DOKUZ EYLÜL UNIVERSITY
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MASTER'S THESIS

TFRS 1, TAS 2, TAS 18 APPLICATIONS IN AN EDUCATION COMPANY

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DECLARATION

I hereby declare that this master's thesis titled as **"TFRS 1, TAS 2, TAS 18 Applications In An Education Company"** has been written by myself in accordance with the academic rules and ethical conduct. I also declare that all materials benefited in this thesis consist of the mentioned resources in the reference list. I verify all these with my honor.

Date
06/05/2014
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ABSTRACT

Master's Thesis

Tfrs 1, Tas 2, Tas 18 Applications
in an Education Company

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Nowadays which domestic and international investments and trade can be made easily and quickly, to provide unbiased financial situation of the company has become important. This aspect has increased the need for financial statements that are required to have reliable and comparable indicators. In the World IASB, in the same direction TASB is trying to meet the need for accounting standards in Turkey and TFRS which is complied with IFRS has been accepted in our country.

In our country, considering that the standards be implemented later for reducing the difficulties of the first implementation, TFRS 1 first implementation of financial reporting standards has been raised. The first implementation is a guide that shows the way to the companies which switch to TFRS. In this study, the first implementation situation of an education company has been examined, needs to be done is discussed. Later on stock concept has been examined and studies were performed on revenue recognition subject and how service stock should be accounted. And subject was concretized by making one sample application.

Keywords: TFRS, IFRS, Stocks, Revenue

ÖZET

Yüksek Lisans Tezi

Tfrs 1, Tas 2, Tas 18 Bir Eğitim Firmasında Uygulamalar

Ahmet Cem ŞEKER

Dokuz Eylül Üniversitesi
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Yurtiçi ve uluslararası yatırımların ve ticaretin çok kolay ve hızlı yapılabildiği günümüzde şirketlerin tarafsız finansal durumlarının ortaya konulabilmesi önemli hale gelmiştir. Bu yönde finansal tablolara ihtiyaç artmıştır ki bu göstergelerin güvenilir ve karşılaştırılabilir olması gerekmektedir. IASB dünyada, TMSK de aynı doğrultuda Türkiye'deki muhasebe standart ihtiyacını karşılamaya çalışmaktadır ve UFRS ile uyumlu Türkiye Finansal Raporlama Standartı (TFRS) ülkemizde kabul görmüştür.

Ülkemizde standartların daha yeni uygulanmaya başlandığı düşünüldüğünde ilk uygulamadaki zorlukların daha aza indirgenmesi için TFRS 1 Türkiye Finansal Raporlama Standartların ilk Uygulaması gündeme gelmiştir. İlk uygulama, TFRS'ye geçiş yapan firmalara yol gösteren bir kılavuz niteliğindedir. Bu çalışmada bir eğitim firmasının standartları ilk uygulamasındaki durumu üzerinde inceleme yapılıp, yapılması gerekenler ele alınmıştır. Daha sonra stok kavramı incelenip hizmet stoğunun nasıl muhasebeleştirilmesi gerektiği ve kazancın kaydileşmesi konusunda çalışmalar yapılmıştır. Ve bir örnek uygulama yapılarak konu somutlaştırılmıştır.

Anahtar Kelimeler: TFRS, IFRS, Stoklar, Gelir

TFRS 1, TAS 2, TAS 18 APPLICATIONS
IN AN EDUCATION COMPANY

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LIST OF ABBREVIATIONS

FASB	Financial Accounting Standards Board
FIFO	First-in, First-out
GAAP	Generally Accepted Accounting Principles
IAS	International Standards on Auditing
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
SME	Small and Medium Sized Enterprises
TAS	Turkish Accounting Standards
TASB	Turkish Accounting Standards Board
TFRS	Turkish Financial Reporting Standards

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INTRODUCTION

In today's challenging business life accounting become an important matter for the companies which makes the difference to survive. Because of huge number of competitors, companies should be much more careful in their decisions. So details and small accounting numbers become more important. There are no such big opportunities in business anymore like there are tremendous numbers before.

There are two possibilities for the companies to choose, one is to create something new to be pioneer in the market or produce as a whole number of its capacity and sale with minimum profit. When the profit range is wide, there might be some tolerance to make any mistake in accounting but if the profit margin is low there is no chance to make any mistake in accounting. And when it is thought that creativity is not an easy thing, most of the companies are in low profit margin side. This means that those companies should care about accounting much more than before.

Since the existence of accounting is accepted, it has been tried to be standardized. Then any one can understand the financial situation of a company instead of language or culture difference. Or a company can be compared with others easily. IASB stands for a long time for that reason and it has been supported by European Union and United Nations. International Accounting Standards (IAS) has created to state how transactions and events should be reflected in financial statements. Since 2001 the new set of standards has been known as the International Financial Reporting Standards (IFRS).

Globalization of capital markets requires a single global accounting, reporting and disclosure set of standards. Due to the increasing volume of cross border capital flows and the growing number of foreign direct investments via mergers and acquisitions in the globalization era, the need for the harmonization of different practices in accounting and the acceptance of worldwide standards has arisen (Ayboğa, 2002).

In Turkey, it has been a brand new concept since 2011 and standards have not been totally applied yet. It was forced by the law before and then flexed by the same law again. So some of the companies which have endorsement more than a certain limit, apply the standards in their accounting principles. Adaptation process towards IFRS by Turkish Accounting Standards Board (TASB) was established in order to become compatible to international financial reporting standards and improve quality of financial information. Turkish Accounting Standards (TAS) has been published by the board and they translated International Financial Reporting Standards (IFRS) to Turkish Financial Reporting Standards (TFRS).

The purpose of this study reveals the differences between accounting under law of tax based system and accounting due to Turkish Accounting Standards (TAS) which is a reflection of International Financial Reporting Standards (IFRS). And this difference is tried to prove by an application in an education company.

This thesis statement consists of four chapters. In the first chapter, it is covered that what is the conceptual idea of framework of financial reporting and what are the main principles of accounting logic. The objectives of financial reporting and some basic concepts deal with useful data and fair presentation are explained. Assumptions underlying financial statement are mentioned and finally this chapter is ended by comparing TFRS and tax based accounting law.

In the second chapter, first time adaption of International Financial Reporting Standards (IFRS) is covered that is mainly important for the company in Turkey which should be following the standards for the first time. There should be some certain paths for the first time users and some exceptions according to their business area. Those subjects are tried to be explained in this chapter.

In the third chapter 2 of Turkish Accounting Standards (TAS) are described which are TAS 2 – Inventories and TAS – 18 Revenue. They have chosen in this manner because of reason that is inventories in service provider are rarely seen and revenue of service provider especially in education business is hardly recognized. Some of the main definitions and identifications of those 2 standards are explained and they are supported by some sample applications.

In the fourth chapter, main subject of our thesis statement is existed that is implementation of standards to a company. This company is an education company, private school. It is seen the difference of two system as in numbers by implementing the standards to the company's accounting codes. Lastly the general view of the issue will be placed in conclusion.

CHAPTER ONE
THE CONCEPTUAL FRAMEWORK OF THE INTERNATIONAL ACCOUNTING STANDARDS BOARD

1.1. THE CONCEPTUAL FRAMEWORK OF FINANCIAL REPORTING

The TASB Framework was approved by the TASC Board in April 1989 for publication in July 1989, and adopted by the TASB in April 2001. In September 2010, as part of a bigger project to revise the Framework the TASB revised the objective of general purpose financial reporting and the qualitative characteristics of useful information. The remaining of the document from 1989 remains effective.

The primary users of general purpose financial reporting are present and potential investors, lenders and other creditors, who use that information to make decisions about buying, selling or holding equity or debt instruments and providing or settling loans or other forms of credit.

The primary users need information about the resources of the entity not only to assess an entity's prospects for future net cash inflows but also how effectively and efficiently management has discharged their responsibilities to use the entity's existing resources.

The TFRS Framework notes that general purpose financial reports cannot provide all the information that users may need to make economic decisions. They will need to consider pertinent information from other sources as well.

The TFRS Framework notes that other parties, including prudential and market regulators, may find general purpose financial reports useful. However, the Board considered that the objectives of general purpose financial reporting and the objectives of financial regulation may not be consistent. Hence, regulators are not considered a primary user and general purpose financial reports are not primarily directed to regulators or other parties (Deloitte, 2006: 3).

This Conceptual Framework sets out the concepts that underlie the preparation and presentation of financial statements for external users.

The Conceptual Framework deals with (www.ifrs.org, 01.05.2013):

- The objective of financial reporting;

- The qualitative characteristics of useful financial information;
- The definition, recognition and measurement of the elements from which financial statements are constructed; and
- Concepts of capital and capital maintenance.

The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit. Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general-purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general-purpose financial reports are directed (Deloitte, 2006: 5).

General-purpose financial reports cannot provide all of the information that existing and potential investors, lenders and other creditors need. Therefore those users need to consider collect information from other sources. In order to meet their objectives, financial statements are prepared on the accrual basis of accounting. The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future (Higson, 2007: 4).

1.2. THE DEFINITION AND OBJECTIVES OF FINANCIAL REPORTING

The first objective specifies a focus on investors and creditors. In addition to the importance of investors and creditors as key users, information to meet their needs is likely to have general utility to other groups of external users who are interested in essentially the same financial aspects of a business as are investors and creditors.

The second objective refers to the specific cash flow information needs of investors and creditors. The third objective emphasizes the need for information about economic resources and claims to those resources. This information would include not only the amount of resources and claims at a particular point in time but also changes in resources and claims that occur over periods of time. This information is key to predicting future cash flows.

Financial reporting objectives state that (FASB: 3):

- Is useful to existing and potential investors and creditors and other users in making rational investment, credit, and similar decisions;
- Helps existing and potential investors and creditors and other user to assess the amounts, timing, and uncertainty of prospective net cash inflows to the enterprise;
- Identifies the economic resources of an enterprise, the claims to those resources, and the effects that transactions, events, and circumstances have on those resources.

1.3. QUALITATIVE CHARACTERISTICS OF USEFUL DATA AND GENERAL PURPOSE FINANCIAL STATEMENTS

Qualitative characteristics identify the types of information that are likely to be most useful to the existing and potential investors, lenders and other creditors for making decisions about the reporting entity on the basis of information in its financial reports. If financial information is to be useful, it must be relevant and faithfully represents what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable. The TASB acknowledges that cost may be a constrain on preparing useful financial information (TFRS, 2011: 3).

1.3.1. Fundamental Characteristics

For financial information to be useful, it should possess the fundamental decision-specific qualities of relevance one of the primary decision-specific qualities that make accounting information useful; made up of predictive value and/or feedback value, and timeliness and faithful representation.

Both are critical. No matter how relevant, if information does not faithfully represent the appropriate economic phenomenon, it is useless. Conversely, information is of little value if it is not relevant. Let's look closer at each of these two qualitative characteristics, including the components that make those characteristics desirable. We also consider other characteristics that enhance usefulness (Mcgrawhill, 2014).

1.3.1.1. Relevance

Obviously, to make a difference in the decision process, information must be convenient to the decision. Relevance in the context of financial reporting means that the information must possess predictive value and/or confirmatory value, typically both. For example, if net income and its components confirm investor expectations about a company's future cash-generating ability, then net income has approved value for investors. This confirmation also can be useful in estimating the company's future cash-flow (Çiçekli, 2009: 13).

1.3.1.2. Faithful Representation

General purpose financial reports represent economic phenomena in words and numbers, to be useful, financial information must not only be relevant, it must also represent faithfully the phenomena it purports to represent. This fundamental characteristic seeks to maximize the underlying characteristics of completeness, neutrality and freedom from error. Information must be both relevant and faithfully represented if it is to be useful (Deloitte, 2014: 1).

Information presented in the financial statements should faithfully represent the transaction and events that occur during a period. Faithfull representation requires that transactions and events should be accounted for in a manner that represents their true economic substance rather than the mere legal form.

Faithful representation exists when there is agreement between a measure or description and the phenomenon it means to represent. For example, the term inventory in the balance sheet of a retail company is understood by external users to represent items that are intended for sale in the ordinary course of business. If inventory includes, say, machines used to produce inventory, then it lacks faithful representation.

Faithful representation of elements of financial statements implies that income statement should faithfully represent the incomes and expenses and balance sheet should faithfully represent such assets, liabilities and equity which meets the definition of respective element of financial statement and recognition criteria at the reporting date.

Every element of financial statement is defined in the IASB conceptual framework in great detail. Also the general rule of recognition and then specifically giving guidance on recognition of elements is dealt in framework. If, as discussed, everything is faithfully reported in financial statement than it automatically ensures one of the fundamental quality criteria of i.e.

1.3.2. Enhancing Characteristics

Accounting information should be comparable across different companies and over different time periods.

1.3.2.1. Comparability

Comparability enables users to identify and explain similarities in and differences between economic phenomena (FASB, 2005: 8). ‘Users must be able to compare the financial statements of an entity through time in order to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different entities in order to evaluate their financial position, performance and changes in financial position (IASB, 1989: 39).

In the FASB framework consistency is defined as a component of comparability (FASB, 1980: 42). An increase in the level of consistency will lead to an increase in the level of comparability. The IASB framework does not explicitly mention consistency as attribute of comparability but also suggests that consistency positively influences comparability.

FASB and IASB have defined a similar principal set of qualities of accounting information to make information provided useful to users in making economic decisions. Despite their conformity on abstract level, the attributes to give meaning to the definition of reliability differs substantially.

1.3.2.2. Understandability

Classifying, characterizing and presenting information clearly and concisely makes it understandable. While some phenomena are inherently complex and cannot be made easy to understand, to exclude such information would make financial reports incomplete and potentially misleading (Resmi Gazete, 2010: 6). Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyze the information with diligence. Information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date. Comparability enables users to identify and understand similarities in, and differences among, items.

Understandability means that users must understand the information within the context of the decision being made. This is a user-specific quality because users will differ in their ability to comprehend any set of information. The overriding objective of financial reporting is to provide comprehensible information to those who have a reasonable understanding of business and economic activities and are willing to study the information (Çiçekli, 2009: 13).

1.3.2.3. Verifiability

Verifiability implies a consensus among different measurers. For example, the historical cost of a piece of land to be reported in a company's balance sheet usually is highly verifiable. The cost can be traced to an exchange transaction, the purchase of the land. However, the fair value of that land is much more difficult to verify. Appraisers could differ in their assessment of fair value. The term objectivity often is linked to verifiability. The historical cost of the land is objective and easy to verify, but the land's fair value is subjective, influenced by the measurer's past experience and prejudices. A measurement that is subjective is difficult to verify, which makes it less reliable to users.

Verifiability helps to assure users that information represents faithfully the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

1.3.2.4. Timeliness

Timeliness also is important for information to be decision useful. Timeliness means that information is available to decision-makers in time to be capable of influencing their decisions. Information is timely when it is available to users early enough to allow them to use it in their decision process. The need for timely information requires that companies provide information to external users on a periodic basis. To enhance timeliness, the SEC requires its registrants to submit financial statement information on a quarterly as well as on an annual basis for each fiscal year.

1.4. FAIR PRESENTATION OF FINANCIAL REPORTING

Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of TFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

An entity whose financial statements comply with TFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with TFRSs unless they comply with all the requirements of TFRSs (PWC, 2010: 3).

In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable TFRSs. A fair presentation also requires an entity (PWC, 2010):

- To select and apply accounting policies in accordance with TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. TAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of an TFRS that specifically applies to an item.
- To present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- To provide additional disclosures when compliance with the specific requirements in TFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

  When an entity departs from a requirement of an TFRS, it shall disclose:
- That management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;
- That it has complied with applicable TFRSs, except that it has departed from a particular requirement to achieve a fair presentation;
- The title of the TFRS from which the entity has departed, the nature of the departure, including the treatment that the TFRS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the Framework, and the treatment adopted; and
- For each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.

1.5. PURPOSE AND STATUS OF THE CONCEPTUAL FRAMEWORK OF THE TASB

In a broad sense a conceptual framework can be seen as an attempt to define the nature and purpose of accounting. A conceptual framework must consider the theoretical and conceptual issues surrounding financial reporting and form a coherent and consistent foundation that will underpin the development of accounting standards. It is not surprising that early writings on this subject were mainly from academics (IASB, 2013).

Conceptual frameworks can apply to many disciplines, but when specifically related to financial reporting, a conceptual framework can be seen as a statement of generally accepted accounting principles (GAAP) that form a frame of reference for the evaluation of existing practices and the development of new ones. As the purpose of financial reporting is to provide useful information as a basis for economic decision making, a conceptual framework will form a theoretical basis for determining how transactions should be measured (historical value or current value) and reported – i.e. how they are presented or communicated to users (Pacter, 2009: 3).

It could be argued that the lack of a conceptual framework led to a proliferation of 'rules-based' accounting systems whose main objective is that the treatment of all accounting transactions should be dealt with by detailed specific rules or requirements. Such a system is very prescriptive and inflexible, but has the attraction of financial statements being more comparable and consistent. By contrast, the availability of a conceptual framework could lead to 'principles-based' system whereby accounting standards are developed from an agreed conceptual basis with specific objectives (Deloitte, 2011:35). This brings us to the International Accounting Standards Board's (TASB) The Conceptual Framework for Financial Reporting (the Framework), which is in essence the TASB's interpretation of a conceptual framework and in the process of being updated. The main purpose of the Framework is to (www.womlib.ru, 10.05.2013):

- Assist in the development of future TFRS and the review of existing standards by setting out the underlying concepts
- Promote harmonization of accounting regulation and standards by reducing the number of permitted alternative accounting treatments
- Assist the preparers of financial statements in the application of TFRS, which would include dealing with accounting transactions for which there is not (yet) an accounting standard. The Framework is also of value to auditors, and the users of financial statements, and more generally help interested parties to

understand the TASB's approach to the formulation of an accounting standard. The content of the Framework can be summarized as follows:

- Identifying the objective of financial statements
- The reporting entity (to be issued)
- Identifying the parties that use financial statements
- The qualitative characteristics that make financial statements useful
- The development of the Framework over the years has led to the TASB producing a body of world-class standards that have the following advantages for those companies that adopt them:
- TFRS are widely accepted as a set of high-quality and transparent global standards that are intended to achieve consistency and comparability across the world.
- They have been produced in cooperation with other internationally renowned standard setters, with the aspiration of achieving consensus and global convergence.
- Companies that use TFRS and have their financial statements audited in accordance with International Standards on Auditing (ISA) will have an enhanced status and reputation.
- Companies that own foreign subsidiaries will find the process of consolidation simplified if all their subsidiaries use TFRS.
- Companies that use TFRS will find their results are more easily compared with those of other companies that use TFRS. This should obviate the need for any reconciliation from local GAAP to TFRS when analysts assess comparative performance.

1.6. GENERAL PURPOSE FINANCIAL STATEMENTS

The objective of a general purpose financial report is to provide financial information about the reporting entity that is useful to present and potential investors and creditors in making decisions in their capacity as capital providers. The objective refers to financial reporting as a whole, not just financial statement (Deloitte, 2007: 10).

The objectives of financial reporting are the foundation of the framework. Other aspects of the framework—qualitative characteristics, elements of financial statements, definition of a reporting entity, recognition and measurement criteria, and presentation and display—flow logically from the objectives and help ensure that financial reporting achieves the objectives to the maximum extent feasible.

Financial statements are a central feature of financial reporting. The financial statements now typically provided are a balance sheet or statement of financial position, an income statement or statement of financial performance, a statement of cash flows, a statement of retained earnings, and a statement of other changes in owners' or stockholders' equity. The Boards will consider whether changes are needed to the identity, number, or form of financial statements in the later phase of the project dealing with presentation and display of financial information (IFRS, 2005: 5).

Financial statements satisfy many of their users' different needs for information.

These needs include the following (catalogue.pearsoned.co.uk, 10.05.2013):

Managers require Financial Statements to manage the affairs of the company by assessing its financial performance and position and taking important business decisions.

Shareholders use Financial Statements to assess the risk and return of their investment in the company and take investment decisions based on their analysis.

Prospective Investors need Financial Statements to assess the viability of investing in a company. Investors may predict future dividends based on the profits disclosed in the Financial Statements. Furthermore, risks associated with the investment may be gauged from the Financial Statements. For instance, fluctuating profits indicate higher risk. Therefore, Financial Statements provide a basis for the investment decisions of potential investors.

Financial Institutions (e.g. banks) use Financial Statements to decide whether to grant a loan or credit to a business. Financial institutions assess the financial health of a business to determine the probability of a bad loan. Any decision to lend must be supported by a sufficient asset base and liquidity.

Suppliers need Financial Statements to assess the credit worthiness of a business and ascertain whether to supply goods on credit. Suppliers need to know if they will be repaid. Terms of credit are set according to the assessment of their customers' financial health.

Customers use Financial Statements to assess whether a supplier has the resources to ensure the steady supply of goods in the future. This is especially vital where a customer is dependent on a supplier for a specialized component.

Employees use Financial Statements for assessing the company's profitability and its consequence on their future remuneration and job security.

Competitors compare their performance with rival companies to learn and develop strategies to improve their competitiveness.

General Public may be interested in the effects of a company on the economy, environment and the local community.

Governments require Financial Statements to determine the correctness of tax declared in the tax returns. Government also keeps track of economic progress through analysis of Financial Statements of businesses from different sectors of the economy.

1.7. GENERAL PURPOSE OF EXTERNAL FINANCIAL REPORTING

General purpose of external financial reporting is to provide useful information for potential investors and creditors and others in making investment, credit, and similar resource allocation decisions.

1.7.1. Financial Position

Economic resources, financial structure, liquidity, solvency and the capacity to adapt changes in the environment affects the financial position of an enterprise. Information about the economic resources is important in predicting the ability of the enterprise to generate cash and cash equivalents in the future. Information about financial structure is useful in predicting future borrowing needs and how future profits and cash flows will be distributed among those with an interest in the enterprise. It is also useful in predicting how successful the enterprise is likely to be in raising further finance. Information about liquidity and solvency is useful in predicting the ability of the enterprise to meet its financial commitments as they fall due. (IFRS, 2011: 11)

1.7.2. Performance

Information about performance of an enterprise is important and required in order to assess potential changes in the economic resources that it is likely to control in the future. The information is useful in predicting the capacity of the enterprise to generate cash flows from its existing resource base. It is also useful in forming judgments about the effectiveness with which the enterprise might employ additional resources (IFRS, 2011: 11).

1.7.3. Changes in Financial Position

During the reporting period, information about cash flows of an enterprise is useful in order to evaluate its investing and operating activities. It is useful in providing users with a basis to assess the ability of the enterprise to generate cash and cash equivalents. Information about financial position is primarily provided in a balance sheet (IFRS, 2011: 11).

The component parts of the financial statements are interrelated because they reflect different aspects of the same transactions or other events. Although each statement provides information that is different from the others, none is likely neither to serve only a single purpose nor to provide all the information necessary for particular needs of users.

1.8. ASSUMPTIONS UNDERLYING FINANCIAL STATEMENTS

Financial statements are prepared on the accrual basis of accounting to meet their objectives. The effects of transactions and other events are recognized when they occur. They are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in the future and of resources that represent cash to be received in the future. Therefore, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions (economia.unipr.it, 13.05.2013).

The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

In order to achieve comparability of the financial statements of an enterprise through time, the accounting policies are followed consistently from one period to another; a change in an accounting policy is made only in certain exceptional circumstances.

1.9. MEASUREMENT

Measuring an asset or liability entails deciding on the measurement basis to be used and determining the monetary amount that is appropriate for that basis. It may also involve revising the monetary amount when certain events occur. This chapter describes the measurement process and explains how a choice is made between the measurement bases available. An asset or liability being measured using the historical cost basis is recognized initially at transaction cost. An asset or liability being measured using the current value basis is recognized initially at its current value at the time it was acquired or assumed (www.frc.org.uk, 17.05.2013).

The elements directly related to the measurement of financial position are assets, liabilities and equity. These are defined as follows (www.ifrs.org, 17.05.2013):

- An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.
- 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 embodying economic benefits.
- Equity is the residual interest in the assets of the entity after deducting all its liabilities.

The elements of income and expenses are defined as follows:

- Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.
- Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

An item that meets the definition of an element should be recognized if:

- It is probable that any future economic benefit associated with the item will flow to or from the entity; and
- The item has a cost or value that can be measured with reliability.

The definitions of an asset and a liability identify their essential features but do not attempt to specify the criteria that need to be met before they are recognized in the balance sheet.

Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognized and carried in the balance sheet and income statement. This involves the selection of the particular basis of measurement.

The concept of capital maintenance is concerned with how an entity defines the capital that it seeks to maintain. It provides the linkage between the concepts of capital and the concepts of profit because it provides the point of reference by which profit is measured; it is a prerequisite for distinguishing between an entity's return on capital and its return of capital; only inflows of assets in excess of amounts needed to maintain capital may be regarded as profit and therefore as a return on capital. Hence, profit is the residual amount that remains after expenses (including capital maintenance adjustments, where appropriate) have been deducted from income. If expenses exceed income the residual amount is a loss (Mirza, 2008: 167).

1.10. THE COMPARISON OF TFRS FOR SME'S AND TAX PROCEDURAL LAW

The principal aim when developing accounting standards for small to medium-sized enterprises (SMEs) is to provide a framework that generates relevant, reliable and useful information which should provide a high quality and understandable set of accounting standards suitable for SMEs (PWC, 2009: 15).

In July 2009, the International Accounting Standards Board (TASB) issued the TFRS for Small and Medium sized Entities (TFRS for SMEs). This standard provides an alternative framework that can be applied by eligible entities in place of the full set of International Financial Reporting Standards (TFRSs).

The TFRS for SMEs is a self‑contained standard, incorporating accounting principles based on extant TFRSs which have been simplified to suit the entities that fall within its scope. There are a number of accounting standards and disclosures that may not be relevant for the users of SME financial statements.

As a result the standard does not address the following topics:

- Earnings per share
- Interim financial reporting

- Segment reporting
- Insurance (because entities that issue insurance contracts are not eligible to use the standard) and
- Assets held for sale.

In addition there are certain accounting treatments that are not allowable under the standard. Examples of these disallowable treatments are the revaluation model for property, plant and equipment and intangible assets, and proportionate consolidation for investments in jointly controlled entities. Generally, there are simpler methods of accounting available to SMEs than those accounting practices, which have been disallowed (Gümüş, 2011: 6).

Additionally the standard eliminates the 'available for sale' and 'held to maturity' classifications of TAS 39, financial instruments: recognition and measurement. All financial instruments are measured at amortized cost using the effective interest method except that investments in nonconvertible and nonputtable ordinary and preference shares that are publicly traded or whose fair value can otherwise be measured reliably are measured at fair value through profit or loss. All amortized cost instruments must be tested for impairment. At the same time the standard simplifies the hedge accounting and derecognition requirements (TFRS Foundation, 2009: 43).

However, SMEs can choose to apply TAS 39 in full if they so wish. The standard also contains a section on transition, which allows all of the exemptions in TFRS 1, First Time Adoption of International Financial Reporting Standards. It also contains 'impracticability' exemptions for comparative information and the restatement of the opening statement of financial position.

As a result of the above, the TFRS requires SMEs to comply with less than 10% of the volume of accounting requirements applicable to listed companies complying with the full set of TFRSs. There is no universally agreed definition of an SME. No single definition can capture all the dimensions of a small or medium-sized business, or cannot be expected to reflect the differences between firms, sectors, or countries at different levels of development (TFRS Foundation, 2009: 43).

Most definitions based on size use measures such as number of employees, net assets total, or annual turnover. However, none of these measures apply well across national borders. The TFRS for SMEs is intended for use by entities that have no public accountability.

CHAPTER TWO
TURKISH FINANCIAL REPORTING STANDARDS 1

2.1. PURPOSE OF TFRS 1

TFRS 1 First-time Adoption of International Financial Reporting Standards describes the procedures that an organization must follow when it adopts International Financial Reporting Standards for the first time as the basis for preparing its general purpose financial statements. (www.TASplus.com, 20.07.2013)

The main purpose of this TFRS is to ensure that an entity's *first TFRS financial statements*, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that: (www.ec.europa.eu, 25.07.2013)

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

b) Provides a suitable starting point for accounting in accordance with International Financial Reporting Standards (TFRSs) and

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

First-time Adoption of International Financial Reporting Standards (TFRS 1) also prohibits retrospective application of TFRSs in some areas, particularly where retrospective application would require judgements by management about past situations, after the outcome of a particular transaction is already known.

2.2. CONTENT

TFRS 1 deals with the first time adoption of international accounting standards. It describes in some detail how the first TFRS-based financial statements are to be determined. The key feature of the Standard is whether those statements contain an explicit and unreserved statement of compliance with TFRSs. Accounts prepared in accordance with the Financial Reporting Manual (FReM) will thus need to include such a statement. The Financial Reporting Manual (FReM) is the technical accounting guide that complements guidance on the handling of public funds published separately by the relevant authorities. In general, TFRS 1 requires an entity to comply with each TFRS effective at the reporting date for its first TFRS-based financial statements. (www.hm-treasury.gov.uk, 27.07.2013)

The objective of general purpose financial statements is to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making economic decisions. To meet that objective, financial statements provide information about an entity's; (TFRS, 2007: 46)

- Assets.
- Liabilities.
- Equity.
- Income and expenses, including gains and losses.
- Other changes in equity.
- Cash flows.

That information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

The content of the TFRS is; (TFRS, 2007: 46-47)

- Main features of TFRS 1
- Objective of TFRS 1
- Defined terms
- Scope
- Recognition and measurement
- Exemptions from other TFRSs
- Fair value or revaluation as deemed cost
- Fair value measurement of financial assets or financial liabilities
- Exceptions to retrospective application of other TFRSs
- Presentation and disclosure

Financial statements of the entity as complete set should include; (TASB, 2004: 53)

- a balance sheet,
- income statement,

- a statement of changes in equity showing either: all changes in equity, or changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders;

- cash flow statement, and

- notes, comprising a summary of accounting policies and other explanatory notes.

Reports that are presented outside of the financial statements - including financial reviews by management, environmental reports, and value added statements - are outside the scope of TFRS.

2.3. TFRS INITIAL BALANCE SHEET

The opening TFRS balance sheet is the starting point for all subsequent accounting under the International Financial Reporting Standards.

TAS 1; Presentation of Financial Statements, requires a company to include a balance sheet as of the beginning of the earliest comparative period presented when a policy is applied retrospectively. Accordingly, TFRS 1 requires that the opening balance sheet be prepared and presented in the first TFRS financial statements.

The preparation of the opening TFRS balance sheet may require the capture of information that was not accumulated under a company's previous accounting standards. Companies need to identify the differences between TFRS and their previous accounting standards early so that all of the information required can be produced. (IFRS 1, TASB, 2004: 6th paragraph)

An undertaking shall prepare an opening TFRS balance sheet at the date of transition to International Financial Reporting Standards. This is the starting point for its accounting under International Financial Reporting Standards. An undertaking need not to present its opening TFRS balance sheet in its first TFRS financial statements.

An opening TFRS statement of financial position is prepared at the date of transition. This is the starting point for an entity's accounting in accordance with TFRS. The date of transition is the beginning of the first period for which an entity presents full comparative information under TFRS in its first TFRS financial statements. For companies that present one year of comparative information in their financial reports, the date of transition is the first day of the comparative period.

In its first TFRS financial statements, an entity applies the version of TFRS effective at the end of its first TFRS reporting period. As a general principle, all TFRSs effective at that date are applied retrospectively, subject to certain exceptions and exemptions set out in TFRS 1.

The company recognizes all assets and liabilities in accordance with the requirements of TFRS and derecognizes assets and liabilities that do not qualify for recognition under International Financial Reporting Standards.

All adjustments resulting from the application of TFRS to the opening TFRS statement of financial position are recognized in retained earnings (or, if appropriate, another category of equity) at the date of transition, except for reclassifications between goodwill and intangible assets.

With limited exceptions, estimates in accordance with TFRSs at the date of transition must be consistent with estimates made for the same date under previous Generally Accepted Accounting Principles (GAAP).

A company' s first TFRS financial statements include at least three statements of financial position (including one at the date of transition, i.e. at the beginning of the comparative period), two statements of comprehensive income, two income statements (if presented), two statements of cash flows and two statements of changes in equity. All of these statements must be in compliance with TFRS.

Companies are permitted to present historical summaries of certain data for periods before the date of transition which do not comply with TFRS, as long as the information is prominently labeled as not being prepared in accordance with TFRS. Where such information is presented, the entity must also explain the nature of the main adjustments that would be required to render the information compliant with TFRS.

TFRS 1 requires compliance with all of the presentation and disclosure requirements of other Standards and Interpretations, and imposes additional disclosure requirements specific to the first TFRS financial statements. In particular, a first-time adopter is required to provide reconciliations between amounts reported under previous GAAP and the equivalent measures under TFRSs. These reconciliations must clearly identify the correction of any errors in relation to an entity’s previous GAAP financial statements.

A company must present a classified balance sheet, separating current and noncurrent assets and liabilities. Only if a presentation based on liquidity provides information that is reliable and more relevant may the current/noncurrent split be omitted. In either case, if an asset (liability) category commingles amounts that will be received (settled) after 12 months with assets (liabilities) that will be received (settled) within 12 months, note disclosure is required that separates the longer-term amounts from the 12-month amounts. (TASB, TAS 1, 2004: 54)

Current assets are cash; cash equivalent; assets held for collection, sale, or consumption within the enterprise's normal operating cycle; or assets held for trading within the next 12 months. All other assets are noncurrent.

Current liabilities are those to be settled within the enterprise's normal operating cycle or due within 12 months, or those held for trading, or those for which the entity does not have an unconditional right to defer payment beyond 12 months. Other liabilities are noncurrent.

Long-term debt expected to be refinanced under an existing loan facility is noncurrent, even if due within 12 months.

If a liability has become payable on demand because an entity has breached an undertaking under a long-term loan agreement on or before the balance sheet date, the liability is current, even if the lender has agreed, after the balance sheet date and before the authorization of the financial statements for issue, not to demand payment as a consequence of the breach. However, the liability is classified as non-current if the lender agreed by the balance sheet date to provide a period of grace ending at least 12 months after the balance sheet date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment. Minimum items on the face of the balance sheet; (Akbulut &Yanık, 2007: 72-74)

(a) property, plant and equipment;

(b) investment property;

(c) intangible assets;

(d) financial assets (excluding amounts shown under (e), (h) and (i));

(e) investments accounted for using the equity method;

(f) biological assets;

(g) inventories;

(h) trade and other receivables;

(i) cash and cash equivalents;

(j) trade and other payables;

(k) provisions;

(l) financial liabilities (excluding amounts shown under (j) and (k));

(m) liabilities and assets for current tax

(n) deferred tax liabilities and deferred tax assets

(o) minority interest, presented within equity; and

(p) issued capital and reserves attributable to equity holders of the parent.

2.4. EXCEPTIONS OF IMPLEMENTATION OF OTHER TFRS RULES ON FORMER DATA

1. Optional exceptions; There are some important exceptions to the general restatement and measurement principles set out above. The following exceptions are individually optional, not mandatory: (Akdoğan, 2005:7-25)

Business combinations that occurred before opening balance sheet date

a. A company may keep the original previous-GAAP accounting that is, not restate:

- previous mergers or goodwill written-off from reserves;
- the carrying amounts of assets and liabilities recognized at the date of acquisition or merger;
- how goodwill was initially determined (do not adjust the purchase price allocation on acquisition).

b. However, should it wish to do so, an entity can elect to restate all business combinations starting from a date it selects prior to the opening balance sheet date.

c. In all cases, the entity must make an initial TAS 36 impairment test of any remaining goodwill in the opening TFRS balance sheet, after reclassifying, as appropriate, previous GAAP intangibles to goodwill.

d. TFRS 1 includes an appendix explaining how a first-time adopter should account for business combinations that occurred prior to transition to TFRS.

Accounting estimates required under TFRSs that were made under previous GAAP may not be adjusted on transition except to reflect differences in accounting policies or unless there is objective evidence that the estimates were in error. The primary objective of this exception is to prevent entities using the benefit of hindsight to adjust estimates based on circumstances and information which were not available when the amounts were originally estimated under previous GAAP. (Deloitte, www.TASplus.com, 20.07.2013)

A first-time adopter is required to apply the derecognition rules in TAS 39 Financial Instruments Recognition and Measurement prospectively from 1 January 2004 unless it chooses to apply the derecognition rules of TAS 39 retrospectively from a date of its choosing. Therefore, if a first-time adopter derecognized non-derivative financial assets or non-derivative financial liabilities under its previous GAAP in a securitization, transfer or similar derecognition transaction that occurred before 1 January 2004, it does not recognize those financial assets and liabilities at the date of transition (even if they would not have qualified for derecognition under TAS 39) unless they qualify for recognition as a result of a later transaction or event.

A first-time adopter is required in its opening TFRS statement of financial position to:

- Measure all derivatives at fair value; and
- Eliminate all deferred gains and losses arising on derivatives that were reported under previous GAAP as assets and liabilities.

Under TAS 39, a hedging relationship only qualifies for hedge accounting if a number of restrictive criteria are satisfied, including appropriate designation and documentation of effectiveness at inception of the hedge and subsequently. A hedging relationship will only qualify for hedge accounting at the date of transition if the hedging relationship has been fully designated and documented as effective in accordance with TAS 39 on or before the date of transition and is of a type that qualifies for hedge accounting under TAS 39. Designation of a hedging relationship cannot be made retrospectively.

Prior to 1 January 2010, there were three exceptions to the general principle of retrospective application. On 23 July 2009, TFRS 1 was amended, effective 1 January 2010, to add two additional exceptions with the goal of further simplifying the transition to TFRSs for first-time adopters. The five exceptions are: (www.TASplus.com, 20.07.2013)

TAS 39 – Derecognition of financial instruments

A first-time adopter shall apply the recognition requirements in TAS 39 prospectively for transactions occurring on or after 1 January 2004. However, the entity may apply the recognition requirements retrospectively provided that the needed information was obtained at the time of initially accounting for those transactions.

TAS 39 – Hedge accounting

The general rule is that the entity shall not reflect in its opening TFRS balance sheet (statement of financial position) a hedging relationship of a type that does not qualify for hedge accounting in accordance with TAS 39. However, if an entity designated a net position as a hedged item in accordance with previous GAAP, it may designate an individual item within that net position as a hedged item in accordance with TFRS, provided that it does so no later than the date of transition to TFRSs.

TAS 27 – Non-controlling interest

TFRS 1.B7 lists specific requirements of TAS 27 that shall be applied prospectively.

Full-cost oil and gas assets.

Entities using the full cost method may elect exemption from retrospective application of TFRSs for oil and gas assets. Entities electing this exemption will use the carrying amount under its old GAAP as the deemed cost of its oil and gas assets at the date of first-time adoption of TFRSs.

Determining whether an arrangement contains a lease

If a first-time adopter with a leasing contract made the same type of determination of whether an arrangement contained a lease in accordance with previous GAAP as that required by IFRIC 4 Determining whether an Arrangement Contains a Lease, but at a date other than that required by IFRIC 4, the amendments exempt the entity from having to apply IFRIC 4 when it adopts TFRSs.

Optional exemptions from the basic measurement principle in TFRS 1

There are some further optional exemptions to the general restatement and measurement principles set out above. The following exceptions are individually optional. They relate to:

- business combinations
- and a number of others
    - share-based payment transactions
    - insurance contracts
    - fair value or revaluation as deemed cost
    - leases
    - employee benefits
    - cumulative translation differences
    - investments in subsidiaries, jointly controlled entities, associates and joint ventures
    - assets and liabilities of subsidiaries, associated and joint ventures
    - compound financial instruments
    - designation of previously recognized financial instruments
    - fair value measurement of financial assets or financial liabilities at initial recognition
    - decommissioning liabilities included in the cost of property, plant and equipment
    - financial assets or intangible assets accounted for in accordance with IFRIC 12 *Service Concession Arrangements*

- borrowing costs
- transfers of assets from customers
- extinguishing financial liabilities with equity instruments
- severe hyperinflation
- joint arrangements

2.5. EXEMPTED CONDITIONS BECAUSE OF OTHER TFRS RULES

One of the most complex areas that first-time adopters will need to address is the accounting for business combinations. Entities will need to consider whether to apply TFRS 3 Business Combinations retrospectively to all past business combinations, or to avail of the TFRS 1 exemption in this regard. Even where the exemption is applied, significant issues can arise. In this section, we have set out the implications of the choices available and a comparison of the resultant accounting. (TMSK, TFRS, 2007:51)

Entities are permitted to apply TFRS 3 retrospectively to all past business combinations. Full retrospective application could be very onerous and, in many cases, will be impracticable. Any entity intending to follow this path will need to ensure that it has the information needed to apply the acquisition method retrospectively in accordance with TFRS 3, which in particular includes: (TMSK, TFRS, 2007:51)

- Calculation of the cost of the business combination;
- Identification of assets acquired (including any intangible assets), and liabilities and contingent liabilities assumed;
- Measurement of fair value at the date of acquisition of assets acquired and liabilities and contingent liabilities assumed; and
- Impairment test of goodwill each year subsequent to the date of acquisition.

Business combinations

A company choosing to apply this exemption is not required to restate business combinations to comply with TFRS 3, Business Combinations, where control was obtained before the transition date. The exemption gives relief to companies by not requiring them to recreate information that may not have been collected at the date of the business combination. The exemption is available to all transactions that meet the definition of a business combination under TFRS 3. The classification under previous GAAP is not relevant for determining whether the exemption can be applied. The exemption also applies to acquisitions of investments in associates and joint ventures. This means that entities taking advantage of the exemption will not have to revisit past acquisitions of associates and joint ventures and establish fair values and amounts of goodwill under TFRS. However, application of the exemption is complex, and certain adjustments to transactions under previous GAAP may still be required. (TMSK, TFRS, 2007:51)

When the exemption is applied:

- Classification of the combination as an acquisition or a pooling of interests does not change.
- Assets and liabilities acquired or assumed in the business combination are recognized in the acquirer's opening TFRS balance sheet, unless TFRS does not permit recognition.
- Deemed cost of assets and liabilities acquired or assumed is equal to the carrying value under previous GAAP immediately after the business combination.
- Assets and liabilities that are measured at fair value are restated to fair value in the opening TFRS balance sheet, with the offset being recorded in equity (for example, available-for-sale financial assets).

Employee benefits

Under TAS 19, a company may recognize actuarial gains and losses from defined benefit and similar plans either by applying the "corridor approach" (the method commonly used under US GAAP) or any other systematic method that results in accelerated recognition. Retrospective application of the corridor approach would require companies to obtain actuarial valuations from a plan's inception date to compute the proper cumulative unrecognized actuarial gains and losses as of the transition date in accordance with TAS 19. TFRS 1 provides an exemption from TAS

19 by allowing companies to recognize in opening retained earnings all previously unrecognized actuarial gains and losses from inception of the plans. Such actuarial gains and losses are not subsequently recycled through profit and loss. Companies that elect this exemption are still allowed to apply the corridor approach prospectively from the TFRS transition date. (TMSK, TFRS, 2007:52)

Compound financial instruments

TAS 32 requires a company to split a compound financial instrument at inception into separate liability and equity components. The TFRS 1 exemption provides that if the liability component is no longer outstanding at the transition date, a first-time adopter does not have to separate it from the equity component. Any US company that has issued compound financial instruments in the past and where the liability component is not outstanding at the transition date will likely elect this exemption. If the liability component is outstanding at the transition date, companies will need to bifurcate and measure the components in accordance with TAS 32. (TMSK, TFRS, 2007:53)

2.6. STATEMENTS OF APPLYING TFRS

TFRS 1 is applied when a company prepares its first TFRS financial statements. These are the first financial statements to contain an explicit and unreserved statement of compliance with TFRS. Most companies will apply TFRS 1 when they move from their previous Generally Accepted Accounting Standards (GAAP) to TFRS. For example, TFRS 1 must be applied even if a company's financial reporting: (www.pwc.com, 15.08.2013)

- Included a reconciliation of some items from a previous GAAP to TFRS.
- Complied with some, but not all, TFRSs, in addition to a previous GAAP - for example, a jurisdictional version of TFRS.
- Complied with TFRS in all respects, in addition to a previous GAAP, but did not include an explicit and unreserved statement of compliance with TFRS.
- Was prepared in accordance with TFRS, but used them only for internal

purposes (i.e., the TFRS financial statements were not distributed to the company's owners or external users).

- Was prepared as a group reporting package using TFRS principles.
- Did not prepare financial statements.

2.6.1. Classification of financial assets and financial debts

Assets and liabilities that might be measured differently include: (TMSK, TFRS, 2007:66)

- Financial instruments, including accounts receivables
- Long-term employee benefit obligations and pension assets
- Inventory, if currently using LIFO
- Provisions
- Deferred tax assets relating to stock options
- Uncertain tax positions
- Impairments of property, plant and equipment, and intangible assets
- Deferred revenue related to customer loyalty programs
- No controlling interests (i.e., minority interests)
- Deferred taxes related to intercompany asset transfers

The measurement of assets acquired and liabilities assumed in a business combination may be different to that of other assets and liabilities of the entity. The optional exemption for business combinations provides the following three measurement bases for assets and liabilities. If an asset acquired or a liability assumed in a business combination was not recognized under previous GAAP, it does not have a deemed cost of nil in the opening TFRS statement of financial position. Instead, the acquirer recognizes and measures the asset or liability in its consolidated statement of financial position on the basis that TFRSs would require in the separate statement of financial position of the acquire as if the acquire had always applied TFRSs. The resulting adjustments are recognized in retained earnings.

2.6.2. Use of estimated cost for investments on partners, joint ventures and participations

A parent and its subsidiaries might adopt TFRS at different dates for strategic or regulatory reasons. For example, a US parent company might prepare its first TFRS financial statements at December 31, 2014, while its nonpublic subsidiary in France might not be allowed to adopt TFRS for statutory reporting purposes until some later date. This exemption allows a subsidiary to measure its assets and liabilities either at the carrying amounts included in its parent's consolidated TFRS financial statements or on the basis of TFRS 1 as applied to its statutory financial statements at its own date of transition. When a subsidiary elects to use the carrying amounts in its parent's consolidated financial statements, those carrying amounts are adjusted, where relevant, to exclude consolidation and acquisition adjustments. (Ebstein & Abbas, 2005:839)

- Parties that have rights to the assets and obligations for the liabilities relating to the arrangement are parties to a joint operation.
- A joint operator accounts for assets, liabilities and corresponding revenues and expenses arising from the arrangement.
- Parties that have rights to the net assets of the arrangement are parties to a joint venture. A joint venture accounts for an investment in the arrangement using the equity method.

2.7. FINANCIAL REPORTS FOR A PERIOD OF TIME

There is a presumption that financial statements will be prepared at least annually. If the annual reporting period changes and financial statements are prepared for a different period, the entity must disclose the reason for the change and a warning about problems of comparability. (TMSK, TFRS, 2007:67)

CHAPTER THREE
TAS 2 – INVENTORIES

3.1. TAS 2 – INVENTORIES

The main objective of TAS 2 (Inventories) is to define the accounting transactions of inventories. As a summary, this Standard explains how to determine the cost of inventories and for subsequently recognizing an expense, including any write-down to net realizable value.

The purpose of this Standard is to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. This Standard also provides guidance on the cost formulas that are used to assign costs to inventories. (TFRS.org, technical summary, 2012)

TAS 2 does not apply to the measurement of inventories held by; (EN-EU, TAS 2, 2009:1)

- Producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realizable value in accordance with well-established practices in those industries. When such inventories are measured at net realizable value, changes in that value are recognized in profit or loss in the period of the change.
- Commodity broker-traders who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognized in profit or loss in the period of the change.

3.1.1. Inventory definitions

Three important terms that have been widely used in the Standard was defined clearly again within the Standard. According to this;

Inventories are assets: (EN-EU, TAS 2, 2009:1-2)

- Held for sale in the ordinary course of business
- In the process of production for such sale; or
- In the form of materials or supplies to be consumed in the production process or in the rendering of services.

According to the paragraph 8 of TAS 2, inventories encompass goods purchased and held for resale including, for example, merchandise purchased by a retailer and held for resale, or land and other property held for resale. Inventories also encompass finished goods produced, or work in progress being produced, by the entity and include materials and supplies awaiting use in the production process. In the case of a service provider, inventories include the costs of the service for which the entity has not yet recognized the related revenue. (EN-EU, TAS 2, 2009:2)

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. 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. (TFRS, 2007:339)

3.2. MEASUREMENT OF INVENTORIES

According to TAS 2; Inventories shall be measured at the lower of cost and net realizable value.

3.2.1. Cost of Inventories

As it is mentioned in the Standard; the cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

3.2.1.1. Cost of Purchase

The paragraph 11 of TAS 2 states that the costs of purchase comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

3.2.1.2. Cost of Conversion

The costs of conversion certainly include costs directly related to the units of production, such as direct labor. They also include a systematic allocation of fixed production overheads that is those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and equipment; and of variable production overheads; that is those indirect costs of production that vary directly or nearly directly with the volume of production such as indirect materials and indirect labor. (Alexander and Archer, 2009:22)

In the 13th Paragraph of TAS 2 it is mentioned that the allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognized as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

3.2.1.3. Other Costs

Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. An example of such other costs is costs of designing products for specific customer needs.

According to the paragraph 16 of TAS 2, certain costs shall not be included in valuing inventory. They are recognized as expenses during the period they are incurred. Examples of such costs that are stated in the Standard:

- Abnormal amounts of wasted materials, labor or other production costs;
- Storage costs, unless those costs are necessary in the production process before a further production stage;
- Administrative overheads that do not contribute to bringing inventories to their present location and condition; and
- Selling costs.

According to the paragraph 17 of TAS 2, TAS 23 Borrowing Costs identifies limited circumstances where borrowing costs are included in the cost of inventories. According to the TAS 23, borrowing costs such as interest shall be included in the cost of inventories but only where such inventories are a qualifying asset; that is, one which takes a substantial period of time to get ready for its intended use or sale. In fact, inventory items would rarely meet this criterion.

When inventories are purchased on deferred settlement terms, these arrangements generally contain a financing element. According to TAS 2, that element for example a difference between the purchase price for normal credit terms and the amount paid, is recognized as interest expense over the period of the financing.

3.2.1.4. Cost of inventories of a service provider

According to the paragraph 19 of TAS 2, inventories of service providers are measured at costs of their production. These costs would consist primarily of labor and other personnel costs for those employees directly engaged in providing the service. The costs of supervisory personnel and directly attributable overheads may also be included, but paragraph 19 of TAS 2 prohibits the inclusion of labor and other costs relating to sales and general administrative personnel. Moreover, the cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often factored into prices charged by service providers. It should be noted that such inventory assets should be recognized as for services in progress at reporting date for which the service provider has not yet recognized any revenue.

3.2.1.4.1. Sample Application

ABC service business movements of the period are as follows.

Table 1: ABC Service Business Income And Expenses For the Period

EXPENSES			INCOME	
Material	2.000		Sales Revenue	15.000
Labor Cost (Service)	5.000			
Labor Cost (Management)	500			
Overhead Expenses (Service Prod.)	2.000			
Overhead Expenses (Management)	500			
Selling Expenses	1.000			
TOTAL	11.000		TOTAL	15.000

Revenue of the 2.000 YTL parts of service production costs during the period is not included in the income.

3.2.1.4.2. Accounting records according to the present system

Wage Records:

Table 2: Accounting Records According To the Present System

740 Cost of Production Services	9.000	
760 Marketing, Sales and Distribution Expenses	1.000	
770 Administrative Expenses	1.000	
150 First Material		2.000
335 Labour Dept		5.500
102 Banks		3.500
622 Cost of Service Provided	9.000	
741 Reflection Account to Cost of Service Provided		9.000

* Closing entries have been omitted.

Ledger Records:

740	
2.000	
5.000	
2.000	
9.000	

741	
	2.000
	5.000
	2.000
	9.000

622	
9.000	
9.000	

Income Table of the Period :

Table 3: Income Table of the Period

Sales	15.000
Cost of Sales	9.000
Gross Profit on Sales	6.000
Operating Expenses	2.000
Profit of the Period	4.000

3.2.1.4.3. Accounting records according to TAS-2

Wage Records :

Table 4: Accounting Records According To TAS-2

740 Cost of Production Services	9.000	
760 Marketing, Sales and Distribution Expenses	1.000	
770 Administrative Expenses	1.000	
150 First Material		2.000
335 Labour Dept		5.500
102 Banks		3.500
154 Service Stock Account	9.000	
741 Reflection Account to Cost of Service Provided		9.000
622 Cost of Service Provided	7.000	
154 Service Stock Account		7.000

Ledger Records :

740

2.000	
5.000	
2.000	
9.000	

741

	2.000
	5.000
	2.000
	9.000

622

7.000	
7.000	

154

2.000	7.000
5.000	
2.000	
9.000	7.000

Income Table of the Period :

Table 5: Income Table of the Period

Sales	15.000
Cost of Sales	7.000
Gross Profit on Sales	8.000
Operating Expenses	2.000
Profit of the Period	6.000

There is no difference between existing system and TAS-2 due to formation of cost of service provided. In both ways cost of service provided belongs to the period is 9.000 YTL.

While according to the existing system 9.000 YTL which is total amount of cost of service provided is transferred to the final accounts, on the other hand due to TAS-2 7.000 YTL of 9.000 YTL is transferred to the final accounts to determine loss or profit. The difference which is 2.000 YTL is occurred because existing system does not care about periodicity. In accounting, periodicity means that accountants will assume that a company's complex and ongoing activities can be divided up and reported in annual, quarterly and monthly financial statements.

Due to TAS-2 total amount of the cost of service provided is transferred to the 154 service stock account from the beginning. At the end of the period the amount of used cost which is 7.000 YTL is transferred to the final account where left amount 2.000 YTL is kept in 154 service stock account as unused cost.

Due to existing system, total amount of 9.000 YTL which is cost of service production is transferred to the income statements as cost of sales because stock of service sector is not available. On the other hand, according to TAS-2 2.000YTL part of cost of service production is accepted as cost of inventory so other 7.000 YTL part of total amount of cost of production is transferred to the income statement as cost of sales.

So according to the existing system gross profit is 6.000 YTL which is 8.000 YTL due to TAS-2. Calculation of operating expenses is the same in both systems so it is 2.000 YTL in income statement.

There is a difference as 2.000YTL in profit of the period because it is reflection of the difference of gross profit. So profit of the period is 4.000 YTL according to the existing accounting system which is 6.000 YTL due to TAS-2.

As a conclusion existing accounting system does not allow to stock of service costs except year commitment common construction and repair businesses. TAS-2 inventory standard describes cost of stock in service sector. So where gross profit is not reflected to the income statement, it is reflected to the stock accounts.

Periodicity principle based on comparison of income and expenses of the period. So due to this principle where cost of production is not reflected to the final accounts, it should be asset. When the cost benefits are flagged, it becomes expense and transferred to the final accounts. Periodicity principle is applied to the trade and production companies in the existing system but it is not applied to the service business. So this is a contrast like paradox. There is no account for the stock of service in existing system. After TAS-2 inventories standards, the need of stock of services is met by 154 Service Stock Account.

Propose is like that all costs of service production is collected in 740 cost of service production account during the period. At the end of the period by the help of the 741 cost of service production reflection account, unused part of cost is transferred to the 154 service stock account. Service stock will be kept as asset in this account while used parts of cost is transferred to 622 cost of service sales. So both TAS-2 inventory standard and periodicity principles is applied.

3.2.2. Techniques for the Measurement of Cost

In the paragraphs 21 and 22, TAS 2 mentions two costing methods:

- The standard cost method and
- The retail method

These methods are both of which are acceptable for financial reporting purposes provided that their results approximate cost as defined in TAS 2.

In the 21st Paragraph of the TAS 2; Standard costs take into account normal levels of materials and supplies, labor, efficiency and capacity utilization. They are regularly reviewed and, if necessary, revised in the light of current conditions. The primary purpose of standard costs is to assist in the setting of budgets and evaluate the performance of management but they may be used to measure cost of inventories in accordance with the requirements of TAS 2.

22nd paragraph of TAS 2 mentions that the retail method is used to measure inventories of large numbers of rapidly changing items with similar margins for which it is impractical to use other costing methods. Inventories are initially measured at selling price and then reduced to cost by applying the appropriate gross margin. An average percentage may be taken into consideration but such an average for the all products may offset profits and losses.

The retail method is often used in the retail industry for measuring inventories of large numbers of rapidly changing items with similar margins for which it is impracticable to use other costing methods as it is mentioned above. The cost of the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin. The percentage used takes into consideration inventory that has been marked down to below its original selling price. An average percentage for each retail department is often used. (EN-EU, TAS 2, 2009: 3-4)

3.2.3. Cost Formulas

The type of costing method used to value inventory is one of the central issues in inventory costing because the method used can have a significant impact on the level of reported income. There are several methods used in inventory costing such as specific identification; first-in, first-out (FIFO), last-in, last-out (LIFO) weighted average, replacement cost and base inventory. TAS 2 allows only the use of specific identification, first-in, first-out and weighted average methods. (TFRS, 2007:343)

According to the paragraph 23 of TAS 2, the cost of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs.

The FIFO method assumes that the inventories that are purchased or produced first are used or sold first, which means that their associated old costs are used first and the ending or remaining items in the inventory being valued based on prices of most recent purchases. In the weighted average cost method, the cost of each item is determined from the weighted-average of the cost of similar items at the beginning of a period and the cost of items purchased or produced during the period. The average may be calculated on a periodic basis or as each additional shipment is received (moving average method), depending upon the circumstances of the entity. (TFRS, 2007:343)

In other words, FIFO method is based on the assumption that the goods which are received first are issued first. This assumption of the method is made for the objective of assigning cost and not for physical flow of goods. The goods sold, therefore, consist of the earliest lots and are valued at the price paid for such lots. The ending inventory consists of the latest lots and is valued at the price paid for such lots. The ending inventory is stated in the balance sheet at a value nearer the current market price. FIFO regards the first unit that arrived in inventory as the first one sold.

According to the paragraphs 25 and 26 of TAS 2, inventories having a similar nature and use to the entity shall be valued using the same cost formula. However, in case of inventories with different nature or use, different cost formulas may be justified. For example, inventories used in one operating segment may have a use to the entity different from the same type of inventories used in another operating segment. However, a difference in geographical location of inventories or in the respective tax rules, by itself, is not sufficient to justify the use of different cost formulas.

If costs are not separately identifiable, they should be allocated between joint products on a rational and consistent basis e.g. relative sales value (at stage when the products become separately identifiable or on completion of production). (Muthupandian, 2008:5)

3.2.4. Net Realizable Value

There are some different reasons of the fact that net realizable value fall below cost such as a fall in selling price, product obsolescence, physical deterioration of inventories or an increase in the estimated costs of completion or the estimated costs of making the sale. The application of writing inventories down below cost to net realizable value is consistent with the view that assets should not be carried in excess of amounts expected to be realized from their sale or use.

3.2.5. Write-Off as an Expense

According to the paragraphs 34 and 35 of TAS 2; when inventory is sold the carrying amount of inventory shall be recognized as an expense when the related revenue is recognized. In addition to this, the amount of any write-down of inventories to net realizable value and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

3.3. DISCLOSURE

According to the paragraph 36 of TAS 2, the financial statements should disclose;

- The accounting policies adopted in measuring inventories, including the cost formula used;
- The total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
- The carrying amount of inventories carried at fair value less costs to sell; - the amount of inventories recognized as an expense during the period;
- The amount of any write-down of inventories recognized as an expense in the period

- The amount of any reversal of any write-down that is recognized as a reduction in the amount of inventories recognized as expense in the period
- The circumstances or events that led to the reversal of a write-down of inventories
- The carrying amount of inventories pledged as security for liabilities.

3.4. TAS 18 – REVENUE

Revenue can be earned in many forms, from different activities. This standard analyses revenue that are earned from three broad categories. Those are:

- The sale of goods;
- The rendering of services; and
- The use by others of entity assets yielding interest, royalties and dividends.

This Standard supersedes TAS 18 Revenue Recognition approved in 1982. Goods include goods produced by the entity for the purpose of sale and goods purchased for resale, such as merchandise purchased by a retailer or land and other property held for resale.

The rendering of services typically involves the performance by the entity of a contractually agreed task over an agreed period of time. The services may be rendered within a single period or over more than one period. Some contracts for the rendering of services are directly related to construction contracts, for example, those for the services of project managers and architects. Revenue arising from these contracts is not dealt with in this Standard but is dealt with in accordance with the requirements for construction contracts as specified in TAS 11 Construction Contracts. (Muthupandian, 2008:7)

The use by others of entity assets gives rise to revenue in the form of:

- Interest—charges for the use of cash or cash equivalents or amounts due to the entity;
- Royalties—charges for the use of long-term assets of the entity, for example, patents, trademarks, copyrights and computer software; and
- Dividends—distributions of profits to holders of equity investments in proportion to their holdings of a particular class of capital.

This Standard does not deal with revenue arising from:

- Lease agreements (see TAS 17 Leases);
- Dividends arising from investments which are accounted for under the equity method (see TAS 28 Investments in Associates);
- Insurance contracts within the scope of TFRS 4 Insurance Contracts;
- Changes in the fair value of financial assets and financial liabilities or their disposal (see TAS 39 Financial Instruments: Recognition and Measurement);
- Changes in the value of other current assets;
- Initial recognition and from changes in the fair value of biological assets related to agricultural activity (see TAS 41 Agriculture);
- Initial recognition of agricultural produce (see TAS 41); and
- The extraction of mineral ores.

3.5. MEASUREMENT OF REVENUE

TAS 18, paragraph. 9 states that revenue shall be measured at the Fair Value of the consideration received or receivable. The amount of revenue arising on a transaction is usually determined by agreement between the entity and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity (paragraph. 10).

Further, par. 11 of TAS 18 states that in most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. (EN-EU, TAS 2, 2009: 5)

For example, an entity may provide interest free credit to the buyer or accept a note receivable bearing a below-market interest rate from the buyer as consideration for the sale of goods. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.

The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognized as interest revenue in accordance with par. 29 and 30 and in accordance with TAS 39.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. This is often the case with commodities like oil or milk where suppliers exchange or swap inventories in various locations to fulfill demand on a timely basis in a particular location. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction, which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred (par. 12). (EN-EU, TAS 2, 2009: 6)

3.5.1. Exchanges of Goods or Services

Barter System is that system in which goods are exchanged for goods. In ancient times when money was not invented trade as a whole was on barter system. This was possible only in a simple economy but after the development of economy, direct exchange of goods without the use of money, was not without defects.

3.6. IDENTIFICATION OF THE REVENUE TRANSACTION

In most cases, businesses produce revenue by conducting an exchange of equivalent or near-equivalent resources. Whether a business provides services to its customers, manufactures goods or buys goods to resell, it exchanges its resources in return for other resources. Revenue earned this way is called transaction revenue. In contrast, revenue received but unearned in such a manner is called non-transaction revenue.

In most cases, revenues refer to cash and cash equivalents businesses and individuals receive in exchange for providing others with resources of equal or near-equivalent value. To earn these revenues, these entities have expenses that reduce earnings. The same is not true of non-transaction revenue. (TASC Foundation, Module 12, 2009:52)

Transaction revenues includes all sums of cash and cash equivalents exchanged for some other amount of resources. A business that sets up its operations, hires its employees, and then uses their labor to provide services to its customers is earning transaction revenue because it is exchanging those services for cash and cash equivalents. In the same scenario, both the businesses that sell the original business the supplies needed to set up its operations and the employees hired by the business are also earning transaction revenue because they are exchanging resources for their earnings.

3.6.1. Sale of Goods

The following conditions have to be satisfied in order to recognize revenue from sale of goods: (TASC Foundation, 2004: par.14)

- The entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably

A contract of sale of goods is a contract by which the seller transfers or agrees to transfer the property in goods to the buyer for a money consideration, called the price. There may be a contract of sale between one part owner and another. A contract of sale may be absolute or conditional. If under a contract of sale the property in the goods is transferred from the seller to the buyer, the contract is called a sale (TASC Foundation, Module 13, 2009: 30).

If the transfer of the property in the goods is to take place at a future time or is subject to some condition to be fulfilled later, the contract is called an agreement to sell. An agreement to sell becomes a sale when the time elapses or the conditions are fulfilled subject to which the property in the goods is to be transferred.

3.6.2. Rendering of Services

In general, TAS 18, Revenue states that revenue is recognized when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably.

Paragraph 20 of TAS 18 states that when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognized by reference to the stage of completion of the transaction at the end of the reporting period.

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

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity;
- The stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- 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. (TASC Foundation, Module 13, 2009: 34)

While, paragraph 22 states that revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognized as an expense, rather than as an adjustment of the amount of revenue originally recognized.

Regarding the requirement of the existence of reliable estimation as stated in par. 20, further, par. 23 states that an entity is generally able to make reliable estimates after it has agreed to the following with the other parties to the transaction :

- Each party's enforceable rights regarding the service to be provided and received by the parties;
- The consideration to be exchanged; and
- The manner and terms of settlement

The stage of completion of a transaction may be determined by a variety of methods. An entity uses the method that measures reliably the services performed. Depending on the nature of the transaction, the methods may include:

1. Surveys of work performed;
2. Services performed to date as a percentage of total services to be performed; or
3. The proportion that costs incurred to date bear to the estimated total costs of the transaction.

For practical purposes, when services are performed by an indeterminate number of acts over a specified period of time, revenue is recognized on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

3.6.3. Costs of Conversion

Conversion costs are the combination of direct labor costs plus manufacturing overhead costs. You can think of conversion costs as the manufacturing or production costs necessary to convert raw materials into products. Expressed another way, conversion costs are a manufacturer's product or production costs other than the costs of raw materials. (Alexander and Archer, 2009: 25)

The term "conversion costs" often appears in the calculation of the cost of an equivalent unit in a process costing system.

3.6.4. Construction Contracts

The objective of this Standard is to prescribe the accounting treatment of revenue and costs associated with construction contracts. 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.

This Standard uses the recognition criteria established in the Framework for the Preparation and Presentation of Financial Statements to determine when contract revenue and contract costs should be recognized as revenue and expenses in the statement of profit and loss. It also provides practical guidance on the application of these criteria.

3.6.5. Percentage of Completion Method

Percentage of completion method is a basis for revenue recognition in long-term construction contracts, which span over more than one accounting periods. In case of long-term contracts, accountants need a basis to apportion the total contract revenue between the multiple accounting periods. Percentage of completion method provides one of those bases, other being full-contract method.

Total estimated expenditures for the contract represent the total budgeted cost for the project. It includes costs that have been incurred to date and costs that are expected to be incurred in future periods.

There is another method for estimating percentage of completion called survey method which is based on the physical progress of the contract. Under this method engineers and other experts observe the activities and determine their judgment of the percentage of work completed.

3.6.6. Interest Revenue, Franchise and Dividends

Under the accrual basis of accounting, the Interest Revenues account reports the interest earned by a company during the time period indicated in the heading of the income statement. Interest Revenues account includes interest earned whether or not the interest was received or billed. Interest Revenues are nonoperating revenues or income for companies not in the business of lending money. For companies in the business of lending money, Interest Revenues are reported in the operating section of the multiple-step income statement.

However, if the company had been using the cash basis of accounting and the cash had not yet been received by the end of the reporting period, no interest revenue would be recorded. (Alexander and Archer, 2009: 31)

For revenue to be recognized according to the Framework, the following conditions should be met and TAS 18 does not require further conditions (TASB's Framework, par.83);

- It is probable that any future economic benefit associated with the item will flow to or from the entity; and
- The item has a cost or value that can be measured with reliability.

3.7. DISCLOSURE

Entities should disclose the gross amount due from customers for contract work as an asset. This amount is the net of:

- Costs incurred plus recognized profits; and

- The sum of recognized losses and progress billings.

For all contracts where the amount in the first bullet point exceeds the amount in the second bullet point. (TAS 11 paragraphs 42, 43).

Entities should also disclose the gross amount due to customers for contract work as a liability. This amount is the net of the sums in the two bullet points above where the amount in the second bullet exceeds the amount in the first bullet point. (TAS 11 paragraphs 42, 44).

Amounts invoiced to customers, but not received at the balance sheet date should be included in trade receivables. There is no specific requirement in the standard to disclose the amount separately.

The other disclosures that should be given in respect of construction contracts are as follows: (TAS 11 paragraph 39)

- Contract revenue recognized as revenue in the period;
- Details of methods used to determine contract revenue; and
- Details of methods used to determine stage of completion.

For contracts in progress at the balance sheet date: (TAS 11 paragraph 40)

- Contract costs incurred and recognized profits (less recognized losses) to date;
- Advances received; and
- Retentions.

Retentions are the amounts of progress billings that are not paid until conditions specified in the contract have been met with respect to the satisfactory construction of the asset (TAS 11 paragraph 41).

CHAPTER FOUR
IMPLEMENTATION OF STANDARDS TO A COMPANY

4.1. AIM OF THE STUDY

The aim of the study is to implement the principles of the standards that are TFRS1 first time adaption of TFRS, TAS-2 inventory and TAS-18 revenue and to compare the financial statements between tax based accounting system and TFRS based accounting system which shows the real position of the company. The results of the study exhibits the difference of the numbers between the tax based accounting system and TFRS. Instead of it is not compulsory for the company, some of the TFRS rules are applied officially in the company and the accounting system will show us more accurate position of itself anymore.

4.2. METHODOLOGY

The type of the case study which is preferred to be applied in the thesis statement is illustrative case studies. This type of case study is more suitable to implement the standards to a company.

Illustrative Case Studies are descriptive; it is used two or more sample events and facts to give information about the case. This helps readers to interpret the facts about the case more easily if there is a reason that readers have not got enough information about it. This kind of situations converts more complex and unfamiliar cases to simple and more familiar situations. This provides common language to the readers. Samples should be comparatively different and contains less number of cases.

There are some difficulties to present illustrative case studies. Because all cases which are involved in study should be informed deeply and there may not have enough time for this kind of extensive study. Cases should represent the original case precisely.

4.3. LIMITATION

I could not be able to apply all of the standards in this case study because I have some limitations as cost, time and the content of subject. Since I have limited time for this study I applied some of the standards but especially TFRS 1, TAS-2 and TAS-18. I have also limited permission in the company to run this project because of the intensity of the company. Also location of the company is not much available for quick connection, so I have spent sufficient time in the company.

4.4. CASE STUDY AND FINDINGS

In this section TFRS 1, TAS 2 and TAS 18 applications will be explained, analyzed and their results will be evaluated.

4.5. TFRS 1 FIRST TIME ADAPTION OF TFRS

This case study is applied in the service sector company. This service concept is different from others, such as restaurants. This company is a private college which is located in İzmir. It is established in 2007 but it has started its education life in 2009. The capacity of the school is 850 students and it is located in approximately 5000 sqm. It has 2 gardens for students and 1 closed sports center.

This case study is to declare obvious differences of the numbers between two system; tax procedural system and financial reporting system. One of them is applied for a specific purpose which is to determine the tax, the company should give to the government and the other system has more important purpose is to give accurate information about the position of the company.

First of all the financial period was chosen as year 2012. The base financial statement is the initial balance sheet of 31.12.2012. The balances of the balance sheet accounts were given below.

Table 6: Existing Balance Sheet of Company

Account	Account Title	Debit	Credit
100	Cash	142.241,91 TL	
102	Banks	612.819,95 TL	
108	Other Liquid Assets	494.827,97 TL	
120	Trade Receivables	201.547,24 TL	
121	Notes Receivables	592.392,00 TL	
136	Other Receivables	3.827,81 TL	
153	Trade Goods	98.254,43 TL	
159	Advances Given to Suppliers	80.067,08 TL	
190	Deferred VAT	237.368,42 TL	
250	Lands	642.578,00 TL	
255	Furniture and Fixtures	589.786,69 TL	
256	Other Tangible Fixed Assets	2.800,00 TL	
257	Accumulated Depreciation		252.990,30 TL
258	Construction in Progress	3.749.868,87 TL	
267	Other Intangible Fixed Assets	9.666,19 TL	
268	Accumulated Amortization (-)		9.665,25 TL
280	Prepaid Expenses for the Following Years	1.277.003,03 TL	
303	Current Maturities of Long Term Credits and Accrued Interest		670.114,57 TL
309	Other Financial Liabilities		481,27 TL
320	Trade Payables		119.606,05 TL
329	Other Trade Payables		86.592,90 TL
335	Due to Personnel		2.387,08 TL
340	Advances Received		1.686.385,91 TL
360	Taxes and Funds Payables		18.654,25 TL
361	Social Security Premiums Payable		47.734,44 TL
371	Prepaid Taxes and Funds on Profit for the Period	1.756,45 TL	
381	Expense Accruals		455,47 TL
400	Bank Loans		3.436.103,14 TL
500	Equity		2.000.000,00 TL
540	Legal Reserves		9.893,63 TL

570	Previous Year's Profits		187.979,08 TL
580	Previous Year's Losses	349.980,64 TL	
590	Net Profit for the Period		557.743,04 TL
		9.086.786,68 TL	9.086.786,38 TL

1. Reclassification of trade receivables; There are some debt amounts that could not collected for a while but are still kept in trade receivables account. Bad debt amount is 80.167 TL

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127 Other Trade Receivables 80.167 TL

120 Notes Receivables 80.167 TL

---//---

128 Doubtful Receivables 80.167 TL

127 Other Trade Receivables 80.167 TL

---//---

654 Provision Expenses 80.167 TL

129 Provision of Doubtful Receivables 80.167 TL

---//---

28X Deferred Tax Assets 16.033 TL

573 TFRS First Time Adaption Profit 16.033 TL

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2. Rediscount of notes receivables; Normally it is known that cheques should not be deferred. It should be change to cash any time after written but in common use it is deferred. There are 458.117 TL amounts of cheques and bonds with 60 days deferred effective date. In Turkey it is not commonly calculated but the time value of postponing the collection of money should be calculated as expense of company.

458117 * 10 * 60 / 36500+(10*60) = 7409

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657 rediscount interest expenses 7409 TL

122 rediscount notes receivables 7409 TL

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---//---

28X Deferred Tax Assets 1482 TL

573 TFRS First Time Adaption Profit 1482 TL

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At the same time, deferred payments of cheques and bonds should be calculated as rediscount interest income as below. But for the time 31.12.2012 company has no notes payable.

---//---

322 rediscount notes payable X

647 rediscount interest income X

---//---

---//---

574 TFRS First Time Adaption Loss X

48X Deferred Tax Liabilities X

---//---

3. Calculation of interest expense; There are some investments which continue in the company. Some of these ongoing investments are done with the money which is sourced by bank loan. But interest amount of this credit did not separated as expense. This is not an asset; this amount of money is spent to finance the amount of money that is used for investment. So it should be separated as finance expenses.

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780 Finance Expenses X

258 Ongoing Investments X

--//--

28X Deferred Tax Assets X

573 TFRS First Time Adaption Profit X

--//--

Company has separated the amount of credit and interest in asset side but it has not separated for the liability side. Asset side is accounted in both 258 ongoing investments and 280 prepaid expenses for the following years. This kind of accounting is acceptable in asset side so we keep in that way. But on the other hand in liability side bank credit amount and its interest is kept in 400 bank loans together. We should separate its interest amount to account 403 such as;

--//--

400 Bank Loans 721.261 TL

403 Bank Loans Interest 721.261 TL

--//--

4. Employment termination provision calculation; It has calculated that provision for employment termination benefits is 163.329 TL.

--//--

632 General Administrative Expenses 163.329 TL

472 Provision for Employment Termination Benefits 163.329 TL

--//--

5. Deferred tax should be calculated for the previous year’s loss as below. Company has previous year’s loss but it has net profit for the period so there is no deferred tax for the previous year’s loss.

--//--

28X Deferred Tax Assets X

573 TFRS First Time Adaption Profit X

--//--

6. Reclassification of revenue; Company follows the all receivables account from 120 trade receivables according to the contract which is done with student's parent. And at the end of the period 120 trade receivables account become credit account and it should not be. So they closed those account with 340 advances received. It is not true as well because there are no advances received. It should be short term deferred income as below.

--//--

340 Advances Received 1.686.385,91 TL

380 Short Term Deferred Income 1.686.385,91 TL

--//--

In the existing system of the company, every student's application is done in 120 trade receivables account whether students pay in cash or notes receivables. This is not a true record actually because 120 trade receivables account is recorded for debts of customers which have no support as cheque or bond. So in the new period of accounting we made them to transfer 120 trade receivables accounts to 380 Income related to future months. We create a sub-accounts for 380 Income related to future months, because some customers pay in cash and we should split them to see clearly which customer has debt to company. Those who have no support for their debts are recorded monthly to 120 trade receivables accounts.

- Records for the customers who pay in cash on the day of the contract is done with the student.

--//--

100 Cash X

380 Income related to future months X

--//--

Every month school has to prepare student’s invoices.

---//---

380 Income related to future months X

600 Sales X

---//---

- Records for the customers who pay in support such as bond or cheque on the day of the contract is done with the student.

---//---

101 Cheques X

380 Income related to future months X

---//---

---//---

121 Notes Receivables X

380 Income related to future months X

---//---

Every month school has to prepare student’s invoices.

---//---

380 Income related to future months X

600 Sales X

---//---

And when the cheque is paid by the bank;

---//---

102 Bank X

101 Cheques X

---//---

And when the bond is paid by the bank;

---//---

102 Bank X

121 Notes Receivables X

---//---

- Records for the customer who has no support, open account.

---//---

120 trade receivables X

380 Income related to future months X

---//---

Every month school has to prepare student's invoices.

---//---

380 Income related to future months X

600 Sales X

---//---

When student pays the debt of open account

---//---

102 Bank or 100 Cash X

120 trade receivables X

---//---

7. Reclassification of revenue; The customers who pay not in notes receivable or open account pay more than who pay in cash. It is a school policy. They make a discount for whom pay in cash as %10. So this means for the income from the customers who pay in notes receivables or open account, we have an interest income such as %10. We should recognize this revenue in its period.

    - Records for the customers who pay in support such as bond or cheque on the day of the contract is done with the student.

---//---

101 Cheques X

380 Income related to future months X

---//---

---//---

121 Notes Receivables X

380 Income related to future months X

---//---

Every month school has to prepare student's invoices.

---//---

380 Income related to future months X

600 Sales 9/10X

382 Income Accruals 1/10X

---//---

---//---

382 Income Accruals 1/10X

642 Interest Income 1/10X

---//---

- Records for the customer who has no support, open account.

---//---

120 trade receivables X

380 Income related to future months X

---//---

Every month school has to prepare student's invoices.

---//---

380 Income related to future months X

600 Sales 9/10X

382 Income Accruals 1/10X

---//---

---//---

382 Income Accruals 1/10X

642 Interest Income 1/10X

---//---

8. Revenue recognition – cash and deferred payments; We should calculate the amount of sales for the customers who pay with notes receivable or cheque for the education period of 2012 that is September, October, November and December. For that period total amount of sale is 1.269.196 TL and 303.080 TL is paid in cash. Other part is 896.116 TL that we search for. We are informed that %10 is the discount for the customers who pay in cash. This percentage is such as interest income for the notes receivables or cheques. This amount is 89.612 TL

---//---

600 Sales	89.612 TL		
		382 Income Accruals	89.612 TL

---//---

---//---

382 Income Accruals	89.612 TL		
		642 Interest Income	89.612 TL

---//---

9. Service Stock; School is supported by a consultant for the Italian education system. They have been paid once in cash at the beginning of the period during the contract. They have been serving for all year. So for the new year we should separate an amount for the service stock. It has calculated as 7500 TL for the following year.

---//---

154 Service Stock	7500 TL		
		740 service production cost	7500 TL

---//---

Table 7: Adjusted Balance Sheet of Company

Account	Account Title	TPL	IFRS
100	Cash	142.241,91	142.241,91
102	Banks	612.819,95	612.819,95
108	Other Liquid Assets	494.827,97	494.827,97
120	Trade Receivables	201.547,24	121.380,24
121	Notes Receivables	592.392,00	592.392,00
122	Rediscount of Notes Receivables		-7.409,00
128	Doubtful Trade Receivables		80.167,00
129	Provisions for Doubtful Trade Receivables		-80.167,00
136	Other Receivables	3.827,81	3.827,81
153	Trade Goods	98.254,43	98.254,43
154	Service Stock		7.500,00
159	Advances Given to Suppliers	80.067,08	80.067,08
190	Deferred VAT	237.368,42	237.368,42
250	Lands	642.578,00	642.578,00
255	Furniture and Fixtures	589.786,69	589.786,69
256	Other Tangible Fixed Assets	2.800,00	2.800,00
257	Accumulated Depreciation	-252.990,30	-252.990,30
258	Construction in Progress	3.749.868,87	3.749.868,87
267	Other Intangible Fixed Assets	9.666,19	9.666,19
268	Accumulated Amortization (-)	-9.665,25	-9.665,25
280	Prepaid Expenses for the Following Years	1.277.003,03	1.277.003,03
28X	Deferred Tax Assets		-17.515,00
303	Current Maturities of Long Term Credits and Accrued Interest	-670.114,57	-670.114,57
309	Other Financial Liabilities	-481,27	-481,27
320	Trade Payables	-119.606,05	-119.606,05
329	Other Trade Payables	-86.592,90	-86.592,90
335	Due to Personnel	-2.387,08	-2.387,08
340	Advances Received	-1.686.385,91	0,00

360	Taxes and Funds Payables	-18.654,25	-18.654,25
361	Social Security Premiums Payable	-47.734,44	-47.734,44
371	Prepaid Taxes and Funds on Profit for the Period	1.756,45	1.756,45
380	Short Term Deferred Income		-1.686.385,91
381	Expense Accruals	-455,47	-455,47
400	Bank Loans	-3.436.103,14	-2.714.842,14
403	Bank Loans Interest		-721.261,00
472	Provisions for Employee Termination Benefits		-163.329,00
500	Equity	-2.000.000,00	-2.000.000,00
540	Legal Reserves	-9.893,63	-9.893,63
570	Previous Year's Profits	-187.979,08	-187.979,08
573	TFRS First Time Adaption Profit		17.515,00
580	Previous Year's Losses	349.980,64	349.980,64
590	Net Profit for the Period	-557.743,34	-565.243,34
600	Sales		89.612,00
632	Administrative Overhead		163.329,00
642	Interest Income		-89.612,00
654	Provision Expenses		80.167,00
657	Rediscount Interest Expenses		7.409,00
		0,00 TL	0,00 TL

According to table above, there is a difference between tax procedural accounting system and TFRS. There are some significant results that may be interpreted easily. There is an amount as 17.515 TL is come from TFRS first time adaption profit is comes from deferred tax assets. There is a reduction in net profit for the period that comes from service stock. And if we make the calculation of income table by adding income accounts with net profit for the period, we will find 314.338,04 TL end value for the net profit for the period. The difference is 250.905 TL. This results means that there is an important difference which reflects to the profit between two system.

CONCLUSION

In daily progressive world, every one of us may reach anywhere on the world easily for any reason, which means that investments also may done in any market on the world which is not familiar for the investors. The only need is language to communicate, even we need this to talk to others when we abroad. Financial language for the financial communication is the IFRS. IFRS is the common language to understand the company's financial situation and to compare the company between others.

This side of IFRS is the investor side. It has also other point of view. IFRS is also a tool for the stockholder of the company to show the financial situation clearly. It is so important to understand the present situation as well as to decide the future movements.

In this thesis statement, it has been investigated that what should a company do and what kind of struggles it is faced when Turkish Accounting Standards will be obligatory for that company. Logic which is stayed underneath of all these standards is favor for investors and stockholders. And this way of looking is to help companies growing policy in a secure path. In market who take care of accounting importance reach its goals much more quicker and in safe way. Others, who do not give so attention to accounting and financial standards, face with so many problems with both government and financial inadequacy in company.

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