

Differences Between the International Accounting Standards and the Theoretical Structure of Accounting in Turkey

Mehmet CİVAN

Faculty of Business Administration, Gaziantep University
Turkey
civan@gantep.edu.tr

Ekrem KARA

Faculty of Business Administration, Gaziantep University
Turkey
ekara@gantep.edu.tr

Abstract: Accounting system provides non-misleading and controllable information on a company's financial structure and consequences of its activities. In this context, the theoretical structure of accounting is important. Accounting practices are in a constantly changing and developing environment. There are major differences between accounting practices and its theory. There are a number of institutions and organizations in Turkey that affects the theoretical structure of accounting. After the adoption of new Turkish Commerce Law, this multi-headed structure will be eliminated. According to the draft of new Turkish Commerce Law, Turkey Accounting Standards Board (TASB) will be responsible from the accounting regulations in Turkey. As a matter of fact, this institution has been issuing the International Accounting Standards in Turkey since its establishment in 2005. Until now, the TASB has issued 29 standards for the publicly traded companies and it is also preparing International Accounting Standards for the SMEs in Turkey. This study examines the theoretical structure of accounting in Turkey and its differences from the International Accounting Standards.

1.1. Theoretical Structure Of Accounting

Theoretical structure of accounting aims at establishing a structure of theories and implementations which will result in harmonization of the efforts of the persons from the accounting profession, and a common set of standards and procedures called generally-accepted accounting principles, and which will function as general guidelines.

Tax Procedural Law (TPL) enacted with the tax reform during the 1950s constituted the basis of the theoretical structure of accounting in Turkey and today, it maintains its directive effect. Turkish Code of Commerce (TCC), Uniform Accounting System of the Commission of Reformation of State Economic Enterprises, Banking Law and Banks Uniform Chart of Accounts, Communiqués of the Capital Markets Board, Accounting System General Communiqués on Implementation of the Ministry of Finance, Uniform Chart of Accounts (UCA) that follow this regulation, Turkish Accounting Standards (TAS) formerly published by the Turkish Accounting and Auditing Standards Board and now, by the Turkish Accounting Standards Board are the primary written legal norms that direct accounting implementations in Turkey (Cemalcılar and Önce, 1999, 10).

1.2. Framework Of The Theoretical Structure Of Accounting

In the previous part, the regulations that affect theoretical structure of accounting in Turkey have been mentioned. In this part, framework of the theoretical structure of accounting will be dealt.

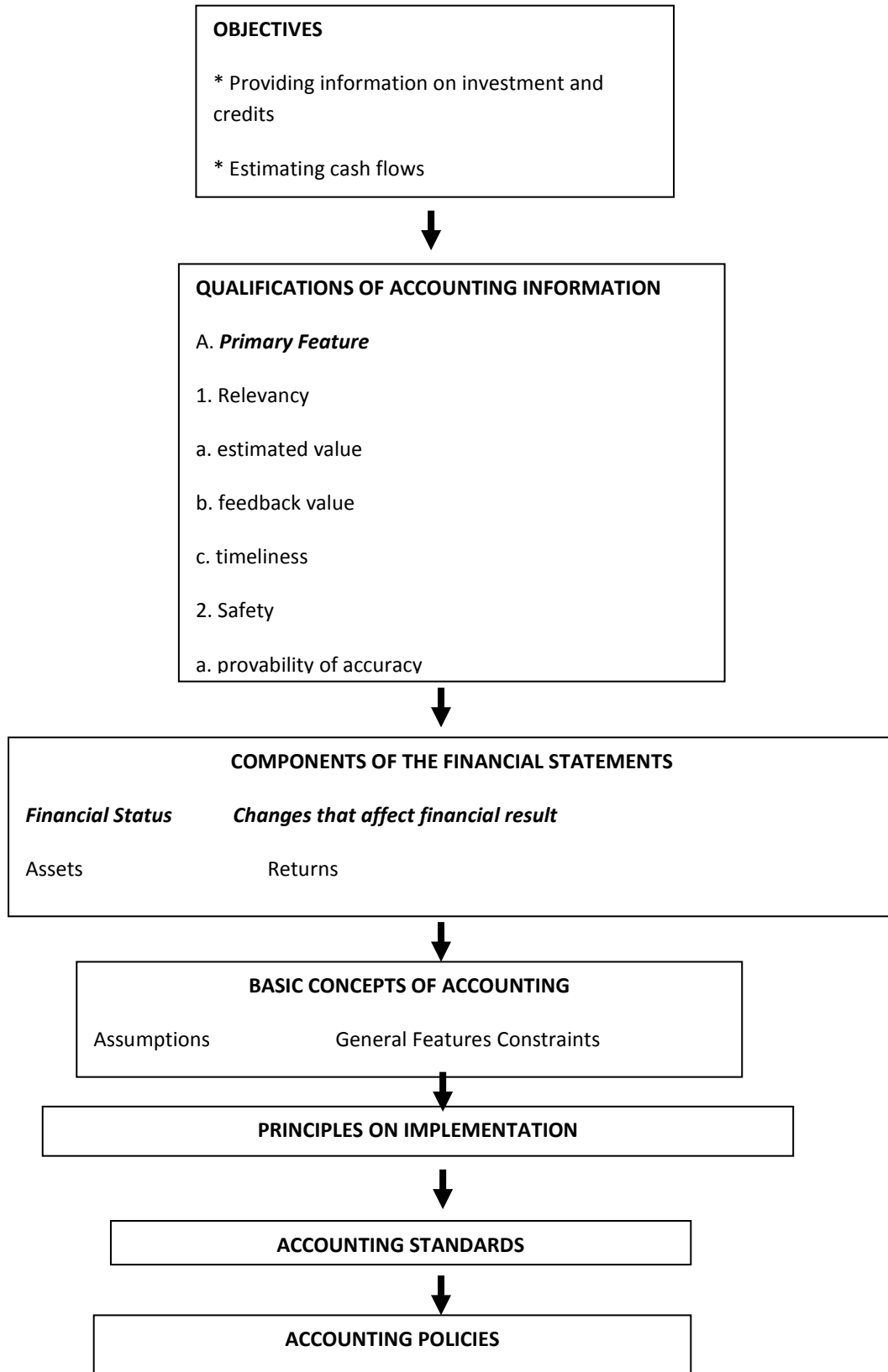


Table 1: Hierarchy of the Elements that Comprise Framework of the Theoretical Structure of Financial Accounting (Cemalcılar and Önce, 1999, 26)

1.2.1. Objectives of Financial Accounting

The accounting function can be defined as determining, registering, summarizing and reporting financial information. The accounting information, which is the most important source of information in a company, also plays a significant role in the stages during which administrative decisions are made. (Cemalcılar and Önce, 1999, 27)

The objectives of accounting are comprised of 4 elements, which are namely determining, registering, summarizing and reporting financial information (www.akampus.com).

1.2.1.1. Determining Financial Information

The accounting process begins with determining which financial information will be registered. This is called determination of the information. As a general rule, it determines and registers financial transactions of accounting and results of financial activities. However, their controllable proofs should exist in order for these financial transactions to be kept under accounting records. This is called the rule of cautiousness, which is also one of the important rules in 'Generally-Accepted Accounting Rules' (Cemalcılar and Önce, 1999, 28).

1.2.1.2. Registering Financial Information

Accounting information is registered into the accounts. These accounts enable classification of financial data. All accounts of a company are registered in a daybook and a general ledger, which are the official books of companies (Civan and Kara, 2009, 53).

1.2.1.3. Summarizing Financial Information

The data processed during the accounting process should answer different requirements of different users. In other words, it should be possible to classify and summarize this information in a way to meet the data requirements of various decision-making models (Civan, 2010, 3).

1.2.1.4. Reporting Financial Information

Accounting reports aim to meet requirements of the persons who use accounting information. Thus, these reports should be user-specific. In different reports, different reporting methods can be followed. There should be full compliance with the tax laws in the reports prepared for the state and tax administrations. In the reports to be provided for the public or third persons, compliance with the Generally-Accepted Accounting Rules is sought (Akdoğan and Tenker, 2007, 3).

1.2.2. Qualifications of Accounting Information

Timely and accurate information is required for a successful management. Appropriate decisions can only be made by means of accurate, timely and fast information (Hansen and Mowen, 1992: 4).

It is common knowledge that the enterprises influence each other, thus the economic situation of the society, as well as their economic situations through the decisions that individuals and states make (Kepekçi, 1998: 37).

Related parties need to have accurate, sound, significant, related and timely information on the enterprises in order to protect their benefits because the economic decisions that the information-users will make in accordance with their aims depend on the accounting information (Bodnar, and Hopwood, 1998: 55).

1.2.3. Scope and Components of Financial Statements

The financial statements prepared by the accounting department are divided into two; namely, main financial statements and supplementary financial statements (Çabuk and Lazol, 2000: 7).

Furthermore, the reports can be divided into general and special-purpose reports. Main financial statements are common as general purpose, and arranged for all users in a standard way. Balance sheets and income statements can be given as an example. Special-purpose reports are arranged especially for administrations or other private persons. Budgets, performance reports, cost reports etc. can be given as an example of this kind of reports (Yılcı, 1992: 15).

1.2.4. Principles on Implementation

Basic concepts of accounting that constitutes the theoretical basis of the accounting implementations are general decision-making rules. Accountants use the principles on implementation, in other words, detailed principles in order to implement the basic concepts.

1.2.5. Accounting Standards

Accounting standards determine the method of accounting studies and are published by various national and international organizations. The accounting principles are generally implemented through the accounting standards, and take determination of an accounting policy as a basis.

In our country, the accounting standards are published by the 'Turkish Accounting Standards Board' (TASB).

The Board adopts the following principles in determining national accounting standards:

- 1-The accounting standards determined should be compatible with international accounting standards.
- 2-The Turkish economy, structure and requirements of the enterprises should be considered.

In Turkey, publicly-held enterprises prepare reports according to the Turkish Accounting Standards. For non-public enterprises, on the other hand, international accounting standards continue for the SMEs.

1.2.6 .Accounting Policies

The accounting policies are a complement of standards, opinions, comments, rules and regulations accepted by the enterprise among the options in order to arrange and submit financial statements. For instance, they can prefer the required method used in the calculation of amortization (Özulucan, 2003, 15).

1.3. Theoretical Structure Of Accounting In Turkey And Differences With International Financial Reporting Standards (Ifrs)

Although international accounting standards and the uniform chart of accounts are based on the same principles, different approaches are brought to the subjects of accounting policies that need to be implemented. The most significant reason of these different approaches is that the uniform chart of accounts is affected by especially tax legislation, and as a fundamental objective; that various regulations are made on tax-related area rather than providing sound, trustworthy, transparent and comprehensible financial statements. The important differences between the international accounting standards that takes substance over form and accrual basis as the basic perspective, and tax legislation, and uniform chart of accounts that takes form over substance and collection as the basic perspective are summarized as below.

Communiqués of the Capital Markets Board that direct accounting implementations in our country have accelerated the efforts on harmonization with the international accounting standards. According to the Communiqué No. 25, which is the latest regulation and issued by the Capital Markets Boards, incomes and expenditures can be presented in a different way in order to provide information necessary to make an economic decision and suitable for the need. Incomes and expenditures comprised of ordinary activities and other incomes and expenditures are demonstrated separately. This distinction is made on the grounds that the information on the source of an item is suitable for the need with the aim of making an evaluation about cash and the cash equivalents that the enterprise may form in the future (<http://www.econturk.org/Turkiyeekonomisi/ferTMS10.doc>).

In Turkey, the information used in reporting is not exactly compatible with the international accounting standards. Again, there are differences between Turkey and the IFRS in reporting borrowing costs. It is possible to include interest expenses in asset costs in Turkey, and this implementation is common. According to the IFRS, financing expense specifies the interest costs borne by any enterprise with regard to loan capitals. What the interest costs related to the loan capitals are is referred in the same paragraph. These are; discount expenses occurring during the issue of bills, and repayment of premiums, repayment of related expenses borne as a result of debt agreements, and exchange differences occurring with regard to loan capitals to the extent that they can be considered as interest expenses (Akdoğan, 2003, 25-40).

There are some minor distinctions in accounting exchange differences of fixed assets after active registered. According to the Capital Markets Board and the Turkish Accounting Standard 14, except for the basic method, the exchange differences calculated for stocks and fixed assets until the activation date are added to the cost of the related asset. According to the Capital Markets Board, adding the exchange differences occurring after the activation date to the cost in fixed assets or registering them as a period cost is allowed while they are accepted as a period cost

in the stocks. On the other hand, according to the International Accounting Standards, exchange differences are considered as the expenditures of the upcoming periods of the fixed assets in a systematic way throughout their lifetime. In the International Financial Reporting Standard called 'Stocks' No. 2, it is expressed that the exchange differences occurring after the activation of non-qualifying stocks and resulting from exchange transactions related to the mentioned assets, and borrowing costs borne by the used credits cannot be activated (www.platformiletisim.com/malimusavir/yazarde.asp?).

Another distinction is related to accounting financial leasing operations. They continue to show the assets given for leasing in their own assets as fixed assets and allocate amortization for them. This situation distorts the structure of balance sheet. In fact, the assets given for leasing should not be included in fixed assets, and amortization should not be allocated for them. The companies that obtain assets by means of leasing should show these assets in their own assets and allocate amortization for them (Akdoğan, 2003, 25-40).

Another distinction is that the financial reporting in the companies that carry out widespread construction and contracting works for many years differs from the implementations in the International Accounting Standards. The period results of incomes and expenditures are received in the year when provisional acceptance takes place in Turkey. In fact, according to the International Financial Accounting Standards, incomes and expenditures should be calculated by the completion percentage for each year, not in the year when the provisional acceptance takes place. Afterwards, incomes and expenditures should be reflected into the periods.

Furthermore, realistic values, rather than historical costs, should be taken as a basis while evaluating some items. Realistic evaluation principles, instead of historical costing, should be considered.

In accordance with the principle of cautiousness in the International Accounting Standards, it is necessary to allow to making provision when a decrease in the value of any asset is noted/estimated (doubtful trade receivables, decline in value of inventory etc.), and to register it as an expense. In fact, for allowing to making such a provision and accepting it as an expense, the tax procedural law has brought along such obligations like court decisions etc.

Another distinction between theoretical structure of accounting implemented in Turkey and the International Financial Reporting System is the delay interests occurring in forward sales. In fact, these are interest income not sale income. As a result of this, gross margin seems too much in income statement.

Although there is a parallelism between the international accounting standards and the standards published in Turkey on arranging consolidated financial statements, there exist discrepancies in definitions, consolidation preparation stage, reporting special assessment, in conditions regarding exclusion of the determination of the special assessment from the scope of consolidation during repayment (<http://www.sosbil.gazi.edu.tr/edergi/makale.php?Makale=8>).

Another distinction is related to where the sale of fixed assets and shares will be shown in the income statement. The international accounting standards state that these profits should be shown in the ordinary income group. However, they are shown in the extraordinary income group in the applications in Turkey. www.econturk.org/Turkiyeekonomisi/ferTMS10.doc

As for the accounting of the shares, pertaining to the authority granted by the article 175 and repeating article 257 of the Tax Procedural Law by the Ministry of Finance, the General Communiqué 3 on Implementation of the Accounting System Serial No. 1 which was enacted to be effective as of 1.1.1994 covers all real and legal persons that keep accounts on the basis of balance sheet throughout the country. In this regulation also called as Uniform Accounting System in the implementation, it is defined that as criteria for participation, vested right of voting or right to participation in the administration, rather than the share, should be taken as a basis, and *that the vested right of voting or right to participation in the management should be at least %10, regardless of the share, in order to mention a relationship of participation in the joint ventures participated*. In the abovementioned regulation, principles and standards on the evaluation were not introduced; TPL provisions were referred on the matter of evaluation. Thus, the participations will be valued over "purchase price" as is the case with other securities. Provided that there is a decrease in value of equities by %10 or more than this rate, it is allowed to make provision in accordance with "the principle of cautiousness". On the other hand, increases in value of securities cannot be associated with the period profit/loss as they are unrealized increases. Only the profit or loss realized when they are sold is taken into account.

Conclusion

In the world, International Accounting Standards are adopted in financial reporting. The information presented in financial reporting will be determined according to these principles for all countries. A unique implementation will be adopted in the standards. The European Commission has made it necessary to prepare consolidated financial statements in compliance with the International Accounting Standards as of 1.1.2005. In this

sense, Turkey aligns its national accounting standards published since 2005 with the international accounting standards. Nevertheless, there are some differences within the theoretical structure of accounting. In titles, these differences are as below;

- In accounting policies,
- In showing incomes and expenditures comprised of ordinary activities, and other incomes and expenditures separately,
- In reporting borrowing costs,
- In accounting exchange differences of fixed assets after active registered,
- In amortization rates applied,
- In accounting leasing transactions,
- In financial reporting in the companies that carry out widespread construction and contracting works for years,
- In delay interests occurring in forward sales,
- In arranging consolidated financial statements,
- In where the sale of fixed assets and shares will be shown in income statement.

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