

## Framework for Local Financial Reporting and Financial Reporting Standard for Large and Medium Sized Entities: A Literature Review (2016 - 2017)

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### Extensive Summary

In Turkey, financial reporting is regulated by Turkish Public Oversight, Accounting and Auditing Standards Authority (TPOAASA) within the framework of the concepts of independent audit and public accountability. For the purpose of financial reporting, entities that are subject to independent audit and publicly accountable are subject to Turkish Financial Reporting Standards (TFRS) that are in compliance with International Financial Reporting Standards; however, entities that are not publicly accountable but subject to independent audit have two options either to use TFRS or Financial Reporting Standard for Large and Medium Sized Entities (FRS for LMEs).

FRS for LMEs that was published by TPOAASA on June 29, 2017 replaced its draft predecessor, Framework for Local Financial Reporting (FLFR). FRS for LMEs is a standalone document which does not make any specific reference to TFRS except for referring to TAS 32 Financial Instruments – Presentation in Section 9 ‘Financial Instruments and Equity’ (Öztürk, 2017, pp. 3) and is made up of 27 Sections.

FRS for LMEs is important in terms of accounting applications in Turkey. It is a financial reporting standard that provides the investors and creditors the opportunity to understand the financial statements of the entities that are subject to independent audit but not publicly accountable and do not prefer using TFRS as well as it provides faithful representation and comparability of financial statements and meets the need of financial information.

The objective of this paper is to focus on a literature review related to the papers published in referred journals on the recently published FRS for LMEs and its draft predecessor FLFR by considering the years 2016 and 2017 to observe whether authors prepared their research papers on which aspects of financial reporting regarding FLFR

and FRS for LMEs. Within the framework of this analysis, this paper offers suggestions for future research.

The paper has the following structure: section 2 and section 3 present the literature review on FLFR and FRS for LMEs, respectively. Finally, section 4 presents concluding remarks along with main findings and suggestions for further research.

According to the literature review on FLFR, this paper points out that there are 9 papers published in referred journals from the date when FLFR was first published until the date when FRS for LMEs replaced it.

Within this sample of papers, findings show that (1) papers were published by different referred journals, (2) one of the papers was written in English and others were written in Turkish, (3) the majority of authors preferred comparative approach while preparing their papers; however, there are a limited number of other approaches adopted by them, (4) other approaches adopted refer to both comparative and critical approach, empirical approach and descriptive approach, (5) comparative papers make comparative research between FLFR and (a) Turkish General Communiqués on Accounting System, (b) TFRS, (c) European Union's Directive of 2013/34, (d) Turkish Financial Reporting Standard for Small and Medium Sized Entities which is the 2009 version of International Financial Reporting Standard for Small and Medium Sized Entities (IFRS for SMEs) published by International Accounting Standards Board (IASB), and (6) there are a limited number of subject-specific comparative papers which compare FLFR with (a) TFRS from the perspective of investment property accounting, and (b) both Turkish Tax Procedure Law and TFRS from the standpoint of inventories.

In addition, while critical and comparative paper focuses on the recognition of sales revenue and trade receivables, descriptive paper examines the SME accounting from the perspective of IFRS for SMEs in the general context and from the perspective of FLFR in the Turkish context. Empirical paper concludes section 2 by analyzing the views of certified public accountants and sworn-in certified public accounts operated in city of Ankara in terms of FLFR.

On the other hand, according to the literature review on FRS for LMEs, this paper points out that there are 6 papers published in referred journals so far from the date when FRS for LMEs was first published until the end of the year 2017.

Within this sample of papers, findings show that (1) papers were published by different referred journals, (2) all papers were written in Turkish, (3) the majority of authors preferred comparative approach while preparing their papers; however, there are a limited number of other approaches adopted by them, (4) other approaches adopted refer to both comparative and critical approach and qualitative approach, (5) comparative papers make comparative research between FRS for LMEs and TFRS and complement each other from different perspectives, and (6) there is one subject-specific comparative paper which compare FRS for LMEs and TFRS with each other from the perspective of the presentation and recognition of financial assets.

In addition, while critical and comparative paper focuses on inventories with a particular focus on normal absorption costing and full costing, qualitative paper concludes section 3 by analyzing the views of certified public accountants operated in TR90 region (cities of Trabzon, Gümüşhane, Rize, Ordu, Giresun, and Artvin) in terms of FRS for LMEs.

While concluding the paper, it should be noted a very limited number of papers regarding the discussion on the draft FLFR were written. On the other hand, it is expected that new papers will be published on the FRS for LMEs due to the fact that this is a current and trend topic in Turkish accounting arena. In this context, it is possible to write new papers not only related to the accounting policies of FRS for LMEs but also related to the views of several parties on FRS for LMEs by using different research methods. As a result of this paper, the following topics for potential research papers were offered:

- (1) Comparative research between FRS for LMEs and IFRS for SMEs (2015),
- (2) Comparative research between FRS for LMEs and similar practices of other countries,
- (3) The views of Turkish accounting academics on FRS for LMEs,
- (4) The views of certified public accountants on FRS for LMEs in different regions of Turkey and comparison of these views with prior research,
- (5) The awareness of the business and accounting students related to FRS for LMEs at the vocational, undergraduate and graduate level university education,
- (6) Evaluation and suggestions on the integration of FRS for LMEs to the business and accounting curriculum of vocational, undergraduate and graduate level university education, and
- (7) Applied case studies that will guide the users of FRS for LMEs to recognize its accounting policies and to prepare FRS for LMEs based financial statements.

As it is seen from the suggestions above, there are still a number of possible research topics related to FRS for LMEs. That is why it possible to contribute to the accounting literature, including but not limited to the topics mentioned above.