

Comparison of the Measurement and Accounting Principles of Financial Assets in Terms of the Financial Reporting Standard for Large and Medium-Sized Enterprises and Turkish Financial Reporting Standards

Erkan ÖZTÜRK

Kırklareli University

Faculty of Economics and Administrative Sciences

Kırklareli, Turkey

orcid.org/0000-0002-9356-1557

erkan.ozturk@klu.edu.tr

Extensive Summary

Introduction

International Financial Reporting Standards (IFRS) have been developed to provide comparable, reliable, understandable and transparent financial reports. Businesses that wish to exist in international financial markets regulate their financial reports according to IFRS, which is accepted as the common language of accounting. There are also many studies to aid to prepare comparable financial reporting at international level in Turkey. For this purpose, IFRS has been translated into Turkish under the title of Turkish Financial Reporting Standards (TFRS) and has been partially applied since 2005.

In Turkey, companies that are classified as public interest entities (KAYİK) prepare their financial reports in accordance with TFRS. On the other hand, the number of companies that do not apply TFRS, but subject to independent audit has increased day by day. For this reason, the need for local financial reporting standards has increased over time. Based on this need, the notification on Financial Reporting Standard for Large and Medium-Sized Enterprises (BOBİ FRS) that was prepared by Public Oversight, Accounting and Auditing Standards Authority was published on 29/07/2017 and entered into force. Firms that are subject to independent audit and don't apply Turkish Financial Reporting Standards (TFRS) must prepare their financial statements according to this new set during fiscal periods starting on after 01/01/2018.

In this study, comparison of financial assets that have an important place in Turkish Financial Reporting Standards set has been made in terms of Turkish Financial Reporting Standards (TFRS) and Financial Reporting Standard for Large and Medium-Sized Companies (BOBİ FRS). At the end of the study, several examples have been presented to explain the detected differences.

The Coverage of BOBİ FRS

BOBİ FRS is an accounting standard list for the companies that do not apply TFRS to prepare their financial reports but wish to report at international level. According to Article 6 of BOBİ FRS that published in The Official Gazette dated 29/07/2017, companies that exceed at least two of the following criteria in two accounting periods have to apply BOBİ FRS:

- Total Assets, 75 Million and over Turkish Liras.
- Annual Net Sales Revenue, 150 Million and over Turkish Liras.
- Average Number of Employees, 250 and over.

Convergence Characteristics of the BOBİ FRS Set to the TFRS with respect to Financial Assets

Some of the convergence characteristics of the BOBİ FRS set to the TFRS related to the measurement of financial assets are as follows:

- Valuation in BOBİ FRS is arranged according to the valuation criteria in TFRS. However, despite the difficulties in practice, there have been some restrictions on the implementation of these criteria in BOBİ FRS.

- There are differences between TFRS and BOBİ FRS in terms of measurement of revenue. In case of a maturity that is less than 1 year, measurement is made with maturity value instead of cash value.

- In TFRS, the first recognition of trade and other receivables and trade and other payables are measured at transaction price. Subsequent measurements are measured at amortized cost. The differences calculated according to the effective interest method are recognized in profit or loss section. In BOBİ FRS, in case of a maturity that is more than 1 year, this measurement is performed as in TFRS.

Comparison of the BOBİ FRS and the TFRS with respect to Financial Assets

Classification of Financial Assets in BOBİ FRS:

- Trade and Other Receivables
- Debt Instruments
- Investments in Equity Instruments
- Other Financial Assets

Affiliates and subsidiaries are not classified as financial assets in BOBİ FRS.

Initial Recognition of Financial Assets in BOBİ FRS:

- Trade and Other Receivables with maturity not exceeding 1 year are measured at nominal value. On the other hand, trade and other receivables with a maturity more than 1 year are measured at amortized cost as in TFRS 9.

- The initial recognition of debt instruments in BOBİ FRS is measured at the transaction price. The costs incurred for the transaction are included in the transaction price.

- Investments in equity instruments are measured different forms in BOBİ FRS, depending on whether they are traded on the stock exchange and/or other organized markets. Equity instruments traded on the stock exchange and/or other organized markets are measured at transaction price at initial recognition and transaction costs are reflected in profit or loss. Equity instruments that are not traded on the stock exchange and/or other organized markets are measured at cost value, which is the sum of transaction costs and transaction costs at initial recognition.

Subsequent Measurement of Financial Assets in BOBİ FRS:

- The maturity period for subsequent measurement of trade and other receivables is determinative in BOBİ FRS. Trade and other receivables with a maturity not exceeding one year are measured at nominal value, with a maturity over one year are measured at amortized cost as in IFRS 9. In the case of impairment, the impairment loss is calculated. Impairment losses for trade and other receivables are reflected to “Other Expenses from Operating Activities” item on trade receivables.

- There is no classification in BOBİ FRS for borrowing instruments in terms of subsequent measurement as in TFRS 9. Nevertheless, it is stated in BOBİ FRS that borrowing instruments must be measured at amortized cost.

- According to BOBİ FRS, measurement of equity instruments has two different applications. Equity instruments traded on the stock exchange and / or other organized markets are measured at fair value at the reporting date and the resulting value differences are reflected in profit or loss in the "Appreciation Income in Financial Assets" or "Impairment Losses in Financial Investments". Equity instruments that are not traded on the stock exchange and / or other organized markets are measured at cost value with impairment loss.

Conclusion and Discussions

Some accounting approaches that are in the European Union directives but not in General Communiqué on Accounting System Application (MSUGT) will also begin to be implemented with the entry into force of the BOBİ FRS. In this manner, it will also be ensured that the financial reports of the companies are transformed into a universal form.