GLOBALIZATION AND FINANCIAL REPORTING IN TURKEY

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INTRODUCTION

Multinational corporations and financial integration at the international level constitute the dynamics of globalization in economy. Accounting, accepted as a common language in the development of international management and international financial integration with an international regular flow of funds, has to produce solid and reliable information.

The experiences of the globalization process in the economy made accounting gain an international status. So, in the beginning of the 1970’s, studies began to establish basis for the international accounting standards and nowadays are generally accepted and widely used by many countries. In 1995, IASB (International Accounting Standards Board) and IOSCO (International Organization of Securities Commissions) signed an agreement and accepted the national accounting standards used for the capital markets of the IOSCO members to be in convergence with the international accounting standards.

Worldwide standardization tendency in accounting affected Turkey and as a result many organizations started to form National Accounting Standards. EU obliged all member countries to use International Accounting Standards by the beginning of 2005. Therefore it is clear that, Turkey, as a country in accession process for full membership, has to adopt those standards in its national legislation.

Tax based financial statement standards were used in Turkey till 1980’s, afterwards with the liberalization of the economy, standards in accordance with the international accounting standards were put in use. Big sized enterprises and some of the Small and Medium Sized Enterprises (SMEs) started to use international accounting standards parallel to the growth in capital market. Turkish Accounting Standards Board (TMSK)

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1 Başak Ataman Akgül, Hüseyin Akay, “Uluslararası Muhasebe Standartları ve Türkiye’de Uygulama Etkinliğine İlişkin Bir Araştırma” Türkmen Kitapevi, İstanbul 2003, s. 234
declared its strategy to be in convergence with the international accounting standards and published some accounting standards in this perspective.

The aim of this paper is to examine the historical development of accounting standards used in financial reporting in Turkey and the convergence and accordance of the standards to the national standards adopted during the globalization process.

The paper will be presented in three headlines:

1. The fundamentals of global accounting,
2. Financial reporting,
3. Turkey experience in financial reporting.

1. THE FUNDAMENTALS OF GLOBAL ACCOUNTING

One of the most important problems encountered by an international company stems from the methods of accounting, accordance of accounting policies to be applied and reporting the monetary operations in a country. An important obligation for those companies is to use the same principles, same policies and same financial statement standards in order to compare and evaluate all the operations made in different countries. In other words, they want to use the same accounting language in all their operations realized in different countries.

The application of the same accounting methods and policies, same evaluation rules and principles in the disclosure of the financial statements becomes a necessity and a request of the companies due to the development of the international businesses and the capital markets.

As this request and need of uniformity and use of a standard language in accounting and reporting was realised, the confidence and reliability in processed information increased.

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3 Ibid., s. 14
As a result, the evolution rate of international businesses and capital markets accelerated and new corporate formations began.

So, the main capital markets around the world agreed to base the financial information to be given to the investors on the global accounting system prepared in accordance with the generally accepted accounting principles. This agreement is the cause of the global accounting or in other terms international accounting.

The reason for the need and existence of international accounting may be stated as follows:

1. Historical past,
2. The establishment of international enterprises,
3. International format of some peculiar accounting problems,
4. Academic concern.

The general aim of accounting is to reflect the financial position of a business in accordance with the realities. Thus, its starting point must rely on natural principles. Those principles may be obtained by scientific and neutral approaches. So, the resources of accounting applications arise from the main concepts of accounting, generally accepted accounting principles and accounting standards.

As international businesses spread and get into a continuous growth cycle, tracing the investments in different countries, and evaluation of efficiency and profitability became more and more difficult. Especially different accounting applications used in different countries, made comparison and evaluation, a more difficult and expensive exercise.

Due to that, accounting, accepted as the common language of the businesses, needs to be the international language of the international companies as well. Later in the beginning of the 1970’s, it was generally agreed to develop international accounting standards in a

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5 İbrahim Lazol, “SPK Uygulamaları, Vergi Mevzuatı ve Türkiye Muhasebe Standartları Üçgeninde Muhasebe” MUFAD Muhasebe ve Finansman Dergisi”, ss. 9-11, Sayı 7, Temmuz 2000, s. 9
global form based on the national accounting standards of all the countries built on their generally accepted accounting principles and accounting standards.

The appliance of a uniform accounting system in an international level brings the uniformity of the accounts and terms, brings the comprehensibility and reliability in the financial statements of the companies in international concepts. Recording and classifying becomes easier to understand and to interpret with the global accounting system and international standardization.6

The International Accounting Standards Board (IASB) was called the International Accounting Standards Committee (IASC) prior to its restructuring in 2001.7 It began operating on July 1, 1973, following an agreement by professional accounting organizations in six countries. The objectives of the IASB are as follows: The Board is committed to developing, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements. In addition, the Board cooperates with national accounting standard setters to achieve convergence in accounting standards around the world.8

International Accounting Standards, published by IASC are shortly named IAS. With the changes made after 2002, the IAS, in order to be in use during the revisions to be made and to be published as IFRS, are renamed as International Financial Reporting Standards (IFRS). Until now four IAS are approved as IFRS. In addition, a new IFRS, related with what to do for the new users of IFRS became valid. Nowadays, 5 IFRS and 30 IAS to be converted into IFRS are valid.

International Organization of Securities Commissions (IOSCO) and IASB reached an agreement and required their members to force the quoted companies to apply IFRS and IAS with only slight changes.9 Furthermore they are applied in EU member countries by

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6 Gücenme, (sayı 5) a.g.e, s. 7  
8 International Accounting Standard Boards website: www.iasb.org.uk. (Ibid., p. 1012/)  
9 Valid in Turkey by the beginning of 2005
the beginning of 2005. The most important point is until now, USA, preferred to use its own standards and refused to adopt the standards produced by IASB, but finally even USA accepted IFRS and IAS. By the Norwolk Agreement signed in 2002, USA abandoned its national standards named Standards of Financial Accounting and Reporting produced by Financial Accounting Standards Board (FASB) agreed to validate IFRS and IAS by the beginning of 2005.

The most important reason for the need of national and international accounting standards, is to prepare the financial statements, to disclose and to use them for the management of the companies' transactions.\textsuperscript{10}

The users of financial statements include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public. They use financial statements in order to satisfy some of different needs for information.\textsuperscript{11}

In accordance to globalization, financial statements are prepared to meet the common needs of these users. This is because nearly all users are making economic decisions, for example, to\textsuperscript{12}:

\begin{itemize}
  \item[a-] decide when to buy, hold or sell an equity investment;
  \item[b-] assess the stewardship or accountability of management;
  \item[c-] assess the ability of the entity to pay and provide other benefits to its employees;
  \item[d-] assess the security for amounts lent to the entity;
  \item[e-] determine taxation policies;
  \item[f-] determine distributable profits and dividends;
  \item[g-] prepare and use national income statistics; or
  \item[h-] regulate the activities of the entities.
\end{itemize}

\textsuperscript{10} TÜRKER-ÖRERLER, a.g.e. s. 115

\textsuperscript{11} IASB (INTERNATIONAL ACCOUNTING STANDARD BOARD), \textit{International Financial Reporting Standards (IFRSs)} London, 2004 p 24

\textsuperscript{12} Ibid. p. 22
The objective of financial statements is to provide information about the financial position, performance and changes in the financial situation of an entity that is useful to a wide range of users in making economic decisions. The management of an entity has the primary responsibility for the preparation and presentation of the financial statements.

While there is growing awareness of the differential influences of environmental factors on accounting development in a global context, there is also the realization that there may systematically different patterns of accounting development.\textsuperscript{13}

We believe the following eight factors have a significant influence on accounting development. The first seven are economic, sociohistorical, and/or institutional in nature, and they have occupied most of the attention of accounting writers.\textsuperscript{14} More recently, the relationship between culture (the eighth item) and accounting development has begun to be explored.\textsuperscript{15}

The eight factors are:

a- Legal System  
b- Sources of Finance  
c- Taxation  
d- Political and Economic Ties  
e- Inflation  
f- Level of Economic Development  
g- Education Level  
h- Culture

\textsuperscript{15} Ibid p. 42
Authorities tried to obtain uniformity by improving accounting standards. Standardization in accounting comes out in the form of accounting techniques and some international principles. Standardization and convergence studies make the fundamentals of international accounting.\textsuperscript{16}

Accounting standards steer and guide the preparation and presentation of the financial statements according to their purpose of use. Worldwide accounting associations, independent accountants and accounting firms, due to the intensive requirements of the international companies and capital markets, approved the harmonization and the convergence of the national accounting and reporting standards to the international accounting and reporting standards.

All EU countries have appropriated the international accounting standards’ consolidated financial statements by the beginning of 2005, which leads the international accounting standards to become prevalent through the world.\textsuperscript{17}

In the near future, the relevant countries will give up publishing their private accounting standards and they insist the necessity of the international accounting standards on their national regulations of accounting applications. As a result, they will abandon to publish a private standard for their own. All world countries are heading to adopt one common standard to implement. Interdependently, soon in the EU countries not only enterprises listed in the stock exchange, but also small and medium size enterprises will adopt the international standards.\textsuperscript{18}

\textsuperscript{16} Gücenme, (sayı 5) a.g.e., s. 7
\textsuperscript{17} Nalan AKDOĞAN, “Avrupa Birliği’ne Üye Ülkeler Arasında Finansal Raporlama Uygulamalarında Uluslararası Standartlara Geçiş- Dördüncü ve Yedinci Yönerge Muhasebe Standartlarının IAS’e Yakınlaştırma Çalışmaları, “Prof. Dr. Yüksek Koç’a Armağan, ss.32-48, SBF Yayın No:590, TÜRMOB Yayın No:221, s.47
\textsuperscript{18} AKDOĞAN, “Avrupa….”s.47
3- FINANCIAL REPORTING

Increase in rapid globalisation on the world trade, technological improvement, e-commerce, information management and efficient use of information force companies, which stand in domestic markets, to find new investment areas in the foreign markets.\(^{19}\)

In 1990’s international security operations were increased and companies have started to export securities more than one country at the same time. For an investor, investment in foreign countries would carry some suspicious risks. Utilizable and trustfulness of accounting principles of invested foreign country is one of the important subjects for investor. Foreign investor would judge accounting standards more tightly and want to be sure whether financial statements reflect actual or not. For that reason as capital markets become global and international strategic investment decisions and also capital movements by strategic alliances is enhanced; need for right, trustful, comparable, clear and comprehensive, transparency and efficient financial reporting would be increased\(^{20}\)

From a global point of view, accounting for both domestic and international markets should improve and renovate process continually in order to have one common accounting language.

The primary means of financial reporting is issuing a set of accounting reports called financial statements.\(^{21}\) Financial statement are a set of accounting reports which, taken together, describe the financial positions of a business and the results of its recent operations.\(^{22}\) Financial position is described by identifying the company’s financial resources and obligations as a specific date.\(^{23}\)

\(^{19}\) Nalan AKDOĞAN, Avrupa Birliği’ne Üye Ülkeler Arasında Finansal Raporlama Uygulamalarında Uluslararası standartlara Geçiş-Dördüncü ve Yedinci Yönerge Muhasebe standartlarının IAS’e Yakınlaştırma Çalışmaları, Prof. Dr. Yüksel Koç YALKIN’a Armağan, s. 31-48TÜRKOB Yayını No: 221
\(^{20}\) AKDOĞAN, a.g.m., s.221
\(^{22}\) Ibid. P. 5
\(^{23}\) Ibid. p. 5
In order to enter different financial markets, companies should supply trustful and comparable financial statements.

Different legal regulations of each country are obstacles for comprehensibility and comparability of financial statements.

The financial statements such as the balance sheet, the income statement, the statement of changes in equity, and the cash flow statement are expected to provide the users with relevant and reasonably reliable information.

- In order to provide reliable and relevant information to the users, financial statements should be prepared in accordance with some set of principles and standards.

- As world-wide international reporting standards are developed, that would result in improvement in the capital markets.

- Nowadays the need for one common international reporting standards are increased, because of the cooperation between security stock exchanges especially the intention to become in strategic alliances.

-OBJECTIVE OF FINANCIAL STATEMENTS

The International Accounting Standards Committee (IASC) has stated that the objective of financial statements is to provide information about the financial position, performance and capability of an enterprise that is useful to wide range of users in making economic decisions.

s. 23

24 Figen ZAİF, Avrupa Birliği Muhasebe Standartlarında Son Gelişmeler, s. 2
25 ZAİF, a.g.b. s. 3
26 Çan ŞİMGA-MUGAN, Nazlı HOŞAL-AKMAN, Principles of Financial Accounting
27 MUGAN-AKMAN. A.g.e., s. 236
28 AKDOĞAN, “Avrupa…” s. 473
REASONS FOR DIFFERENCES IN FINANCIAL REPORTING

A number of attempts have been made to identify reasons for differences in financial reporting. (Doing Business in Europe R.T. MORAN s. 51) The issue is far from clear but most writers agree that the following are among the main factors influencing the development of financial reporting29:

- the character of the national legal system
- the way in which industry is financed
- the relationship of the tax and reporting systems
- the influence and status of the accounting profession
- the extent to which accounting theory is developed
- accidents of history
- language

Due to the feature of the reflection in providing information and economical structure of the company, financial reports always are the affinity area of accounting regulation.30 The accounting and reporting financial system of a company should be in capacity of producing entrenched and harmonic financial information reporting data.31 Also this system should have capacity to provide new information like reasonable value of financial tools and labor utility.

Financial reports have been the main subject of interest due to their characteristic of supplying and transmitting economic information32.

30 Sinan Aslan, Uluslararası Finansal Raporlama Standartları ile Getirilen Yeni Düzenlemeler: IFRS 1-5, Muhasebe ve Denetime Bakış, ss. 45-61 Yad 4, S Sayı 13, Eylül 20043, s. 46
31 ASLAN, Bakış dergisi, s.61
32 Sinan ASLAN, Uluslararası Finansal Raporlama Standartları ile Getirilen Yeni Düzenlemeler: IFRS 5, Muhasebe ve Denetime Bakış Dergisi, ss. 45-61,Yıl 4, Sayı 13, Eylül 204, s. 46
For Oyvind Bohren, Jorgen Haug and Dag Michalsen, the companies have dilemma whether to practice stated accounting principles or ignore standards to organize reported gains. In order to inform the society and public who expect interest from company, financial tables and attachments are used.

Enlightening the public, which is formed by the groups hoping to benefit from the businesses, is realized with the financial reports and their supplements covering the financial information. To give the public reliable information of the business with the financial statements is supplied by the approvals of the members of the profession. Enlightening the public requires four different functions:

1. Existence of the companies producing financial information
2. Existence of the groups who need these information with hope to benefit
3. Preparation of the financial information by a member of the profession with the measuring, evaluating and disclosing methods
4. Existence of an audit report of these financial statements prepared by a different member of the profession by measuring, evaluating and disclosing the financial reports.

Financial information acquired as a result of the above referred four functions regulate the relations of the public in its broad sense and at the same time serve the same objective in regulating the relations between the government and the private sector.

Basic norms and standards of accounting form the foundation of the financial information which will be presented to the public. This information forms the basics of measuring, evaluating and disclosing techniques as well as presenting a reliable report. Revelation of financial information must be done with “full disclosure concept” which means that these financial statements and tables must be sufficient, clear and easy to understand for the people or institutions to let them decide correctly.

Apart from exposing the financial information clearly, information and facts which may be necessary in decision-making, which may not be included among items of financial statements, must also be presented.

33 ASLAN, Muhasebe ve Denetime..., s. 46
As can be seen clearly, full disclosure concept is not limited by the details of the information presented by the financial statements. It is also clearly related to the probable events that may influence the future of the businesses.

Financial information is disclosed by these financial statements and their supplements:

1. Balance Sheet
2. Income Statement
3. Statement of Cost of Sales
4. Statement of Funds Flow
5. Statement of Cash Flows
6. Statement of Profit Distribution
7. Statement of Changes in Shareholders’ Equity

Other than these main statements the tables given below may be used to disclose the financial information:

1. Value Added Table
2. Workforce Report
3. Monetary Relation Table with the Government
4. Foreign Currency Transactions Table
5. Future Expectations and Company Aims Table
6. Evaluation of the Profession Table
7. Share Value Table
8. Variations of the Retained Earnings Table
9. Termination Indemnity Obligations Table
10. Social Transactions Table
11. Comparison with Similar Companies Table
12. Comparative Financial Summaries Table (last 5 years)
13. Environmental Responsibility Table
14. Notes to Explain Accounting Policies

4-FINANCIAL REPORTING IN TURKEY

4.1- HISTORY AND DEVELOPMENT OF ACCOUNTING IN TURKEY

A. HISTORY OF ACCOUNTING IN TURKEY:
   • First Commercial Code of 1850 (a translation of French Commercial Code)
   • Second Commercial Code of 1926 (Law No. 826 based on the German Commerce and Company Laws)
   • Establishment of “State Economic Enterprises” as Sümerbank in the field of mining and textile products
   • Current Commercial Code of 1956 with the liberalization in economy
   • Development of the Uniform Chart of Accounts for the State Economic Enterprises in 1972
   • The law of Istanbul Stock Exchange in 1984, fully started in 1986
   • Foundation of the Capital Markets Board inacted in 1981, restructured in 1999
   • First set of financial accounting standards published by CMB to be applied by the members for the fiscal year 1989
   • A set of accounting principles and a uniform chart of accounts published by The Ministry of Finance valid for the private sector for the fiscal year 1994

B. HISTORY OF PROFESSION IN TURKEY:
   • Establishment of the Expert Accountants’ Association of Turkey in 1942
   • Establishment of the Federation of Associations of Accountancy in 1974
   • Establishment of the Association of Financial Advisors and Accountants Union in 1976
   • Legally accepted accountancy profession with the Law Nr. 3568 enacted in 1989

C. CURRENT ACCOUNTING PROFESSION IN TURKEY
There are three different titles for accounting profession according to education, experience and the methods of examinations:

- Serbest Muhasebeci (SM) (meaning Independent Accountant)
- Serbest Muhasebeci Mali Müşavir (SMMM) (meaning CPA)
- Yeminli Mali Müşavir (YMM) (meaning Sworn-in CPA)

Serbest Muhasebeci carry out accounting practices, has the authority to prepare financial reports and legal statements and they are entitled to be licensed after 6 years of practice for graduates of commerce highschools and after 4 years of practice for graduates of colleges with 2 years period and after being successful in exams of A, B, or C category.

Serbest Muhasebeci Mali Müşavir (SMMM) who should be graduated of universities in the field of economics, law or business management and be successful in the examination after two years of practice made by the professional body are authorized to perform, besides the activities carried out by Independent Accountants given above, advisory services, accounting and auditing. In other words, The subject of Independent Accountant and Financial Consultant profession is to keep the accounting books, prepare financial statements and declarations of the enterprises owned by natural persons and legal entities according to generally accepted accounting principles and the provisions of related regulations; set up accounting systems, work with the capacity of consultant on business management, accounting, finance and financial regulations, audit them, provide written opinion and act as an expert.

After working for ten years as SMMM, those who succeed in the examinations for Yeminli Mali Müşavir (YMM) carried out by the Union of Chambers of SMMMs, are entitled to get the licence for YMM. YMMs could not perform book-keeping but besides the professional activities of SMMMs they have the authority to approve financial statements and tax statements. At the moment such rights as to the approval of tax statements, financial statements, dissolution of firms, auditing of funds, public auditing of the firms to which banks provide loans larger than a specified sum have been transferred to YMMs.

SMMMs and YMMs have the authority to audit those enterprises, financial organizations. The government has transferred their authority in this field to those independent auditing organizations composed of SMMMs and YMMs.
4.2 ECONOMIC CHARACTERISTICS

Entities and businesses in Turkey can be divided into two categories when their ownership is taken into consideration.

a-State Enterprises

There are divided into two as well.

aa-Non-Profit Enterprises (education, justice, health, security, defence, etc)

The accounting systems of such enterprises were conducted in terms of “cash” concept and until recently, were listed and studied under “Government Accounting”. The goods and services produced by such enterprises were not priced but were included in the consolidated budget of the state.

ab-State Economic Enterprises: These enterprises perform economic activities which are priced. Shares of some of these are even quoted. The accounting system of these follow the rules and regulations of Capital Market Board (SPK). The others follow the system used by businesses and corporations.

b-Private Sector Enterprises: these can be analyzed in six categories.

ba-Corporations Quoted in Stock Exchange: They follow the rules and regulations stated by SPK.

bb- Banks: Their accounting and financial reporting systems must follow the rules and regulations set by Banking Regulation and Supervision Agency (BDDK) and if they are quoted, they should also comply with SPK rules.

bc-Insurance Companies.

bd-Big Companies

be-Small and Medium Sized Enterprises

bf-Micro Companies
4.3 STANDARD-SETTING PROCESS

Turkish Accounting Standards Board (TMSK) designated to develop national accounting standards, is not only responsible of developing high-standard national systems, but also defining accounting and financial reporting standards abroad. TMSK carries the responsibility of defining both national and international standards as well as serving as a guide to accomplish this mission. In realizing this mission, TMSK should have the vision necessary for accordance and harmony with IAS.

The accounting rules necessary in processing the financial information listed above are determined by TMSK. Until now, TMSK prepared 3 standards, 1 concept and 17 standard drafts.

Studies to increase the number of standards are still continuing. These standards are widely used in explanation of financial information.

4.4 FINANCIAL STATEMENT FORMAT

The Turkish Ministry of Finance prepared the Turkish Uniform Accounting System and announced on the Official Gazette dated November 26, 1992 and number repeated 21447 as Accounting System Application General Announcement Serial No. 135

PRINCIPLES OF FINANCIAL STATEMENTS

The principles of financial statements explain the rules to be applied by businesses in preparing the main financial statements.

For subjects which are not covered in this regulation, compliance should be made with accounting standards which may be published later, or in the absence of these with principles, conforming firstly with accounting concepts, widely used by businesses of a similar size in the sector in which the business operates, or in the

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35 An Introduction to Financial Accounting, Base on Accounting System Application General Announcements Published by Ministry of Finance, YARBAŞI. Engin PhD, Literatür Yayıncılık, İstanbul, 2001
event that these too are not applied, with principles adopted in international standards.

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

Financial statements include the following statements:

1. Balance Sheet
2. Income Statement
3. Statement of Cost of Sales
4. Statement of Funds Flow
5. Statement of Cash Flows
6. Statement of Profit Distribution
7. Statement of Changes in Shareholders Equity

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

A- PURPOSE OF THE FINANCIAL STATEMENTS:

The purpose of the financial statements is as follows:

- To provide information for investors, creditors and other related parties useful in decision making.
- To provide information of help in evaluating future cash flows.
- To provide information about the assets and resources and the changes in these, together with the results of operations of the business.
B- QUALITIES OF THE INFORMATION IN THE FINANCIAL STATEMENTS

In order to achieve the most effective and immediate use of the decision makers, the information included in the financial statements should be understandable, meet the needs, be reliable, comparable and should be prepared in time.

C- PREPARATION PRINCIPLES OF THE MAIN FINANCIAL STATEMENTS

The preparation principles of the main financial statements are separated into two main parts parallel to the main financial statements:

1) Principles of Income Statement
2) Principles of Balance Sheet
   a) Principles Related to Assets,
   b) Principles Related to Liabilities,
   c) Principles Related to Equity.

1) PRINCIPLES OF INCOME STATEMENT:

The purpose of the principles of the income statement; is to classify and state fairly the accounts of sales, revenues, cost of sales, expenses, profit and losses, and results of operations of the organization in certain periods.

All sales, revenues and profits, costs, expenses and losses should be presented with their gross amounts and any sales, income and profit item by comparison with cost, expense and loss item should not be partially or fully eliminated from the scope of the income statement.

Considering this purpose accepted, principles of income statement are stated below:

   a) Unrealized sales, income and profits should not be stated as if they are realized or those realized should not be over or under stated. In order to present fairly the
operation results of a certain period or periods, at the beginning and at the end of a period or periods proper cut-off procedures should be applied.

b) Sales and revenues of a certain period should be matched with cost of sales and expenses made. In order to state costs and expenses of a certain period or periods in accordance with reality, proper cut-off of the inventories, receivables and payables should be achieved.

c) Appropriate depreciation and amortization should be charged for tangible and intangible fixed assets and for other assets subject to amortization.

d) Costs should be distributed among tangible fixed assets, inventories, maintenance and other expense groups appropriately. Among these, direct costs should be allocated directly, other costs relating to more than one operation should be accrued and distributed considering the time and usage factors.

e) Unusual and extraordinary profits and losses should be accrued in the periods in which they occur, but should be shown separately from usual operation results.

f) All profit and losses, except those which are material in value and in nature requiring corrections to prior periods, should be shown in the income statement of the period.

g) Provisions should not be arbitrarily used for the purpose of decreasing the organization's profit or transferring the profit of one period to another period.

h) If a change is made in the evaluation principles or cost methods applied in determining period results, the effects of such changes should be stated clearly.

i) The losses and expenses those which exist at the balance sheet date however their future realization is dependant on one or several uncertain events, resulting from the contingent events, those which can be fairly estimated to their realistic values should be accrued and reflected in the income statement. Even if there is a probability of high occurrence for conditional revenues and profits no accrual is allowed however these should be disclosed within the notes.

2. PRINCIPLES OF BALANCE SHEET

a) The purpose of the balance sheet principles is to represent fairly the financial position of an organization at a certain date to the related parties, owners and shareholders who have invested capital or later retained their profits with the organization, and creditors who have granted resources to the organization, by
establishing and keeping meaningful accounting transactions, records and statements of
the assets obtained against such liabilities.

b) Balance sheet is not a statement that reflects the value of the assets in the period
or in case of a liquidation the cash amounts to obtain from the sales of these.

c) All assets, liabilities and equity are stated with their gross values in the balance
sheet. This principle does not form an obstacle preventing the preparation of the balance
sheet under the net values method. Accordingly, as a requirement of the balance sheet
preparation under the net values method, the deduction items should be clearly stated
under the related accounts.

d) In accordance with this purpose the accepted principles of balance sheet,
determined under the captions of assets, liabilities and equity are stated below:

**a- Principles Relating to Assets:**

1. The assets of an organization, which can be converted to cash within one year
or in one usual operating period are shown under the current assets group in the balance
sheet.

2. The fixed assets of an organization which can not be converted to cash within
one year or in a usual operating period, and fixed assets from which can be benefited
from their services for more than one usual accounting period are shown under the non-
current assets group in the balance sheet. At the end of the period, on balance sheet date,
among the accounts in this group those accounts, having maturities less than one year,
are transferred to related accounts within the current assets.

3. In order to show fair values of the assets at balance sheet date, by stating the
decreases in their values allocation of provisions in the balance sheet is compulsory.

   Marketable securities, receivables, inventories and other current assets included
   in current assets group, should be evaluated and for such items where necessary
   adequate provisions should be booked.

   This principle also covers the items of receivables, long term securities,
   affiliates, subsidiaries and other fixed assets included in the non-current assets group.

4. The prepaid expense, which relate to future periods and accrued income of
current period, which will be collected in future periods should be determined, recorded
and shown separately in the balance sheet.

5. In order to state properly the notes receivable shown under current and non-
current assets, these should be rediscounted to their fair values at the balance sheet date.
6. In order to apportion to the expenses of various periods, the costs of tangible and intangible assets, shown under the non-current assets group, the accumulated totals of depreciation provided in each period should also be stated in the balance sheet.

7. In order to apportion to the expenses of various periods, the costs of assets subject to special amortization shown under the non-current assets group, the accumulated totals of special amortization provided in each period should also be stated in the balance sheet.

8. Separating, the accounts of partners, personnel, affiliates and subsidiaries who have capital and management relation of an organization, from the receivables, marketable securities, long term securities and other related accounts and obligations which are stated under current and non-current assets groups in the balance sheet is a main principle.

9. The receivables, which their values can not be determined no accruals are allowed. Such receivables should be clearly stated in the footnotes or appendixes of the balance sheet.

10. The pledges, mortgages and other guarantees given, which are not included in the balance sheet, should be clearly stated by giving their properties and values in the footnotes or appendixes of the balance sheet.

    This principle is also valid for the pledges, mortgages and other guarantees obtained which are not included in the balance sheet.

    In addition to these, the total insurance amount covering the assets of the organization should be clearly stated in the footnotes or appendixes of the balance sheet.

**b- Principles Relating to Liabilities:**

1. The loans of an organization, which mature within one year or one usual operating period are stated in the short-term liabilities group of the balance sheet.

2. The loans of an organization, which are not matured within one year or usual operation period, are stated in the long-term liabilities group of the balance sheet. At the end of the balance sheet date out of the accounts in this group those having maturities less than one year are transferred to the related accounts in the short-term liabilities group.

3. All liabilities to third parties, that are known or those, which their amount could be estimated fairly, including items, which their amount cannot be determined or their
positions are disputable should be determined and recorded, should be stated in the balance sheet.

Those that are known but their amount cannot be reasonably estimated should be clearly explained in the footnotes of the balance sheet.

4. Income received in advance which relates to future periods and expenses accrued in current period which are payable in future periods should be determined and recorded and should be stated separately in the balance sheet.

5. Rediscounting of notes payable that exist in short and long-term liabilities group should be made in order to state these with their fair values at the balance sheet date.

6. To separate the accounts of partners, personnel, affiliates and subsidiaries who have capital and management relation of an organization, from the short and long term loans, advances received and other related accounts which are stated under current and long term liabilities groups in the balance sheet, is a main principle.

c- Principles Relating to Equity:

1. The rights of the owners and partners over the organizations’ assets, arising from being an owner or a partner of the organization, form the equity group.

   The paid-in-capital at balance sheet date, profits generated from business operations which are retained within the organization under various names and net profit (loss) for the period are stated under equity group in the balance sheet.

2. The paid-in-capital is shown as a separate line item in the balance sheet. However, if the capital is divided into different categories of shares disclosure should be made within the footnotes of the balance sheet, showing the rights of each group, the features that might exist in profit distribution and liquidation shares and any other specialities.

3. Continuity of the invested capital by the shareholders of an organization is necessary. Any loss sustained by the enterprise and any decrease caused by any reason in the equity should be followed and recorded both periodically and cumulatively.

4. In order to state the net equity in the balance sheet, accumulated deficit and net loss for the period should be shown as deduction items in the balance sheet.

5. Equity is composed of the paid-in-capital, capital reserves, reserves allocated from profits, retained earnings (accumulated deficits) and net profit (loss) for the period. The reserves allocated from profits includes legal, statutory and extraordinary reserves,
and provisions that are accepted as reserves, special funds and undistributed portion of the profit which is generated from operations. Capital reserves are composed of accounts such as share premium, cancelled shares, revaluation fund. Capital reserves cannot be transferred to the income statement as a revenue component.

PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

A- PREPARATION AND PRESENTATION OF MAIN FINANCIAL STATEMENTS

This section covers the preparation and presentation of balance sheet and income statement, which constitutes the main financial statements.

1- BALANCE SHEET

a- Definition of Balance Sheet:

Balance sheet is a financial statement that shows at a specific date the assets of an enterprise and the sources provided these assets.

b- Balance Sheet Preparation Rules:

In balance sheet preparation the explanations given under the principles of financial statements are taken as the basis.

Assets that take place at the active side of the balance sheet are listed according to their convertibility to cash from the most liquid item to the least, sources that take place at the passive side are listed starting from the shortest maturity item to the longest.
c- **Formal Structure of a Balance Sheet:**

The types of balance sheets presented in the forms enclosed are taken as the basis for balance sheet preparation of the enterprises in order to uniform the structure of balance sheet and to achieve easy comparisons and uniqueness in meaning.

Assets are divided into two groups as current and non-current assets. Under the current assets group, the assets that are thought to be converted into cash within one year or one usual operating period, or those, which can be used, are listed. Under non-current assets group, assets that are thought to be held in hand more than one year under normal conditions or those not to be sold within one year, are listed.

Sources are composed of short and long term liabilities and equity. Short-term liabilities are the ones that should be paid in one year, long-term liabilities are the obligations that should be paid in more than a year. Equity is composed of sources, which are assigned to the company itself by the owner or the partners of the enterprise.

Set-off’s are not allowed in the balance sheet accounts. If any account presented under the “Other” title exceeds 20% of the total amount of the group, such account should be shown under a separate title.

d- **Explanations Relating to Balance Sheet Captions:**

Items in the balance sheet captions are listed in the same ranking and explanation order with the main accounts.

The accounts included in detailed balance sheet, are as shown below:
ASSETS

I- CURRENT ASSETS
   A- LIQUID ASSETS
      1- CASH
      2- CHECKS RECEIVED
      3- BANK ACCOUNTS
      4- CHECKS AND PAYMENT ORDERS GIVEN (-)
      5- OTHER CURRENT ASSETS
   B- MARKETABLE SECURITIES
      1- SHARE CERTIFICATES
      2- PRIVATE SECTOR BONDS AND NOTES
      3- PUBLIC SECTOR BONDS AND NOTES
      4- OTHER MARKETABLE SECURITIES
      5- ALLOWANCES FOR MARKETABLE SECURITIES (-)
   C- TRADE RECEIVABLES
      1- CUSTOMERS
      2- NOTES RECEIVABLE
      3- DISCOUNTS ON NOTES RECEIVABLE (-)
      4- DEPOSITS AND GUARANTEES GIVEN
      5- OTHER TRADE RECEIVABLES
      6- DOUBTFUL TRADE RECEIVABLES
      7- ALLOWANCES FOR DOUBTFUL RECEIVABLES (-)
   D- OTHER RECEIVABLES
      1- RECEIVABLES FROM SHAREHOLDERS
      2- RECEIVABLES FROM AFFILIATES
      3- RECEIVABLES FROM SUBSIDIARIES
      4- RECEIVABLES FROM PERSONNEL
      5- OTHER TRADE RECEIVABLES
      6- DISCOUNTS ON OTHER NOTES RECEIVABLES (-)
      7- OTHER DOUBTFUL RECEIVABLES
      8- ALLOWANCES FOR OTHER DOUBTFUL RECEIVABLES (-)
   E- INVENTORIES
      1- RAW MATERIAL AND SUPPLIES
      2- WORK-IN-PROCESS
3- FINISHED GOODS
4- MERCHANDISES
5- OTHER INVENTORIES
6- ALLOWANCES FOR INVENTORIES (-)
7- ORDER ADVANCES GIVEN

F- DEFERRED CONTRACT AND MAINTENANCE COSTS
1- DEFERRED CONTRACT AND MAINTENANCE COSTS
2- ADVANCES GIVEN TO SUB-CONTRACTORS

G- PREPAID EXPENSES AND INCOME ACCRUALS
1- PREPAID EXPENSES FOR FUTURE MONTHS
2- INCOME ACCRUALS

H- OTHER CURRENT ASSETS
1- TRANSFERRED V.A.T.
2- V.A.T. TO DEDUCT
3- OTHER V.A.T.
4- PREPAID TAXES AND FUNDS
5- WORK ADVANCES
6- ADVANCES TO PERSONNEL
7- ASSETS SHORTAGES
8- OTHER CURRENT ASSETS
9- ALLOWANCES FOR OTHER CURRENT ASSETS (-)

II- FIXED ASSETS

A- TRADE RECEIVABLES
1- CUSTOMERS
2- NOTES RECEIVABLE
3- DISCOUNTS ON NOTES RECEIVABLE (-)
4- DEPOSITS AND GUARANTEES GIVEN
5- ALLOWANCES FOR DOUBTFUL RECEIVABLES (-)

B- OTHER RECEIVABLES
1- RECEIVABLES FROM SHAREHOLDERS
2- RECEIVABLES FROM AFFILIATES
3- RECEIVABLES FROM SUBSIDIARIES
4- RECEIVABLES FROM PERSONNEL
5- OTHER TRADE RECEIVABLES
6- DISCOUNTS ON OTHER NOTES RECEIVABLES (-)
7- ALLOWANCES FOR OTHER DOUBTFUL RECEIVABLES (-)
C. FINANCIAL FIXED ASSETS
   1. LONG TERM SECURITIES
   2. ALLOWANCES FOR SECURITIES (-)
   3. AFFILIATES
   4. CAPITAL COMMITMENTS TO AFFILIATES (-)
   5. ALLOWANCES FOR AFFILIATES SHARES (-)
   6. SUBSIDIARIES
   7. CAPITAL COMMITMENTS TO SUBSIDIARIES
   8. ALLOWANCES FOR SUBSIDIARIES SHARES(-)
   9. OTHER FINANCIAL FIXED ASSETS
  10. ALLOWANCES FOR OTHER FINANCIAL FIXED ASSETS (-)

D. TANGIBLE FIXED ASSETS
   1. LAND
   2. LAND IMPROVEMENTS
   3. BUILDINGS
   4. PLANT, MACHINERY AND EQUIPMENT
   5. MOTOR VEHICLES
   6. FURNITURE AND FIXTURES
   7. OTHER TANGIBLE FIXED ASSETS
   8. ACCUMULATED DEPRECIATION (-)
   9. CONSTRUCTIONS IN PROGRESS
  10. ADVANCES GIVEN

E. INTANGIBLE FIXED ASSETS
   1. RIGHTS
   2. GOODWILL
   3. ESTABLISHMENT AND FOUNDATION EXPENSES
   4. RESEARCH AND DEVELOPMENT EXPENSES
   5. LEASEHOLD IMPROVEMENTS
   6. OTHER INTANGIBLE FIXED ASSETS
   7. ACCUMULATED AMORTIZATION (-)
   8. ADVANCES TO SUPPLIERS

F. ASSETS EXPOSED TO SPECIAL DEPLETION
   1. SEARCH EXPENSES
   2. PREPARATION AND DEVELOPMENT EXPENSES
   3. OTHER ASSETS EXPOSED TO SPECIAL DEPLETION
4- ACCUMULATED DEPLETION (-)
5- ADVANCES GIVEN

G- PREPAID EXPENSES AND INCOME ACCRUALS
1- PREPAID EXPENSES FOR FUTURE YEARS
2- INCOME ACCRUALS

H- OTHER FIXED ASSETS
1- V.A.T. TO DEDUCT IN FUTURE YEARS
2- OTHER V.A.T.
3- INVENTORIES FOR FUTURE YEARS' NEEDS
4- INVENTORIES AND TANGIBLE FIXED ASSETS TO BE SOLD
5- PREPAID TAXES AND FUNDS
6- OTHER FIXED ASSETS
7- ALLOWANCES FOR INVENTORIES (-)
8- ACCUMULATED DEPRECIATION (-)

LIABILITIES

I- SHORT TERM LIABILITIES

A- FINANCIAL LIABILITIES
1- BANK LOANS
2- INSTALMENTS AND INTERESTS OF LONG TERM LOANS
3- INSTALMENTS AND INTERESTS OF BONDS
4- BONDS AND NOTES ISSUED
5- OTHER SECURITIES ISSUED
6- VALUE DIFFERENCE OF SECURITIES ISSUED (-)
7- OTHER FINANCIAL LIABILITIES

B- TRADE PAYABLES
1- SUPPLIERS
2- NOTES PAYABLE
3- DISCOUNT ON NOTES PAYABLE (-)
4- DEPOSITS AND GUARANTEES RECEIVED
5- OTHER TRADE PAYABLES

C- OTHER LIABILITIES
1- PAYABLES TO SHAREHOLDERS
2- PAYABLES TO AFFILIATES
3- PAYABLES TO SUBSIDIARIES
4- PAYABLES TO PERSONNEL
5- OTHER LIABILITIES
6- DISCOUNT ON OTHER NOTES PAYABLE (-)

D- ADVANCES RECEIVED

E- ACCRUED CONTRACT AND MAINTENANCE INCOME
1- ACCRUED CONTRACT AND MAINTENANCE INCOME

F- TAXES PAYABLE AND OTHER FISCAL DUTIES
1- TAXES AND FUNDS PAYABLE
2- SOCIAL SECURITY WITHHOLDINGS PAYABLE
3- OVERDUE, DEFERRED OR RESTRUCTURED TAXES & DUTIES
4- OTHER DUTIES PAYABLE

G- PROVISIONS FOR DUTIES AND EXPENSES
1- PROVISIONS FOR INCOME TAXES AND OTHER DUTIES ON PROFIT
2- PREPAID INCOME TAXES & OTHER DUTIES ON PROFIT (-)
3- PROVISIONS FOR TERMINATION INDEMNITIES
4- PROVISIONS FOR COST EXPENSES
5- PROVISIONS FOR OTHER DEBTS AND EXPENSES

H- INCOME RELATING TO FUTURE MONTHS AND EXPENSE ACCRUALS
1- INCOME RELATING TO FUTURE MONTHS
2- EXPENSE ACCRUALS

I- OTHER SHORT TERM LIABILITIES
1- V.A.T. TAKEN INTO ACCOUNTS
2- OTHER V.A.T.
3- HEAD OFFICE AND BRANCH CURRENT ACCOUNTS
4- ASSETS OVERAGES
5- OTHER SHORT TERM LIABILITIES

II- LONG TERM LIABILITIES

A- FINANCIAL LIABILITIES
1- BANK LOANS
2- BONDS ISSUED
3- OTHER SECURITIES ISSUED
4- VALUE DIFFERENCE OF SECURITIES ISSUED (-)
5- OTHER FINANCIAL LIABILITIES

B- TRADE PAYABLES
1- SUPPLIERS
2- NOTES PAYABLE
3- DISCOUNT ON NOTES PAYABLE (-)
4- DEPOSITS AND GUARANTEES RECEIVED
5- OTHER TRADE PAYABLES

C- OTHER LIABILITIES
1- PAYABLES TO SHAREHOLDERS
2- PAYABLES TO AFFILIATES
3- PAYABLES TO SUBSIDIARIES
4- DISCOUNT ON OTHER NOTES PAYABLE (-)
5- DEBTS TO THE PUBLIC SECTOR, DEFERRED OR PAYABLE BY INSTALMENTS
6- INSTALMENTS OR DEFERRED TAX DEBTS TO PUBLIC
7- OTHER PAYABLES

D- ADVANCES RECEIVED

E- PROVISIONS FOR DEBTS AND EXPENSES
1- PROVISIONS FOR TERMINATION INDEMNITIES
2- PROVISIONS FOR OTHER DEBTS AND EXPENSES

F- INCOME RELATING TO FUTURE YEARS AND EXPENSE ACCRUALS
1- INCOME RELATING TO FUTURE YEARS
2- EXPENSE ACCRUALS

G- OTHER LONG TERM LIABILITIES
1- V.A.T. DEFERRED TO FUTURE YEARS OR WRITTEN OFF
2- ESTABLISHMENT PARTICIPATION
3- OTHER LONG TERM LIABILITIES

III- EQUITY CAPITAL

A- PAID IN CAPITAL
1- CAPITAL
2- UN-PAID CAPITAL (-)

B- CAPITAL RESERVE FUNDS
1- SHARE PREMIUMS
2- PROFIT ON CANCELLED SHARES
e- Balance Sheet Footnotes:
Following footnotes are presented as additional information to the balance sheet.

**BALANCE SHEET FOOTNOTES**

1. Associations where the authorized capital system is accepted the upper limit of
capital .................................................................................................. TL

2. Following should be stated in respect to the high level management such as
Chairman and members of the Board, general manager, general coordinator,
assistants to general manager and general secretary:
a) Total amount of each type of advance and loan granted
in the current period ......................................................................... TL
b) At the end of the period the balance of advance
or loan granted .............................................................................. TL

3. Total insurance cost of the assets insured............................................ TL

4. Total amount of mortgages and other guarantees obtained
against the receivables ...................................................................... TL

5. Total amount of mortgages and other guarantees given to
6. Total amount of commitments which are not included in liabilities

7. Total foreign currency in cash and banks:

<table>
<thead>
<tr>
<th>Type of Currency</th>
<th>Amount</th>
<th>Rate</th>
<th>Total Amount</th>
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8. Receivables from foreign countries (including advances):

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<thead>
<tr>
<th>Type of Currency</th>
<th>Amount</th>
<th>Rate</th>
<th>Total Amount</th>
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9. Payables to foreign countries (including advances):

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<th>Type of Currency</th>
<th>Amount</th>
<th>Rate</th>
<th>Total Amount</th>
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</table>

10. From the amount of financial bonds and securities in circulation, those which are guaranteed by the banks

11. Total amount of current and future periods investment allowances

12. From the total bonds in circulation the amount of those which are convertible into shares
13. List of shares which represent the share capital:

<table>
<thead>
<tr>
<th>Type</th>
<th>Sequence</th>
<th>Number</th>
<th>Bases</th>
<th>Total Amount</th>
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14. Total amount of share capital issued in current period........................................TL

15. List of owners or shareholders who hold more than 10% of the capital:

<table>
<thead>
<tr>
<th>Name</th>
<th>Share Percentage</th>
<th>Share Amount</th>
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</table>

16. List of affiliates, subsidiaries and establishments owned more than 10% of their share capital:

<table>
<thead>
<tr>
<th>Name</th>
<th>Share Percentage</th>
<th>Total Equity</th>
<th>Total Amount</th>
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17. Inventory valuation method:
   c) Method used in current period,
   d) Method used in previous period,
   e) If there is a change in inventory valuation method, increase or decrease of inventories caused by such change ......................................TL

18. Movements of fixed assets in current period
   a. Cost of fixed assets purchased, produced or constructed......TL
   b. Cost of fixed assets sold or written off..........................TL
c. Amount of revaluation fund in current period .................TL
   - Revaluation of assets (+) ..............................................TL
   - Revaluation of accumulated depreciation ....................TL

19. The portion of the parent company’s, subsidiaries’ and the affiliates’ in the trade receivables and trade payables,

<table>
<thead>
<tr>
<th></th>
<th>Trade Receivables</th>
<th>Trade Payables</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Parent Company</td>
<td>.................</td>
<td>................</td>
</tr>
<tr>
<td>2. Affiliates</td>
<td>..................</td>
<td>...............</td>
</tr>
<tr>
<td>3. Subsidiaries</td>
<td>..................</td>
<td>...............</td>
</tr>
</tbody>
</table>

20. Average number of personnel in current period.

21. Information about issues arisen after the balance sheet date.

22. Disclosure of material but unquantifiable contingent liabilities and all kind of contingent profits. (the nature of legal disputes which may effect the results for the period and the indebtedness of the operation are stated in this section)

23. Disclosures of changes in accounting estimates and their monetary effect to gross profit ratios.

24. Amount of blocked deposits in bank accounts ..........................TL

25. Issuers and amount of marketable securities issued by affiliates, subsidiaries and shareholders should be disclosed..............................TL

26. Free shares received from affiliates and subsidiaries due to capital increase realised from reserves...........................................TL

27. Total amount of unrealized interest for the following period related to short and long term credits obtained and debenture bonds issued ..................TL

28. Total amount of obligations granted such as guarantees, commitments, securities in favour of the shareholders, affiliates and the subsidiaries TL

29. Other issues, which might have material effect to financial statements or issues, which make financial statements more clear, interpretable and understandable, should be disclosed.

30. Date of approval finalizing the balance sheet  .../.../...
2- INCOME STATEMENT

a- Definition of Income Statement:
Income statement includes net profit or loss of an enterprise in a period that is
generated from the results of its total revenues and the total expenses incurred during
the same period.

b- Preparation rules of Income Statement:
The explanations given under the principles of financial statements are taken as the
basis for the income statement preparation.

In income statement preparation, income from operations and other income,
which have consistency, also other income, which have inconsistency should be
stated separately. According to this, expenses made for the main operations and other
consistent operation expenses, also inconsistent extraordinary expenses should be
shown separately.

c- The formal structure of Income Statement:
Formal structure shown in the appendixes are taken as the basis in preparing income
statements in order to provide uniform structure to achieve easy comparability and
uniqueness in meaning. (Appendix 3 -4)

Sets off transactions are not allowed between the income statement accounts. If
revenue and expense accounts shown on the statement under the “other” title exceeds
20% of the total amount, such account should be shown under a separate title. Items
without value are not shown in the income statement.

d- Explanations relating to Income Statement items:
Items within the income statement are listed in the same ranking and order with the
explanations in the uniform accounting system.

Items in detailed income statement are shown below.

<table>
<thead>
<tr>
<th>A- GROSS SALES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1- DOMESTIC SALES</td>
</tr>
<tr>
<td>2- EXPORT SALES</td>
</tr>
</tbody>
</table>
3- OTHER INCOME

B- SALES DEDUCTIONS (-)
   1- SALES RETURNS (-)
   2- SALES DISCOUNTS (-)
   3- OTHER DEDUCTIONS (-)

NET SALES

C- COST OF SALES (-)
   1- COST OF FINISHED GOODS SOLD (-)
   2- COST OF MERCHANDISES SOLD (-)
   3- COST OF SERVICE RENDERED (-)
   4- COST OF OTHER SALES (-)

GROSS PROFIT OR LOSS

D- OPERATING EXPENSES (-)
   1- RESEARCH AND DEVELOPMENT EXPENSES (-)
   2- MARKETING, SALES, AND DISTRIBUTION EXPENSES (-)
   3- GENERAL ADMINISTRATION EXPENSES (-)

OPERATION PROFIT OR LOSS

E- INCOME & PROFIT FROM OTHER ORDINARY OPERATIONS
   1- DIVIDEND INCOME FROM AFFILIATES
   2- DIVIDEND INCOME FROM SUBSIDIARIES
   3- INTEREST INCOME
   4- COMMISSION INCOME
   5- PROVISIONS NO LONGER REQUIRED
   6- PROFIT ON SALES OF MARKETABLE SECURITIES
   7- FOREIGN CURRENCY TRANSACTION GAIN
   8- DISCOUNT INTEREST INCOME
   9- OTHER ORDINARY INCOME AND PROFIT

F- EXPENSES & LOSSES FROM OTHER ORDINARY OPERATIONS (-)
   1- COMMISSION EXPENSES (-)
   2- ALLOWANCES EXPENSES(-)
   3- LOSS ON SALES OF MARKETABLE SECURITIES (-)
Statement of Cost of Sales:
For the Cost of Sales section of the income statement a separate statement is prepared to show the inventory movements and the goods sold, raw materials and supplies, trade goods and cost of services sold of an enterprise in a period. Such statement forms an appendix and completes the income statement.

The main items of cost of sales are explained below:

A- Direct Raw Material and Other Material Expenses: This group is comprised of direct raw and other materials usage, which are major component of finished goods and can be directly traced to the product. Cost of raw materials and supplies which are not used in the production process but sold are shown within the trading activity section of the statement.

B- Direct Labor Expenses: This group includes direct labour expenses for goods produced which can be directly charged to the production.
C- **Manufacturing Overheads:** This group includes the costs of the manufacturing operations or services related with these operations excluding the direct raw and other materials and direct labour expenses.

D- **Change in Work-In-Process:** This group is comprised of the difference between the beginning and ending inventory of the goods not yet finished at the production stage which includes share of cost of raw and other materials, direct labor and manufacturing overheads.

E- **Change in Finished Goods:** The sum of the cost of direct raw and other material, direct labor, manufacturing overheads and the usage amount of the work-in-process gives the production cost amount. The difference between the beginning finished goods inventory and the ending finished goods inventory plus the cost amount of the finished goods consumed internally for those enterprises using a part of the finished goods in the business, forms the “Change in Finished Goods Inventory”. By adding or subtracting this amount to the production cost, the cost of the finished goods sold is obtained.

f- **Income Statement Footnotes:**

The following explanations are disclosed as additional information about the income statement:

1- Total depreciation and amortization charges for the period .......................... TL
   a) Depreciation expenses ................................................................. TL
      aa) Usual depreciation charge .................................................. TL
      ab) Depreciation charge occurred from revaluation ........................ TL
   b) Amortization expenses ................................................................. TL.

2- Provision expenses for the period .................................................. TL.

3- Financial expenses for the period .................................................. TL.
   a) Charges to production costs ..................................................... TL
   b) Charges to fixed asset costs ...................................................... TL
   c) Direct charges to expense ...................................................... TL.

4- Amounts of financial expenses of the period relating to the parent company, parent society, establishment, subsidiaries and affiliates. (Those which are over than 20% of the total amount should be disclosed separately) ................................................................. TL.
5- Sales to parent company, parent society, establishment, subsidiaries and affiliates. (Those which are over than 20% of the total amount should be disclosed separately) .......................................................... TL.

6- Interests, rents and etc. received from or paid to the parent company, parent society, establishment, subsidiaries and affiliates. (Those which are over than 20% of the total amount should be disclosed separately) ................................................................................. ................. TL.

7- The total amount of wages and other benefits granted to top management such as the chairman and board of directors, general manager, general coordinator, assistant to general manager ........................................... TL.

8- Increase (+) or decrease (-) occurred in depreciation expenses caused by depreciation calculation techniques and changes in these techniques................................................................. TL.

9- Systems of cost calculation (process costing or job order costing) and inventory evaluation techniques (weighted average, first in first out, moving average method etc.) ........................................................................................................... TL.

10- The reasons of not doing full or partial inventory evaluation.................................................................

11- Separate total amounts of sub-product sales, scrap, idle materials and services exceeding 20% of the gross sales and which are included in the domestic or export sales.................................................................................. TL.

12- Explanatory note showing the amounts and sources of prior period revenues and expenses, also profits and losses.................................................................

13- In order to disclose separately for ordinary and privileged shares profit per share and profit distribution rates .................................................................................................
4.5 ALTERNATIVE ACCOUNTING PRINCIPLES

SPK, BDDK and Turkish Commercial Code regulated accounting principles accordingly to the needs of their purposes. But according to the new Turkish Commercial Code proposal all of these institutions are going to use TMSK’s standards.

Turkish enterprises’ financial statements are arranged related to their economic characters.

Financial statements of the enterprises’ like banks and insurance companies are prepare in a different way. Such differences stem from the legislation they are subject to. Their financial statements are prepared accordingly to the tax legislation.

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