Financial Reporting and Impairment addresses the interaction between the requirements of TAS 34 and the recognition of impairment losses on goodwill in TAS 36, and the effect of that interaction on subsequent interim and annual financial statements[299].

3.2.37 TAS-36 Impairment of Assets

The objective of this Standard is to ensure that assets are carried at no more than their recoverable amount, and to prescribe how recoverable amount, impairment loss or its reversal is calculated[300].

The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset[301].

Irrespective of whether there is any indication of impairment, an entity shall also[302]:

a) test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during an annual period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible

[298] Turkish Accounting Standards Board, p.A757.
[299] IFRS Foundation, **IFRIC Interpretation 10, Changes in Existing Decommissioning, Restoration and Similar Liabilities**, p.A1230.
[300] Deloitte Touche Tohmatsu, IFRS in Your Pocket, 2011, p.96, http://www.iasplus.com/dttpubs/pocket2011.pdf
[301] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 36, p.1, http://www.ifrs.org/IFRSs/Documents/English%20IAS%20and%20IFRS%20PDFs%202012/IAS%2036.pdf, (20.05.2013).
[302] Turkish Accounting Standards Board, p.A773.

asset was initially recognized during the current annual period, that intangible asset shall be tested for impairment before the end of the current annual period.

b) test goodwill acquired in a business combination for impairment annually in accordance with paragraphs80-99.

If there is any indication that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit). A *cash-generating unit* is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets[303].

The *recoverable amount* of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or a cash-generating unit. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount[304]. *Fair value less costs to sell* is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal[305].

The following elements shall be reflected in the calculation of an asset's value in use[306]:

a) an estimate of the future cash flows the entity expects to derive from the asset;

b) expectations about possible variations in the amount or timing of those future cash flows;

c) the time value of money, represented by the current market risk-free rate of interest;

[303] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 36, p.2, http://www.ifrs.org/IFRSs/Documents/English%20IAS%20and%20IFRS%20PDFs%202012/IAS%2036.pdf, (19.05.2013).
[304] Greuning, p.185.
[305] IFRS Technical summaries, IFRS and IAS summaries- English(2011), IAS 36, p.2, http://www.ifrs.org/NR/rdonlyres/CA17E506-3BC7-4055-9372-E, 7B1F0A93137/0/IAS36.pdf., (10.06.2011).
[306] Turkish Accounting Standards Board, p.A777.

d) the price for bearing the uncertainty inherent in the asset; and

e) other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

Estimates of future cash flows shall include[307]:

a) projections of cash inflows from the continuing use of the asset;

b) projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and

c) net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from[308]:

a) a future restructuring to which an entity is not yet committed; or

b) improving or enhancing the asset's performance.

Estimates of future cash flows shall not include[309]:

a) cash inflows or outflows from financing activities; or

b) income tax receipts or payments.

An impairment loss shall be recognized immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in TAS 16 Property, Plant and

[307] Turkish Accounting Standards Board, p.A779.
[308] IFRS Technical summaries, IFRS and IAS summaries- English(2011), IAS 36, p.2, http://www.ifrs.org/NR/rdonlyres/CA17E506-3BC7-4055-9372-E, 7B1F0A93137/0/IAS36.pdf, (21.11.2011).
[309] Ibid., p.2.

Equipment). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard[310].

An impairment loss shall be recognized for a cash-generating unit (the smallest group of cash-generating units to which goodwill or a corporate asset has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order[311]:

a) first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and

b) then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units).

However, an entity shall not reduce the carrying amount of an asset below the highest of [312]:

a) its fair value less costs to sell (if determinable);

b) its value in use (if determinable); and

c) zero.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. The annual impairment test for a cash-generating unit to which goodwill has been allocated may be performed at any time during an annual period, provided the test is performed at the same time every year. Different cash generating units may be tested for impairment at different times. However, if some or all of the goodwill allocated to a cash-generating unit was acquired

[310] Turkish Accounting Standards Board, p.A782.
[311] Op cit., p.2.
[312] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 36, p.3, http://www.ifrs.org/IFRSs/Documents/English%20IAS%20and%20IFRS%20PDFs%202012/IAS%2036.pdf, (19.05.2013).

in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period[313].

An entity shall assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. A reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years[314].

A reversal of an impairment loss for an asset other than goodwill shall be recognized immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another TFRS (for example, the revaluation model in TAS 16 *Property, Plant and Equipment*). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other TFRS. An impairment loss recognized for goodwill shall not be reversed in a subsequent period[315].

3.2.38 TAS-37 Provisions, Contingent Liabilities and Contingent Assets

A liability is a 'present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources

[313] Ibid., p.3.
[314] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 36, p.4, http://www.ifrs.org/IFRSs/Documents/English%20IAS%20and%20IFRS%20PDFs%202012/IAS%2036.pdf, (19.05.2013).
[315] Ibid, p.4.

embodying economic benefits'. A provision falls within the category of liabilities and is defined as 'a liability of uncertain timing or amount'[316].

A provision should be recognized when[317]:

a) an entity has a present obligation as a result of a past event;
b) it is probable that such a transfer will be to settle the
c) obligation; and
d) a reliable estimate can be made.

The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time[318].

Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the entity considers other possible outcomes[319].

A *contingent liability* is[320]:

a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

b) a present obligation that arises from past events but is not recognised because:

[316] Price Water House Coopers (PWC), **International Financial Reporting Standards**, Pocket Guide, 2011, p.35.
[317] Ibid, p.35.
[318] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 37, p.2, http://www.ifrs.org/IFRSs/Documents/English%20IAS%20and%20IFRS%20PDFs%202012/IAS%2037.pdf, (20.05.2013).
[319] Ibid., p.2.
[320] Deloitte Touche Tohmatsu, **IFRS in Your Pocket**, 2011, p.98,

i. it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

ii. the amount of the obligation cannot be measured with sufficient reliability.

An entity should not recognize a contingent liability[321]. An entity should disclose a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

A *contingent asset* is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are not recognized. When the realization of income is virtually certain, the related asset is not a contingent asset; it is recognized as an asset[322].

An entity shall not recognize a contingent asset. However, when the realization of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate[323].

IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities provides guidance on how to account for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities. This Interpretation applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both: recognized as part of the cost of an item of property, plant and equipment in accordance with TAS 16 and recognized as a liability in accordance with TAS 37[324].

IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds deals with the accounting in the financial statements of the contributor, for interests in decommissioning, restoration and environmental

[321] Turkish Accounting Standards Board, p.A825.
[322] Price Water House Coopers (PWC), **International Financial Reporting Standards**, Pocket Guide, 2011, p.37.
[323] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 37, p.2, http://www.ifrs.org/IFRSs/Documents/English%20IAS%20and%20IFRS%20PDFs%202012/IAS%2037.pdf, (19.05.2013).
[324] IFRS Foundation, **IFRIC Interpretation 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities**, p.A1046.

rehabilitation funds established to fund some or all of the costs of decommissioning assets or to undertake environmental rehabilitation[325].

IFRIC 6 Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment provides guidance on the accounting for liabilities for waste management costs[326].

3.2.39 TAS-38 Intangible Assets

The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard. The Standard requires an entity to recognize an intangible asset if, and only if, specified criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets[327].

An *intangible asset* is an identifiable non-monetary asset without physical substance[328]. The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets: the definition of an intangible asset and the recognition criteria.

This requirement applies to costs incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it. An asset is identifiable if it either[329]:

a) is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with

[325] Deloitte Touche Tohmatsu, **IFRS in Your Pocket**, 2012, p.102.
[326] Ibid, p.102.
[327] Deloitte IAS Plus, Summaries of International Financial Reporting Standards, IAS 38 Intangible Assets, http://www.iasplus.com/standard/ias38.htm,, (05.11.2011).
[328] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 38, p.1, http://www.ifrs.org/IFRSs/Documents/English%20IAS%20and%20IFRS%20PDFs%202012/IAS%2038.pdf, (20.05.2013).
[329] Turkish Accounting Standards Board, p. A845.

a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

An intangible asset shall be recognized if, and only if[330]:

a) it is probable that the expected future economic benefits attributable to the asset will flow to the entity; and

b) the cost of the asset can be measured reliably.

An intangible asset shall be measured initially at cost. The cost of a separately acquired intangible asset comprises[331]:

a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

b) any directly attributable cost of preparing the asset for its intended use.

In accordance with TFRS 3 *Business Combinations*, if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. If an asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset.

In accordance with this Standard and TFRS 3 (as revised in 2008), an acquirer recognizes at the acquisition date, separately from goodwill, an intangible asset of the acquiree, irrespective of whether the asset had been recognized by the acquiree before the business combination[332]. This means that the acquirer recognizes as an asset separately from goodwill an in-process research and development project of the acquiree if the project meets the definition of an intangible asset.

Internally generated goodwill shall not be recognized as an asset. No intangible asset arising from research (or from the research phase of an internal project) shall be

[330] Op. cit., p.2.
[331] Turkish Accounting Standards Board, p.A848.
[332] Turkish Accounting Standards Board, p.A849.

recognized. Expenditure on research (or on the research phase of an internal project) shall be recognized as an expense when it is incurred[333].

An intangible asset arising from development (or from the development phase of an internal project) shall be recognized if, and only if, an entity can demonstrate all of the following[334]:

a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.

b) the intention to complete the intangible asset and use or sell it.

c) the ability to use or sell the intangible asset.

d) how the intangible asset will generate probable future economic benefits.

e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

f) the ability to measure reliably the expenditure.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognized as intangible assets.

Expenditure on an intangible item shall be recognized as an expense when it is incurred unless[335]:

a) it forms part of the cost of an intangible asset that meets the recognition criteria; or

b) the item is acquired in a business combination and cannot be recognized as an intangible asset. If this is the case, it forms part of the amount recognized as goodwill at the acquisition date (see TFRS 3).

An entity shall choose either the cost model or the revaluation model as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless

[333] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 38, p.2, http://www.ifrs.org/IFRSs/Documents/English%20IAS%20and%20IFRS%20PDFs%202012/IAS%2038.pdf, (20.05.2013).
[334] Ibid, p.2.
[335] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 38, p.3, http://www.ifrs.org/IFRSs/Documents/English%20IAS%20and%20IFRS%20PDFs%202012/IAS%2038.pdf, (20.05.2013).

there is no active market for those assets. *Cost model*[336]: After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and any accumulated impairment losses. *Revaluation model*[337]*:* After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market. Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity[338]. An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost[339].

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. *Depreciable amount* is the cost of an

[336] Turkish Accounting Standards Board, p.A858.
[337] Turkish Accounting Standards Board, p.A858.
[338] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 38, p.3, http://www.ifrs.org/IFRSs/Documents/English%20IAS%20and%20IFRS%20PDFs%202012/IAS%2038.pdf, (19.05.2013).
[339] Ibid., p.4.

asset, or other amount substituted for cost, less its residual value[340]. Amortization shall begin when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The *residual value* of an intangible asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life[341].

The amortization period and the amortization method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortization period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortization method shall be changed to reflect the changed pattern[342].

An intangible asset with an indefinite useful life shall not be amortized[343]. In accordance with TAS 36 *Impairment of Assets,* an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount annually and whenever there is an indication that the intangible asset may be impaired. The useful life of an intangible asset that is not being amortized shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with TAS 8[344].

SIC interpretation 32 Intangible Assets—Web Site Costs does not apply to expenditure on purchasing, developing, and operating hardware (e.g. web servers, staging servers, production servers and Internet connections) of a web site[345]. Expenditure incurred in these stages shall be included in the cost of a web site

[340] Ibid., p.4.
[341] Ibid., p.4.
[342] Turkish Accounting Standards Board, p.A858.
[343] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 38, p.5, http://www.ifrs.org/IFRSs/Documents/English%20IAS%20and%20IFRS%20PDFs%202012/IAS%2038.pdf, (19.05.2013)..
[344] Ibid., p.5.
[345] IFRS Foundation, **SIC Interpretation 32, Intangible Assets—Web Site Costs**, p.A1350.

recognized as an intangible asset in accordance with this Interpretation when the expenditure can be directly attributed and is necessary to creating, producing or preparing the web site for it to be capable of operating in the manner intended by management[346].

3.2.40 TAS-39 Financial Instruments: Recognition and Measurement

The International Accounting Standards Board has decided to replace TAS 39 *Financial Instruments: Recognition and Measurement* over a period of time. The first installment, dealing with classification and measurement of financial assets, was issued as TFRS 9 *Financial Instruments* in November 2009. The requirements for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were added to TFRS 9 in October 2010. As a consequence, parts of IAS 39 are being superseded and will become obsolete for annual periods beginning on or after 1 January 2013–earlier application is permitted in 2010. The remaining requirements of IAS 39 continue in effect until superseded by future installments of TFRS 9. The Board expects to replace IAS 39 in its entirety[347].

All financial assets and financial liabilities are measured initially at fair value under TAS 39. The fair value of a financial instrument is normally the transaction price − that is, the amount of the consideration given or received. However, in some circumstances, the transaction price may not be indicative of fair value. In such a situation, an appropriate fair value is determined using data from current observable transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets[348].

The measurement of financial instruments after initial recognition depends on their initial classification. All financial assets are measured at fair value except for loans

[346] Ibid, p.A1351.
[347] IFRS Technical summaries, IFRS and IAS summaries- English(2012), IAS 39, p.1, http://www.ifrs.org/IFRSs/Documents/English%20IAS%20and%20IFRS%20PDFs%202012/IAS%2039.pdf, (21.05.2013).
[348] Price Water House Coopers (PWC), **IFRS Pocket Guide**, 2011, p.14

and receivables, held-to-maturity assets and, in rare circumstances, unquoted equity instruments whose fair values cannot be measured reliably, or derivatives linked to and that must be settled by the delivery of such unquoted equity instruments that cannot be measured reliably[349].

Loans and receivables and held-to-maturity investments are measured at amortized cost. The amortized cost of a financial asset or financial liability is measured using the 'effective interest method'. Available-for-sale financial assets are measured at fair value, with changes in fair value recognized in other comprehensive income. For available-for-sale debt securities, interest is recognized in income using the 'effective interest method'. Dividends on available-for-sale equity securities are recognized in profit or loss as the holder becomes entitled to them. Derivatives (including separated embedded derivatives) are measured at fair value. All fair value gains and losses are recognized in profit or loss except where they qualify as hedging instruments in cash flow hedges[350].

Hedging is the process of using a financial instrument (usually a derivative) to mitigate all or some of the risk of a hedged item. 'Hedge accounting' changes the timing of recognition of gains and losses on either the hedged item or the hedging instrument so that both are recognized in profit or loss in the same accounting period in order to record the economic substance of the combination of the hedged item and instrument[351].

Hedging relationships are of three types[352]:

a) *fair value hedge*: a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

[349] Ibid., p.14
[350] Ibid., p.15
[351] Ibid., p.15
[352] IFRS Technical summaries, IFRS and IAS summaries- English (2012), IAS 39, p.2, http://www.ifrs.org/IFRSs/Documents/English%20IAS%20and%20IFRS%20PDFs%202012/IAS%2039.pdf, (18.05.2013).

b) *cash flow hedge*: a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss.

c) *hedge of a net investment in a foreign operation* as defined in TAS 21.

For a fair value hedge, the hedged item is adjusted for the gain or loss attributable to the hedged risk. That element is included in the income statement where it will offset the gain or loss on the hedging instrument. For an effective cash flow hedge, gains and losses on the hedging instrument are initially included in other comprehensive income. The amount included in other comprehensive income is the lesser of the fair value of the hedging instrument and hedge item. Where the hedging instrument has a fair value greater than the hedged item, the excess is recorded within profit or loss as ineffectiveness. Hedges of a net investment in a foreign operation are accounted for similarly to cash flow hedges[353].

IFRIC 16 Hedges of a Net Investment in a Foreign Operation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with TAS 39. For convenience this Interpretation refers to such an entity as a parent entity and to the financial statements in which the net assets of foreign operations are included as consolidated financial statements[354]

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. It does not address the accounting by the creditor[355].

[353]Op. cit., p.16.
[354] IFRS Foundation, **IFRIC Interpretation 16, Service Concession Arrangements**, p. A1273.
[355] IFRS Foundation, **IFRIC Interpretation 19, Extinguishing Financial Liabilities with Equity Instruments**, p.A1302.

3.2.41 TAS-40 Investment Property

Investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for[356]:

a) use in the production or supply of goods or services or for administrative purposes; or

b) sale in the ordinary course of business.

A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property provided that[357]:

a) the rest of the definition of investment property is met;

b) the operating lease is accounted for as if it were a finance lease in accordance with TAS 17 Leases; and

c) the lessee uses the fair value model set out in this Standard for the asset recognized.

Investment property shall be recognized as an asset when, and only when[358]:

a) it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and

b) the cost of the investment property can be measured reliably.

An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement. The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by paragraph 20 of TAS 17, i.e. the asset shall be recognized at the lower of the fair value of the property and the present value of the minimum lease payments.

[356] IFRS Technical summaries, IFRS and IAS summaries- English (2012), IAS 40, p.1, http://www.ifrs.org/IFRSs/Documents/English%20IAS%20and%20IFRS%20PDFs%202012/IAS%2040.pdf, (18.05.2013).
[357] Turkish Accounting Standards Board, p. A970.
[358] IFRS Technical summaries, IFRS and IAS summaries- English (2012), IAS 40, p.1,http://www.ifrs.org/IFRSs/Documents/English%20IAS%20and%20IFRS%20PDFs%202012/IAS%2040.pdf, (18.05.2013).

An equivalent amount shall be recognized as a liability in accordance with that same paragraph[359]. The Standard permits entities to choose either[360]:

a) a fair value model, under which an investment property is measured, after initial measurement, at fair value with changes in fair value recognised in profit or loss; or

b) a cost model, investment property to be measured after initial measurement at depreciated cost (less any accumulated impairment losses) unless it is classified as an non-current asset held for sale under TFRS 5. An entity that chooses the cost model discloses the fair value of its investment property.

An investment property shall be derecognized (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in profit or loss (unless TAS 17 requires otherwise on a sale and leaseback) in the period of the retirement or disposal[361].

3.2.42 TAS-41 Agriculture

Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets. *Biological transformation* comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset. A *biological asset* is a living animal or plant. *Agricultural produce* is the harvested product of the entity's biological

[359] Turkish Accounting Standards Board, p. A973.
[360] Deloitte Touche Tohmatsu, **IFRS in Your Pocket**, 2011, p.111.
[361] Ibid, p.2.

assets. *Harvest* is the detachment of produce from a biological asset or the cessation of a biological asset's life processes[362].

TAS 41 prescribes, among other things, the accounting treatment for biological assets during the period of growth, degeneration, production, and procreation, and for the initial measurement of agricultural produce at the point of harvest. It requires measurement at fair value less costs to sell from initial recognition of biological assets up to the point of harvest, other than when fair value cannot be measured reliably on initial recognition[363].

The Standard is applied to agricultural produce, which is the harvested product of the entity's biological assets, only at the point of harvest. Thereafter, TAS 2 *Inventories* or another applicable Standard is applied. Accordingly, this Standard does not deal with the processing of agricultural produce after harvest; for example, the processing of grapes into wine by a vintner who has grown the grapes[364].

IAS 41 requires that a change in fair value less costs to sell of a biological asset be included in profit or loss for the period in which it arises. In agricultural activity, a change in physical attributes of a living animal or plant directly enhances or diminishes economic benefits to the entity[365].

IAS 41 does not establish any new principles for land related to agricultural activity. Instead, an entity follows TAS 16 *Property, Plant and Equipment* or TAS 40 *Investment Property*, depending on which standard is appropriate in the circumstances. TAS 16 requires land to be measured either at its cost less any accumulated impairment losses, or at a revalued amount. TAS 40 requires land that is investment property to be measured at its fair value, or cost less any accumulated impairment losses. Biological assets that are physically attached to land (for example, trees in a plantation forest) are measured at their fair value less costs to sell separately from the land[366].

[362] Turkish Accounting Standards Board, p.A995.
[363] IFRS Technical summaries, IFRS and IAS Summaries- English (2012), IAS 41, p.1, http://www.ifrs.org/IFRSs/Documents/English%20IAS%20and%20IFRS%20PDFs%202012/IAS%2041.pdf, (19.05.2013).
[364] Ibid., p.2.
[365] Ibid., p.2.
[366] Ibid., p.2.

TAS 41 requires that an unconditional government grant related to a biological asset measured at its fair value less costs to sell to be recognized in profit or loss when, and only when, the government grant becomes receivable. If a government grant is conditional, including when a government grant requires an entity not to engage in specified agricultural activity, an entity should recognize the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met. If a government grant relates to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses, TAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is applied[367].

3.2.43 IFRIC Interpretation 12 Service Concession Arrangements

This Interpretation applies to public-to-private service concession arrangements if: the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and the grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the infrastructure at the end of the term of the arrangement[368].

As the infrastructure is controlled by the grantor, the operator does not recognize the infrastructure as its property, plant and equipment; nor does the operator recognize a finance lease receivable for leasing the public service infrastructure to the grantor, regardless of the extent to which the operator bears the risk and rewards incidental to ownership of the assets.

The operator recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash irrespective of the usage of the

[367] Ibid., p.2.
[368] IFRS Foundation, **IFRIC Interpretation 12, Service Concession Arrangements**, p. A1237.

infrastructure. The operator recognizes an intangible asset to the extent that it receives a right (a licence) to charge users of the public service[369].

There is no specific TFRS that applies to public-to-private service concession arrangements for delivery of public services. SIC 29, 'Service concession arrangements: Disclosures', contains disclosure requirements in respect of public-to-private service arrangements but does not specify how they are accounted for. IFRIC 12, 'Service concessions', clarifies how TFRS should be applied by a private sector entity in accounting for public-to-private service concession arrangements[370].

3.2.44 IFRIC Interpretation 17 Distributions of Non-cash Assets to Owners

This Interpretation applies to the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners[371]:

(a) distributions of non-cash assets (e.g. items of property, plant and equipment, businesses as defined in TFRS 3, ownership interests in another entity or disposal groups as defined in TFRS 5); and

(b) distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

This Interpretation applies only to distributions in which all owners of the same class of equity instruments are treated equally. This Interpretation does not apply to a distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and consolidated financial statements of an entity that makes the distribution[372].

[369] Price Water House Coopers (PWC), **IFRS Pocket Guide**, 2011, p. 53.
[370] Price Water House Coopers (PWC), **IFRS Pocket Guide**, 2011, p. 52.
[371] IFRS Foundation, **IFRIC Interpretation 17, Distributions of Non-cash Assets to Owners**, p. A1286.
[372] IFRS Foundation, **IFRIC Interpretation 17, Distributions of Non-cash Assets to Owners**, p. A1286.

This Interpretation addresses only the accounting by an entity that makes a non-cash asset distribution. It does not address the accounting by shareholders who receive such a distribution[373].

The liability to pay a dividend shall be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed[374].

If an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, the entity shall estimate the dividend payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative[375].

At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable, with any changes in the carrying amount of the dividend payable recognized in equity as adjustments to the amount of the distribution[376].

3.2.45 Turkish Financial Reporting Standards (TFRS) for Small and Medium-sized Entities

Small-and-Medium-Sized Enterprises (SMEs) sector forms as much as 99 % of business entities around the world[377]. Therefore, IFRS for SMEs has been developed

[373] Ibid., p.A1155.
[374] Deloitte Touche Tohmatsu, **IFRS in Your Pocket**, 2011, p.114.
[375] Ibid., p.114.
[376] IFRS Foundation, **IFRIC Interpretation 17, Distributions of Non-cash Assets to Owners**, p.A1288.
[377] Jiri Strouhal, Libuse Müllerova, Zdenka Cardova, **National and International Financial Reporting Rules: Testing the Compatibility of Czech Reporting from the SMEs Perspective**, Wseas Transaction on Business and Economics, Vol:6, 2009, p.620.

and issued by the IASB in July 2009[378]. Fully compatible with IFRS for SMEs, TFRS for SMEs is issued in Official Gazette in November 2010[379].

Due to currency difference, the definition of SMEs shows difference between EU and Turkey as below Table 2 and Table 3. According to TFRS for SMEs Standards, small and medium sized entities are the entities that:

Table 4
EU Definition of SMEs

Entity	Employees	Turnover	Total assets
medium	50 – 249	max 50 mil. EUR	max 43 mil. EUR
small	10 – 49	2 – 10 mil. EUR	2 – 10 mil. EUR
micro	1 – 10	up to 2 mil. EUR	up to 2 mil. EUR

Source: Jiri Strouhal, Libuse Müllerova, Zdenka Cardova, **National and International Financial Reporting Rules: Testing the Compatibility of Czech Reporting from the SMEs Perspective**, Wseas Transaction on Business and Economics, Vol:6, 2009, p.620.

Table 5
Turkey Definition of SME

Entity	Employees	Turnover	Total Assets
Medium	50-249	max. 25 mil TL	max. 25 mil TL
Small	10-49	1-5 mil. TL	1-5 mil. TL
Micro	1-10	up to 1 mil. TL	up to 1 mil. TL

Source: Burcu Demirel Utku and Kemal Gürsoy, **Kobiler için Türkiye Finansal Raporlama Standardlarının (KOBİ TFRS) Tam Set TFRS ile Karşılaştırılarak Değerlendirilmesi**, Mali Çözüm Dergisi, Vol:103, Ocak-Şubat 2011, p.22.

[378]Burcu Demirel Utku and Kemal Gürsoy, **Kobiler için Türkiye Finansal Raporlama Standardlarının (KOBİ TFRS) Tam Set TFRS ile Karşılaştırılarak Değerlendirilmesi**, Mali Çözüm Dergisi, Vol:103, Ocak-Şubat 2011, p.19.
[379]Turkish Accounting Standards Boards (TASB), Eğitim Materyalleri, http://www.tmsk.org.tr/index.php?option=com_content&view=article&id=235&Itemid=199&lang=tr.

a) do not have public accountability, and
b) publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

The TFRS for SMEs, contains 230 pages, has been designed to meet the needs of small and medium-sized entities. It is less complex than the full TFRS[380]. Any company of any size is able to use the TFRS for SMES, but the entities below are excluded from TFRS for SMEs[381]:

-Banks
-Credit Unions
-Insurance Companies
-Securities' dealers
-Mutual Funds
-Investment Banks

Also, if an entity's securities are publicly traded, it should be using full TFRS. Subsidiaries of parent companies using full TFRSs are eligible in their separate financial statements to use the TFRS for SMEs. However, listed companies, no matter how small, are not eligible to use TFRS for SMEs[382].

TAS 34 Interim Reporting, TAS 33 Earnings per Share, TFRS 4 Insurance Contracts, TFRS 5 Non-current Assets Held for Sale and Discontinued Operations and TFRS 8 Operating Segments are not covered by TFRS for SMEs[383]. Comparing to Full TFRS, TFRS for SMEs is much more simple and understandable. TFRS for SMEs is the text of a single standard of thirty five parts[384]. Further information can be obtained from the IASB, 2009, IFRS for SMEs publication.

[380]IFRS Foundation and the IASB, About the IFRS for SMEs, http://www.ifrs.org/IFRS+for+SMEs/IFRS+for+SMEs.htm, (10.11.2012).
[381] Bruce Mackenzie and Others, **Applying IFRS for SMEs**, John Wiley & Sons Inc., 2010, p.2-3.
[382] International Accounting Standards Board, A Guide to the IFRS for SMEs, 2010, http://www.ifrs.org/ NR/rdonlyres/4308000F-FAC8-41F3-BC15-E594E8058EB6/0/Guide To IFRSforSMEs2010Oct.pdf, p.3, (11.11.2011).
[383] Demirel Utku, Burcu and Kemal Gürsoy, p.36.
[384] TURMOB, **Kobi TFRS Egitim Projesi Sunum**, Istanbul, 2012, p.2.

4 TURKISH FINANCIAL REPORTING STANDARDS IN SERVICE ENTITIES AND AN APPLICATION

4.1 Entities

An entity is the organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs.[385] A business (also known as enterprise or firm) is an organization engaged in the trade of goods, services, or both to consumers.[386] Businesses are predominant in capitalist economies, where most of them are privately owned and administered to earn profit to increase the wealth of their owners. Businesses may also be not-for-profit or state-owned. A business owned by multiple individuals may be referred to as a company, although that term also has a more precise meaning. [387]

Characteristics or features of business are discussed in following points:[388]

Exchange of goods and services: All business activities are directly or indirectly concerned with the exchange of goods or services for money or money's worth.

Deals in numerous transactions: In business, the exchange of goods and services is a regular feature. A businessman regularly deals in a number of transactions and not just one or two transactions.

Profit is the main Objective: The business is carried on with the intention of earning a profit. The profit is a reward for the services of a businessman.

[385] William M. Pride, Robert J. Hughes and Jack R. Kapoor, **Introduction to Business**, 11th Edition, Cengage Learning International Offices, 2010, p.10.
[386] Prof.Dr. İsmet Mucuk, **Modern İşletmecilik**, Türkmen Kitabevi, 2000, p.4
[387] Wikipedia, Business, 2011, http://en.wikipedia.org/wiki/Business, p.1.
[388] Kalyan City, What is Business? Meaning Definitions Features of Business, 2011, http://kalyan-city.blogspot.com/2011/03/what-is-business-meaning-definitions.html, (10.11.2011).

Business skills for economic success: Anyone cannot run a business. To be a good businessman, one needs to have good business qualities and skills. A businessman needs experience and skill to run a business.

Risks and Uncertainties: Business is subject to risks and uncertainties. Some risks, such as risks of loss due to fire and theft can be insured. There are also uncertainties, such as loss due to change in demand or fall in price cannot be insured and must be borne by the businessman.

Buyer and Seller: Every business transaction has minimum two parties that is a buyer and a seller. Business is nothing but a contract or an agreement between buyer and seller.

Connected with production: Business activity may be connected with production of goods or services. In this case, it is called as industrial activity. The industry may be primary or secondary.

Marketing and Distribution of goods: Business activity may be concerned with marketing or distribution of goods in which case it is called as commercial activity.

Deals in goods and services: In business there has to be dealings in goods and service.

Goods may be divided into following two categories:

a) Consumer goods: Goods which are used by final consumer for consumption are called consumer goods e.g. T.V., Soaps, etc.

b) Producer goods: Goods used by producer for further production are called producers goods e.g. Machinery, equipments, etc. Services are intangible but can be exchanged for value like providing transport, warehousing and insurance services, etc.

To Satisfy human wants: The businessman also desires to satisfy human wants through conduct of business. By producing and supplying various commodities, businessmen try to promote consumer's satisfaction.

Social obligations: Modern business is service oriented. Modern businessmen are conscious of their social responsibility. Today's business is service-oriented rather than profit-oriented.

Companies can be grouped in five categories according to various aspects.

- Size and Scope
  - Big
  - Mid-size
  - Small

- Economical structure
  - Production
  - Commercial
  - Service

- Produced goods
  - Consumer goods
  - Industrial goods
  - Ownership
  - Private
  - Limited
  - Non- Limited
  - Public

- Legal Structure
  - Sole proprietorship
  - General partnership
  - Limited Liability Company
  - Corporations
  - Cooperative

4.2 Service Entities

A service has been defined as any activity or benefit that one party can give to another that is essentially intangible and docs not result in the ownership of anything. Its production may or may not be tied to a physical product.[389]

It has been more fully defined as:

(a) A set of functions offered to a user by an organization.

(b) Results generated by activities at the interface between the supplier and the customer and by supplier internal activities to meet the customer needs.

Note 1: The supplier or the customer may be represented at the interface by personnel or equipment.

Note 2: Customer act in ties at the interface with the supplier may be essential to the service delivery.

Note 3: Service is intangible and as such cannot be stored.

Note 4: Delivery or use of tangible products may form part of the service delivery.

Note 5: A service may be linked with the manufacture and supply of tangible products.

Service businesses offer intangible goods or services and typically generate a profit by charging for labor or other services provided to government, other businesses, or consumers. Organizations ranging from house decorators to consulting firms, restaurants, and even entertainers are types of service businesses. A service is characterized by being intangible, performed, perishable, people dominated, no ownership of the resource used by the customer and copyable, no second-hand resale value, enabling, impossible to sample and open to inter-customer influence.[390]

[389] Bill Hollins and Sadie Shinkins, **Managing service operations: Design and Implementation**, Sage Publications Ltd., London, 2006, p.8.
[390] Ian Ruskin Brown, **Marketing your service business** , London, Thorogood Publishing Ltd., 2005, p.30-31.

Service businesses are a type of commercial business that use mostly labor to offer mostly intangible products to satify consumer needs[391]. Service is an act of labour or a performance that does not produce a tangible commodity and does not result in the customer's ownership of anything. Its production may or may not be tied to a physical product. Thus, there are pure services that involve no tangible product (as with psychotherapy), tangible goods with accompanying services (such as a computer software package with free software support), and hybrid product-services that consist of parts of each (for instance, restaurants are usually patronized for both their food and their service) [392].

Providing Convenience

Service companies provide clients with options that are designed to satisfy recurring business needs. As such, service companies are people-oriented organizations. In order to be competitive, service companies need to find ways to "put people back into the equation, not just automate and reengineer to increase operational efficiency." By providing convenience to consumers, service companies favor the quality of consumer experience as much as the quantity of their sales to consumers. [393]

Company Status

In order to be considered a service company, a business enterprise must of course be a legitimate company. Although an enterprising individual may engage in service-oriented sales outside of a company setting, he should not be considered as a service company even if he presents himself as such to his clients. Similarly, nonprofit entities such as churches or certain charity organizations rarely operate as service companies. Though these organizations provide services that are desirable to members of the community, they may not operate as companies.[394]

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[391] James L. Burrow, Brad Kleindl and Kenneth E. Everard, **Business Principles and Management**, USA, Thomson South Western, 2006, p.5.
[392] Encyclopedia Britannica, Services Marketing, 2011, http://www.britannica.com/EBchecked/topic/365730/marketing/27289/Services-marketing?anchor=ref394110, (18.11.2011).
[393] Ehow Money, Service Company Definition, 2011,http://www.ehow.com/about_6173053_service-company-definition.html, par.3, (18.11.2011).
[394] Ibid., Ehow Money, par.3.

Types

Because service companies seek to capitalize on the evolving needs of consumers, many types of service companies exist. Restaurants, banking institutions, telephone companies and even public utility companies qualify as service companies. New service companies are constantly emerging based on changing trends that affect both public and private sectors of the global economy. [395]

Factor of Intangibility

Unlike product-centered companies, service companies typically provide consumers with intangible goods and services as opposed to products. For example, public utility companies provide consumers with electricity, natural gas and waste management. Most consumers of these services never observe electricity flowing through wires within the walls of their households, directly inhale the natural gas they pay for or see waste from their households undergoing stages of purification at a local waste processing plant. However, such intangible services are so vital to the healthy operation of communities that members of such communities are willing to pay a considerable amount of money to ensure such service companies function properly. [396]

Customization Potential

Service companies often seek to develop symbiotic relationships with their clients, allowing such clients to outsource workloads or to streamline operations. As a result, clients are able to customize services, based on scalable payment options. Telephone companies, for example, are notorious for providing consumers the ability to customize their calling plans. Consumers pay extra for a wide array of features, such as call waiting, Internet connectivity or unlimited calling. [397]

Services cannot be patented and therefore intellectual property in services is more difficult to protect and copying of competing services is easier - another reason to keep applying serial innovation to retain that competitive edge. From looking at just the

[395] Ibid., par.4.
[396] Ibid., par.5.
[397] Ibid., par.6.

product, companies should be moving towards designing the product, process and service interface and moving towards a 'whole life' consideration as a method for adding value and maximizing profit throughout the value chain, right through to disposal.[398]

4.3 Frequently Used Standards in Service Entities

Turkish Financial Reporting and Accounting Standards can be classified as accounting principles; income statement and related notes; balance sheet and related notes; consolidated and separate financial statements; industry-specific topics and other issues.

TAS 41 Agriculture and TFRS 6 Exploration for and Evaluation of Mineral Resources are the industry specific topics, and cannot used in a service entity unless the operating area is included in one of these standards. Although, insurance companies operate in service sector, they have a specific standard TFRS 4 Insurance Contracts (applies to all issuers of insurance contracts whether or not the entity is legally an insurance company, but it is generally an insurance company in Turkey).

TAS 20 Accounting for Government Grants and Disclosure of Government Assistance and SIC 10 Government Assistance are applied in accounting the government grants and assistances.

TAS 11 and TAS 18 are mostly used for service entities, because service related issues are generally tied to a contract and the time and amount of revenue recognition is the most important topic. IFRIC 12 Service Concession Arrangements and SIC 29 Service Concession Arrangements Disclosures are the specific interpretations for public services undertaken by private sector service entity.

TAS 1 Presentation of Financial Statements, TAS 2 Inventories , TAS 12 Income Tax, TAS 16 Property, Plant and Equipment, TAS 19 Employee Benefits, TAS

[398] Hollins and Sadie Shinkins, p.13.

37 Provisions, Contingent Liabilities and Contingent Assets, TAS 38 Intangible Assets are the common standards used in all kind of entities.

All other TFRSs and interpretations not mentioned above can be used accordingly in service entities.

4.4 Application in a Service Entity

After 1 January 2013, equity capital companies met the criteria specified in the new TCC have to present the financial statements according to Turkish Financial Reporting Standards (TFRS) and Turkish Accounting Standards (TAS). TFRSs and TASs are in compliance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

In this part of the study, The BTA Turkey Company has already prepaid its financial statement and accounting records according to Turkish GAAP; TFRS and TAS are applied to the statutory financial statements as of 31.12.2012.

4.4.1 General Information

The BTA Group has been operating in the world at many different countries and The BTA Turkey Company is one of them. The company opened in 2003 and has operating in service industry; manage building projects which continues more than one year. It is not listed in any stock exchanges. The Company has 92 employees as of 31.12.2012 and 85 as of 31.12.2011.

The company has prepared its financial statements according to local requirements. But BTA Group will consolidate all group companies according to TFRS. So that The BTA Turkey Company must prepare its financial statements according to TFRS (same with IFRS).

4.4.2 Turkish GAAP Financial Statements

In accordance with the Turkish GAAP, financial position and comprehensive income statements are presented below as follows:

The BTA Turkey Company's Statutory Balance Sheet at 31 December 2012(TL):

	31.Dec.12	**31.Dec.11**
Current Assets:		
Cash and cash equivalents	1.604.402	1.404.249
Trade receivables	32.810.013	28.716.884
Inventories	158.737	138.934
Other current assets	476.789	417.308
Total current assets	**35.049.941**	**30.677.375**
Non-current assets:		
Property, plant and equipment	25.975.763	22.735.223
Intangible assets	3.867.303	3.384.848
Total non-current assets	**29.843.066**	**26.120.071**
Total assets	**64.893.007**	**56.797.446**
Current Liabilities:		
Financial liabilities	38.036.829	26.307.759
Trade payables	4.090.116	5.831.842
Other payables	1.044.168	2.161.429
Current income tax liabilities	777.615	680.606
Other current liabilities	1.018.282	891.249
Total current liabilities	**44.967.010**	**35.872.885**
Paid-in share capital	12.500.000	12.500.000
Legal reserves	5.406.694	5.406.694
Retained earnings	3.017.867	1.482.175
Profit for the period	-998.565	1.535.692
Total equity	**19.925.997**	**20.924.561**
Total liabilities and equity	**64.893.007**	**56.797.446**
Contingent liabilities	**625.000**	**450.000**

The BTA Turkey Company's Statutory Statement of Income as of 31 December 2012(TL):

	31.Dec.12	**31.Dec.11**
Revenue	24.114.794	24.357.281
Cost of sales (-)	-9.496.154	-12.286.431
Gross profit	**14.618.640**	**12.070.850**
Marketing, selling and distribution expenses (-)	-3.912.356	-2.789.541
General administrative expenses (-)	-9.662.908	-7.895.613
Other income	1.358.890	1.589.643
Other expense (-)	-132.052	-785.412
Operating profit	**2.270.214**	**2.189.927**
Financial income	1.817.456	692.145
Financial expense (-)	-5.086.234	-962.457
Profit before tax	**-998.565**	**1.919.615**
Tax income/expense	**0**	**-383.923**
- Current income tax expense (-)	0	-383.923
Profit for the period	**-998.565**	**1.535.692**

The BTA Turkey Company's Statutory Equity as of 31 December 2012(TL):

	Capital	**Legal Reserves**	**Retained Earnings**	**Net Profit/(Loss)**	**Total**
Balance as at 1 January 2011	12.500.000	5.406.694	1.482.175	-	**19.388.869**
Dividend payment	-	-	-	-	**-**
Net Profit/(Loss) for the year	-	-	-	1.535.692	**1.535.692**
Transfer to Retained Earnings	-	-	1.535.692	(1.535.692)	**-**
Balance as at 31 December 2011	12.500.000	5.406.694	3.017.867	-	**20.924.561**
Dividend payment	-	-	-	-	**-**
Net Profit/(Loss) for the year	-	-		(998.565)	**(998.565)**
Transfer to Retained Earnings	-	-	(998.565)	998.565	**-**
Balance as at 31 December 2012	**12.500.000**	**5.406.694**	**3.017.867**	**(998.565)**	**19.925.997**

The BTA Turkey Company's Statutory Cash Flow as of 31 December 2012(TL):

	31.Dec.12
A. CASH FLOWS FROM PRINCIPAL ACTIVITIES	
Net profit for the period before tax	(998.565)
Depreciation and amortization	3.480.770
	2.482.206
Operating profit before working capital changes	
(Increase) / decrease in trade receivables	(4.093.129)
(Increase) / decrease in inventories	(19.803)
(Increase) / decrease in other current assets	(59.481)
Increase / (decrease) in short term trade payables	(1.741.726)
Increase / (decrease) in other payables	(1.020.252)
Increase / (decrease) in other liabilities and accrued expenses	127.033
Tax payments (-)	(31.552)
Net cash provided by operating activities	**(4.356.704)**
B. CASH FLOWS FROM INVESTMENT ACTIVITIES	
Addition to tangible assets -net	(6.258.875)
Addition to intangible assets -net	(913.339)
Net cash (used in) investing activities	**(7.172.214)**
C. CASH FLOWS FROM FINANCIAL ACTIVITIES	
Increase / (decrease) in borrowing (net)	11.729.071
Net cash provided by financing activities	**11.729.071**
Increase / (decrease) in cash and cash equivalents	**200.153**
Cash and cash equivalents at the beginning of the period	**1.404.249**
Cash and cash equivalents at the end of the period	**1.604.402**

4.4.3 Preparing TFRS Financial Statements

The significant accounting policies according to Turkish Financial Reporting Standards and Turkish Accounting Standards are shown below:

4.4.3.1 Cash and Cash Equivalents

Cash and cash equivalents are composed of cash, cheques received, bank amounts and cheques given and payment orders.

According to Turkish GAAP, a cheque is a payment instrument and is used to take the amount at a specified date. According to Commercial Codes, cheques do not have any maturities. In practice, all cheques have a future maturity in our country. So that all cheques have to reclassified as notes receivables (short-term). In the light of above mentioned information, The BTA Turkey Company has 130.899 TL cheques received. The journal entry of reclassification is as follows:

1#		Dr	Cr
121	Notes Receivables (short-term)	130.899	
101	Cheques received		130.899

According to Turkish GAAP, cheques given and payment orders amount is shown in the cash and cash equivalents account, but according to Turkish Financial Reporting Standards (TFRS), cheques given and payment orders is reclassified as notes payables just as in the case of cheques received. The BTA Company has 58.954 TL cheques received. The journal entry of reclassification is as follows:

2#		Dr	Cr
103	Cheques given and payment orders	58.954	
321	Notes payables		58.954

3#		Dr	Cr
102	Banks	8.594	
181	Income Accruals		8.594

4.4.3.2 Trade Receivables

Trade receivables are composed of receivables, notes receivables, deposits and guarantees given, doubtful trade receivables and provisions for doubtful trade receivables.

The BTA Turkey Company is one of the global BTA Group Company located in Turkey. The Company has amount of 1.258.471 TL related to The BTA England Company. So this amount should be reclassified as trade receivables – related parties and the journal entry of reclassification is as follows:

4#		Dr	Cr
120.1	Due from related parties	1.258.471	
120	Trade Receivables		1.258.471

The Company does not have to book discounted amounts both trade receivables and notes receivables. On the other hand, Turkish Accounting Standards (TAS 39) required that all trade receivables and notes receivables should be presented at fair value. The BTA Turkey Company has calculated discount amount for trade receivables 678.095 TL and for notes payables 148.740 TL and totally 826.835 TL as of 31.12.2012 has been adjusted and the journal entry of adjustment is as follows:

		Dr	Cr
657	Rediscount expenses	826.835	
122	Rediscount on notes receivables (-)		826.835

Table 6
Rediscount Calculation

$$PV = \frac{FV}{(1+r)^{\wedge(t/365)}}$$

PV	:	Present value
FV	:	Future value
r	:	Effective interest rate
t	:	Days to maturity

The BTA Turkey Company has calculated discount amount for trade receivables 541.569 TL and for notes payables 95.703 TL and totally 637.272 TL as of 31.12.2011 has been adjusted and the journal entry of adjustment is as follows:

5#		Dr	Cr
657	Rediscount expenses (-)	637.272	
122	Rediscount on notes receivables (-)		637.272

According to Turkish GAAP, provision for doubtful receivables would be booked only if there is a legal dispute and litigation. Turkish Accounting Standards (TAS 37) required that if the management expects to not collect any trade receivables, then the total doubtful amount should be adjusted. At the end of the period, the management calculated 197.800 TL as of 31.12.2012 and the journal entry of reclassification and adjustments are as follows:

		Dr	Cr
128	Doubtful trade receivables	197.800	
120	Trade receivables		197.800

		Dr	Cr
632	General administrative expenses (-)	197.800	
129	Provision for doubtful receivables (-)		197.800

The management calculated 108.000 TL as of 31.12.2011 and the journal entry of reclassification and adjustments are as follows:

		Dr	Cr
128	Doubtful trade receivables	108.000	
120	Trade receivables		108.000

6#		Dr	Cr
632	General administrative expenses (-)	108.000	
129	Provision for doubtful receivables (-)		108.000

4.4.3.3 Inventories

Inventories are composed of trade goods and advances given for purchases.

Actually The BTA Turkey Company does not have material inventories because of the company's procedures. During the year some of trade goods are become out of date. According to Turkish GAAP, provision for inventories would be booked only if the acceptance of the loss by the inventory commission.

According to TAS 2 states that, inventories should be measured at the lower of cost and net realizable value. Turkish Accounting Standards (TAS 2) required that the inventories are tested for the net realizable value (NRV). The company calculated the amount of 27.965 TL as of 31.12.2012 provision for inventory and the journal entry of adjustment is as follows:

		Dr	Cr
620	Cost of sales (-)	27.965	
158	Provisions for inventories		27.965

The company calculated the amount of 18.954 TL as of 31.12.2011 provision for inventory and the journal entry of adjustment is as follows:

7#		Dr	Cr
620	Cost of sales (-)	18.954	
158	Provisions for inventories		18.954

4.4.3.4 Property Plant and Equipments

Property plant and equipments are composed of plant, machinery and equipment, motor vehicles and furniture and fixtures.

According to Turkish GAAP, useful life of all tangible fixed assets has been published by The Finance Ministry. On the other hand, Turkish Accounting Standards (TAS 16) let the companies determine the fixed assets' useful life. The company uses different useful life for its fixed assets.

The calculation method of amortization is different between Turkish GAAP and Turkish Accounting Standards. According to Turkish GAAP, the addition time of a fixed asset is not important and the amount of amortization is calculated as yearly. Turkish Accounting Standards (TAS 16) required that the calculation of amortization should be started by the addition time (pro-rata basis).

Table 7
Useful Life for Tangible Fixed Assets

	Useful Life (years)
Plant, Machinery and Equipment	5-6
Motor Vehicles	3-4
Furniture and Fixtures	7-8

8#		Dr	Cr
632	General administrative expenses (-)	48.760	
257	Accumulated depreciation (-)		48.760

4.4.3.5 Intangible Assets

Intangible fixed assets are composed of rights and other intangible assets.

According to Turkish GAAP, useful life of all intangible fixed assets has been published by The Finance Ministry. On the other hand, Turkish Accounting Standards (TAS 16) let the companies determine the intangible fixed assets' useful life. The company uses different useful life for its intangible fixed assets.

The calculation method of amortization is different between Turkish GAAP and Turkish Accounting Standards. According to Turkish GAAP, the addition time of a intangible fixed asset is not important and the amount of amortization is calculated as yearly. Turkish Accounting Standards (TAS 16) requires that the calculation of amortization should be started by the addition time (pro-rata basis).

Table 8
Useful Life for Intangible Fixed Assets

	Useful Life (years)
Rights	4-6
Other intangibles	5-6

9#		Dr	Cr
632	General administrative expenses (-)	28.961	
268	Accumulated depreciation (-)		28.961

4.4.3.6 Financial Liabilities

Financial liabilities are composed of short-term and long-term bank loans.

The ABT Turkey Company does not book any interest accruals journal entry. However, Turkish Accounting Standards (TAS 39) requires that the interest accruals should be booked to on bank loans accounts. Short-term and long term bank loans' interest accruals are 389.705 TL totally as of 31.12.2012 and the journal entry of adjustment is as follows:

		Dr	Cr
300	Bank loans (short-term)	1.324.992	
660	Financial expenses (-)		1.324.992

Table 9
Amortized Cost (TAS 39)

	TFRS	TAS 39 Adjustment	Turkish GAAP
B/S date	31.12.2012		
Initial loan amount	36.711.837	-1.324.992	38.036.829

Date	T	Cash flows	# of DAYS	NPV OF cash flows @ balance sheet date with IRR
27.01.2012		-35.075.000		
31.03.2013	429	2.089.885	91	2.064.390
30.06.2013	91	443.309	182	432.565
30.09.2013	92	428.635	274	413.086
30.09.2013		35.075.000	274	33.801.796
		38.036.829		**36.711.837**
	IRR	**5,05%**		

Short-term and long term bank loans' interest accruals are 245.789 TL totally as of 31.12.2011 and the journal entry of adjustment is as follows:

10#		Dr	Cr
300	Bank loans (short-term)	245.789	
660	Financial expenses (-)		245.789

4.4.3.7 Trade Payables

Trade payables are composed of trade payables both related and third party accounts and other trade payables.

The BTA Turkey Company is one of the global BTA Group Company located in Turkey. The Company has amount of 859.741 TL related to The BTA Germany Company. So this amount should be reclassified as due to trade payables and the journal entry of reclassification is as follows:

11#		Dr	Cr
320	Trade payables	859.741	
320.1	Due to related parties		859.741

The Company does not have to book discounted amounts trade payables. On the other hand, Turkish Accounting Standards (TAS 39) required that trade payables should be presented at fair value. The BTA Turkey Company has calculated discount amount for trade payables (except from due to related parties amount whose maturity is less than a month and the rediscount amount is not material) 69.185 TL as of 31.12.2012 and the journal entry of adjustment is as follows:

12#		Dr	Cr
322	Rediscount on trade payables (-)	69.185	
647	Rediscount income		69.185

Table 10
Rediscount Calculation

$$PV = \frac{FV}{(1+r)^{\wedge(t/365)}}$$

PV : Present value
FV : Future value
r : Effective interest rate
t : Days to maturity

The BTA Turkey Company has calculated discount amount for trade payables (except from due to related parties amount whose maturity is less than a month and the

rediscount amount is not material) 57.896 TL as of 31.12.2011 and the journal entry of adjustment is as follows:

		Dr	Cr
322	Rediscount on trade payables (-)	57.896	
647	Rediscount income		57.896

4.4.3.8 Employee Benefits

Provisions for employee benefits are composed of unused vocational rights and termination indemnity.

According to Turkish GAAP, companies are not obligated to book unused vocational rights and termination indemnity. The BTA Turkey Company has not booked any amounts in its accounts. On the other hand, Turkish Accounting Standards (TAS 19) requires that the provision of both unused vocational rights and termination indemnity have to be booked. Unused vocational rights are calculated by unused days multiplied daily wages and termination indemnity are dependent on sex, retirement date, turnover rate, gross wages, severance pay ceiling as at b/s date and recruitment date. The company is calculated amount of 475.300 TL for termination indemnity and 146.250 TL for unused vocational rights as of 31.12.2012 and the journal entry of adjustments are as follows:

13#		Dr	Cr
632	General administrative expenses (-)	475.300	
472	Provision of termination indemnity		475.300

14#		Dr	Cr
632	General administrative expenses (-)	146.250	
372	Provision of termination indemnity		146.250

Table 11
Termination Indemnity Probability Calculation

	Average			
Years	Number of Employees	Number of leaving (voluntarily)	Turnover rate	Averaged turnover rate
2011	85	7	91,8%	
2012	92	9	90,2%	
				91,0%

Table 12
An example of TAS 19 Termination Indemnity Calculation

Descriptions	
B/S date	31.12.2012
Recruitment date	02.05.2009
Birth date	09.09.1975
Number of days (severance)	1.339
Gross wages	1.750
Termination pay ceiling as at b/s date	2.731,85
Termination pay as at b/s date	6.420
Interest rate (r)	10%
Inflation rate (i)	5,1%
Retirement age	60/Male
Remaining years to retirement (t)	23,666
Effective interest rate (R)	4,66%
Discounted severance pay	2.184
TFRS Termination indemnity	**234**

The company is calculated amount of 475.300 TL for termination indemnity and 146.250 TL for unused vocational rights as of 31.12.2012 and the journal entry of adjustments are as follows:

		Dr	Cr
632	General administrative expenses (-)	375.800	
472	Provision of termination indemnity		375.800

		Dr	Cr
632	General administrative expenses (-)	88.000	
372	Provision of termination indemnity		88.000

4.4.3.9 Provisions

Provisions are composed of warranty provisions and lawsuit provisions.

According to Turkish GAAP, companies are not obligated to book provisions before the cost is realized. On the other hand, Turkish Accounting Standards (TAS 37) requires that the provisions which will be realized most probably must be booked. The company has calculated the amount of 258.000 TL for the warranty provisions and 95.000 TL for the lawsuits against the company as of 31.12.2012 and the journal entry of adjustments are as follows:

15#		Dr	Cr
632	General administrative expenses (-)	258.000	
379	Other provisions (warranty)		258.000

The BTA Turkey Company uses the rate for average warranty provision which is 1.05% as of 31.12.2012. (24.520.000 x 1.05% = 258.000)

		Dr	Cr
632	General administrative expenses (-)	95.000	
379	Other provisions (lawsuits provisions)		95.000

The BTA Turkey Company has requested the company lawyer for the lawsuits against the company and the lawyer has calculated 65.000 TL and 30.000 TL probable provisions as of 31.12.2012.

The company has calculated the amount of 125.000 TL for the warranty provisions and 55.800 TL for the lawsuits against the company as of 31.12.2011 and the journal entry of adjustments are as follows:

		Dr	Cr
632	General administrative expenses (-)	125.000	
379	Other provisions		125.000

16#		Dr	Cr
632	General administrative expenses (-)	55.800	
379	Other provisions		55.800

4.4.3.10 Revenue Recognition

The BTA Turkey Company has two ongoing projects as of 31.12.2012. Revenue recognition is different between Turkish GAAP and Turkish Accounting Standards (TAS 18). According to TAS 18, based on the percentage-of-completion ratio, TFRS contract revenue should be adjusted to percentage-of-completion ratio. The company has calculated 405.207 TL revenue recognition adjustment and the journal entry of adjustment is as follows:

17#		Dr	Cr
120.2	POC Receivables	405.207	
600	Revenue		405.207

Table 13
Revenue Recognition Calculation as of 31.12.2012

	Project A	**Project B**	**Total**
Turkish GAAP			
Income (I)	12.789.415	11.325.379	**24.114.794**
Cost (II)	5.036.338	4.459.816	**9.496.154**
POC % (III=II/V)	52%	64%	
Contract Revenue			
Income (IV)	25.000.000	18.000.000	**43.000.000**
Cost (V)	9.685.265	6.968.463	**16.653.728**
TFRS			
Income (VI=III*IV)	13.000.000	11.520.000	**24.520.000**
Cost	5.036.338	4.459.816	**9.496.154**
TFRS Revenue Recognition Adjustment (VI-I)	**210.586**	**194.621**	**405.207**

4.4.3.11 Deferred Tax

The company must book the amount of deferred tax journal entry because of the difference at accounting and tax regulations viewpoint to profit the deferred taxes resulted between the market profit and the temporary differences that may occur.[399] According to Turkish Accounting Standards (TAS 12) requires that the deferred tax asset/liability adjustment would be calculated over the balances between Turkish GAAP and Turkish Accounting Standards (TAS). The BTA Turkey Company has calculated 18.242 TL as of 31.12.2012 and the journal entry of adjustment is as follows:

18#		Dr	Cr
299.1	Deferred tax asset	205.299	
691.1	Deferred tax income/(expense)		205.299

The BTA Turkey Company has calculated 107.097 TL as of 31.12.2011 and the journal entry of adjustment is as follows:

		Dr	Cr
299.1	Deferred tax asset	107.097	
691.1	Deferred tax income/(expense)		107.097

The company has booked the amount of 685.973 TL for deferred tax asset as of 31.12.2012 and the previous year deferred tax asset adjustment was 385.795 TL and the deferred tax income is 205.299 TL is shown in profit loss statement.

[399] Prof. Dr. Hilmi Kırklıoğlu and Ahmet Gündoğan Şişman, **The Formation of Deferred Taxes at Business Combinations and Special Case: Deferred Taxes Resulted from Goodwill**, Mali Çözüm Dergisi, Vol:98, 2000, p.72.

Table 14
Deferred Tax Calculation

Balance sheet items	Acc.#	Description	Tax rate %	Tax basis amount	Deferred asset	Deferred liability
Trade receivables	120	Rediscount on trade receivables	20%	678.095	135.619	0
Trade receivables	122	Rediscount on notes receivables	20%	148.740	29.748	0
Trade receivables	129	Provision for doubtful receivables	20%	197.800	39.560	0
Inventory	158	Provisions for inventories	20%	27.965	5.593	0
Property Plant Equipment	25	Tangible fixed assets amortization	20%	48.760	9.752	0
Intangible assets	26	Intangible fixed assets amortization	20%	28.961	5.792	0
Financial liabilities	300	Interest accruals on bank loans	20%	1.324.992	264.998	0
Trade payables	320	Rediscount on trade payables	20%	69.185	0	13.837
Provisions	379	Warranty provisions	20%	258.000	51.600	0
Provisions	379	Lawsuits provisions	20%	95.000	19.000	0
Provisions for employee benefits	472	Provision of termination indemnity	20%	475.300	95.060	0
Provisions for employee benefits	372	Provisions for unused vacations	20%	146.250	29.250	0
Trade receivables	120	POC adjustment	20%	405.207	0	81.041

Deferred tax asset		685.973
Deferred tax liability		-94.878
Net Deferred tax asset	@ 31.12.2012	591.094
Net Deferred tax asset	@ 31.12.2011	385.795
Deferred tax income/(expense)	@ 31.12.2012	205.299

4.4.3.12 Contingent Liabilities

The BTA Turkey Company has given letter of guarantees to the contractors the amount of 625.000 TL as of 31.12.2012 and 450.000 TL as of 31.12.2011.

4.4.3.13 Earnings per Share

In accordance with the TAS 33, The BTA Turkey Company has calculated the Earnings per share with a nominal value as of 31 December 2012 is as follows:

	31.Dec.12	**31.Dec.11**
Number of shares	12.500.000	12.500.000
Profit/(Loss) for the Period	55.438	2.028.932
Earnings per share with a nominal value of Kr	0,00	0,16

4.4.3.14 Capital and Reserves

The registered values of the paid-in-capital are as follows (TL):

	%	**31 December 2012**	**%**	**31 December 2011**
BTA America Company	40%	5.000.000	40%	5.000.000
BTA Canada Company	20%	2.500.000	20%	2.500.000
BTA France Company	20%	2.500.000	20%	2.500.000
BTA Italy Company	20%	2.500.000	20%	2.500.000
Total paid-in-capital	**100%**	**12.500.000**	**100%**	**12.500.000**
Par value of each share		**1 TL**		**1 TL**

According to Turkish GAAP, companies are required to appropriate a certain percentage of its earnings to legal reserves. Legal reserves, which are divided as First Legal Reserve and Second Legal Reserve, are calculated as below:

(a) First Legal Reserve: Appropriated out of net profit at the rate of 5% until such reserve is equal to 20% of issued and fully paid capital.

(b) Second Legal Reserve: Appropriated out of net profit at the rate of 10% of distributions after providing for First Legal Reserve and an amount equal to 5% of capital as dividends.

Legal reserves which do not exceed one-half of the share capital may only be used to absorb losses, or for purposes of continuity of the operations in times of business difficulties and to prevent unemployment or to lessen its effects.

The BTA Turkey Company has 5.406.694 TL legal reserves as of 31.12 2012 and 31.12.2011.

Table 15

Reconciliation of Retained Earnings and Total Comprehensive Income

	Turkish GAAP Financials (Statutory)	1 Cheques received	2 Cheques given and payment orders	3 Interest accruals for time deposit	4 Due from related parties	5 Rediscount on notes receivables (-)	6 Provision for doubtful receivables (-)	7 Provisions for inventories	8 & 9 PPE & Intangible assets	10 Loans (Amortized cost, IRR)	11 Due to related parties	12 Rediscount on trade payables (-)	13 Unused vacational rights	14 Termination Indemnity	15 Warranty provisions	16 Lawsuit provisions	17 Revenue Recognition (POC)	18 Deferred Tax	TFRS Financials
Cash and cash equivalents	**1.604.402**	(130.899)	58.954	8.594															**1.541.051**
Trade receivables	**32.810.013**	130.899			(1.258.471)		(197.800)										405.207		**31.889.848**
Due from related parties	**-**				1.258.471														**1.258.471**
Trade receivables rediscounts (-)	**-**					(826.835)													**(826.835)**
Doubtful Receivables	**-**						197.800												**197.800**
Provision of Doubtful Receivables (-)	**-**						(197.800)												**(197.800)**
Inventories	**158.737**																		**158.737**
Provision of Inventory Loss (-)	-							(27.965)											**(27.965)**
Other current assets	**476.789**			(8.594)															**468.195**
Total Current Assets	**35.049.941**	**-**	**58.954**	**-**	**-**	**(826.835)**	**(197.800)**	**(27.965)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**405.207**	**-**	**34.461.502**
Property, plant and equipment	**25.975.763**								(48.760)										**25.927.003**
Intangible assets	**3.867.303**								(28.961)										**3.838.342**
Deferred tax assets	-																	591.094	**591.094**
Total Noncurrent Assets	**29.843.066**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(77.721)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**591.094**	**30.356.439**
Financial liabilities	**38.036.829**									(1.324.992)									**36.711.837**
Trade payables	**4.090.116**		58.954								(859.741)								**3.289.329**
Due to related parties	**-**										859.741								**859.741**
Trade payables rediscounts (-)	**-**			-								(69.185)							**(69.185)**
Other payables	**1.044.168**			-															**1.044.168**
Current income tax liabilities	**777.615**			-															**777.615**
Provisions	**-**			-											258.000	95.000			**353.000**
Provisions for employee benefits													146.250						**146.250**
Other current liabilities	**1.018.282**																		**1.018.282**
Total Current Liabilities	**44.967.010**	**-**	**58.954**	**-**	**-**	**-**	**-**	**-**	**-**	**(1.324.992)**	**-**	**(69.185)**	**146.250**	**-**	**258.000**	**95.000**	**-**	**-**	**44.131.037**
Provisions for employee benefits	-													475.300					**475.300**
Total Noncurrent Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**475.300**	**-**	**-**	**-**	**-**	**475.300**
Paid-in share capital	**12.500.000**																		**12.500.000**
Legal Reserves	**5.406.694**																		**5.406.694**
Retained Earnings	**3.017.867**			-		(637.272)	(108.000)	(18.954)	(49.050)	245.789		57.896	(88.000)	(375.800)	(125.000)	(55.800)		385.795	**2.249.472**
Profit for the period	**(998.565)**																		**55.438**
Total Equity	**19.925.997**	**-**	**-**	**-**	**-**	**(637.272)**	**(108.000)**	**(18.954)**	**(49.050)**	**245.789**	**-**	**57.896**	**(88.000)**	**(375.800)**	**(125.000)**	**(55.800)**	**-**	**385.795**	**20.211.603**
Revenue	**(24.114.794)**			-													(405.207)		**(24.520.000)**
Cost of sales (-)	**9.496.154**			-				9.011											**9.505.165**
Gross profit	**(14.618.640)**			**-**															**(15.014.835)**
Marketing, selling and distribution expenses (-	**3.912.356**			-															**3.912.356**
General administrative expenses (-)	**9.662.908**			-			89.800		28.672				58.250	99.500	133.000	39.200			**10.111.330**
Other income	**(1.358.890)**			-															**(1.358.890)**
Other expense (-)	**132.052**			-															**132.052**
Operating profit	**(2.270.214)**			**-**															**(2.217.988)**
Financial income	**(1.817.456)**			-								(11.289)							**(1.828.745)**
Financial expense (-)	**5.086.234**					189.563				(1.079.203)									**4.196.594**
Profit before tax	**998.565**																		**149.861**
Tax income/expense	**-**																		**(205.299)**
- Current income tax expense (-)	**-**																		**-**
- Deferred tax income/expense	**-**																	(205.299)	**(205.299)**
Profit for the period	**998.565**																		**(55.438)**

4.4.4 TFRS Financial Statements

After the reclassifications and adjustments, from Turkish GAAP to TFRS transition has been completed. In accordance with the TFRS, financial position, comprehensive income, equity and cash flow statements are presented below:

The BTA Turkey Company's Statement of Financial Position (Assets) at 31 December 2012(TL):

	31.Dec.12	**31.Dec.11**
Current Assets:		
Cash and cash equivalents	1.541.051	1.404.249
Trade receivables	31.063.013	26.527.889
Due from related parties	1.258.471	1.551.722
Inventories	130.772	119.980
Other current assets	468.195	417.308
Total current assets	**34.461.502**	**30.021.149**
Non-current assets:		
Property, plant and equipment	25.927.003	22.749.703
Intangible assets	3.838.342	3.370.367
Deferred tax assets	591.094	385.795
Total non-current assets	**30.356.439**	**26.505.865**
Total assets	**64.817.941**	**56.527.015**

The BTA Turkey Company's Statement of Financial Position (Liabilities) at 31 December 2012 (TL):

	31.Dec.12	31.Dec.11
Current Liabilities:		
Financial liabilities	36.711.837	26.061.970
Trade payables	3.220.144	5.773.946
Due to related parties	859.741	140.353
Other payables	1.044.168	2.161.429
Current income tax liabilities	777.615	680.606
Provisions	353.000	180.800
Provisions for employee benefits	146.250	88.000
Other current liabilities	1.018.282	907.945
Total current liabilities	**44.131.037**	**35.995.049**
Non-current liabilities:		
Provisions for employee benefits	475.300	375.800
Total non-current liabilities	**475.300**	**375.800**
Total liabilities	**44.606.337**	**36.370.849**
Paid-in share capital	12.500.000	12.500.000
Legal reserves	5.406.694	5.406.694
Retained earnings	2.249.472	220.540
Profit for the period	55.438	2.028.932
Total equity	**20.211.603**	**20.156.166**
Total liabilities and equity	**64.817.941**	**56.527.015**
Contingent liabilities	**625.000**	**450.000**

The BTA Turkey Company's Statement of Comprehensive Income as of 31 December 2012(TL):

	31.Dec.12	**31.Dec.11**
Continuing Operations		
Net sales	24.520.000	24.357.281
Cost of sales (-)	-9.505.165	-12.286.431
Gross profit	**15.014.835**	**12.070.850**
Selling, marketing and distribution expense (-)	-3.912.356	-2.789.541
General and administrative expense (-)	-10.111.330	-7.661.313
Other operating income	1.358.890	1.589.643
Other operating expense (-)	-132.052	-785.412
Operating profit	**2.217.988**	**2.424.227**
Financial income	1.828.745	721.093
Financial expense (-)	-4.196.594	-839.563
Income before tax from continuing operations	**-149.861**	**2.305.758**

Income tax from continuing operations	**205.299**	**-276.826**
- Taxes on income (-)	0	-383.923
- Deferred tax income / (expense)	205.299	107.097
Net income for the year from continuing operations	55.438	2.028.932
Dis-continued operations	0	0
Profit for the year from discontinued operations	0	0
Profit for the year	55.438	2.028.932
Other comprehensive income	0	0
Profit attributable to:		
Owners of the parent	55.438	2.028.932
Minority interest	0	0
Earnings per share with a nominal value of Kr	**0,00**	**0,16**

The BTA Turkey Company's Statement of Equity as of 31 December 2012(TL):

	Capital	**Legal Reserves**	**Retained Earnings**	**Net Profit/(Loss)**	**Total**
Balance as at 1 January 2011	12.500.000	5.406.694	220.540	-	18.127.234
Dividend payment	-	-	-	-	-
Total comprehensive income for the year	-	-	-	2.028.932	2.028.932
Balance as at 31 December 2011	12.500.000	5.406.694	220.540	2.028.932	20.156.166
Dividend payment	-	-	-	-	-
Total comprehensive income for the year	-	-	-	55.438	55.438
Balance as at 31 December 2012	**12.500.000**	**5.406.694**	**220.540**	**2.084.369**	**20.211.603**

The BTA Turkey Company's Statement of Cash Flow as of 31 December 2012(TL):

	31.Dec.12
A. CASH FLOWS FROM PRINCIPAL ACTIVITIES	
Net profit for the period before tax	(149.861)
Depreciation and amortization	3.526.940
Provision for termination indemnity	99.500
Provision for debtors	89.800
	3.566.378
Operating profit before working capital changes	
(Increase) / decrease in trade receivables	(4.535.123)
(Increase) / decrease in due from related parties	293.251
(Increase) / decrease in inventories	(10.792)
(Increase) / decrease in other current assets	(50.886)
Increase / (decrease) in short term trade payables	(2.553.802)
Increase / (decrease) in due to related parties	719.388
Increase / (decrease) in other payables	(848.052)
Increase / (decrease) in other liabilities and accrued expenses	110.337
Tax payments (-)	(31.552)
Net cash provided by operating activities	**(3.340.852)**
B. CASH FLOWS FROM INVESTMENT ACTIVITIES	
Addition to tangible assets -net	(6.258.875)
Addition to intangible assets -net	(913.339)
Net cash (used in) investing activities	**(7.172.214)**
C. CASH FLOWS FROM FINANCIAL ACTIVITIES	
Increase / (decrease) in borrowing (net)	10.649.868
Net cash provided by financing activities	**10.649.868**
Increase / (decrease) in cash and cash equivalents	**136.802**
Cash and cash equivalents at the beginning of the period	**1.404.249**
Cash and cash equivalents at the end of the period	**1.541.051**

5 CONCLUSIONS

In the globalizing world the international financial reporting standards is a necessary practice for the integration of foreign markets and businesses to be able to open to these markets. For being a part of European Union and to create transparent economic system, Turkey has given importance to adapt the international financial reporting standards.

As a first step, Turkish Accounting Standards Board (TASB) established and translated all IFRS/IAS and their interpretations into With Decree Law numbered 660, issued on November 2, 2011, TASB was converged to Public Oversight, Accounting and Auditing Standards Authority which has the authority to set and issue Turkish Accounting Standards compliant with the international standards, to ensure uniformity, high quality and confidence in statutory audits, to set the auditing standards, to approve statutory auditors and audit firms and to inspect their audits, and perform public oversight in the field of statutory audits.

The New TCC studies continued rapidly at the same time and for many articles it came into force as of July 1, 2012. New TCC has defined the rules for using TFRSs/TASs and independent auditing. Publicly listed companies were used to prepare their financial statements according to Turkish Financial Reporting Standards and Turkish Accounting Standards; but for other companies it was a big change.

Under these developments, it is very important to be familiar with TFRSs and principles based standards. In this study, a sample service entity financial statements were prepared in line with TFRSs.

The significant differences between TFRS and local legislations are arisen from recognition, derecognition, measurement and reclassification of financial items. Cash and cash equivalents are presented at fair value. Trade receivables and trade payables must be presented at fair value and rediscounted according to their maturity. Trade receivables must show fair value and the doubtful receivables must be provisioned. Inventories also must be presented at fair value and the net realizable value

analysis should be done and the provisions must be recognized. Amortization and depreciation should be calculated according to useful life and pro-rata basis. Financial liabilities are recognized at amortized cost and the interest accruals should be accrued. Short-term and long-term employee benefits are recognized as of balance sheet date and the provision of termination indemnity and unused vocational rights are adjusted. Warranty and lawsuits provisions also calculated and recognized. Revenue recognition according to percentage-of-completion method has been recognized. Deferred tax is also calculated the differences between Turkish GAAP and TFRS financial balances. Earnings per share is calculated by the profit/(loss) divided into number of nominal shares.

In conclusion, generally in service entities services rendered or projects continue more than one year so revenue recognition is more important than other types of entities. More frequently TAS 18 Revenue, TAS 11 Construction Contracts and related interpretations are used. Other standards like TAS 1, TAS 2, TAS 7, TAS 12, TAS 16, TAS 37, TAS 39, TFRS 7, TFRS 9 are generally used in all types of entities.

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APPENDICES

APPENDIX 1: List of Turkish Financial Reporting Standards in Turkish

TFRS 1 Türkiye Finansal Raporlama Standartlarının İlk Uygulaması
TFRS 2 Hisse Bazlı Ödemeler
TFRS 3 İşletme Birleşmeleri
TFRS 4 Sigorta Sözleşmeleri
TFRS 5 Satış Amaçlı Elde Tutulan Duran Varlıklar ve Durdurulan Faaliyetler
TFRS 6 Maden Kaynaklarının Araştırılması ve Değerlendirilmesi
TFRS 7 Finansal Araçlar: Açıklamalar
TFRS 8 Faaliyet Bölümleri
TFRS 9 Finansal Araçlar
TFRS 10 Konsolide Finansal Tablolar
TFRS 11 Müşterek Anlaşmalar
TFRS 12 Diğer İşletmelerdeki Paylara İlişkin Açıklamalar
TFRS 13 Gerçeğe Uygun Değer Ölçümü

APPENDIX 2: List of Turkish Accounting Standards in Turkish

TMS 1 Finansal Tabloların Sunuluşu
TMS 2 Stoklar
TMS 7 Nakit Akış Tablosu
TMS 8 Muhasebe Politikaları, Muhasebe Tahminlerinde Değişiklikler ve Hatalar
TMS 10 Raporlama Döneminden (*Bilanço Tarihinden*) Sonraki Olaylar
TMS 11 İnşaat Sözleşmeleri
TMS 12 Gelir Vergileri
TMS 16 Maddi Duran Varlıklar
TMS 17 Kiralama İşlemleri
TMS 18 Hasılat
TMS 19 Çalışanlara Sağlanan Faydalar
TMS 20 Devlet Teşviklerinin Muhasebeleştirilmesi ve Devlet Yardımlarının Açıklanması
TMS 21 Kur Değişiminin Etkileri
TMS 23 Borçlanma Maliyetleri
TMS 24 İlişkili Taraf Açıklamaları
TMS 26 Emeklilik Fayda Planlarında Muhasebeleştirme ve Raporlama
TMS 27 Konsolide ve Bireysel Finansal Tablolar
TMS 28 İştiraklerdeki Yatırımlar
TMS 29 Yüksek Enflasyonlu Ekonomilerde Finansal Raporlama
TMS 31 İş Ortaklıklarındaki Paylar
TMS 32 Finansal Araçlar: Sunum
TMS 33 Hisse Başına Kazanç
TMS 34 Ara Dönem Finansal Raporlama
TMS 36 Varlıklarda Değer Düşüklüğü
TMS 37 Karşılıklar, Koşullu Borçlar ve Koşullu Varlıklar
TMS 38 Maddi Olmayan Duran Varlıklar
TMS 39 Finansal Araçlar: Muhasebeleştirme ve Ölçme
TMS 40 Yatırım Amaçlı Gayrimenkuller
TMS 41 Tarımsal Faaliyetler

APPENDIX 3: List of TFRS and TAS Interpretations in Turkish

TFRS Yorum 1 Hizmetten Çekme, Restorasyon ve Benzeri Mevcut Yükümlülüklerdeki Değişiklikler
TFRS Yorum 2 Üyelerin Kooperatif İşletmelerdeki Hisseleri ve Benzeri Finansal Araçlar
TFRS Yorum 4 Bir Anlaşmanın Kiralama İşlemi İçerip İçermediğinin Belirlenmesi
TFRS Yorum 5 Hizmetten Çekme, Restorasyon ve Çevre Rehabilitasyon Fonlarından Kaynaklanan Paylar Üzerindeki Haklar
TFRS Yorum 6 Özel Bir Piyasaya Katılımdan Doğan Yükümlülükler - Atık Elektrikli ve Elektronik Aletler
TFRS Yorum 7 TMS 29 Yüksek Enflasyonlu Ekonomilerde Finansal Raporlama Standardı Kapsamında Düzeltme Yaklaşımının Uygulanması
TFRS Yorum 10 Ara Dönem Finansal Raporlama ve Değer Düşüklüğü
TFRS Yorum 12 İmtiyazlı Hizmet Anlaşmaları
TFRS Yorum 13 Müşteri Sadakat Programları
TFRS Yorum 14 TMS 19 - Tanımlanmış Fayda Varlığının Sınırı, Asgari Fonlama Koşulları ve Bu Koşulların Birbiri ile Etkileşimi
TFRS Yorum 15 Gayrimenkul İnşaat Anlaşmaları
TFRS Yorum 16 Yurtdışındaki İşletmede Bulunan Net Yatırımın Finansal Riskten Korunması
TFRS Yorum 17 Nakit Dışı Varlıkların Ortaklara Dağıtımı
TFRS Yorum 18 Müşterilerden Varlık Transferleri
TFRS Yorum 19 Finansal Borçların Özkaynağa Dayalı Finansal Araçlarla Ödenmesi
TMS Yorum 10 Devlet Yardımları - İşletme Faaliyetleri ile Özel Bir İlişkisi Bulunmayanlar
TMS Yorum 12 Konsolidasyon - Özel Amaçlı İşletmeler
TMS Yorum 13 Müştereken Kontrol Edilen İşletmeler - Ortak Girişimcilerin Parasal Olmayan Katılım Payları
TMS Yorum 15 Faaliyet Kiralamaları - Teşvikler
TMS Yorum 25 Gelir Vergileri - İşletmenin veya Hissedarlarının Vergi Statüsündeki Değişiklikler
TMS Yorum 27 Yasal Açıdan Kiralama Görünümündeki İşlemlerin Özünün Değerlendirilmesi
TMS Yorum 29 İmtiyazlı Hizmet Anlaşmaları-Açıklamalar
TMS Yorum 31 Hasılat - Reklam Hizmetleri İçeren Takas (Barter) İşlemleri
TMS Yorum 32 Maddi Olmayan Duran Varlıklar - İnternet Sitesi Maliyetleri

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