

THE INTERNATIONAL ACCOUNTING STANDARDS ADOPTION AND ACCOUNTING QUALITY: AN OVERVIEW OF TURKEY

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Abstract

Accounting data produced in organizations is important for users of that data inside and outside the organization. The quality of accounting data is of critical importance for the organizations' success and for the data users' decision-making process.

High-quality accounting data can be best described as the information in the financial statements directing the investors in a most accurate way and helping the organizational leadership in their decisions.

The need for producing high-quality accounting data in Turkey required a mandatory to adaption to the International Financial Reporting Standards. These standards, basically aiming at informing the investor, will surely move the accounting system in our country from a taxation focused point of view to a data producing approach. In this study, we examined the new regulations about the process of international accounting standards adoption to produce high quality accounting data in Turkey.

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1. Introduction

The information produced in accounting data systems has an important role in performing business activities effectively and making right decisions about business. Therefore, the quality of information produced in accounting data systems is very important for the businesses.

“Internationalization” is one of the factors increasing the quality level of accounting data. The concept of high quality accounting data is first defined in this study. Then, how do international accounting standards which are called as a common language appeared with internationalization in accounting, give direction to increase of accounting data system quality in Turkey in terms of tax is analyzed.

2. The Concept of High Quality Accounting Data

Accurate and timely information has taken the place of the other production factors in the 21st century. Timely, meaningful and accurate information undertakes important tasks in monitoring business activities by management and in the fulfillment of functions such as planning, organizing and controlling. Accounting data system is a system that provides timely and accurate information in decision making of administration (Civan&Kara, 2003).

Accounting, whose aim in general terms is to edit and provide financial information in a way that it is going to be useful for decision makers, is defined as the science of detecting, measuring and transferring to accounting records of events affecting the company and then classifying and distributing them to persons concerned as a summarized report and interpreting them. The system which will fulfill these activities is then called as accounting data system (Kosan, 2011).

The information produced in accounting data systems has an important role in performing business activities effectively and making right decisions about business. Therefore, the quality of information produced in accounting data systems is very important for the businesses. To provide and ensure good quality information that helps you make decisions must be the purpose of accounting data systems (Demir, 2010). Various definitions on the basis of persons, institutions and projects have been made in order to define the quality of information produced in accounting data systems.

Examples include “the precision with which financial reporting informs equity investors about future cash flows” and “the extent to which accounting information accurately reflects the company’s current operating performance, is useful in predicting future performance, and helps assess firm value”. Although there are many different definitions of accounting quality, they all ultimately serve the same purpose: to enable people to make value judgments about accounting information (Pounder, 2013). The quality of accounting data needs to be increased in order to increase the efficiency of the accounting information users (Acar&Ozcelik, 2011). Actually, accounting quality is affected by many factors other than the accounting principles adopted, such as the legal and political systems, the financial reporting incentives and other market forces (Ferrari, Momente’&Reggiani, 2012).

“Internationalization” is one of the factors increasing the quality level of accounting data. The reflection of the concept of internationalization on accounting practices appeared as the necessity of accurate and world-wide use of high-quality common accounting language by decision-makers (Gucenme Gencoglu&Ertan 2012). According to International Accounting Standards Board (IASB), which continues to work to serve this need; accounting quality relates to the decision usefulness of the financial reporting for investors and stakeholders, in general. The quality of the financial reporting, in fact, strictly depends on the relevance and reliability of the financial and nonfinancial information recognized and disclosed: The higher the relevance and reliability of accounting data, the better the capability of the market participants to forecast the uncertainty and timing of the firm’s future cash flows (Pounder, 2013). Duarte, Amaral and Azevedo (2015) analyzed, systematically, literature on “IFRS adoption and accounting quality” based on the model proposed by Soderstrom and Sun (2007), using a bibliometric analysis, after the year of 2006, on the basis of "Web of Science" database. As a result, it was verified in literature that the IFRS adoption related to the accounting standards, political and judicial systems of the countries and the financial reporting incentives discussed by Soderstrom and Sun (2007) to determine the quality of accounting remains persistent (Duarte, Saur-Amaral&Azevedo, 2015). Paucana (2015) tested the effects of IFRS adoption on the quality of accounting data is necessary, but not enough; knowing whether IFRS contributed to enhanced accounting quality is not the end of the road. Further research needs to be done in order to investigate the consequences of the increased quality of the information presented in the financial statements (Páucana, 2015). Yurt and Ergun (2015) explored the impact of International Financial Reporting Standards’ adoption on accounting quality in Turkey over years as a candidate state to European Union. They examined the financial statements of the nineteen largest companies listed in Borsa Istanbul using accounting quality metrics and trend analysis. They found significant evidence that the implementation of International Financial Reporting Standards helps to improve accounting quality over years in Turkey (Yurt&Ergun, 2015).

A goal of the International Accounting Standards Committee (IASC), and its successor body IASB, is to develop an internationally acceptable set of high quality financial reporting standards. To achieve this goal, the IASC and IASB have issued principles-based standards, and taken steps to remove allowable accounting alternatives and to require accounting measurements that better reflect a firm’s economic position and performance (Barth, Landsman&Lang, 2008). Accounting quality could increase if these actions by standard setters limit management’s opportunistic discretion in determining accounting amounts, for example, by managing earnings. Accounting quality also could increase because of changes in the financial reporting system contemporaneous with firms’ adoption of international accounting standards (IAS), for example, more rigorous enforcement. Thus, we predict that accounting amounts based on IAS are of higher quality than those based on domestic standards (Chen at all., 2010).

The main reason of the economic crisis in 2008, which started in USA and affected the whole world; was financial statements that were convenient to accounting standards and audited independently but which were not reflecting the real economic situation of the business.

Therefore, quality of accounting and audit of accounting has started to be questioned. In accordance with the increase of importance of accounting quality concept, efforts are made about harmonization of accounting all over the world and it is thought that the beginning of IAS/IFRS’s implementation will increase the quality of accounting (Gucenme Gencoglu&Ertan 2012).

3. The Current Situation Related To The Accounting System In Turkey

Although accounting applications and financial reporting are traditionally shaped according to the tax legislation by taking priorities towards determination of tax base into consideration, different regulations on accounting are found in Turkish Commercial Law, Capital Market Law and Banking Law. In order to provide uniformity in accounting system and facilitate auditing, General Communique on Accounting System Application has been published by Ministry of Finance and has gone into effect in 1994. With this communique, basic concepts of accounting are defined and explanation of accounting policies, preparation and presentation of financial statements, uniform system of accounts and accounting framework is organized.

In spite of its contributions in providing uniformity in accounting and financial reporting, various difficulties have been experienced in accounting applications because the communique is not flexible enough and no more regulations have been made according to the new necessities appeared in time (Bagaeva, 2008).

Because of mandatory sentences and heavy penal sanctions of tax legislation in Turkey, understanding of tax accounting has ruled for years. Commercial enterprises have to give their financial statements in tax statement, for this reason habit of tax-based accounting is popular in Turkey. There is no accounting audit except tax office audit, so accountants have inevitably gotten used to keep their books according to the assessment sentences of tax laws. But one of the main purposes of financial statements is to provide useful information to creditors and investors who are the most important external interest group of business. Therefore financial tables must be prepared with the purpose of giving information about the financial situation and performance of business but not with the aim of calculating the tax that will be paid to government. In order to meet this goal, financial statements must have the characteristics of accessibility, appropriateness to needs, reliability and comparability with other business' financial statements. It is necessary to comply with accounting standards in order to prepare financial statements in desirable quality. If a company's CEO considers tax compliance as the main purpose for preparing accounting information, s/he might be expected to invest less in a quality information system than when the quality of her/his decisions depended on that information system. Previous research suggests that in countries where tax compliance dominates and financial accounting practices are aligned with tax practices for purposes of keeping costs low, accounting information is less value relevant (Bagaeva, 2008). High conformity between financial and tax accounting compromises the value relevance of financial accounting information, as tax accounting is not designed to meet either managers or investors' needs (Ashiq&Hwang, 2000). In this context, it can be said that presence of a close relationship between accounting applications and tax regulations lowers the quality of accounting. Because, tax laws serve to politic aims of government such as collecting tax and are not interested in providing data quality for investors. Furthermore, high tax rates causes businesses to calculate the taxable income low and this lowers the quality of accounting (Yurt&Ergun, 2015).

However, in order to produce high quality accounting data in Turkey, CMB Serial XI No. 25 Communiqué is put in circuit in accordance with International Accounting/Financial Reporting Standards. In Turkey, which aims to be a member of EU, publicly-traded companies put the Serial XI No. 25 "Communiqué On Accounting Standards in Capital Market" into practice which is a translation of IAS/IFRS between the years 2005-2008 and since 2008 they are compelled to implement the IAS/IFRS's which are published in Official Journal by Accounting Standards Board of Turkey. IAS/IFRS brings forth important innovations in accounting understanding and in accounting perspective and comprehensive changes in accounting applications which are shaped according to The Uniform System of Accounting (Bayrı, 2010). The most current and important progress made on this is that Turkish Commercial Law Draft which had long been on the agenda of the Parliamentary General Assembly, became a law in January 14, 2011 (Ulucan Ozkul, 2012). In order to be a part of international trade, industry, services, finance and capital markets, it is regarded that Turkey must have a new commercial law containing current and generally accepted concepts such as transparency and consistency in financial reporting within the framework of international financial reporting standards. With this law, whether they are publicly held or not, all the companies are compelled to implement Turkey Accounting Standards which is published by Accounting Standards Board of Turkey and compliant to International Financial Reporting Standards (IFRS), in accounting and financial reporting (Haftacı&Badem, 2011). But after, within the context of the Council of Ministers decision published in January 23, 2013 and article 398 of Turkish Commercial Code No. 6102, companies that will be subject to independent audit are designated. In general, companies which are going to be subject to independent audit are these:

Companies that provide at least two of the following three criteria alone or together with its subsidiaries and affiliates are subject to independent audit: (Akcaokca, 2013).

- Total assets of 50 million TL(Turkish Lira) and above.
- Annual net sales proceeds from the 100 million TL and above.
- The number of employees is 200 and above.

According to the Official Journal dated November 4, 2012, economic units or initiatives whose number of employees are less than 250 and annual turnover or annual balance sheet does not exceed 40 million Turkish Liras are determined as SMEs. Considering that the number of publicly-traded companies is 308 according to data from the year 2015 and SME's constitute 99.9% of total number of attempts (Turkish Statistics Institute, 2011), it is seen that the segment which will not be subject to independent audit and will not report compatible with international standards, is preponderant. Based on these data, it is clear that SME's which are the fundamental parts of Turkish economy will not be the segment that will produce high quality accounting data. Therefore, necessary preparations must be urgently completed in order to provide SME's to make financial reporting that is compatible with international applications, accurate and transparent.

4. The International Accounting Standard Related To Income Taxes

In the presentation of the financial events related to business activities, differences between accounting profit and financial profit appear when income and expense items whose birth and recognition times are different according to tax laws, are considered separately for each accounting period. These differences are due to the fact that purposes of accounting applications and tax legislation in transferring financial results varies in some points. Providing correct issue of assessment tax base from the income formed as a result of business activities, forming appropriate taxing policies directed towards social aims and create the most appropriate atmosphere for financial audits are important for the tax administration. But for accounting, providing entering the financial data formed as a result of business activities in the accounts in a way that reflects the real situation of business is important. These different purposes between accounting and tax administration cause differences between accounting profit and taxable profit.

When reporting according to IFRS became in use, differences between calculated tax in financial statements and tax calculated according to Tax Procedure Law came into being. These differences appear between IFRS based on commercial profit and Tax Procedure Law based on financial profit are divided into two as temporary and permanent differences. If the differences appeared are contemporary, according to IAS-12 Income Taxes Standard, it is necessary to enter deferred taxes in the accounts in order to reflect the tax effects of temporary differences to financial statements and see the real financial situation of business (Teksen, 2010). When the innovations of this standard are analyzed, it can be said that it contributes to financial statements to reflect the fact and aims to show the profit for the period more accurate (Ozkan, 2009).

5. Conclusion

Accounting data system is an effective management tool and the production of high quality information by the system has a great importance in making correct decisions for the future. Therefore, the financial information produced by the system must be accurate, reliable, timely, conformable to the needs and understandable. Turkey is passing through a critical period in terms of reaching the required level of quality of the information generated by systems in the international arena. In the phase of detecting the profit according to tax laws and according to international accounting standards, different results appear due to purpose differences and their own internal dynamics of two applications. Reporting must be compatible with Turkey Accounting Standards as stated in the new Turkish Commercial Law instead of an accounting system depending on tax liabilities to financial administration. In addition, companies which do not capture the criteria stated in the law must implement international standards by making the necessary preparation in their body. It is thought that accounting data in Turkey will reach the desired quality level in this way.

6. References

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